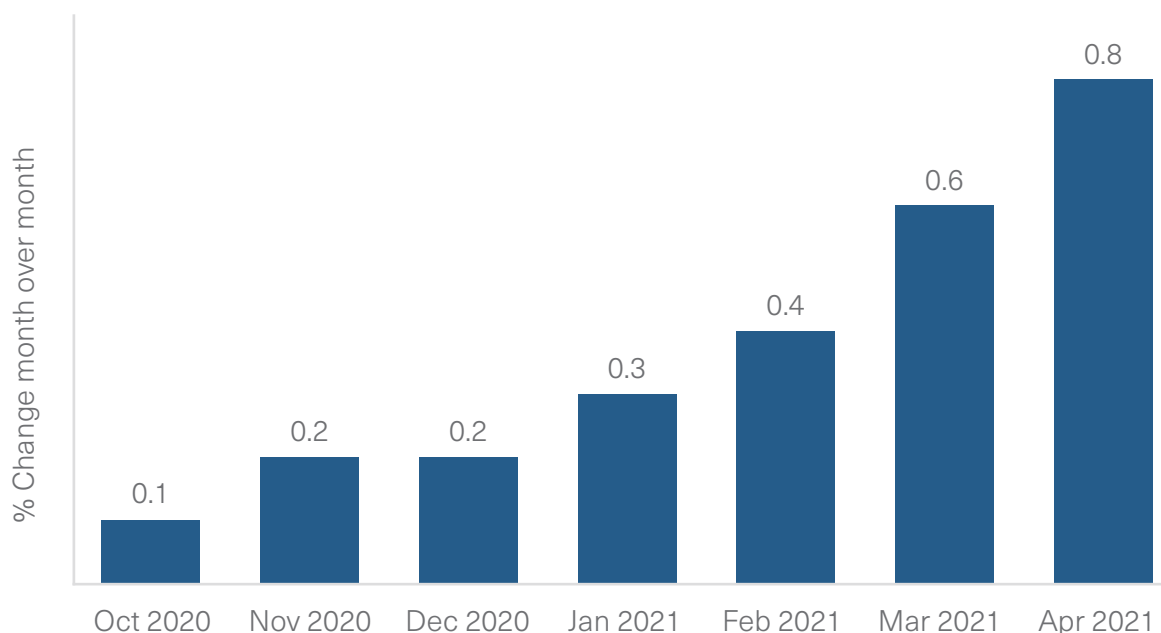


Fund in focus: [Brompton North American Financials Dividend ETF \(BFIN\)](#), [Brompton Split Banc Corp \(SBC\)](#), [Life & Banc Split Corp. \(LBS\)](#), [Brompton Lifeco Split Corp. \(LCS\)](#)

As the world began to emerge from the pandemic in 2021, one of the main investment themes has been the rotation out of “pandemic stocks” and into “recovery stocks”, with higher inflation expectations playing a major role as investors jockey to reposition their portfolios. For the past decade, global economies have been expecting inflation to result from the myriad of fiscal and monetary stimulus programs at work in the markets. However, from the time of the global recession in 2008 right up to the pandemic recession in 2020, inflation has had a muted impact on investment portfolios and global economies, particularly when compared to long-term historical averages.

Inflation expectations following the 2020 pandemic recession are bearing out, with early data suggesting that meaningful inflation is in the works, for several tangible reasons which we discuss below. In April 2021, the US Bureau of Labour Statistics reported a 4.2% year over year increase in the unadjusted Consumer Price Index (CPI), the largest yearly increase since September 2008, and a trend that has been accelerating in recent months.

U.S. CPI (all items) - Seasonally adjusted changes from preceding month



Source: U.S Bureau of Labor Statistics, May 12, 2021, Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

A number of inflationary forces have come together to cause shortages and drive up prices for goods and services. Below are some of the inflationary factors at work with a few examples¹:

Consumers flush with cash: Unprecedented government stimulus and lower levels of regular daily spending due to economic shutdowns gave consumers a healthy level of cash to spend in other areas.

Changes in spending habits: Consumers were unable to spend on many normal-course services and indoor activities during 2020/2021. For example, gyms and most indoor activities have been closed, leading to a sharp increase in demand for items like bicycles and home workout equipment. As such, prices are up sharply, and exercise equipment is scarce. Similar examples can be found across consumer services and goods sectors.

Underestimated demand: Many consumers were at home with increased savings and decided to spend on home improvements. However, at the onset of the pandemic lumber yards had the opposite demand expectation and decreased their orders from mills. As a result, lumber prices have spiked reaching peaks of 3 times their pre-pandemic value and lumber yards are still scrambling to catch up.

