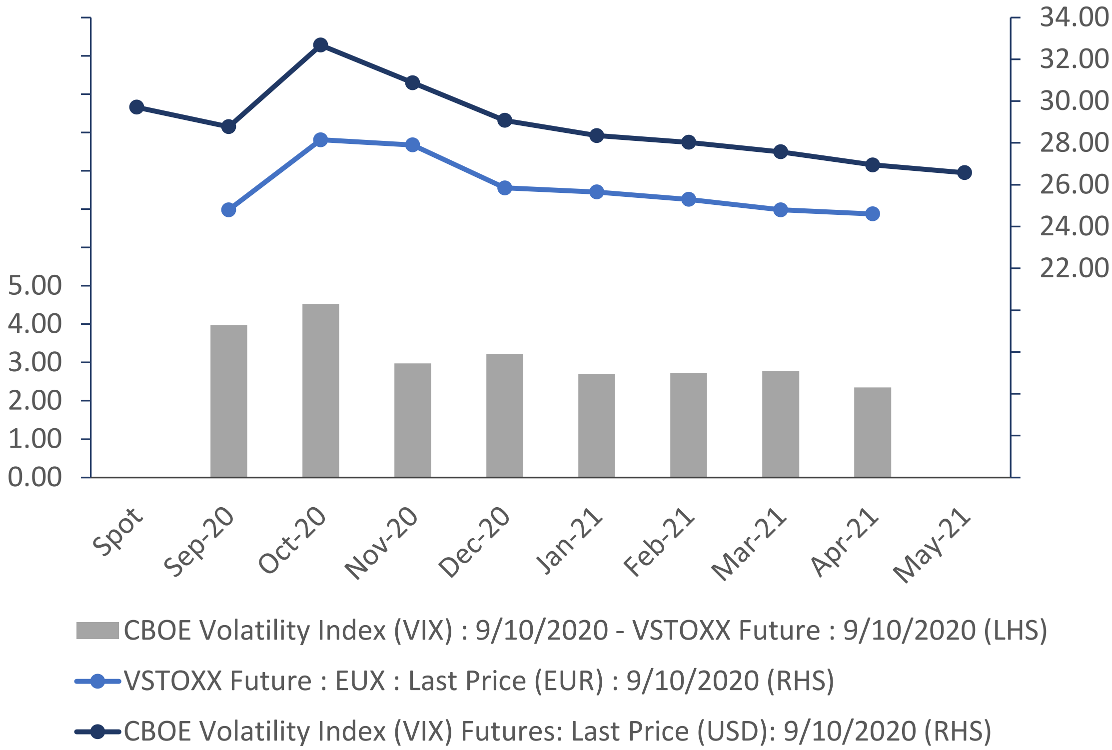
## Global Leaders Domiciled in Europe

**Fund in focus:** Brompton European Dividend Growth ETF (EDGF)

Europe is home to many of the world's largest pharmaceutical brands, consumer brands, and renewable energy companies. With their unique blend of North American, European, and Asian exposure, they provide investors with more diversified revenue streams compared to those with domestic operations alone. Europe is made up of 50 nations and the disparate nature of European economics is an advantage to investors seeking geographical diversification. Global leaders typically have multiple channels of revenue with varying degrees of regional and product mix to help them establish a solid earnings base. The scale advantage of global market leaders means they tend to fare much better during uncertain times compared to smaller players as their established market presence helps reduce revenue and earnings volatility. Furthermore, global brands tend to carry brand recognition setting a high barrier to entry versus other less known brands.

During periods of elevated volatility/uncertainty, "flight to quality" trades tend to occur as investors take comfort in owning high-quality companies. The upcoming U.S. election is expected to drive up equity volatility levels, especially in the U.S. The chart below reflects investors' consensus view of future expected stock market volatility in the S&P 500 (dark blue line) and the EUR STOXX 50 (light blue line) from September 2020 to May 2021. As evident from the chart, the EURO STOXX 50's volatility level for the upcoming months, as implied by the futures market, remains consistently below that of the S&P 500; the difference of the two (grey bars) is especially prevalent for the 2 months leading up to the U.S. election. This means the S&P 500 is expected to be much more volatile than the European Index. Therefore, we believe owning high quality European equities is a good alternative for investors seeking to hedge election risk.

