EUROPEAN
DIVIDEND GROWTH FUND

BROMPTON
FUNDS

PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2018

European Markets Review

The global economy continued to perform well in 2018 with year-over-year real GDP growth of 3.6% as of Q2. 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. The Eurozone saw real GDP growth slow to only 0.2% in the third quarter, while Germany, the Eurozone's largest economy, saw its economy shrink in the third quarter. The threat of a hard Brexit also continues to weigh on European economies.

Central bank policies continue to dominate the markets. In Europe, the European Central Bank continued to taper its Quantitative Easing (QE) program through to the end of the year when it planned to stop new purchases altogether. However, monetary policy in Europe remains extremely loose and the ECB doesn't have any plans to increase rates or shrink its balance sheet in the near term. This kept yields down across Europe in 2018 with 10-year yields trading at 0.24%, 0.71% and 1.28%, respectively, in Germany, France and the U.K. as of the end of the year

In the U.S., 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%. 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, European 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 stocks experienced a relief rally into the end of the year after the Christmas Eve bottom, European markets finished the year in negative territory as the STOXX 600 was down 10.3% for the year. This was led by Germany, where the DAX was down 18.3%, while British equities struggled in the face of Brexit uncertainly with the FTSE 100 down 8.8% for the year. The CAC 40 in France was the outperformer, down only 8.1% for 2018. In terms of European sectors, defensive sectors generally outperformed cyclical sectors for the year, while Utilities, which were up 3.1%, and Health Care, which was up 0.3%, were the top performing sectors. The worst performing sectors were Autos & Parts, Banks, Construction & Materials, and Travel & Leisure, all of which finished with double digit losses as fears of a global slowdown and the impact of tariffs had a more significant impact on these areas of the market.

Looking forward, we expect the economy in 2019 to look much the same as it did in 2018 with global growth in the 3-4% range. In Europe, growth should rebound from the low levels we saw towards the end of 2018 but will likely remain stubbornly sluggish. While the ECB has stopped its QE program, we believe negative rates are here to stay for 2019 and will continue to support Eurozone economies. Fiscal stimulus in Italy and France should provide an additional benefit, and we continue to watch Germany for signs that they may loosen fiscal policy as well. We are also likely to see a further rebound in the event of a positive resolution to the trade war, which we believe is the most probable outcome. Brexit continues to be a great source of uncertainty, but increasingly it looks like the deadline may be extended and/or we may see a second referendum. While avoiding a hard Brexit would be positive, the continuing uncertainly is likely to weigh on business confidence.

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

Portfolio Review

During 2018, the European Dividend Growth Fund was down 11.1% in 2018, outperforming the STOXX Europe 600 EUR Price Index, which was down 13.2%. The Fund benefitted from strong performance in Fortum, Medtronic and Kering, which were up 23.1, 15.2% and 14.2%, respectively; however, these gains were more than offset by underperformance in Cie Financiere Richemont, Infineon Technologies, and Aviva, all of which were down more than 20% during 2018. Fortum rallied during the first 9 months of the year on strong Nordic power prices as a result of the Nordic drought. Despite the drought subsiding heading into 2019, we think Nordic power price levels are well supported given new interconnectors with Britain and continental Europe. We also view Fortum's move into renewables and its expansion into electric-vehicle charging as being supportive of sustainable earning growth. Medtronic shares gained on strong financial performance in 2018 as well as its purchase of Mazor Robotics, which will expand its presence in robotic-assisted surgery. Additionally, we see the company's diabetes business being able to sustain strong double-digit growth for the next few years. We continue to expect healthy medical technology growth in 2019 and we view the medical devices sector as being relatively immune to economic slowdown. Kering's most profitable brand, Gucci, has a major Asian and U.S following. The shares rallied in 2018 despite the ongoing trade war uncertainty as investors see significant upside to Kering driven by the potential for expanded e-commerce sales, which currently only accounts for 6% of its total revenue, in addition to its luxury jewelry product lineup expansion.

