PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2019

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 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 31st 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 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 Federal Reserve 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.

Technology Sector Review & Outlook

The technology sector remains an attractive structural growth story. Net technology investment (as a % of GDP) is well below prior peaks but trending closer to historic averages. We see opportunity for continued growth in technology spending given its potential to boost productivity, particularly as the labour market tightens. The digital transformation opportunity, which is underpinned by enabling technologies such as cloud, hyper connectivity (e.g. 5G), digital media, e-commerce, payments and intelligent automation, provides many avenues for growth both in the near and long term. Disruptive emerging technologies, such as artificial intelligence, are expected to reshape business models and drive economic value add in the global economy. Technology has become more defensive in nature given network effects of the cloud model, magnitude of R&D and capex required, ownership of and ability to process vast amounts of data, as well as short product cycles (given rapid innovation), which reduces sensitivity to economic cycles. Stocks in our portfolio are uniquely positioned to benefit from this growth with defensive characteristics given their respective market position in the products and services they offer as well as degree of innovation that enhances competitive moats.

Worldwide IT spending is expected to grow 3.7% in 2020, up from a modest 0.4% growth in 2019 according to Gartner. The rebound in spending is expected to be driven by a recovery in enterprise software spending (10.9% growth to $507 billion in 2020), which slowed in 2019 given delayed purchasing decisions as a result of global trade tensions. IT spending growth is also being driven by the rest of the world outside the U.S. catching up on cloud spending. The U.S. is leading cloud adoption and accounts for over half of global spending on cloud. IT services is expected to grow 5.5% to $1,088 billion in 2020 given the demand for consulting and outsourcing as companies embark on their respective digital transformation strategies. The device market saw the sharpest spending decline among all segments in 2019, down 5.3% to $675 billion. However, the device market is expected to see modest growth of 1.2% in 2020. The PC market experienced growth for the first time since 2011 with 261 million units shipped driven by the Windows 10 upgrade cycles and strength in US, EMEA and Japan partially offset by Intel CPU shortages.

According to the Worldwide Semiconductor Trade Statistics, the semiconductor market is expected to recover in 2020, with growth up 5.9% to $433 billion versus a decline of 12.8% in 2019 given trade tensions. Phase one of the US- China trade deal provides needed relief for the semiconductor industry by reducing uncertainty, easing some harmful tariffs, and not adding more. While it would take some time for excess inventories to be reduced especially in end markets such as industrial and automotive, the supply-demand conditions in the memory markets are becoming more favorable driven by cloud and data center. While chipmakers and chip-equipment suppliers have expressed cautious optimism in the near-term, over the longer-term 5G and next-generation autonomous vehicles are expected to drive the next level of growth.

The communications segment came under increased regulatory scrutiny in 2019 and this is expected to persist in the near-term. There are three ongoing investigations in the US: the DOJ investigation into Apple; the FTC investigation into mainly Amazon and Facebook that is due to be completed by November 2020; and the Attorneys General of several states are investigating Google and Facebook regarding how they determine the price of their digital advertising. We note that the FTC has tended to judge companies based on three criteria (price, quality and choice), not purely on size or dominance. Unlike most oligopolies, larger tech companies do not necessarily lead to higher prices; also, they often increase the range of choice and quality. We note that back in 2013 the FTC closed an anti-trust investigation into Google, noting that there was insufficient proof that Google had stifled competition in the way it arranged its web search results. In this round the DOJ will have its turn at Google. It remains to be seen whether the current round of US anti-trust investigations will be more aggressive and result in product unbundling (similar to the DOJ's anti-bundling case against Microsoft in the 1990s) or a break-up of technology platforms (similar to the break-up of AT&T). Critics argue that inviting government control over technology platforms is a dramatic departure from the policy environment that enabled these platforms to blossom in the first place and could have unintended consequences.

Portfolio Review

Brompton Tech Leaders Income ETF (the "Fund") was up 37.2% in 2019 versus the S&P 500 Information Technology Index, which was up 50.3%, and the S&P 500 Index which was up 31.5%.

