Brompton North American Low Volatility Dividend ETF

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2020

Portfolio Review

Brompton North American Low Volatility Dividend ETF (BLOV) (the "Fund") focuses on lowering total portfolio volatility through investing in a diversified blend of North American equities with a minimum market cap of $5 billion. Since the Fund's inception on April 30, 2020, NAV plus distribution increased from $20.00 to $22.25.

The Fund was highly overweight the Consumer Staples sector relative to the benchmark, which contributed to outperformance. Top performing holdings include Monster Beverage (+55.4%), Costco (+28.5%) and Archer Daniels Midland (+28%).

The Fund also benefited from an overweight position in Consumer Discretionary. Top performing holdings include Target (+65.5%), Garmin (+23%) and Dollar General (+22%).

An overweight position in Communication Services contributed to Fund's performance but lagged the benchmark. Top performing holdings include Telus (+28%), BCE (+13%) and Verizon (+5.7%).

The Fund was underweight Utilities, which contributed to outperformance relative to the benchmark. Top performers include Brookfield Infrastructure (+18.6%) and Nextera Energy (+4.8%).

An underweight position in Information Technology did not overly detract from the Fund's performance relative to benchmark holdings. Top performers include Apple (+48%) and Automatic Data Processing (+5.5%), the latter of which was exited in Q4.

The Fund was underweight Healthcare, with performance lagging the benchmark as strength in top performer Johnson & Johnson was offset by weakness in Pfizer and Merck both of which we exited in Q4.

An overweight position in Materials through holdings in Franco Nevada underperformed the benchmark.

For the first time in over a decade, the low volatility factor underperformed all other factors except for value. In our view, one year does not signify a trend neither an inflexion point given the historic performance of Low Volatility. The Low Volatility factor has generated a positive premium in every decade since 1929, with a higher level of statistical significance than the other factors (according to Blitz, van Vliet and Baltussen - The Volatility Effect Revisited). 2020 was an exceptional year given the step function in risk-off/risk-on investor behaviour in such a short time frame with the exogenous risk from the pandemic followed by swift action by central banks and government stimulus. In addition, we witnessed an extreme factor rotation in the market which had a very low probability of occurring in our lifetimes. We expect Low Volatility factor to mean revert to its historical premia over time as excessive risk taking by investors makes Low Volatility equities underpriced, boding well for long-term risk-adjusted returns.

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