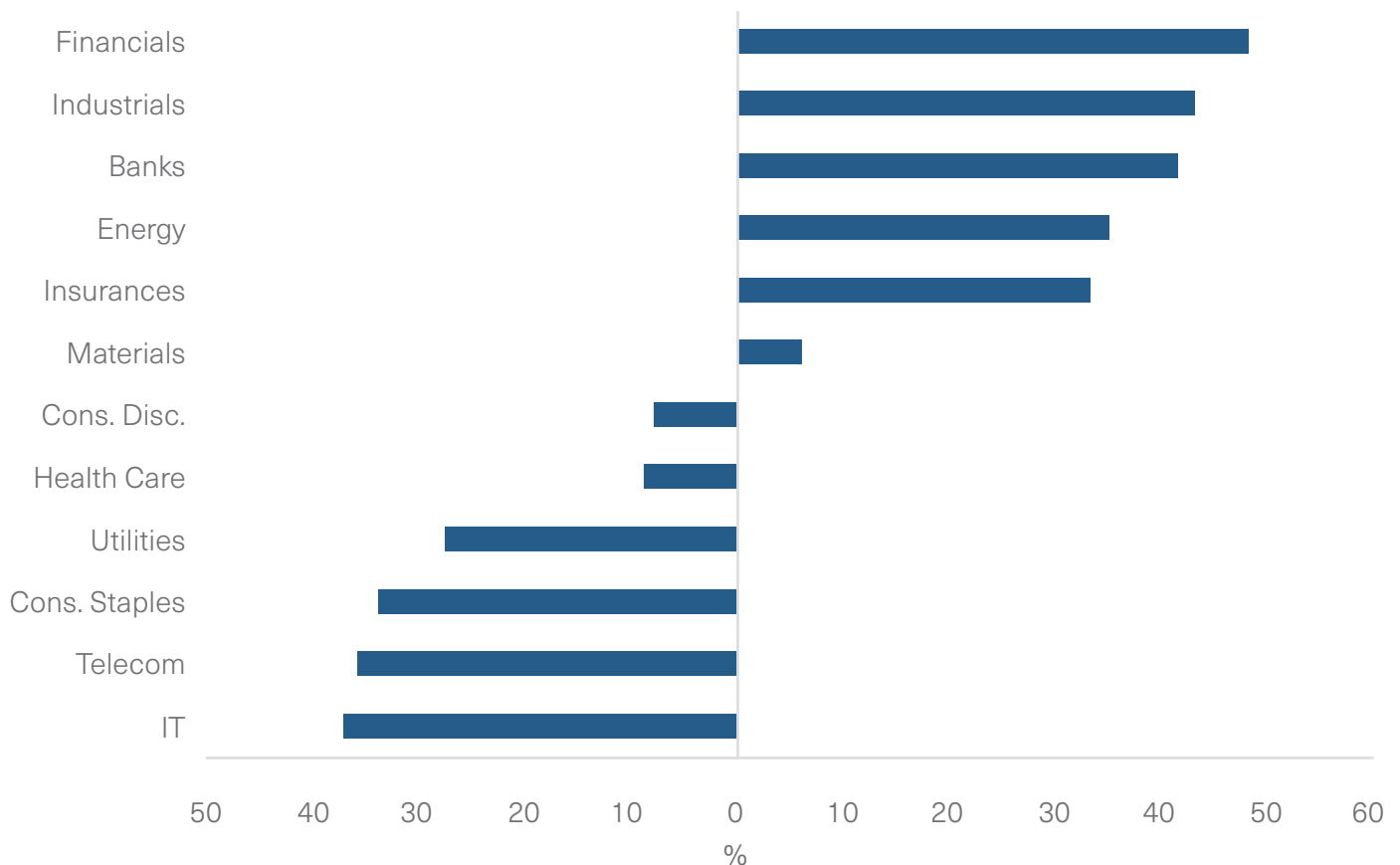
Factory shutdowns: COVID-19 outbreaks affected a number of manufacturing facilities, disrupting supply. Numerous food processing facilities shut down temporarily, which is affecting food supply and prices months later.

Just-in-time inventory: Lean supply chains have wreaked havoc on goods availability. In a Council of Supply Chain Management Professionals survey in 2020, 42% of respondents said that supply chains had gotten too lean, and many are now looking to move away from “Just-in-time” inventory systems to implement “Just-in-case” models.

Other external factors: Hurricane Laura, which hit the coast of Louisiana on August 20, 2020, caused a fire at a major chlorine plant resulting in a large delay in production and reduced availability. In the US and Brazil, hot and dry weather has interfered with corn crops and resulted in upward pricing pressure on corn.

We believe that these factors are temporary, but they will nonetheless continue to impact prices over the next 12 to 24 months. Inflation is actually good news for stocks generally and is especially good news for the Financial sector. Inflation expectations may result in increases in medium and long-term interest rates, steepening the yield curve, and this plays well into Banks and Lifeco's business models. The following chart demonstrates that returns for Financials are positively correlated with rising inflation, and more importantly, provide the best sector response in an inflationary environment.

S&P 500: How sectors react to inflation



Source: NBF Economics and Strategy (data via Refinitiv)

Lastly, momentum factor funds have recently increased exposure to the Financials sector and this will drive more demand and support equity prices. At least one large US “Equity Momentum Factor” ETF has recently rebalanced, taking Financials from less than a 2% weight, to over 33% portfolio weight. The time is right to consider increasing exposure to Financials in the form of BFIN - Brompton North American Financials Dividend ETF or one of Brompton's Financials-focused Split Share offerings.

Brompton's Approach

Brompton North American Financials Dividend ETF (TSX - BFIN, BFIN.U) offers investors a way to invest in a portfolio of large cap North American financial services companies selected by Brompton, complemented by a proprietary covered call program.

Brompton Split Banc Corp. (TSX – SBC, SBC.PR.A) offers investors a way to invest in an approximately equal weight portfolio of the “Big Six” Canadian Banks.

Life & Banc Split Corp. (TSX – LBS, LBS.PR.A) offers investors a way to invest in an approximately equal weight portfolio of Canada’s four largest publicly-listed life insurance companies and “Big Six” banks.

Brompton Lifeco Split Corp. (TSX – LCS, LCS.PR.A) offers investors a way to invest in an approximately equal weight portfolio of Canada’s four largest publicly-listed life insurance companies.

⁽¹⁾ Source: Barron's, “10 Ways to Cash In on the Shortage of Just About Everything”, May 28, 2021

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You will usually pay brokerage fees to your dealer if you purchase or sell shares of the investment funds on the Toronto Stock Exchange or other alternative Canadian trading system (an “exchange”). If the shares are purchased or sold on an exchange, investors may pay more than the current net asset value when buying shares of the investment funds and may receive less than the current net asset value when selling them.

There are ongoing fees and expenses with owning shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in the public filings available at www.sedar.com. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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