Cie Financiere Richemont and Infineon shares were down towards the end of the year primarily due to U.S.-China trade pressure that led to speculation of a Chinese economic slowdown. There were also concerns about inventory build-ups at Richemont, particularly its watch brand Swatch. However, we see these concerns being short term in nature. Richemont's fundamentals are still intact as the luxury watch side continues to gain momentum. We will continue to monitor the status of the trade war and the impact of Chinese demand on our holdings closely. Aviva's shares have been a victim of headline risk; however, it's leadership position in the insurance market in UK, as well as its global exposure remains attractive.

In July, the portfolio was rebalanced and reconstituted which resulted in the removal of Carnival, Allianz, AXA, HSBC, UBS, Shire, Deutsche Post, Lafargeholcim and BT Group and the addition of Diageo, AON, DNB, London Stock Exchange, Philips, Sanofi, BAE Systems, ASML, Capgemini, UPM and Fortum. The net result was an increase from 23 total holdings to 25, increasing the Fund's exposure to Health Care, Industrials and Information Technology, and decreasing Materials and Communication Services holdings.

The Fund is overweight Consumer Discretionary, Health Care, and Information Technology. 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, Kering and Adidas. In the Health Care sector, the Fund owns names that are exposed to secular growth themes in immune-oncology, cardiovascular health, diabetes and medical devices given an aging global population and increasingly longer life spans. For instance, Medtronic, a medical device manufacturer for chronic diseases like heart disease, diabetes and Parkinson's disease, was up 8.0% since July 2018; Sanofi, a cardiovascular, cancer and metabolic disorder drug manufacturer rallied 8.5% since July 2018. We continue to overweight Health Care given the high growth potential within the sector driven by product innovation and R&D productivity. Lastly, in Information Technology, we believe has strong secular growth in cloud, autonomous vehicles, 5G buildouts and IT consulting which will continue to drive returns from our technology holdings including Infineon, SAP, ASML and Capgemini.

The Fund is market weight Consumer Staples, Utilities, and Financials. We have a positive outlook on Consumer Staples against the backdrop of sluggish European economic growth and macro concerns heading into 2019. Within the sector, the Fund currently holds Danone, one of the largest global dairy food and water producers, Diageo, a global liquor producer, and Unilever, a food and personal care product manufacturer. We see globally recognized household brands being more immune to competitive threats and more robust in a weaker macro environment. Within the Utilities sector, we see Fortum positioned to benefit from a rising wholesale power prices in the Nordics. European financials remain well capitalized with strong balance sheets and dividend growth potential. The Fund holds London Stock Exchange Group, which in our view, is a direct beneficiary of a rising volatility environment.

The Fund is underweight Industrials and Materials given a slower growth environment in Europe. In December 2018, Eurozone PMI fell to 51.1, a three-year low, and consumer confidence weakened. Within the Industrials sector, we favor BAE Systems, as we see the company being a direct beneficiary of increased global defense budgets, and Vinci, for its globally diversified business and long-term cash flow visibility. The Fund holds no positions in Energy and Real Estate given the small size of the sectors in Europe and our belief that capital will continue to flow to North America where expected returns are higher.

Annual Compound Returns[1]	1-YR	Since Inception
European Dividend Growth Fund	(11.1%)	(5.5%)
STOXX Europe 600 EUR Price	(13.2%)	(8.5%)
S&P/TSX Composite Index	(8.9%)	(1.3%)

[1] Returns are for the periods ended December 31, 2018. Inception date July 21, 2017. The table shows the Fund's compound return since inception compared with the STOXX Europe 600 Index and the S&P/TSX Composite Index (''Composite Index''). The Fund invests in large-capitalization European equity securities that are selected from the STOXX Europe 600 Index. The STOXX Europe 600 Index is a subset of the STOXX Global 1800 Index, representing large, mid and small capitalization companies across 17 European developed countries. The Composite Index tracks the performance, on a market weight basis, of a broad index of large-capitalization issuers listed on the TSX. Since the Fund is actively managed, the sector weightings may differ from those of the indices. The benchmark indices are calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

BROMPTON FUNDS

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