Brompton Global Real Assets
Dividend ETF (TSX: BREA)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2020

Global Markets Review

2020 was a tumultuous year and surely a year for the history books. The 2020 stock market crash marked the fastest correction in market history; yet numerous stock markets defied expectations and closed the year at all-time highs. All in all, global markets finished the year with stellar performance, especially when taking into account the major correction that took place in March. The MSCI World Index gained 16.5% with the Information Technology sector as the best performing sector, gaining 44.3% during the year; Consumer Discretionary was the second best performing sector, outperforming the MSCI World Index by 20.5%. In North America, the S&P 500 was up 18.4%, while the S&P/TSX Composite was up 5.6%, both of which were led by strong performance from the Information Technology sector. In Europe, the STOXX 600 was down 1.4% for the year. Germany and Switzerland had the best performance, where the DAX and SMI were up 3.5% and 4.3%, respectively. France's CAC 40 Index declined 5.0%. Spain and U.K. also finished the year in negative territory as the IBEX 35 and FTSE 100 declined 12.7% and 11.4%, respectively.

During the fourth quarter, global economies continued the path to recovery while certain parts of the world combated a resurgence of COVID-19. In general, Asian countries have been able to control the spread of COVID-19 much better than North America and Europe. In November, significant progress was made with the development and the rollout of COVID-19 vaccines. Pfizer and Moderna's vaccines both showed efficacy rates above 90%. AstraZeneca's vaccine also showed efficacy rate above the 50% threshold set by the World Health Organization. Several countries have granted emergency approval for these vaccines and are undergoing the inoculation process. At the same time, we saw sequential improvement in manufacturing production and sequential declines in the unemployment rate after peaking in April. In the U.S., Democratic presidential nominee Joe Biden was elected the 45th president of the United States and was inaugurated on January 20, 2021. The two Georgia Senate runoff elections in January 2021 resulted in Democratic control of the Senate by the slimmest of margins. Democrats gained control of both the Congress and the White House for the first time since 2011. A Democratic win in combination with vaccine news pushed stock markets to new highs in November. The more cyclical parts of the economy benefited the most, including Energy, Financials, Materials and Industrials. Performance of Information Technology stocks remained robust, as the work from home theme continue to be a secular tailwind for the sector. In December, equity markets rallied further despite the implementation of lockdown measures in certain countries. Risk appetites continue to favor pro-cyclical stocks as additional coronavirus relief is passed by the U.S. congress.

Effective central bank policies played an essential role in the recovery of global equities. In the U.S., the Federal Reserve remained highly accommodative in the fourth quarter and kept policy rates at 0%-0.25% throughout the period. The latest dot plot suggests that the Federal Reserve sees rates at the zero lower bound through to and including 2023. In December, President Trump has signed another coronavirus relief package in the amount of approximately US$900 billion, the stimulus package encompasses areas like unemployment support, vaccine distribution and rental relief. During the most recent FOMC meeting in December, the Fed saw continued recovery in the fourth quarter led by improvements in labour market conditions and industrial production. The U.S. economy continued to show resilience in the face of the pandemic. The take-up of labor and production market slack is expected to lead to a gradual increase in inflation. Inflation is expected to overshoot 2% beyond 2023 under the Fed's new flexible form average inflation targeting framework.

In Canada, following three rate cuts in the first quarter, the Bank of Canada (BoC) has kept interest rates unchanged at 0.25% for the remainder of the year to combat the impact of COVID-19 on the economy. At the same time, the rate is expected to remain at the effective lower bound until the 2% inflation target is sustainably achieved, which is not expected to happen until at least 2023. Record high cases of COVID-19 in parts of Canada caused the re-imposition of restrictions during the fourth quarter. The BoC will continue to offer market support through its quantitative easing program at the current pace of at leaseleast $4 billion per week.

