Brompton Tech Leaders Income ETF (TSX: TLF; TLF.U)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2020

Technology Sector Review & Outlook

Worldwide IT spending is expected to decline 8% to $3.4 trillion in 2020 versus a prior expectation of 3.4% growth. Headwinds from the global pandemic and subsequent recession are forcing many companies to re-evaluate their technology spending needs, with a focus on cost optimization by maintaining mission critical infrastructure and delaying large transformational projects. In some instances, pressures on IT budgets sometimes accelerates digital initiatives as legacy systems are more costly to maintain, and adoption of modernized infrastructure frees up the budget. The recovery in technology spending is not expected to follow typical patterns given demand and supply shocks from recent lockdowns and some hard-hit industries (airlines, entertainment, retail) would take a longer time to recover.

The pandemic has fueled demand for public cloud services, which is expected to grow 19% in 2020, remote conferencing (24% growth) and communications (9% growth). A Gartner, Inc. human resources survey revealed that 50% of organizations reported 81% or more of their employees are working remotely during the pandemic. In a post-pandemic world, we believe that work from home arrangements could become more mainstream thus driving continued demand for work from home-oriented solutions (remote access connectivity, online collaboration, cybersecurity, streaming and cloud infrastructure). Post-pandemic, 41% of employees are likely to work remotely at least some of the time according to Gartner.

The global semiconductor market growth is expected to be flat in 2020 (prior 12.5% growth) versus a decline of 12% in 2019 according to Gartner. Data center demand is driving growth in memory, which is forecasted to grow 14% in 2020 and represents 30% of the total semiconductor market. Semiconductors continue to lead cyclical recoveries and Brompton believes we are on the cusp of the next leg of innovation. The American Foundries Act, which has been tabled in the US Senate, proposes up to $25 billion in commercial and defense microelectronics manufacturing grants and Research and Development (R&D). This would be incremental to existing industry R&D spend. US semiconductor design and manufacturing companies invest approximately one-fifth of their revenues in R&D, ($40 billion in 2019) representing the second-highest rate of research investment of any industry.

Overall, the technology sector remains an attractive structural growth story. 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. Stocks in our portfolio are uniquely positioned to benefit from this growth given their respective market position in the products and services they offer as well as degree of innovation that enhances competitive moats.

Portfolio Review

Brompton Tech Leaders Income ETF (the "Fund") was up 9.9% in the first half of 2020 versus the S&P 500 Equal Weighted Information Technology Index, which was up 1.8%, and the S&P 500 Index which was down 3.1%.

The Fund benefitted from an overweight position in the software subsector which contributed to an outperformance relative to the benchmark. Top performing holdings include ServiceNow (up 43%), Adobe (up 32%) and Microsoft (up 30%). During Q2 we added positions in Synopsys and Cadence Design Systems. Both these companies have leading market positions in semiconductor application design and are well positioned to benefit from the next wave of silicon innovation.

An underweight position in IT services also contributed to the Fund's outperformance relative to the benchmark. Top performing holdings include Visa (up 3.1%) and Accenture (up 2.9%). During Q2 we exited our position in Fiserv and entered a position in Automatic Data Processing given a better risk-adjusted reward profile. We also entered a position in PayPal as we like the company's market position in the financial technology payments space, which is seeing strong tailwinds in the current environment. During Q2 we exited our position in IHS Markit as we felt the risk/reward profile was no longer attractive given headwinds in various end-markets such as energy.

The Fund's underweight position and strong stock selection within the semiconductor subsector contributed to an outperformance relative to the benchmark. Top performing holdings include Nvidia (up 55%), ASML (up 25%) and KLA (up 10%). During Q2 we exited our position in STM Microelectronics given unfavourable risk/reward profile as a result of weakness in some of the company's end-markets (e.g. automotive).

A relative market weight in the hardware subsector also contributed positively to the Fund's performance given holding in Apple (up 25%). During Q2 we exited positions in Amphenol and CDW as demand and supply shocks from the pandemic continues to be a headwind for these companies. As a result, the Fund does not have a weighting in the electronic equipment subsector.

The Fund is overweight technology-related sub sectors such as interactive media and internet media given its holding in Amazon (up 49%) and Alphabet (up 5.7%). During the quarter we entered a position in Facebook given the fundamental attractiveness of the company's market leading social platform and real option value from expanding e-commerce opportunities.

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[4]	YTD	1-Year	3-Year	5-Year	Since Inception
Brompton Tech Leaders Income ETF (CAD Hedged)	9.9%	22.8%	21.3%	16.5%	12.5%
S&P 500 Equal Weighted Information Technology Index	1.8%	14.4%	18.7%	19.0%	16.2%
S&P/TSX Composite Index	(7.5%)	(2.2%)	3.9%	4.4%	4.5%

[(1)] Returns are for the periods ended June 30, 2020. Inception date May 20, 2011. The table shows the ETF's compound returns for each period indicated compared with the S&P/TSX Composite Index (''Composite Index'') and the S&P 500 Equal Weight Information Technology Index (''S&P Equal Weight 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 S&P Equal Weight Technology Index tracks the performance of information technology companies in the S&P 500 Index on an equal weight basis. The Fund invests on an approximate equal weight basis in at least 15 technology companies. Since the Indices contain a substantially larger number of companies, it is not expected that the ETF'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 ETF is calculated after deducting such fees and expenses[(2)] Inception Date May 20, 2011.

The Fund has changed its technology benchmark from the S&P Information Technology Index to the S&P Equal Weight Technology Index. The S&P Equal Weight Technology Index tracks the performance of information technology companies included in the S&P 500 Index on an equal weight basis. The S&P Information Technology Index, a sub-index of the S&P 500 Index, tracks the performance of information technology companies on a market cap weighted basis. Since the Fund also invests on an approximately equal weight basis the Manager believes that the S&P Equal Weight Technology Index provides a more comparable benchmark to assess relative performance of the Fund.

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