Financial Split Share Funds: Portfolio Manager Commentary – Q4 2019

Sector and Applicable Funds	Sector Commentary
Banks Life & Banc Split Corp. Brompton Split Banc Corp.	The Bank of Canada has signaled they are now biased to easing interest rates, especially since the central bank's interest rate is now higher than the comparable rate in the US with the latest Fed easing. As a result, the benefit of higher interest rate margins that resulted from the 2017-2018 rate hiking cycle has begun to plateau. The Canadian housing market has started to stabilize after years of rapid price increases. The slowdown in residential lending appears to be showing signs of stabilization while banks continue to benefit from robust commercial loan growth. Operating leverage remains positive as the big 6 banks continue to balance operating expense efficiencies with increased technology investments. With their diversified business models, banks should be able to grow earnings approximately 4% in 2020. Combined with an approximately 4% dividend yield, this could generate an 8% total return. On the regulatory side, the Manager does not expect new regulations on banks or the housing market.[1] We expect capital ratios to increase giving the Banks the ability to deploy capital via growing dividends, share buybacks, and M&A. Some of the banks are expected to pursue acquisitions, particularly in the U.S., but they will likely be bolt-on versus large transformational acquisitions. In terms of valuations, stock valuations have followed the U.S. market lower pricing in an increased risk of a recession with significant credit deterioration despite the solid credit quality and low unemployment rate in Canada.
Lifecos Life & Banc Split Corp. Brompton Lifeco Split Corp.	With the new regulatory framework OSFI implemented for the lifecos, capital levels should, in general, be less sensitive to changes in long-term interest rates. Additionally, the lifecos have been able to rely on expense initiatives, productivity gains and capital management to maintain returns in a low interest rate environment. Average return on equity for the sector is expected to increase to 13.4% for 2020, which is a significant improvement from where returns were a few years ago. With all of the companies safely onside with respect to capital levels, the lifecos can more confidently raise dividends, buy back shares and make acquisitions, as we have seen over the past several quarters. With the lifecos trading at a 12-month forward P/E of 9.1x (a 37% discount to the TSX) the manager believes valuations are compelling when considering expected earnings growth of approximately 9% in 2020 and an indicated dividend yield of nearly 4%.[1]

BROMPTON FUNDS

Fund & TSX Ticker	Fund Description
Life & Banc Split Corp. LBS LBS.PR.A	A split share fund invested in an equal-weight portfolio of Canada's four largest listed life insurance companies and the Big Six Canadian banks. Class A shares provide leveraged portfolio returns. Preferred shares pay quarterly dividends and are rated Pfd-3 by DBRS.
Brompton Lifeco Split Corp. LCS LCS.PR.A	A split share fund invested in an equal-weight portfolio of Canada's four largest listed life insurance companies. Class A shares provide leveraged portfolio returns. Preferred shares pay quarterly dividends and are rated Pfd-3 (low) by DBRS.
Brompton Split Banc Corp. SBC SBC.PR.A	A split share fund primarily invested in an approximately equal-weight portfolio of the six largest Canadian banks. The portfolio may also include an allocation of up to 10% in global financial services companies. Class A shares provide leveraged portfolio returns. Preferred shares pay quarterly dividends and are rated Pfd-3 (high) by DBRS.

(1) Source: Bloomberg, as at September 30, 2019.

You will usually pay brokerage fees to your dealer if you purchase or sell shares of a Fund on the Toronto Stock Exchange or other alternative Canadian trading platform (an "exchange"). If the shares are purchased or sold on an exchange, investors may pay more than the current net asset value when buying shares of the investment fund and may receive less than the current net asset value when selling them.

There are ongoing fees and expenses associated with owning shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about a fund. You can find more detailed information about a Fund in public filings available at www.sedar.com. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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