In Europe, the European Central Bank expects to keep the benchmark interest rate unchanged at -0.50% until inflation outlook improves. The Governing Council also increased the envelope of the pandemic emergency purchase program (PEPP) in the face of a resurgence COVID-19 cases, by EUR500 billion to EUR1,850 billion, and extended the horizon for the PEPP to at least the end of March 2022. Purchases under the asset purchase program (APP) will continue at a monthly pace of EUR20 billion. During the fourth quarter, France announced another US$23.7 billion in aid to small businesses and furloughed workers; funding for loans to business was extended to June 2021. Italy passed a fourth stimulus package worth US$6.4 bullion for rent support, subsidies and wage support. U.K. Prime Minister Boris Johnson's Brexit deal gained approval in the House of Lords and became law just hours before the Brexit transition period ended on December 31, 2020.

At the end of 2020, the number of confirmed infections worldwide exceeded 84 million, with cumulative deaths approaching 2 million- more than double the number of infections at the end of the third quarter. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in October 2020, global gross domestic product is projected to contract 4.4% this year, a less severe contraction than the previous forecast in June as activity began to improve sooner than expected after lockdowns were scaled back in May and June. The IMF projected the global growth rate for 2021 to be 5.2%. The path to recovery will follow a choppy trajectory as it is predicated upon a confluence of factors including public health response, progress with vaccines rollouts and the size and effectiveness of the policy response. The intricacy of interactions between multiple factors at play makes forecasting a difficult exercise.

Looking forward to 2021, we think several factors are at play to support the sentiment rotation of pro-cyclical sectors. First, the rollout of COVID-19 vaccines should allow societies to gradually normalize in the coming year. Second, we expect additional stimulus to be passed under the Biden administration which should be supportive for economic recovery. Third, the personal savings rate is sitting at the highest rate that it's been in the past decade. Consumers have a strong propensity to spend, which in turn should fuel economic growth. Overall, we are optimistic about equity performance heading into 2021. U.S. large capitalization stocks are likely to participate in the market rally but not necessarily lead the performance. Pro-cyclical sectors should extend their leadership that we saw since November into 2021.

Portfolio Review

Since the Fund's inception on April 30, 2020, Brompton Global Real Asset Dividend ETF's (the "Fund") Net Asset Value plus distribution increased from $20.00 to $21.57.

The Fund benefitted from an overweight exposure to Utilities with relative performance better than the benchmark. Top performers include Orsted (+83.1%), Enel (+21.9%) and Iberdrorla (+31.7%). Utilities exhibit defensive qualities and are relatively more immune to the impact of COVID-19 due to their ability to recover costs through rate case filings. In addition, the passage of the Next Generation EU stimulus in Europe and Biden's focus on green energy as part of his political agenda bode well for our current holdings. Our Utilities portfolio consist of names that are either pure-play renewable companies or companies that are undergoing clean energy transitions, such as Orsted, Brookfield Renewable Partners, RWE, NextEra and American Water Works. We see renewable energy gaining momentum in 2021, especially given the increased regulatory support. The offshore wind market looks especially attractive since the wind market currently only accounts for 5% of the global energy generation mix and the wind market needs to quadruple in size in order to meet the carbon emission targets set by each country.

Overweight positions in the Materials sector and underweight positions in Real Estate detracted from the Fund's performance. Within the Materials sector, we pivoted away from gold and added exposure to base metals. Gold tends to outperform during periods of elevated uncertainty while base metals tend to outperform during risk-off times. As for Real Estate, we added cyclicality to the sector through the addition of storage REITs.

During the fourth quarter, we have increased the Fund's allocation to Industrials and Energy and trimmed its exposure to Utilities and Real Estate to better align the Fund with our bullish outlook for 2021. We believe construction activities should pick up in 2021 once vaccines roll out in North America and Europe. The air cargo space should continue to see strong pricing and demand growth in 2021 due to the tectonic shift that has occurred in e-commerce as a result of the pandemic. Utilities tend to underperform during periods of rising U.S. 10-year treasury yield, but renewable stocks should remain robust.

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EXCHANGE TRADED FUNDS

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