The Fund benefitted from being overweight the electronic equipment subsector throughout the year through its holdings of CDW (up +78%), Keysight Technologies (+65%) and Amphenol (+35%). During the year we reduced our overweight position in the communications equipment subsector by selling our positions in Motorola Solutions, Cisco, and Verizon as the risk reward was less attractive and we saw better investing opportunities elsewhere. Overall we believe demand for sensors, electronic components, related test equipment and network equipment would continue to see solid growth (2x to 3x faster than global GDP) driven by trends in automotive markets (autonomous driving), industrial (IoT), data centers (increasing scale) and 5G. As a result, we have positioned the Fund to invest in stocks that are well suited to capture the benefits from these trends.

Although we were slightly underweight IT services, the stocks we held outperformed the benchmark's holdings with solid performance in Mastercard (+59%), Fiserv (+57%) and Accenture (+51%). Towards the end of the year we entered a position in IHS Markit, is a leading provider of critical information and analytics for the major industries, financial markets and government. In the digital economy we believe data analytics and solution providers are well positioned for long-term growth. The Fund also captured additional outperformance by being overweight technology-related sub sector such as interactive media and internet media given its holding in Alphabet (+29%) and Amazon (+23%) as well as telecom infrastructure with holdings in Crown Castle, which was sold during the year. We believe marquee names such as Alphabet and Amazon will continue to leverage their market position to consolidate power in cloud and digital, while growing its total addressable market.

Partially offsetting the Fund's performance, were underweight positions in technology hardware and software sub sectors. In particular we were underweight Apple and Microsoft, up 89% and 58%, respectively, since they are very large weights in the benchmark (almost 40% of the benchmark on a combined basis). We continue to have a favourable view of the software sub sector which offers both growth and defensive characteristics as its subscription-based model helps drive recurring revenues resulting in high earnings and cash flow visibility. The Fund also benefited from holdings in Adobe and Oracle, the latter of which we exited during the year as we felt going forward the risk/return profile was not justified given the company's continued reliance on a license-based revenue model with cloud growth decelerating. During the year we entered a position in ServiceNow, an enterprise IT cloud company that delivers SaaS-based applications to automate and standardize IT business processes. ServiceNow is one of the few SaaS companies with both revenue growth and solid FCF margin, and given the pullback in the stock during Q3, we felt risk/reward was attractive. During the year we also entered a position in salesforce.com. We see salesforce being able to leverage its large platform-as-a-service presence and range of cloud-based applications to drive organic growth, deepen its penetration and expand internationally.

Our average underweight position in semiconductors during the year also detracted from the Fund's performance relative to the S&P 500 Information Technology Index. During the year we exited our position in Intel and entered positions in ASML Holdings, Marvell, Texas Instruments and STMicroelectronics. As a result of these changes the Fund was market weight in semiconductors at year end. Our new positions have well diversified product portfolios in the markets they serve and are well positioned to capture long-tail opportunities in emerging trends such as IoT, 5G and automation. ASML has a market leading position (80%+ market share) in the largest semiconductor wafer fab equipment segment and the company is the sole provider of extreme ultraviolet lithography systems which permits next generation semiconductor manufacturing in the sub 7 nanometer scale. We believe our holdings are well positioned to benefit as the semiconductor cycle bottoms out.

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Annual Compound Returns[1]	1-Year	3-Year	5-Year	Since Inception[2]
Brompton Tech Leaders Income ETF (CAD Hedged)	37.2%	24.3%	12.5%	12.0%
S&P 500 Information Technology Index	50.3%	27.7%	20.2%	18.6%
S&P/TSX Composite Index	22.8%	6.9%	6.3%	5.8%

(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 Composite Index ("Composite Index") and the S&P 500 Information Technology Index ("Technology Index") (together the "Indices"). The Composite Index tracks the performance, on a market weight basis, of a broad index of large-capitalization issuers listed on the Toronto Stock Exchange. The Technology Index, a sub-index of the S&P 500 Index, tracks the performance of major North American technology companies on a market weight basis. Since the Indices contain a substantially larger number of companies, it is not expected that the Fund's performance will mirror that of the Indices. 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 May 20, 2011.

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