U.S. Markets Review

Global markets finished the year with strong performance. Almost all stock markets and asset classes enjoyed double digit returns for 2019. The MSCI World Index gained 28.4% with the Information Technology sector as the best performing sector, gaining 48.1% during the year. In the U.S., the S&P 500 Index was up 31.5% and broke above its previous all-time high in December. All 11 sectors finished the year with double digit gains, with Information Technology increasing 50.3%, followed by Communication Services at 32.7% and Financials at 32.1%. Energy and Health Care lagged the group relatively speaking, as sentiment remains weak for oil and gas stocks and Health Care equities continue to face regulatory scrutiny.

According to the latest forecast by the International Monetary Fund, the global economy is expected to grow 3.4% in 2020, a modest pickup from 2019's projected growth rate of 3.0%. Growth expectations were driven by a few topical issues. At the top of the list is progress on the U.S.- China trade war. During the month of December, expectation of a phase one trade deal between the U.S. and China partially alleviated long standing trade tensions between the two nations. As part of the trade deal, tariffs that were set to take effect on December 15th on about US$160 billion of consumer goods were averted; in exchange, China was expected to increase its purchases of American farm goods. The trade deal demonstrated compelling evidence of progress made by both sides and renewed market participants' confidence in global growth. Second, employment numbers and jobless claims are being closely monitored by investors for any signs of weakness. Employment and consumption continue to be robust and jobless claims remain at decade lows as service sectors across the globe kept labour markets buoyant and wage growth healthy. Lastly, Brexit-related fears subsided towards the end of 2019 after the U.K. held its third general election in four years in December, which resulted in Boris Johnson's Conservative party securing a parliamentary majority. We expect progress to be made on Brexit negotiations before the January 31 deadline and we anticipate 2020 to be a year of transition for the U.K.

Market performance and sentiment were also driven by central bank policies in 2019. In the U.S., the Federal Reserve (the "Fed") cut the policy rate three times during the year, reducing the target range by 75 basis points to the current range of 1.50% to 1.75%. Slowing growth in China and Europe, trade policy developments and geopolitical risks were cited as areas of concern, which drove the Fed's decision to cut interest rates. During the most recent policy meeting in December, Fed Chair Jerome Powell signaled that they would likely keep rates steady through 2020 amid a solid economy. We believe that the bar for Fed action is extremely high in a U.S. presidential election year.

Looking forward, we expect positive investor sentiment to continue to drive strong equity performance in 2020. On the U.S.-China trade front, we expect the U.S. and China to discuss the potential of a phase-two trade deal after the signing of the phase-one deal in January. In terms of central bank policy, we expect 2020 to be a quieter year for monetary policy as the Fed will be maintaining a dovish stance. Effects of the three consecutive rate cuts implemented by the Fed should begin to flow through to the economy in 2020. Lastly, in terms of volatility, we anticipate the 2020 U.S. federal election to be accompanied by slightly higher volatility during the year. Geopolitical tension between the U.S. and the Middle East could also be a source of volatility that we'll be paying close attention to.

Financial Sector Review & Outlook

Overall, we are increasingly optimistic on the financial sector given the low consumer leverage in the U.S. and attractive valuations. With rates the Federal Reserve pausing on rates for the foreseeable future, net interest margins are starting to stabilize. Competitive intensity favors financial institutions with greater scale and more tech- enabled operations.

During 2019, the interest rate environment was in flux and running against the consensus forecast with the 10-year treasury yield falling from 2.66% to as low as 1.47% driven by increased volatility, trade tensions, and a prolonged Fed loosening cycle amid looming fears of a recession. Heading into 2020 the latest "dot plot" from the Fed shows that the Fed expects no further rate cuts in 2020. We believe the bar for Fed action is extremely high in a presidential election year, but acknowledge there could be action late in the year after the election depending on macroeconomic data points between now and the end of the year. As such, the pace of the industry net interest margin compression is expected to moderate and be manageable in 2020. A more consistent and stable economic outlook should also be supportive of a stable or slightly steepening yield curve over the next year, which is positive for banks.

