Brompton Tech Leaders Income ETF (TSX: TLF)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - MARCH 31, 2019

Portfolio Review

Brompton Tech Leaders Income ETF (the "Fund") generated a total return of 17.9% during the first quarter of 2019, as compared to the S&P 500 Information Technology Index at 19.9% and the S&P 500 Index at 13.3%. Capital expenditures continue to rise within the sector driven by increased investments in machine learning, Internet of Things (IoT) and data security. Our portfolio is positioned such that the companies are either directly or indirectly levered to artificial intelligence and should benefit, to varying degrees, as the technology proliferates across industries and becomes more ubiquitous.

During the quarter, we have replaced Verizon with salesforce.com. Though wireless growth demand remains solid, rising competition in the U.S. telecommunications industry and uncertainty around the T-Mobile and Sprint merger increases volatility for Verizon. We favour salesforce.com given the company's leadership position in Cloud Applications. Its wide range of cloud-base business applications should allow the company to drive organic sales in combination with deeper penetration. We see salesforce being able to leverage its large platform-as-a-service presence and product line to expand internationally.

For the period, the Fund's performance was impacted by our underweight positions in Semiconductors and Software & Services sectors, both of which generated double digit returns in the first quarter of 2019. We remain cautious on Semiconductors as the smartphone replacement cycle continues to lengthen and sales growth decelerates through 2019. U.S.-China trade tensions are causing reduced demand in the semiconductor market; the effect is further compounded by inventory buildup issues in many markets. Automotive end market also saw weakness heading into 2019. The portfolio currently holds Intel, a dominant player in the server and PC market that has also entered into higher growth end markets such as AI and cloud. Semiconductor companies serve at the upper end of the artificial intelligence value chain by providing the hardware in computing devices to power AI software.

Due to the equal weight nature of the portfolio, our underweight position in Microsoft drove almost all of the underperformance in the Software & IT Services subsector compared to the benchmark. Microsoft, which was up 18.0% during the quarter and now represents about 18.1% of the Information Technology index, continues to sustain growth in its core personal computing business segment. We believe Microsoft is well positioned to capitalize on the growing demand for hybrid cloud given its dominant position in the public cloud infrastructure and on-premise IT infrastructure. Renewal cycles and upgrades in the commercial PC space should also be major growth drivers for the company heading into the rest of the year. We own marquee companies like Visa, Mastercard and Adobe within this sector. Adobe's near monopoly position in the media/publishing industry, with Adobe Photoshop and Acrobat generating high recurring revenue base, remains attractive to us. Beginning March 26, 2019, the Fund may hold non-equal weight positions at the Manager's discretion.

This Fund's underperformance in the aforementioned sectors was partially offset by outperformance in the Hardware and Equipment sector. We continue to favour and remain overweight this sector as we see secular growth themes in data center, data security, cloud and IoT continue to play out in the rest of 2019. Gradual 5G global build-out should benefit wireless communications, network equipment, testing and measurement equipment providers, including Keysight technologies, the #1 global leader in electronics measurement including 5g testing, and Amphenol, a global manufacturer of electronic sensors and connectors. Within the sector, the Fund also holds Motorola Solutions, who enjoys monopolistic position in public safety devices and is leading the digitalization of public safety networks in the U.S., and CDW, who owns robust customer data analytics that allows it to drive higher sales penetration in local markets. On the other hand, Apple's double digit return during the quarter, combined with its dominant weight within the sector partially offset our outperformance. Apple's pivot away from a cyclical product sales oriented business towards a subscription-based service oriented model through its breadth of new offerings including Apple TV+, Apple News+, Apple Card and Apple Arcade will provide long term sustainable revenue to Apple's business. Although we are also cautious given the amount of competitive pressure Apple faces in these verticals, such as from Netflix, Disney and Amazon in the Apple TV segment, and from Google Stadia against Apple Arcade.

We continue to own names like Amazon and Alphabet even though these companies are no longer formally included in the Information Technology index. Amazon remains dominant in e-commerce and cloud services while further penetrating the IoT market with its digital personal assistant devices Alexa and Echo product line. We see voice-based computing being able to proliferate in automotive and IoT, driving up cloud revenue. Amazon is also making strides in the entertainment space with its video streaming platform Prime Video and more recently the reported introduction of a free music streaming service. In our view, Google will remain dominant in the online advertising space given its ubiquity in search. We are optimistic about the introduction of Google Stadia to enter the $135 billion video gaming market and the potential advertising opportunities Stadia could bring.

Annual Compound Returns[1]	YTD	1-Year	3-Year	5-Year	Since Inception
Brompton Tech Leaders Income ETF	17.9%	12.8%	20.6%	11.8%	11.1%
S&P/TSX Composite Index	13.3%	8.1%	9.3%	5.4%	5.2%
S&P 500 Information Technology Index	19.9%	15.4%	22.6%	18.6%	17.2%

[1] Returns are for the periods ended March 31, 2019. Inception date May 20, 2011. The table shows the Fund's compound return for each period indicated compared with the S&P/TSX Composite Index (''Composite Index'') and the S&P Information Technology Index (''Technology Index''). The Composite Index tracks the performance, on a market weight basis, of a broad index of large-capitalization issuers listed on the TSX. 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. The Fund's portfolio is comprised of technology companies and is rebalanced at least annually in accordance with the Fund's investment guidelines. Since the indices contain a substantially larger number of companies, it is not expected that the Funds performance will mirror that of the indices. The benchmark 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.

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