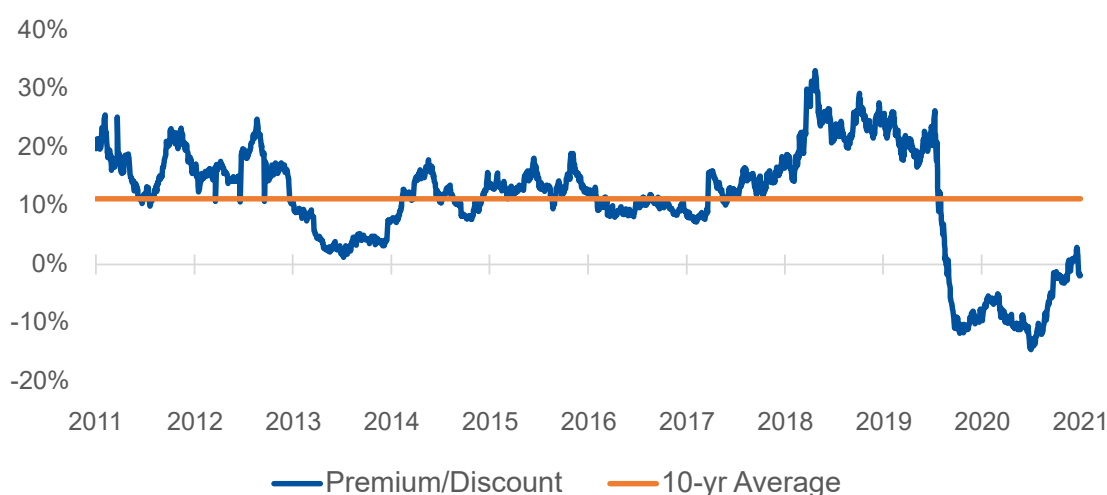


Fund in focus: Brompton North American Low Volatility Dividend ETF (BLOV)

The recent market volatility has re-kindled investors' interest in low volatility strategies. We believe low volatility assets are attractively valued relative to the broader market, and this provides an attractive entry point for investors. The chart below shows the relative valuation of the S&P 500 Low Volatility Index (the "Low Volatility Index") relative to the S&P 500 Index using 12-month forward Price to Earnings ratios. Currently, the Low Volatility Index is trading at a discount to the broader market, well below its historic premium of 11%. Typically, low volatility strategies underperform strong market recoveries as high beta assets are levered to extreme upside moves. However, with the post-COVID recovery well past its initial impulse move, the wide gap between low beta and high beta assets is poised to narrow in our view.

S&P 500 Low Volatility Index vs S&P 500 - Forward P/E

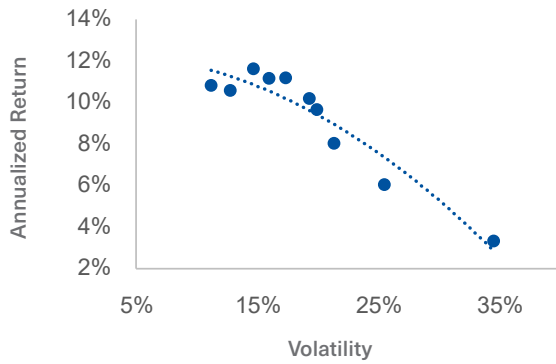


Source: Bloomberg (August 31, 2021)

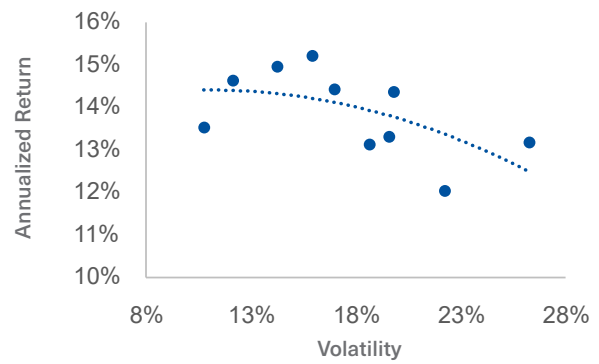
Investors have questioned whether low volatility investing is a fad that will eventually fade. The Low Volatility Effect has persisted through time, and across asset classes and market regimes for over 90 years.¹ Behavioural finance suggests that individuals' preferences for lotteries (i.e. chasing high risk for a high reward), as well as overconfidence bias, lead to demand for equity risk that is not warranted by fundamentals. As a result, this irrational demand causes high-risk stocks to be overpriced, which, all else equal, leads to lower future returns. In addition, institutional investors typically have fixed-benchmark mandates, and in a number of cases high-beta stocks comprise a significant weight in the benchmark (e.g. S&P 500 has high exposure to FAANG stocks). This may discourage investments in low-beta stocks and foster allocations to higher beta index constituents which exhibit lower tracking error.

We view low volatility as a long-term investment strategy that generates attractive risk adjusted returns the boring way. The analysis below illustrates the performance of portfolios that are volatility-sorted by decile based on the past 36-months return volatility. The 10 portfolios are equally weighted and constructed at the end of each quarter. Eligible constituents include the largest 1,000 NYSE, AMEX, and NASDAQ stocks. Across multiple market regimes (2000-2020) and (2010-2020) which includes the end of the dot com era, the great financial crisis and the COVID crash, the portfolio with the lowest volatility generated the highest risk-adjusted returns.

Portfolio Returns By Volatility Decile (2000 to 2020)



Portfolio Returns By Volatility Decile (2010 to 2020)



Source: www.paradoxinvesting.com (February 2021)

We believe the Low Volatility Effect will continue to persist over time given investor’s risk seeking nature along with leverage constraints which limits the ability to arbitrage. This structural dynamic is unlikely to change given the regulatory environment and human investing psychology. Based on empirical data (as illustrated above), low volatility strategies have generated attractive risk-adjusted returns over long periods in time across various market cycles, and current valuations suggest that now is an attractive entry point for investors.

Brompton’s Approach

Brompton North American Low Volatility Dividend ETF (“BLOV”) is designed to produce equity returns with lower volatility through investing in a diversified portfolio of North American large capitalization equities. Our Portfolio Management team employs quantitative analysis with an active fundamental overlay to construct a portfolio with lower overall volatility than the market. The Portfolio Management team also overlays a covered call options strategy with the goal of further lowering volatility, while also aiming to increase distributable cash and total returns.

¹ Frazzini and Pedersen (2010), *Betting Against Beta*.

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Certain statements contained in this document constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to matters disclosed in this document and to other matters identified in public filings relating to the Fund, to the future outlook of the Fund and anticipated events or results and may include statements regarding the future financial performance of the Fund. In some cases, forward-looking information can be identified by terms such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue” or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.



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