Tech Leaders
INCOME ETF

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2018

Portfolio Review

Tech Leaders Income ETF (the "Fund") was up 4.0% in 2018, outperforming the S&P 500 Information Technology Index, which was down 0.3%, and the S&P 500 Index which was down 4.4%. The Fund benefitted from strong performance in Keysight, Adobe Inc. and Amazon, which were up 49.2%, 29.1% and 28.4%, respectively. During the year, we added Keysight in the portfolio. We view Keysight as having significant upside potential with its global leadership position in electronics measurement, and it is likely to capitalize on the secular growth trend in 5G and autonomous vehicles. Keysight has signed agreements with several leading equipment manufacturers, cell phone operators, and semiconductor to provide testing and measurement equipment for chipsets and other technologies that will provide 5G. The Ixia acquisition in 2017 and its networking-testing capabilities could be a key ingredient in pushing its 5G business as well as into IoT (Internet of Things). Adobe continues to beat lofty expectations especially with its Experience Cloud riding the digital advertising wave. According to research conducted by Interactive Advertising Bureau, Digital ad spending revenue surged 23 percent to $49.5 billion for the first half of 2018, putting it on pace to see its first-ever $100 billion year. With capabilities across digital marketing, advertising and analytics, Adobe is well positioned to penetrate further into the digital advertising space. Amazon remains dominant in e-commerce and cloud services, and continues to explore opportunities in new markets such as food & drug retailing, advertising, and game streaming services. In addition to its TV and movie streaming business through Prime Video and music streaming services, Amazon is further enlarging its digital streaming footprint by moving into the video games streaming services with Twitch, a market that continues to grow at a double-digit rate.

The Fund's strong performance in these names more than offset weaker relative performance in Amphenol and Accenture, which were down 6.8% and 6.2%, respectively. Both stocks sold off under the impact of the broad market sell off in December. Amphenol, as Apple's supplier for iPhone and iPad antenna and connectors, as well as metal injection molding hinges for MacBook, faces headwinds after Apple cut its Q4 revenue guidance to $84 billion from earlier estimates of a range from $89 billion to $93 billion. We believe Amphenol remains attractive given its strong end market diversification. Accenture reported a solid quarter, but shares were down due to softening consulting bookings and financial services revenue. We continue to favor Accenture for its diversity and we see additional growth potential for the company going forward, especially given its increased focus in cloud, security and digital services.

In the fourth quarter, the portfolio was rebalanced and reconstituted which resulted in the removal of Facebook, Netflix, Texas Instruments and Cognizant Technologies and the addition of Motorola Solutions, CDW Corporation, Crown Castle International and Verizon. Facebook has been under scrutiny and increased government regulations exposed Facebook to headline risks. Netflix, which was a strong performer early in the year, was removed due to new entrants into the streaming services market including Disney and AT&T (Warner Bros, HBO), which we believe will dilute Netflix's market shares and put pressure on the stock. Texas Instruments and Cognizant Technologies were sold as they are more exposed to the market sentiment shift from growth to value. We have added Crown Castle and Verizon in preparation for the 5G rollout as well as Motorola Solutions, which we believe will lead the shift in the digitalization of public safety networks in the U.S. CDW owns robust customer data analytics and it should be able to increase penetration in local markets.

We continue to own marquee companies like Apple and Amazon, which we believe will continue to perform well over the long-term. Apple remains a dominant provider of premium end smartphones and continues with its ecosystem expansion as it grows its services and other products such as Apple Music, Apple Pay, Home Pod, Apple Watch and iCloud, while investing more heavily into original content. iPhone demand from China remains a major headwind for Apple and we will closely monitor the impact of a slowing Chinese market heading into 2019. We believe Amazon will continue to consolidate its power in e-commerce and cloud, while growing its total addressable market as it penetrates new verticals such as retail drug distribution, groceries, advertising and gaming.

The Fund is overweight the Hardware & IT Equipment sector since we see secular growth trends in data centres, autonomous vehicles and 5G. Though the progress for 5G has been slower than expected due to lack of global standards, we see increased mobile traffic poised to grow 40% for the coming year. In connection to 5G, the fund is also overweight Real Estate and Integrated Telecom Services, since we see tower REITs being able to benefit from the 5G network builds, as well as telecoms able to grow as 5G network demand pick up the pace. Moreover, the Fund is overweight Interactive Media & Services and Internet & Direct Marketing Retail, as we see increased spending on digital advertising and e-commerce. On the other hand, the Fund is underweight Semiconductors and Software & IT Services as market sentiment transitions away from cyclicality and high multiple growth stocks. We favor defensive names going into 2019 given increasing market volatility and macro-uncertainty.

According to RBC's proprietary cloud capex tracker (which tracks the collective annual spending of the largest Cloud and hyperscale providers in the market), overall 2018 cloud capex is expected to have increased 44% year-over-year to US$92.7 billion while Q1/19 cloud capex growth is expected to grow 56.9% year-over-year. The portfolio currently holds Amazon, Cisco, Alphabet (Google), Intel, Microsoft and Oracle, which are all exposed to cloud growth.

In addition to the growth driven by cloud migration, advertisers are increasingly shifting from traditional advertising platforms, such as TV, ratios and newspapers, to digital advertising. Digital advertising spending is expected to grow by 14% annually over the next 4 years. The portfolio currently holds Alphabet (Google), who will be able to benefit from the digital advertising revenue growth with its search engine display ads, and Adobe, who supplies the pre-eminent software for creative publishing. Amazon is also rapidly building out their ad business that we expect will start to meaningfully contribute to its growth over the coming quarters.

