PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2021

Global Markets Review

The global economic reopening remains on track as the vaccine rollout gathers pace. All in all, global markets finished the quarter with solid performance, especially for pro-cyclical sectors, as several of them enjoyed double digit returns. The MSCI World Index gained 13.3% with the Energy sector being the best performer, gaining 33.2% during the first half of 2021; Financials was the second-best performing sector returning 21.1%, outperforming the MSCI World Index by 7.8%. In North America, the S&P 500 was up 15.2%, also led by the Energy sector, while the S&P/TSX Composite was up 17.3%, with Energy and Financials as the top performing sectors. In Europe, the STOXX 600 was up 15.8% for the first half of this year. France and Italy continued to be the best-performing countries, where CAC 40 and FTSE MIB were up 19.5% and 14.7%, respectively. Germany's DAX gained 13.2%. Spain and the U.K. also finished 1H21 with solid returns as the IBEX 35 and FTSE 100 increased 10.5% and 10.9%, respectively.

During the first half of 2021, global economies continued the path to recovery. U.S. Manufacturing PMI entered June at 60.6 after peaking at a record high of 64.7 in April, while the unemployment rate continued to decline, reaching 5.9% in June. In the U.S., Biden's sharp focus on immunization efforts in combination with unprecedented fiscal stimulus pushed stock markets to new highs by the end of 1H21. Global yield curves were mainly subdued in Q2 and flattening in June, with the U.S. 5 year to 30 year Treasury spreads narrowing to August 2020 levels. The U.K. yield curve also mirrored its U.S. peers. This has driven the sector rotation back from value to growth in the past month. Cyclical parts of the economy led the equity market rally during the first half of this year, with Energy, Industrials and Financials gaining the most, even though Financials were negatively affected by flattening yield curves in June. Performance of Information Technology stocks was lackluster during Q1, due to investor sentiment shifting away from large capitalization growth names, but they have had a big run since mid-May as investors took some profits and rotated back to high-growth names, sending both the S&P 500 and NASDAQ to new highs in June. Pro-cyclical stocks are still favored, while the risk-on mentality would keep sending growth stocks higher.

During the second quarter, several central banks in developed economies started to gradually shift their monetary policy stance amid growing concern over inflationary risks. During the June Federal Open Market Committee (FOMC) meeting, despite no policy rate hike, the Federal Reserve's dot-plot projections indicated at least two rate hikes in 2023, signaling an earlier than expected tightening. In response to inflation concerns, the Fed also lifted its inflation expectations to 3.4%, 100 bps above its previous estimate. Potential tapering of the bond-purchase program could commence late 2021 or early 2022. On the fiscal front, President Biden signed a US$1.9 trillion pandemic relief bill in March, titled the American Rescue Plan, into law. The plan includes additional stimulus cheques, enhanced unemployment aids, rental assistance, and childcare support among other assistance. In late June, a bipartisan group of senators and the White House reached a preliminary agreement on a potential $1.2 trillion infrastructure package. While the details are still under discussion, the bill would be another wave of robust fiscal stimulus.

In Canada, first quarter GDP grew by 1.4% year over year, making it the third consecutive quarter of growth. This was largely boosted by robust commodity prices, an improved labor market, as well as a heated housing market. The Bank of Canada (BoC) kept the overnight policy rate unchanged at 0.25% in the June statement and indicated that it would not raise rates until the damage from the pandemic is fully repaired. However, as the first central bank among advanced economies to shift to a less accommodative policy, the BoC reiterated a reduction in asset purchases, with another tapering expected on July 14.

The European Central Bank (ECB) kept the benchmark interest rate unchanged at -0.50%. President Christine Lagarde noted in June that rising inflation is temporary, largely on account of base effects, transitory factors, and an increase in energy prices. The Governing Council is continuing the current pace of purchases under the pandemic emergency purchase programme (PEPP) in the amount of EUR1.85 trillion until at least the end of March 2022. Purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR20 billion. The ECB raised their projections on annual real GDP growth to 4.6% (4% in March assessment) and annual inflation rate to 1.9% (1.5% in March assessment) in 2021. The Bank of England (BoE) kept the policy rate unchanged at 0.1%, and raised the annual inflation forecast by 50 bps to 3%. The BoE announced tapering of bond purchases from £4.4 billion a week to £3.4 billion at its May meeting.

