PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2018

Portfolio Review

The Fund is currently overweight the Consumer Discretionary, Information Technology and Healthcare sectors. We believe that consumption, particularly among the affluent in high-end luxury items, will continue to benefit consumer names held in the Fund, such as LVMH and Kering. We also believe that the secular growth potential in cloud, autonomous vehicles, and artificial intelligence is substantial, and that this will continue to drive the Fund's technology holdings, such as Infineon and SAP. Lastly, we believe that the healthcare sector plays a defensive role in portfolios while offering solid return potential. Additionally, increased spending on health care is likely to be secular in nature given the aging global population and increasingly longer life spans, which increase demand for cancer drugs produced by AstraZeneca and Novartis, and rare disease and immune inflammation drugs produced by Shire. The Fund is market weight the Consumer Staples, Telecommunications and Utilities sectors as a result of their defensive properties, as well as Financials given our expectations for reasonably stable economic growth in Europe and a gradually steepening yield curve. The Fund is underweight Industrials and Materials given our existing positions in technology stocks that provide similar end market exposure with less cyclicality, while the Fund holds no positions in Energy given the small size of the sector in Europe and our belief that energy capital will continue to flow to North America where expected returns are higher.

Market Review

The STOXX Europe 600 Index finished the first half of 2018 relatively flat with the STOXX Europe 600 Volatility Index averaging 11.6% during the first half of 2018, reaching a high of 17.7% and a low of 6.8% before closing at 12.7%. The best performing sectors in the STOXX Europe 600 Index were Energy, Technology and Utilities while the worst performing sectors were Financials, Telecommunications and Consumer Staples.

The most notable policy development during the first half of 2018 was the European Central Bank's (ECB) decision to phase out the stimulus program provided by its three-year bond buying program this year in December despite some signs of an economic slowdown in the Eurozone and rising protectionist and political risks. Currently, the ECB is buying EUR30 billion a month of assets which will decline to EUR15 billion a month after September and end completely at the end of the year. Meanwhile, ECB President Draghi announced that the ECB would not increase its key policy rate until the summer of 2019 at the earliest. However, the decision will ultimately hinge on incoming data confirming the ECB's medium-term outlook on inflation and is therefore subject to change. During the first half of 2018, the ECB announced the appointment of Spanish Economy Minister Luis de Guindos to Vice President at the ECB succeeding Vitor Constancio who has served as Vice President since June 2010. Additionally, President Mario Draghi will step down in October 2019 with a replacement to be chosen by European Union governments. We believe that the choice of a Southern European for Vice President has increased the likelihood that a northerner, such as German Bundesbank governor Jens Weidman, could be Draghi's successor.

During the first half of 2018, President Trump imposed tariffs on imported steel and aluminum from the European Union triggering a retaliatory response by the EU as it announced it would impose import taxes on American goods like bourbon, Harley-Davidsons and Levi jeans. In response, President Trump threatened to place a 20% tariff on all EU cars exported into the U.S. if the EU did not remove their tariffs. In our view, we believe these global trade disputes will ultimately be settled amicably though we acknowledge the possibility that rhetoric may intensify further over the near term.

Brexit appears to be on track and will take effect on March 30, 2019. In our view, a soft Brexit appears most likely with some economists placing a 75 percent probability on the outcome. After a failed attempt at forming a three-way coalition with the Greens and the Liberals, German Chancellor Angela Merkel was able to formalize an agreement into what will be the third coalition between her Christian Democrats and the Social Democratic Party. Italy voted for a new interim prime minster, Mr. Carlo Cottarelli, to lead a new government after a falling out with the country's populist parties. Cottarelli has promised to put together a government quickly and stated new elections would be held in either August or next year depending on when his government receives parliamentary approval. As a result of these developments, we believe the political risks in the EU are gradually subsiding which should help lift sentiment and confidence in the region.