**CBOE Volatility Index Futures vs EURO STOXX 50 Volatility Index Futures**




Source: Bloomberg, as at September 10, 2020.

Europe's long history propelled the rise of numerous well-known global leaders. Within the luxury retail space, companies such as LVMH Moët Hennessy Louis Vuitton ("LVMH"), Kering, and Adidas have established worldwide brand recognition among the general public. LVMH is a French multinational corporation with subsidiaries such as Louis Vuitton, Dior, Givenchy, and many other top designer brands. Parts of LVMH's revenue stream also stems from products ranging from high-quality champagnes, watches, jewellery, and perfumes, making it a well-diversified name at a group level. LVMH owns approximately 75 brands and 12 of these are considered "mega-brands", setting a solid revenue base. In the same caliber, Kering is also a French multinational company with subsidiaries ranging from brands like Gucci, Balenciaga, Yves Saint Laurant, and many others. During times of economic duress, market leaders tend to gain share as they can maintain investment in product development and marketing when its smaller competitors enter into capital preservation mode.

Europe also has many leaders in the pharmaceutical space. Pharmaceutical companies are typically considered defensive as patients will need to continue to take their medication regardless of the economic cycle, thus drug access is typically prioritized. According to Statista, in 2019 the global pharmaceutical industry made an estimated US$1.3 trillion, with the top 10 companies accounting for around a third the total revenue made in the sector. Switzerland pharma company Roche was ranked as the largest global pharmaceutical company by revenue in 2019. In the global fight against COVID-19, Roche is expected to launch a new Rapid Antigen Test for the detection of COVID-19 (SARS-CoV-2) in late September. Other large pharma companies in Europe include Swiss company Novartis, a leader in the development of multiple sclerosis drugs, French company Sanofi, a leading vaccine and diabetes drug producer, and AstraZeneca, who is in partnership with Oxford University for the development of a COVID-19 vaccine. Scale is the key in pharmaceuticals as drug development requires considerable research and development funding and has a long development cycle. The COVID-19 pandemic has brought this sector into the spotlight. Regulation remains supportive and funding for COVID-19 related research should benefit global leaders in the space.

Other European leaders worth highlighting include Reckitt, the world leader in consumer home products. It manufactures many of the leading brands including Lysol, Air Wick air freshener, and Finish dishwashing detergent. 25% of Reckitt's revenue is generated in the U.S, 6% in Europe and 69% is from the rest of the world. Nestle, the world's leading food and drinks producer, and Orsted, the top offshore wind power producer. We believe there are many more leaders in Europe with diversified revenue streams and scale advantages to provide investors unique investment opportunities that are unavailable elsewhere.

One unique advantage European companies have is access to a slack labour market and cheap financing. The European Central Bank has employed a negative policy rate since 2014, allowing local European companies to access debt at a much cheaper cost compared to debt issued in North America. For example, Sanofi as well as Henkel were able to issue negative-yielding debt. Orsted was able to issue green bonds, which typically have a lower yield than comparable non-green bonds to finance its investments in offshore wind projects.

### Brompton's Approach

Our Brompton European Dividend Growth ETF ("EDGF") focuses on well-diversified European companies that are leaders in their respective segments. Their leadership positions allow them to remain resilient in times of uncertainty and their operational scale drives better economics. Below are the current revenue exposures of some of EDGF's portfolio holdings by geography.

**Revenue By Region**

| Company | North America | Europe | Other Global |
|---|---|---|---|
| Adidas AG | 22.5% | 25.7% | 51.8% |
| Air Liquide SA | 38.6% | 32.7% | 28.7% |
| ASML Holding NV | 16.8% | 2.7% | 80.5% |
| AstraZeneca PLC | 31.8% | 17.8% | 50.4% |
| Kering | 20.5% | 37.1% | 42.4% |
| LVMH Moet Hennessy Louis Vuitton SE | 23.5% | 27.8% | 48.7% |
| Reckitt Benckiser Group PLC | 25.1% | 5.8% | 69.1% |
| SAP SE | 40.6% | 43.9% | 15.5% |
| Schneider Electric SE | 29.0% | 26.3% | 44.7% |
| Sika AG | 26.7% | 42.3% | 31.0% |

Source: Bloomberg, Company Reports Fiscal Year 2019.

BROMPTON FUNDS

VALUE

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