PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2018

Portfolio Review

Brompton North American Financials Dividend ETF (the "Fund") was launched on October 18, 2018. For the period from the Fund's inception through to the end of the year, the Fund's net asset value declined as financials in both Canada and the U.S. broadly sold off with the overall market in the fourth quarter of 2018.

For the period, the Fund was impacted by our overweight positions in Regional Banks and Investment Banking & Brokerage, both of which underperformed. This includes weak performance from SVB Financial, which is a regional lender to the technology sector and venture capital firms, and Goldman Sachs, which was down more than its peers magnified by the 1MDB scandal. We believe the selloff in both names is way overdone with both companies trading near multi-year lows and expect them to recover in 2019.

This negative performance was partially offset by stronger performance from the Financial Exchanges & Data sector. We continue to favour and remain overweight this sector as we believe market data and clearing services will continue to be growth drivers. In addition, MiFID II should act as a powerful tailwind with tighter rules on best execution boosting demand for live pricing and other analytic services. These names will also likely benefit from a rising volatility environment. The strongest name in the group was CME Group, which was the only positive performer in the portfolio for the period from inception to the end of the year. CME shares rallied on higher equity market volatility, electronic options trades and increased oil trading during the second half of the year. The company made a $5.4 Billion offer for NEX Group early 2018 which closed on November 2nd, increasing its bank penetration and extending CME's derivative clearance capabilities. We expect the acquisition to be accretive and CME should be able to drive revenue as well as cost synergies over time.

The Fund also remains overweight Banks (in particular U.S. Regional Banks) heading into 2019. After the selloff in the fourth quarter of 2018, we believe that many banks began pricing in a high probability of a U.S. recession in 2019. As discussed above, we don't believe that this will happen. We continue to favour Banks as strong economic growth should continue to drive loan growth while operating leverage and tax reform have improved profitability of the sector. A softening of the regulatory environment and a strong capital position across the sector has also resulted in higher capital return programs through a combination of dividend growth and share buybacks. As a result, we believe that valuations are attractive in light of improving ROEs.

We also have a positive outlook on the Financial Technology ("Fintech") space where we have two investments: MasterCard and Broadridge. We like MasterCard as it is operating in global duopoly with Visa in payment processing and transactions and continues to drive top and bottom line growth. Broadridge is a ubiquitous platform in financial services providing proxy related investor communication services and securities transaction processing services. We believe the company will continue to drive growth as broker-dealers are increasingly rationalizing back-end functions and outsourcing to Broadridge.

We remain underweight Asset Management & Custody, as fee pressures and institutional fund outflows keep us on the sidelines, as well as Insurance, where pressure on fees, variable annuity demand, increasing long-term care reserves and rising competition are pressuring returns and valuations.

Market Review

The global economy continued to perform well in 2018 with real GDP growth of 3.6% as of the latest data point. This was led by the U.S. where tax reform passed in late 2017 boosted growth to 3.0%. Additionally, the unemployment rate sits near multi-decade lows and inflation remains stubbornly low but close to the Fed's target rate of 2%. However, this strength was partially offset by a moderate slowdown in Europe and Emerging Markets as the escalation of the trade war between the U.S. and China and the impact of tariffs had a negative impact on business activity along the global supply chain. Germany, the Euro area's largest economy, saw its economy shrink in the third quarter, while the threat of a hard Brexit also continues to weigh on European economies.

Central bank policies continue to dominate the markets. The Federal Reserve hiked rates four times in 2018 and its policy rate now sits at a target range of 2.25% to 2.50%, which we believe is near the bottom end of most economists' ranges for the neutral rate of about 2.5% to 3.5%. This resulted in rising interest rates across the yield curve for most of the year, before rates declined in the fourth quarter on fears of a global slowdown. The U.S. 10-year yield hit a high of 3.26% in October before falling and closing the year at 2.68%, while the spread between the 10-year and the 2-year hit a post-financial crisis low in December before closing the year at 19 bps.

The Fed also continued with its balance sheet normalization program that began in the fourth quarter of 2017. Through this program, which can also be referred to as Quantitative Tightening (QT), the Fed is shrinking its balance sheet by letting certain maturing assets runoff rather than reinvesting the principal proceeds. We believe that this program is widely misunderstood by many market participants and our view is that QT will not have a negative impact on the economy or markets in 2019.

Despite the general strength of the economy, U.S. and global equity markets experienced a significant uptick in volatility in 2018. After rallying to start the year, equity markets sold off in February before stabilizing in the second and third quarters. However, volatility returned in the fourth quarter as equity markets around the world sold off on fears that the escalating trade war had sparked a global growth slowdown and that the Fed had hiked too far and was going to cause the yield curve to invert, which has historically been a sign of a looming recession.

While U.S. stocks experienced a relief rally into the end of the year after the Christmas Eve bottom, the market finished the year in negative territory as the S&P 500 Index declined by 4.4% in 2018 after a 20.2% intra year peak to trough decline. In terms of U.S. sectors, defensive sectors generally outperformed cyclical sectors for the year, while Health Care, which was up 6.5%, Utilities, which were up 4.1%, and Consumer Discretionary, which was up 0.8%, were the only sectors to finish in positive territory. The worst performing sectors were Energy, Materials, Industrials, Financials and Communication Services, all of which finished with double digit losses as fears of a global slowdown had a more significant impact on these areas of the market.

Looking forward, we expect the global economy in 2019 to look much the same as it did in 2018 with global growth in the 3-4% range. U.S. growth is likely to slow in the second half after the benefits of tax reform are fully baked into the economy, but growth is likely to remain above 2% and we expect employment to remain strong with inflation in check. We do not expect the U.S. to enter a recession in 2019. We believe that the Fed is on hold with respect to further interest rate hikes at least until later in 2019 and that they should be able to continue shrinking their balance sheet at a slow pace without disrupting the market.

After the selloff in the fourth quarter of 2019, we believe that U.S. equities are attractively valued and, given our positive outlook, represent excellent value for investors.

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