European Equities Review & Outlook

Consumer Discretionary

During the first half of 2018 a resilient consumer market along with tight expense management was supportive of profitability for consumer discretionary stocks, particularly companies involved in the sales of luxury and athletic leisure goods. The Fund owns LVMH and Kering (luxury goods) as well as Adidas (athletic leisure) all of which have global franchises, solid pricing power and strong brand recognition. Carnival posted relatively weaker performance due to rising fuel costs and a slow post hurricane recovery in the eastern Caribbean and we remain cautious on the outlook for 2018. We believe a rising middle class in China and other emerging markets alongside steady consumption growth in North America and Europe will remain significant long-term demand drivers in the sector. In January, as a result of Kering's decision to focus exclusively on luxury fashion and jewelry labels, the company announced plans to distribute 70 percent of Puma shares to investors while retaining a 16 percent stake in the business. The Fund received shares of Puma in May and subsequently sold all the shares in June, realizing a gain.

Consumer Staples

During the first half of 2018 the Consumer Staples sector witnessed weak performance due to rising fears of further market share loss as large global brands compete against smaller, more nimble competitors. However, we believe the Fund's ownership in companies like Unilever, Henkel and Danone, which all have leading global franchises, should be less impacted by competitive threats and that increasing activist activity in the space and large share buyback programs should help keep a floor on valuations. In our view, exposure to this sector incorporates a defensive element to the overall portfolio as spending on staple items remain relatively resilient during economic downturns.

Financials

Despite a soft operating environment driven by on-going political uncertainty coupled with concerns over the potential spillover effect from global trade tariffs, we believe well-capitalized companies like Allianz, AXA, HSBC and UBS Group are well positioned to manage through the softness and should benefit from a steeper yield curve, which is supportive of higher profitability and potential dividend increases in the future.

Health Care

We view AstraZeneca's exposure to immuno-oncology favourably and believe there are positive catalysts given new drug trials in 2018. We remain positive on Medtronic's heart valve market opportunity and believe management is executing well on its plan to return the Pain Therapies business back to growth. In our view, the appointment of Novartis' head of drug development to CEO will lift investor confidence in the group's new product pipeline. Shire performed well due to the announcement of a US$62 billion takeover deal by Takeda Pharmaceuticals with an expected close sometime during the first half of 2019. Broadly speaking we believe the healthcare sector plays a defensive role in portfolios while offering solid return potential, as increased spending on health care is likely to be secular in nature given the aging global population and increasingly longer life spans.

Industrials

Airbus continues to benefit from solid performance on its new A320neo and A350 programs, as well as general pricing increases and positive order momentum. The company is now reaping the benefits from several years of heavy R&D expenditures that should translate into strong free cash flow growth in the future. Deutsche Post's recent 2018 guidance reduction, driven by lower than expected profitability, will likely act as an overhang on shares over the near term.

Information Technology

During the first half of 2018, despite the negative headline news that heightened volatility in the technology space, in particular rising anti-trade rhetoric between the U.S. and China that resulted in U.S. firms being banned from selling parts to China's ZTE Corporation for seven years which was subsequently reversed, we believe the secular growth stories in cloud applications and autonomous vehicle development remain strongly intact, which should benefit the two technology companies in the Fund, SAP and Infineon Technologies.

Materials

The Fund's single holding in Materials in shares in Lafargeholcim showed strong performance early in the year due to optimism over a new strategic vision laid out by the new CEO but eventually lost momentum as margin improvements in emerging markets were slow to materialize. The turnaround will likely take longer than expected.

Telecommunication Services

The Fund has a single holding in Telecommunication Services. The board of BT Group recently succumbed to shareholder pressure and removed CEO Gavin Patterson given the lack of faith in his ability to execute on the company's new vision, a vision that the board continues to support. Since the announcement of Mr. Patterson's departure in June, shares have recovered somewhat.

Utilities

The Fund's single holding in Utilities, Enel shares sold off after Q1 earnings mostly due to the negative impact from FX but the company did re-iterate its full year 2018 guidance. Shares partially recovered off the lows upon the announcement of the acquisition of Electropaulo making Enel the largest power distributor in Brazil. In addition, we believe increasing political certainty in Italy following the election of an interim prime minister should bode well for sentiment. Enel continues to generate solid cash flow and maintains a robust balance sheet.

Laura Lau
Mike Clare

BROMPTON FUNDS

VALUE
INTEGRITY
PERFORMANCE
THE FOUNDATION FOR EXCELLENCE

Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
EMAIL info@bromptongroup.com

Website
www.bromptongroup.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, P.O. Box 793
Toronto, Ontario M5J 2T3