

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

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

Semiconductors are the fabric that powers digital transformation. The semiconductor and semiconductor capital equipment industries are enablers of key secular trends, including Cloud Computing, 5G, Electric Vehicles and Artificial Intelligence. These applications require the highest performance with limited power dissipation (energy loss), as a result, the complexity of semiconductors continues to increase exponentially. US semiconductor design and manufacturing companies invest approximately one-fifth of revenue in Research and Development representing the second-highest rate of research investment in any industry.

Market participants generally consider the semiconductor industry to be cyclical given its exposure to end markets such as consumer devices, data centers, automotive and industrial. Robust demand for semiconductor chips in data centers and consumer devices have overwhelmed the supply chain and, as a result, car manufacturers are currently experiencing shortages. Semiconductor content in cars continues to increase given complex infotainment systems and advanced driver assist systems. In addition, the semiconductor content of electric vehicles is roughly three times more valuable than a traditional car. Semiconductor fabrication plants operate on a tight schedule given the complex manufacturing process. A surge in demand, as we witnessed during the pandemic and the early stages of the recovery, creates issues in the supply chain. Only 10% of semiconductor plants are used for making chips for the automotive sectors, which further exacerbates the issue. According to Bloomberg chip shortages are expected to wipe out \$61 billion of sales for automakers in 2021 with China affected the most (40% of the impact). The chip shortage is expected to spill over onto the consumer devices sector, with Sony recently indicating that it might be unable to fully meet demand for its new gaming console in 2021.

Demand/supply issues and pricing surges in the semiconductor industry usually resolve over time as additional capacity is brought online. While recent trade issues have created headline risk in the sector, the long-term opportunities continue to be lucrative given the secular trends. The semiconductor sector has outperformed the broader tech sector and overall market as illustrated in the table below.

	1 Year	3 Year	5 Year	10 Year
Semiconductor Index (SOX)	72%	35%	41%	23%
S&P 500 Info Tech Index	42%	29%	30%	20%
S&P 500 Index	21%	14%	17%	14%

Source: Bloomberg Feb 2, 2021.

Investing in the semiconductor sector requires an active management strategy. From time to time there can be significant dispersion and idiosyncratic risk in the sector, and some companies have better earnings drivers that could offset any cyclical moderation or augment cyclical strength. This can be overwhelming for some investors to individually manage and using a passive approach for investing in semiconductors can expose investors to idiosyncratic risks within the sector.

Brompton's Approach

[Brompton Tech Leaders Income ETF \("TLF"\)](#) and [Brompton Global Dividend Growth ETF \("BDIV"\)](#) have material exposure to semiconductors. We prefer to invest in semiconductor companies that have market leading positions, an expanding pipeline of opportunities and above average return on invested capital. TLF has the most exposure to semiconductors, which is actively managed along with weightings in software, 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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