

Fund in focus: Brompton Tech Leaders Income ETF (TSX: TLF; TLF.U)

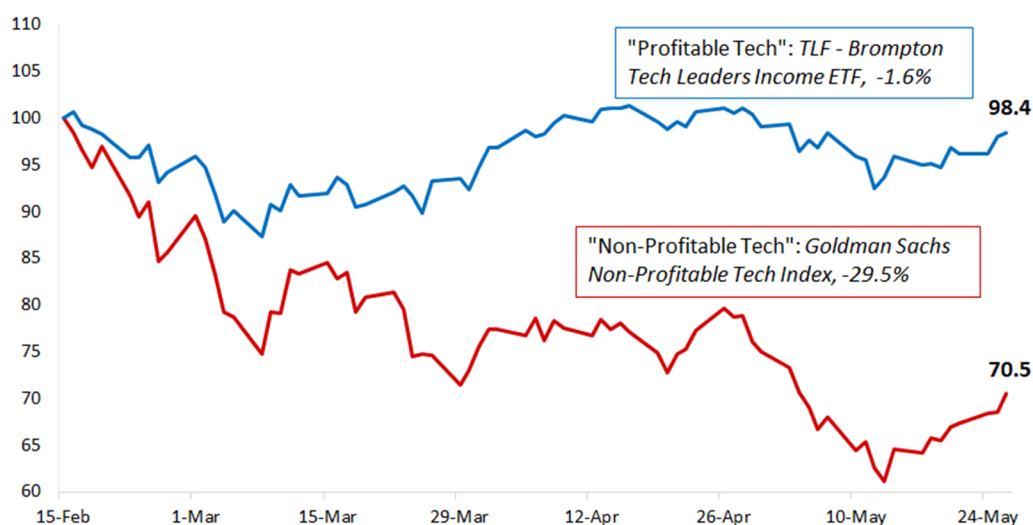
Technology stocks surged in 2020 as the world stayed at home and adapted to a new tech-enabled norm. In 2021, vaccine uptake and lower infection rates have given investors a sightline to the re-opening of global economies. This consumer and investor confidence resulted in inflation and bond yield expectations moving higher. As a result, certain parts of the Tech sector have performed poorly over the past 3-4 months.

To capitalize on the Tech boom, several recently launched thematic ETFs focus on “Disruptive Tech” stocks. Disruptive Tech companies are generally innovative, early-stage Tech companies that focus on growth. Companies in the growth stage of development will often defer profits, or don’t have a large enough sales channel to create profits, and instead aggressively re-invest to develop new market segments or disrupt existing market segments, and to increase market share. These companies often require new capital from investors to fund this growth. The hope for management and investors is that, at some point, the growth plan will lead to success and the company can then begin to harvest profits.

Disruptive Tech companies were among the leaders of the equity recovery rally in 2020; however, in our view many of these companies traded up to extremely stretched valuation levels and have since experienced a significant draw down in 2021. Goldman Sachs publishes an index that reflects the performance of several of these Disruptive Tech ETFs: the Goldman Sachs Non-Profitable Tech Index (the “Non-Profitable Tech Index”), a proprietary index of companies in the Tech sector that are generating net losses. The Non-Profitable Tech Index peaked on February 12, 2021, and we show total return results since that date in the graph below. For contrast we also show the total return performance of Brompton Tech Leaders Income ETF (“TLF”), an ETF focusing primarily on profitable Tech companies with high free cash flow and attractive growth prospects. These companies are leaders in their industries and are often able to outspend their smaller competitors when developing new products and services.

Stock values are generally related to the present value of expected future profits. Successful Tech companies that are currently profitable give investors a high degree of confidence in future success, and so the present value of expected future profits as reflected in the stock price is generally more stable. Disruptive Tech profit expectations can be far in the future and carry a meaningful risk that profits may never materialize and/or that the company will at some point fail at reaching scale or penetrating the target sales channel. As a result, Disruptive Tech valuations can be very sensitive to small changes in the company’s growth prospects, the business environment, and interest rates.

Profitable vs. Non-Profitable Tech Performance: February 15, 2021-May 26, 2021



Source: Bloomberg, Thomson Reuters, Brompton, as at 27 May 2021

As the world moves steadily towards re-opening the economy and an increase in inflation expectations has pushed interest rates higher, investors have reset growth expectations for Disruptive Tech companies lower. These factors have combined to reduce valuations for Disruptive Tech, which is reflected in the approximately 30% decline in the Non-Profitable Tech Index from its peak in February 2021. Several of the major Disruptive Tech ETFs have seen similar drawdowns.

TLF, in contrast, has experienced some moderate volatility in 2021 but has effectively held its value as the sector re-rates, indicating that investors have higher confidence in the ultimate success of currently profitable Tech companies. We believe that TLF's strategy of focusing primarily on market leaders with high free cash flow, strong growth, and reasonable valuations should result in attractive risk-adjusted returns over the medium to long term.

Investors who are looking for more stability from their technology investments should consider a blend of companies with high-quality growth and current income, as offered by TLF, along with companies solely pursuing growth (Disruptive Tech ETFs) when investing in the Technology sector.

Brompton Tech Leaders Income ETF (TSX: TLF; TLF.U) provides high monthly distributions and the opportunity for capital appreciation through an investment in an actively managed portfolio of large cap global Technology companies selected by Brompton, complemented by a proprietary covered call options program.

Annual Compound Returns ¹	YTD	1-Year	3-Year	5-Year	Since Inception (TLF)	Since Inception (TLF.U)
Brompton Tech Leaders Income ETF (CAD Hedged)	8.9%	57.1%	25.1%	26.3%	15.0%	-
Brompton Tech Leaders Income ETF (USD)	9.3%	59.0%	-	-	-	37.4%

⁽¹⁾ Returns are for the periods ended April 30, 2021. TLF Inception date May 20, 2011. TLF.U Inception date August 8, 2019. The table shows the ETF's compound return for each period indicated.

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