RBC's proprietary telecom capex tracker (which includes the largest providers such as China Mobile, AT&T, Verizon, Deutsche Telekom and Nippon Telegraph) calculated that total global telecommunication capital spending is expected to fall 3.1% year-over-year to US$48.2 billion in Q4/18. In the U.S., telecom capex is estimated to have increased 4.5% year-over-year in Q4/18. RBC suggests an international capex expansion of 3.1% in 2019 while U.S capex is expected to decrease by 3.8% year over year. Global telecommunication capital spending is a proxy for broad networking equipment demand, which has had a positive impact on a portion of Cisco's and Oracle's networking revenues. We remain cautious as U.S. demand is estimated to decrease in 2019 but note that a growing proportion of sales by Cisco and Oracle are being generated by cloud revenues that remain a significant longer-term opportunity. Verizon, which was added to the Fund in the fourth quarter, has deployed 5G in four major U.S cities.

According to the latest data from World Semiconductor Trade Statistics (WSTS), global semiconductor sales are forecasted to be US$478 billion in 2018, an increase of 15.9% from 2017, and are expected to grow 2.5% in 2019. Growth in 2018 was primary driven by memory and data center growth, particularly due to an increase in memory demand of 33% in 2018 from artificial intelligence (AI), autonomous vehicles, cellular devices and data centers. Semiconductor growth is expected to slow in 2019 following the extraordinary growth seen in 2018. The portfolio currently holds Intel, a dominant player in the server and PC market also entering into higher growth end markets such as cloud and autonomous vehicles. Semiconductor companies serve at the upper end of the artificial intelligence value chain by providing the hardware in computing devices to power AI software. All the companies in our portfolio are involved at some point along the artificial intelligence value chain and they should benefit, to varying degrees, as the technology proliferates across industries and becomes more ubiquitous.

We remain positive on the long-term outlook for technology stocks, particularly those tied to secular themes based on disruptive trends (Cloud, Digital Advertising, Social Media/Messaging, E-commerce, Media and the Internet of Things), demographics (millennials driving future adoption), Artificial Intelligence and the continued digitization of businesses.

GICS Sector Changes

Effective September 28, there were several changes to GICS sectors with many of the changes impacting the Information Technology sector. The biggest change was to the old Telecommunications Sector, which was renamed to Communication Services and expanded to include companies that facilitate communication (traditional telecommunications companies) as well as those that offer related content through various forms of media, including new media companies that operate internet search and social networking businesses. As a part of these changes, Media (previously in Consumer Discretionary) and Internet Services (previously in Information Technology) were moved to Communication services. Additionally, somee-commerce companies were moved from Information Technology to Consumer Discretionary and the Media Industry Group was moved out of Consumer Discretionary and into Communication Services, to be renamed Media & Entertainment. With these reclassifications, tech stocks such as Alphabet and Facebook were moved out of the Information Technology sector to the new Communication Services sector to join other telecommunications and media companies, such as Netflix, and Amazon and EBay are classified as Consumer Discretionary stocks. Effectively, Information Technology's weighting in the S&P 500 dropped to 20.1% from 26.5% as of December 31, 2018, while the remaining tech giants Apple and Microsoft now represent over 35% of the Information Technology sector combined.

These changes did not have an impact on the Tech Leaders Income ETF as the Fund was designed to take a broader view of the meaning of a technology company. As such, we continue to own names like Amazon and Alphabet even though these companies are not formally classified in the Information Technology sector.

U.S. Markets Review

The global economy continued to perform well in 2018 with 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. Germany, the Euro area's largest economy, saw its economy shrink in the third quarter, while the threat of a hard Brexit also continues to weigh on European economies.

Central bank policies continue to dominate the markets. 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%. This resulted in rising interest rates across the yield curve for most of the year, before rates declined in the fourth quarter on fears of a global slowdown. The U.S. 10-year yield hit a high of 3.26% in October before falling and closing the year at 2.68%, while the spread between the 10-year and the 2-year hit a post-financial crisis low in December before closing the year at 19 bps.

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, U.S. 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 U.S. stocks experienced a relief rally into the end of the year after the Christmas Eve bottom, the market finished the year in negative territory as the S&P 500 Index declined by 4.4% in 2018 after a 20.2% intra year peak to trough decline. In terms of U.S. sectors, defensive sectors generally outperformed cyclical sectors for the year, while Health Care, which was up 6.5%, Utilities, which were up 4.1%, and Consumer Discretionary, which was up 0.8%, were the only sectors to finish in positive territory. The worst performing sectors were Energy, Materials, Industrials, Financials and Communication Services, all of which finished with double digit losses as fears of a global slowdown had a more significant impact on these areas of the market.

Looking forward, we expect the global economy in 2019 to look much the same as it did in 2018 with global growth in the 3-4% range. U.S. growth is likely to slow in the second half after the benefits of tax reform are fully baked into the economy, but growth is likely to remain above 2% and we expect employment to remain strong with inflation in check. We do not expect the U.S. to enter a recession in 2019. We believe that the Fed is on hold with respect to further interest rate hikes at least until later in 2019 and that they should be able to continue shrinking their balance sheet at a slow pace without disrupting the market.

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

Annual Compound Returns[1]	1-Year	3-Year	5-Year	Since Inception
Tech Leaders Income ETF	4.0%	14.8%	8.6%	9.1%
S&P/TSX Composite Index	(8.9%)	6.4%	4.1%	3.7%
S&P 500 Information Technology Index	(0.3%)	16.4%	14.9%	15.0%

[1] Returns are for the periods ended December 31, 2018. 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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INTEGRITY
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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