PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2021

Global Markets Review

The global economic reopening remains on track as vaccine rollout has gathered 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 2.1%, 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% by 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 to growth from value 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. 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 hefty commodity prices, an improved labor market, as well as reheated housing investments. 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, BoC reiterated a reduction in asset purchase, with another tapering expected on July 14.

By the end of 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% 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 new COVID-19 strains are susceptible to current vaccines, capacity adjustments in the economy and effectiveness of global policies.

Looking forward to the rest of 2021, Canada's economy will continue to benefit from the fast vaccine rollout, tremendous fiscal stimulus, and abundant household savings. Canada is projected to have 80% of the population aged 12+ fully vaccinated by the end of August. Rising commodity prices should continue to boost the equity market. Given the BoC has started reducing bond purchases, if policymakers raise the benchmark rate ahead of the Fed, this should further support the Canadian dollar relative to the US dollar.

Crude Oil Review

During the first half of the year, WTI prices surged from US$48.52 per barrel on December 31st, 2020 to US$73.47 per barrel on June 30th, 2021. Brent oil prices continued to trade at a premium and closed the quarter at US$75.13. Over the past month, backwardation steepened on both WTI and Brent contracts, indicating a potential tighter market ahead. In 2021, energy companies are expected to return to a more normalized oil price environment as prices recover to pre-pandemic levels. In Canada, heavy oil spreads are trading at a discount of US$13.95 per barrel at the end of June.

During the 6-month period, optimism surrounding the vaccine rollout drove a sustained rotation into the Energy sector. As a result, Energy was the best-performing sector among many global equity indices. Fundamentals in the sector are also improving. For the demand side of the equation, global oil demand is recovering strongly from the pandemic, largely boosted by strong gasoline demand. Rising vaccination rates and improving industrial activities are paving a path for demand to return in 2021. The easing of travel restrictions in the U.S. and Europe will lead further growth of gasoline and jet-fuel consumption. Demand in Asia slowed during the second quarter, with Japan imposing a state of emergency and China tightening credit. The International Energy Agency (IEA) forecasts that global oil demand will grow by 5.4 million barrels per day in 2021 and a further 3.1 million barrels per day in 2022, driven by kerosene and jet demand. Global demand should surpass pre-pandemic levels by the end of 2022, in the absence of further policy changes.

OPEC+ has exercised tremendous discipline over the past year and the group had achieved their objective of balancing the oil market over the past months. However, the most recent OPEC+ vote on July 1 to raise about 2 million barrels per day from August to December was opposed by UAE. Even though the failure of the discussion clouded production policy and price volatility would rise into the next negotiation, tightened physical markets still imply higher oil price in the next few months. Over the short to medium term, demand is expected to improve as nations make significant progress on rolling out COVID-19 vaccines. Supply-demand should be more balanced, especially in the second half of 2021, on expectation of widespread inoculation. Free cash flow is poised to rebound on capex cuts.

Natural gas prices exploded higher over the past 6 months, as weak supply and robust demand pushed storage levels shy of the 5-year average. Gas prices in the U.S. soared with the Henry Hub spot price above $3.50 per million British thermal unit (mmBtu) in June for the first time since 2014. With the recent hot weather run across Western Canada, natural gas prices will continue to rally in the summer, and storage injections will be under pressure, which will translate into a higher winter price expectation.

Portfolio Review

Brompton Oil Split Corp. (the “Fund”) units were up 28.1% in the first six months of 2021. This compares to the S&P/TSX Capped Energy Index, which was up 29.1%, and the S&P 500 Energy Index, which was up 30.8% over the same period. All holdings in the portfolio had double digits returns for the quarter with the exception of Parkland. Top performers included Diamondback Energy, EOG Resources and Tourmaline Oil, which returned +52.65%, +46.31% and +40.32%, respectively. Upstream players involved in the exploration and production process outperformed midstream players during the quarter.

The portfolio was rebalanced and reconstituted in March and the number of holdings increased from 16 to 18 North American oil companies – 7 in Canada and 11 in the U.S. We currently favor upstream players including oil explorers, producers, and refiners as they are more sensitive to oil price increases. Fracking spreads and rig counts are picking up in March. Low-cost structures and recovering North American oil demand should help drive meaningful accelerations in free cash flow over the next few years. WTI prices broke out above US$60 a barrel in February 2021 and reached a high of $66 in early March. We believe the portfolio is well positioned to benefit from a sustained rebound in global oil demand. The portfolio holdings are spread across several sub-sectors including integrated oils, exploration & production, and pipelines/storage, and provide investors with exposure to key resource plays that we believe have the strongest return potential.

Looking out to the rest of 2021, we expect the recovery of oil prices to support a pickup in production activities in the oil market. Over the years, the industry’s cost structure has come down significantly; high quality oil producers were able to cope with current crisis much better than in previous cycles. At current prices, oil producers are still exercising capital discipline, with some operators projecting low to mid-single digit production growth. In the long term, demand is expected to recover. The demand for transportation fuels has been disproportionately impacted by the pandemic as countries closed borders, but we believe the demand for leisure travel will return rapidly on a broader vaccine adoption. Moreover, on-road transportation fuels (gasoline and diesel fuel) should provide a solid baseline for oil prices once people resume domestic travelling, especially as summer approaches. We remain optimistic heading into the second half of the year and see potential for further rotation into the sector over the coming months.

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Annual Compound Returns[1]	YTD	1-YR	3-YR	5-YR	Since Inception[2]
Brompton Oil Split Corp. - Unit	51.6%	49.2%	(10.9%)	(7.1%)	(7.4%)
S&P/TSX Capped Energy Index	55.9%	88.9%	(8.8%)	(2.9%)	(4.2%)

(1) Returns are for the periods ended June 30, 2021 and are unaudited. The table shows the Fund's compound return on a unit for each period indicated compared with the S&P/TSX Capped Energy Index ("Energy Index"). The Energy Index is derived from the Composite Index and tracks the performance of equity securities that are in the energy sector of the Toronto Stock Exchange (the "TSX"). The Fund invests, on an approximately equal-weight basis, in a portfolio comprised of at least 15 large-capitalization North American oil and gas companies. Since the Energy Index has more diversified portfolios that only include TSX-listed issuers, it is not expected that the Fund's performance will mirror that of the Energy Index. The Energy Index is 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. Further, the performance of the Fund's Class A shares is impacted by the leverage provided by the Fund's Preferred shares.

(2) Inception Date February 24, 2015.

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