

Funds in Focus: [Brompton Tech Leaders Income ETF \(TLF, TLF.U\)](#)

[Brompton Global Dividend Growth ETF \(BDIV\)](#)

The FANGMAN group of leading tech stocks (Facebook, Amazon, Netflix, Google, Microsoft, Apple, Nvidia) has been a very popular and lucrative trade for obtaining technology exposure in many portfolios. This group of stocks has led the technology sector, arguably for almost a decade, given their scale, growth and for the most part cash generation. But the question on investors' minds is whether this leadership will continue?

Over the past 3 months there have been seismic moves in the market, as we are seeing a rotation from growth to value, which have been painful to the FANGMAN leadership. Fortunately, these moves have been short lived and the FANGMAN complex has recovered from these temporary shocks. Below we illustrate the recent performance of various subsectors in technology. Cyclical and value technology stocks have benefited from the recent rotations from growth to value and performance of the FANGMAN complex has been lagging.

	1 month	3 month	6 month	1 year
FANGMAN	8%	-5%	31%	73%
Software	14%	7%	29%	53%
Semiconductor	21%	18%	47%	61%
Fintech	19%	6%	29%	44%
Hardware & Storage	24%	12%	32%	13%

Source: Goldman Sachs as of December 2, 2020

The big question is whether the recent trend of rotating from growth into value will continue into 2021. While we cannot predict the future, we can position ourselves for a range of possible outcomes through an actively managed portfolio. One possibility is that these moves will be frequent but short lived. Another possibility is a reflation trade as a result of upcoming fiscal stimulus (a longer-term move) which would provide tailwinds for rotation away from growth to cyclical tech. In either scenario, investors in the tech space may not be able to rely on the buy and hold strategy for the FANGMAN complex as we look ahead to next year. Rotation out of FANGMAN over the past 3 months in favour of other tech stocks may be the start of a longer-term trend, and investors can benefit from an actively managed approach as tech leadership continues to evolve.

Brompton's Approach

Our approach to investing in technology companies across our funds, particularly in our technology fund, [Brompton Tech Leaders Income ETF \("TLF"\)](#) and [Brompton Global Dividend Growth ETF \("BDIV"\)](#) is based on valuation grounded by both revenue growth and cash flow generation. As a result, we tend to shy away from expensively valued companies without an acceptable level of cash generation. We prefer to invest in companies that have market leading positions, expanding pipeline of opportunities and above average return on invested capital. In TLF, we actively manage our weights to software, semiconductor, IT services, fintech and hardware stocks. This balances the risk/reward profile of the portfolio across growth, defensive and cyclical themes. In addition, we use an active call writing overlay to enhance risk-adjusted returns.

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