The regulatory environment continues to be relatively benign with some caveats. The introduction of the Current Expected Credit Losses ("CECL") accounting standard in 2020 is expected to increase the volatility in provisions going forward. CECL requires banks to reserve for expected losses throughout the life of a loan. This approach factors in a bank's economic outlook as well as its historical losses. This contrasts to the prevailing incurred-loss model, which reflects provisioning for current losses. In periods of stress, banks may lend less due to the upfront provisioning required. The Comprehensive Capital Analysis & Review ("CCAR") process in 2019 was solid with total payout increasing by $24 billion to $164 billion with growth in buybacks representing nearly 90% of the increase in capital return year-over-year. The Fed did offer relief to regional banks by moving less complex firms to an extended testing cycle. In 2020, the number of CCAR participants will increase relative to 2019 as extended cycle banks will participate. Most banks are expected to remain aggressive with the pace of capital returns in their 2020 plans. However, there is some degree of uncertainty over how the CECL standard will interact with CCAR given the Fed would not issue supervisory findings related to allowance estimations in the CCAR exercise through 2021.

Digital transformation is a tailwind for the industry overall. Firstly, it allows firms to reduce expenses, which bodes well for operational leverage. Secondly, it provides revenue opportunities through online channels and data offerings. Demand for data is being driven by tougher regulatory requirements, more automated trading and enhanced technologies, such as artificial intelligence, that can be used to create and utilize new analytics products. We note that technology spending disproportionately favours large banks with some allocating up to 10% of revenues to tech investments. For example, JP Morgan's tech budget is equivalent to that of the top 10 largest regional banks combined. Over time, the gap in tech spending could lead to even higher deposit costs and weaker funding bases for regional banks.

Portfolio Review

Brompton North American Financials Dividend ETF (the "Fund") was up 29.8% in 2019 versus the S&P/TSX Capped Financials Index, which was up 21.4% and the S&P 500 Financials Index up 32.1%.

The Fund benefitted from overweight positions in Data Processing & Outsourced Services which drove substantial outperformance relative to the benchmark. Top performers included Mastercard (+59%) and Broadridge (+31%). An overweight position in Regional Banks also contributed to the Fund's performance relative to its benchmarks. Top performing positions included PNC Financial (+41%) and First Republic (+35%). The Fund also benefitted from an overweight position in Investment Banking and Brokerage through positions in Goldman Sachs (+40%) and Morgan Stanley (+33%).

The Fund remains overweight Life & Health Insurance. Holdings that contributed to performance include Sun Life and Manulife, which both performed well in 2019, with these gains were partially offset by tepid performance from MetLife, which we sold in the fourth quarter, and Aflac.

We were underweight Diversified Banks, the largest sub-sector in the index, which detracted from performance relative to the benchmark. Top performing holdings include Citigroup (+58%), JP Morgan (+47%) and Bank of America (+46%). During the year, we sold our position in Bank of Montreal and entered a position in Royal Bank of Canada.

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Note: This page is not complete without disclaimers on page 3.

Annual Compound Returns[1]	**1-YR**	**Since Inception**[2]
Brompton North American Financials Dividend ETF (CAD Hedged)	29.8%	9.8%
S&P/TSX Capped Financials Index	21.4%	10.1%
S&P 500 Financials Index	32.1%	14.1%

(1) Returns are for the periods ended December 31, 2019. The table shows the Fund's compound returns for each period indicated compared with the S&P/TSX Capped Financials Index ("Financials Index") and the S&P 500 Financials Index ("S&P Index") (together the "Indices"). The Financials Index is comprised of constituents of the S&P/TSX Composite Index that are classified as members of the financial sector with individual constituents capped at 25% weight. The S&P Index is comprised of constituents of the S&P 500 Index that are classified as members of the financial sector with individual constituents capped at 25% weight. The Fund invests in at least 15 North American Financial Services companies with market capitalization of at least $5 billion. It is therefore not expected the Fund's performance will mirror that of the Indices which have more diversified portfolios. Further, the Indices are calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses.

(2) Inception Date October 17, 2008

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