PORTFOLIO MANAGER COMMENTARY - SEPTEMBER 30, 2020

Financial Sector Review & Outlook

In the current pandemic influenced environment, investors are looking ahead for banks to deliver on a "new normal". In the near-term, earnings continue to remain under pressure driven by pandemic headwinds on both consumer and commercial side as well as negative operating leverage as banks continue to invest in technology for the long-term. While timing of the economic recovery remains unclear, we note commercial loan growth could weigh on overall bank loan growth as demand from these borrowers tends to lag the economic recovery. We continue to believe the current pandemic will be an earnings issue for the banks, rather than a balance sheet issue which occurred in the financial crisis in 2008–2009. We note that banks have higher capital levels to allow them to sustain an extraordinary amount of loan losses while still maintaining capital ratios above minimum requirements. In addition, banks are more profitable compared to a decade ago and as a result banks are better able to withstand credit losses. Large bank stocks underperformed the S&P500 in the quarter and with valuations attractive (1.0x P/2022E tangible book), which suggests the potential for further upside from here once the market becomes more confident around the outlook for credit losses.

In the Comprehensive Capital Analysis and Review (CCAR) the Federal Reserve disallowed all share repurchases for 3Q20, and imposed a dividend test that capped a bank's dividend at the average of the prior four quarters of net income. In Q3 Federal Reserve extended two capital distribution restrictions applicable to large banks. Specifically, large banks (defined as those with >$100bn in assets) would be: 1) prohibited from making share repurchases; and 2) remain subject to the dividend test. There are a number of banks that either have significant excess capital and do not have significant risk of higher credit reserve builds, and which might have begun to restart buybacks absent the extension of this provision.

We see digital transformation within the financial sector as a means to partially offset pandemic-driven headwinds. 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 3.7% in Q3 of 2020 versus the S&P/TSX Capped Financials Index, which was up 4% and the S&P 500 Financials Index up 4.4%.

The Fund is overweight Diversified and Regional banks, which contributed to outperformance relative to benchmark holdings. Top performers include National Bank (+11%), PNC (+5.6%) and TD Bank (+5%).

The Fund's overweight position in Data Processing and Outsourced Services contributed favorably to outperformance relative to the benchmark. Top performers include Mastercard (+14.5%), Fidelity National (+10%) and Broadridge (+5%).

An overweight exposure to Life and Health Insurance contributed positively to the Fund's performance. Top holdings include Sunlife (+12%) and Manulife (+4%).

The Fund is market weight the Financial Exchanges subsector, which had a modest contribution to outperformance relative to benchmark holdings. Top performers include S&P Global (+9.7%) and CME Group (+3.5%).

An overweight position in investment banking and brokerage, through our holdings in Morgan Stanley and Goldman Sachs, did not overly detract from the Fund's performance. We continue to have a favorable view on capital markets business given elevated market volatility, increased client trading across all products as well as and debt and secondary offerings returning to the market.

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[1]	YTD	1-YR	Since Inception[2]	Since Inception[3]
Brompton North American Financials Dividend ETF (CAD Hedged)	(14.5%)	(7.7%)	(2.3%)	-
Brompton North American Financials Dividend ETF (USD)	(13.7%)	(6.3%)	-	(3.0%)
S&P/TSX Capped Financials Index	(12.9%)	(12.0%)	(1.1%)	(5.5%)
S&P 500 Financials Index	(20.3%)	(11.9%)	(3.4%)	(7.6%)

(1) Returns are for the periods ended September 30, 2020. 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, 2018

(3) Inception Date August 12, 2019.

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