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.

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 36% 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, with a growing percentage of the population fully vaccinated, the U.S. labor market recovery is accelerating so we expect to see further decline in the unemployment rate and pickup in labor force participation. Meanwhile, household savings have piled up in the past year to support strong spending, as more states open for business. On the monetary policy front, we believe Fed tapering is not likely until the last quarter this year or first quarter next year. On the fiscal policy front, the Biden administration is laser-focused on boosting economic growth through the American Rescue Plan, which should be supportive of further economic recovery.

Technology Sector Review & Outlook

Our outlook for the technology sector remains positive given line of sight in reopening of the economy as a result increasing COVID-19 vaccination rates. The pandemic accelerated the digital transformation trends that had already been in motion, and we see these trends (cloud, 5G, intelligent automation and Internet of Things) continuing to grow.

Global IT spending is expected to rebound in 2021, up 8.4% to $4.1 trillion according to Gartner, a global research and advisory firm. Growth is expected to be driven by devices (up 14% year over year) as a hybrid work from home environment boosted demand for laptops and tablets while the 5G cycle continues to trickle demand for hardware upgrades. Enterprise software is expected to grow 11% to $517 billion in 2021 as organizations shift their focus to providing a more comfortable, innovative and productive environment for their workforce. Data center spending is projected to grow of 7.7% in 2021 as providers accelerate data center build out given the increasing demand for cloud computing and resumption of enterprise data center expansion.

The global semiconductor market is firing on all cylinders with growth projected to increase 24% in 2021 breaking the $500 billion level for the first time in history according to IC Insights. Unexpected robust demand for semiconductor chips in data centers and consumer devices during the pandemic along with strong recovery in cyclical industries have overwhelmed the supply chain causing industry wide shortages that could last well into 2022, according to Bloomberg. Every major general-purpose analog and application-specific analog market segment is expected to post a double-digit increase in 2021 according to IC Insights. The automotive application specific analog segment is forecast to lead the way in analog market growth this year with a 31% increase driven almost entirely by 30% increase unit volume shipments. In the semiconductor logic market, segments that are expected to register >30% in growth this year include the Industrial (47%), Automotive (39%), and Consumer (38%) application-specific logic segments and the Display Driver category (31%). The ASP for logic chips is forecasted to drop 5% this year but be offset by a massive 30% increase in logic unit shipments. President Biden's expansive infrastructure proposal includes $50 billion for the American semiconductor industry, which will go toward production incentives, research and design. Chip manufacturing has become a growing focus among US lawmakers, who are more attuned to the competition with China across an array of sectors. We note that the United States share of global semiconductor manufacturing has fallen to 12% today from 37% in 1990 according to Bloomberg.

Modernization of antitrust laws continue to be a focal point as the US Congress faces renewed pressure. During Q2, a federal judge threw out state and federal cases against Facebook citing that the Federal Trade Commission had not supported its claims of dominant market share status, a key argument for antitrust. Given that tech firms like Facebook and Google do not charge users for access, market share cannot be assessed by advertising revenue generated and it is challenging to argue consumer harm under current antitrust laws. US lawmakers are looking to push through a recently proposed package of legislation that would rewrite key aspects of monopoly laws as well as make it harder for tech companies to acquire nascent competitors, give preference to their own service on their platforms and ban them from using dominance in one business to gain the upper hand in another.

In the first half of 2021, significant changes in yields drove extreme factor rotations away from growth into value. Towards the end of Q2, compression of the yield curve drove rotations away from value into growth. The "transitory inflation" narrative has contributed to changes in market expectation in the near-term. The heightened volatility around interest rates would contribute to frequent rotations between growth and value in our view. Our portfolio is well position to benefit from these factor rotations given our barbell approach in actively managing over weights on growth and value styles.

Overall, the technology sector remains an attractive structural growth story. The digital transformation opportunity, which is underpinned by enabling technologies such as cloud, hyper connectivity (e.g. 5G), digital media, e-commerce, payments and intelligent automation, provides many avenues for growth both in the near and long term. Disruptive emerging technologies, such as artificial intelligence and quantum computing, are expected to reshape business models and drive economic value add in the global economy. Stocks in our portfolio are uniquely positioned to benefit from this growth given their respective market position in the products and services they offer as well as degree of innovation that enhances competitive moats.

Portfolio Review

Brompton Tech Leaders Income ETF (the "Fund") was up 12.1% for the six months ended June 30, 2021 versus the S&P 500 Equal Weighted Information Technology Index (the 'Benchmark"), which was up 14.9%.

The Fund's exposure to semiconductor contributed to outperformance relative to the benchmark despite its underweight position. Top performing holdings include ASML (up 42%), KLA (up 23.5%) and Applied Materials (up 19%).

A market weight position in IT services did not overly detract from the Fund's performance however lagged relative to the Benchmark. Top performing holdings include PayPal (up 24.5%), Accenture (up 13.6%) and Visa (up 7.2%).

The Fund's overweight position in the software subsector contributed to performance which was in line with the Benchmark. Top performing holdings were Microsoft (up 22.4%), Synopsys (up 6.4%) and Salesforce (up 6.1%).

A relative market weight in the hardware subsector contributed to performance which lagged the Benchmark. Top performing holdings include Logitech (up 24.4%) and Apple (up 3.6%).

The Fund is overweight technology-related sub sectors such as interactive media and internet media given its holdings in Alphabet (up 43%) and Amazon (up 5.6%).

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[4]	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception[2]	Since Inception[3]
Brompton Tech Leaders Income ETF (CAD Hedged)	12.1%	41.1%	24.0%	26.0%	15.6%	15.0%	-
Brompton Tech Leaders Income ETF (USD)	12.5%	42.1%	-	-	-	-	35.6%
S&P 500 Equal Weight Information Technology Index	14.9%	47.6%	24.3%	27.1%	19.7%	19.0%	33.6%

(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 the S&P 500 Equal Weight Information Technology Index ("Technology Index"). The Technology Index, a sub-index of the S&P 500 Index, tracks the performance of major North American information technology companies on an approximately equal weight basis. Since the Technology Index contains a substantially larger number of companies, it is not expected that the ETF's performance will mirror that of the Technology Index. The Technology Index is calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the ETF is calculated after deducting such fees and expenses.

(2) Inception Date May 20, 2011.

(3) Inception Date August 8, 2019.

The Fund has changed its technology benchmark from the S&P Information Technology Index to the S&P Equal Weight Technology Index. The S&P Equal Weight Technology Index tracks the performance of information technology companies included in the S&P 500 Index on an approximately equal weight basis. The S&P Information Technology Index, a sub-index of the S&P 500 Index, tracks the performance of information technology companies on a market cap weighted basis. Since the Fund also invests on an approximately equal weight basis the Manager believes that the S&P Equal Weight Technology Index provides a more comparable benchmark to assess relative performance of the Fund.

BROMPTON FUNDS

VALUE
INTEGRITY
PERFORMANCE

THE FOUNDATION FOR EXCELLENCE

Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
EMAIL info@bromptongroup.com

Website
www.bromptongroup.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3