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.

Portfolio Review

Brompton Split Banc Corp. ("the Fund") invests in a portfolio consisting primarily of the six largest Canadian banks as well as up to 10% of the portfolio can be invested, from time to time, in global financial companies through an investment in the Brompton North American Financials ETF ("BFIN"). BFIN is an exchange-traded fund that invests in the equity securities of North American financial services companies with a market capitalization of at least $5 billion.

In first half of 2021 the Fund was up 27.8% versus the S&P/TSX Financials Index, up 17.3%, and the S&P/TSX Banks Index, which up 29.4%. We continue to have a positive view of Canadian banks as increasing COVID-19 vaccinations rates provides a line of sight for economic recovery but this is weighted towards the back half of 2021 given lockdowns in the first half of 2021. As a result, it's too early for "normalized" earnings as the recovery is still not mature, loan growth and consumer activity is subdued (while interest rates remain low) and deposits and capital levels are elevated. Capital ratios for the large Canadian banks are at historically high levels but restrictions imposed by OSFI on dividend increases and share buybacks remain. On June 17, OSFI announced that the domestic stability buffer (DSB) for the Canadian banks will be set to 2.50%, effective October 31, 2021, up from the current level of 1.00%. We believe that raising the DSB is the first step before OSFI removes restrictions on dividend increases and share buybacks. The increase in the DSB suggests confidence in the current economic environment and bank capital levels. Canadian banks appear undervalued on a forward Price-to-Earnings and Price-to-Book Value basis, after normalizing 2022E core EPS and factoring in the banks' excess capital. We believe there is room for multiple expansion to drive share prices higher as the economy begins to improve in a post pandemic world.

The Fund benefited from its holdings in BFIN, which was up 21.3%. BFIN's performance was driven by its overweight exposure in Investment Banking, Diversified Banks and Financial Exchanges.

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Annual Compound Returns[1]	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception[2]
Brompton Split Banc Corp. - Class A	47.6%	121.1%	15.8%	19.3%	15.2%	12.4%
S&P/TSX Capped Financials Index	23.4%	49.6%	11.9%	13.2%	11.1%	8.9%
Brompton Split Banc Corp. - Preferred	2.5%	5.1%	5.1%	5.0%	4.9%	5.1%
S&P/TSX Preferred Share Index	14.3%	36.6%	4.7%	7.7%	2.9%	2.9%
Brompton Split Banc Corp. - Unit	27.8%	59.6%	11.2%	13.1%	10.7%	9.1%

(1) Returns are for the periods ended June 30, 2021 and are unaudited. The table shows the Fund's compound return on a Class A share, Preferred share and unit for each period indicated compared with the S&P/TSX Capped Financials Index (''Financials Index'') and the S&P/TSX Preferred Share Index ("Preferred Index") (together the "Indices"). The Financials Index is derived from the Composite Index based on the financials sector of the Global Industry Classification Standard. The Preferred Index tracks the performance, on a market weight basis, of a broad index of preferred shares trading on the TSX that meet the criteria relating to size, liquidity and issuer rating. The Fund passively invests on an approximately equal weight basis in a portfolio comprised of six Canadian banks which are in both the Financials Index and the Composite Index but may hold up to 10% of its assets in global financial services companies. Since the Indices have more diversified portfolios, it is not expected that the Fund's performance will mirror that of the Indices. The Indices are calculated without the impact 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 November 16, 2005.

BROMPTON FUNDS

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