By the end of the second quarter, the number of confirmed infections worldwide exceeded 183 million, about 2.15 times greater than the number of infections at the end of 2020. On the other hand, global vaccination efforts are well underway, with 47% of the population fully vaccinated in the U.S. and 31% in Canada. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2021, the global economy is projected to grow 6.0% in 2021, up from the previous forecast of 5.2%. The contraction of 2020 was also smaller than the previous projection due to outsized growth in the second half of 2020, driven by the easing of lockdown measures. However, there still remains a high degree of uncertainty surrounding the global economic outlook, such as whether the current vaccines are effective again new COVID-19 strain, capacity adjustments in the economy, and effectiveness of global policies.

Looking forward to the rest of 2021, we are in favor of barbell portfolios with a pro-cyclical tilt. A barbell approach allows us to better position in such a volatile environment, where leadership would likely rotate back and forth between cyclical and defensive, between value and growth. We expect to have clearer visibility once the market has a better judgement on whether the inflation is transitory and how global central banks will react. The portfolio is positioned pro-cyclically. We believe wide COVID-19 vaccine coverage should allow societies to gradually normalize over the course of the year. Second, the Biden administration is laser-focused on boosting the economy through the American Rescue Plan, which should be supportive of further economic recovery. Third, the personal savings rate is sitting at the highest rate in the past decade. Consumers have a strong propensity to spend, which in turn should fuel economic growth.

Portfolio Review:

Brompton Global Real Assets Dividend ETF (the “Fund”) was up 8.9% during the first half of 2021. This compares to the “Blended Index” (defined as 75% Dow Jones Brookfield Global Infrastructure Composite Index and 25% Dow Jones Global Select Real Estate Securities Index), which was up 15.0% over the same period.

The Fund benefitted from overweight exposures to Materials and Communication Services. Anglo American was the top contributor within the Materials sector, with the stock gaining 21.2% during the six-month period. Demand for basic metals tend to rise during periods of economic recovery. In the Communication Services sector, we saw demand for broadband surge during the pandemic. As economies reopen and travel activities pick up pace, we expect a gradual recovery in service revenue for major telecommunication players during the third quarter.

Underweight positions in Real Estate and Utilities detracted from the Fund’s performance. High quality defensive names underperformed in the Real Estate space during the first five months before gaining some strength towards the end of the second quarter. Our pro-cyclical outlook led us to add exposure to cyclically oriented names within the Real Estate complex, through the addition of Office REITs and Residential REITs in addition to our existing REITs holdings. We believe a barbell approach with a pro-cyclical tilt is the most appropriate strategy heading into the third quarter. We have a more cautious view on Utilities given the lack of investor interest for the space as the U.S. 10-year treasury yield rose during the first quarter. Despite a trend reversal during the second quarter, we have yet to see supportive fund flows for the space. We will continue to monitor the sector closely for potential opportunities in the coming months.

During the second quarter, we have increased the Fund’s allocation to Energy and trimmed its exposure to Utilities to better align the Fund with our pro-cyclical outlook for the rest of the year. We have also made adjustments within Industrials, Materials, Real Estate and Consumer Discretionary such that the Fund is exposed to both growth and value names within each sector. Energy was the top performing sector during the first six months. We see attractive risk rewards within the Energy space; we see fundamentals improving in the oil and gas sector alongside rising oil prices. We believe the U.S. 10- year treasury yield will likely hover between the 1.20%-1.55% range during the summer and leadership will likely rotate between value and growth, with a bias towards value.

Laura Lau, SVP & CIO

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Annual Compound Returns[1]	YTD	1-YR	Since Inception[2]
Brompton Global Real Assets Dividend ETF	8.9%	16.6%	17.8%
Blended Index	15.0%	24.6%	22.2%

(1) Returns are for the periods ended June 30, 2021 and are unaudited. The table shows the Fund's compound returns for each period indicated compared with a blended real assets index comprised of a 75% weighting in the Dow Jones Brookfield Global Infrastructure Composite TR Index USD ("Infrastructure Index") and 25% weighting in the Dow Jones Global Select Real Estate Securities Total Return Net Index ("Real Estate Index"). The Infrastructure Index is designed to measure the performance of pure-play infrastructure companies domiciled globally and the Real Estate Index tracks the performance of equity real estate investment trusts and real estate operating companies traded globally. The Fund invests in an actively managed portfolio of global real assets companies selected by Brompton. It is therefore not expected the Fund's performance will mirror that of the Indices which have more diversified portfolios. Further, the Indices are calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses.

(2) Inception date April 30, 2020.

BROMPTON FUNDS

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