

PORTFOLIO MANAGER COMMENTARY - SEPTEMBER 30, 2021

Global Markets Review

Following a stormy month in September, global equity markets narrowly extended positive gains during the quarter. For the three-month period ending September 30, 2021, the MSCI World Index edged up 0.1%, led by the Financials sector, which gained 2.2%; Energy was the second-best performing sector, rising 1.6% during the quarter and boosted by robust oil and gas prices. In North America, the S&P 500 was up 0.6%, also driven by Financials, while the S&P/TSX Composite was up 0.2%, with Consumer Staples and Industrials as the top performing sectors. In Europe, the STOXX 600 rose 1.0% during the quarter. Italy and the U.K. were the best-performing countries, where the FTSE MIB was up 3.0% and the FTSE 100 was up 1.9%. CAC 40 and IBEX 35 ticked up 0.4% and 0.3%, respectively. Switzerland and Germany finished the period in negative territory, down 2.4% and 1.7%, respectively.

Global economies continued the path to recovery through the third quarter, while sentiment on the growth deceleration has weighed on the market. U.S. manufacturing PMI came in at 61.1 for September, the strongest reading during the quarter, while the unemployment rate also saw sequential improvement. Nonetheless, inflationary pressures remained elevated, with August core CPI at 4%, despite dropping from the June high (4.5%). Global yields spiked after bottoming in August. The U.S. 10-year Treasury yield peaked above 1.5% after a mildly hawkish Federal Open Market Committee (FOMC) meeting. The U.K. 10-year Gilts also mirrored its U.S. peer, touching 1% for the first time since May 2019. These triggered market selloffs of high-growth names especially among Information Technology and Healthcare sectors in the back half of September, while value stocks in Financials and Energy sector were buoyed on the back of rising yields. Although growth still outperformed value during the quarter, the gap has narrowed since mid-September, which coincides with rising yields. At the same time, uncertainties around China's slowing economic momentum and contagion risks due to the property developer Evergrande's debt crisis also sent market volatility higher in September.

There were few major monetary policy changes among global central banks in developed economies during the quarter, with inflationary pressures becoming the key variable for the pace of policy shifts. The Federal Reserve left the policy rate unchanged at 0%-0.25% at the September FOMC meeting, while acknowledging that "a moderation in the pace of asset purchases may soon be warranted". The latest median dot plot projects the fed funds rate at 1% by the end of 2023 and 1.75% by the end of 2024. Moreover, the 2021 inflation outlook was substantially lifted again to 4.2%, 80 bps above the June estimate, reflecting stickier inflation than had previously been expected. Real GDP forecast for the year was also revised down to 5.9% from 7%, implying headwinds in the near-term economic growth outlook.

In Canada, the Bank of Canada (BoC) kept all policy variables unchanged in the September statement, including the overnight policy rate at 0.25% and government bond purchases at C\$2 billion per week. On inflation, the central bank still saw the current spike as transitory, highlighting that wage increases have been moderate and medium-term inflation expectations are well anchored. BoC Governor Tiff Macklem also released a roadmap to exit monetary stimulus, outlining that once the new stimulus is removed the first step would be to move to the reinvestment phase of the QE program (most likely cutting bond purchases from C\$2 billion per week to C\$1 billion). He also reiterated that the reinvestment would be maintained well past the initial rate hikes.

The European Central Bank (ECB) kept the benchmark interest rate unchanged at -0.50%. President Christine Lagarde repeated in September that the upswing in inflation was temporary, and that base effect and rising energy prices would not result in lasting inflation. The Governing Council decided to moderately lower the pace of purchases under the pandemic emergency purchase program (PEPP) from that of the past two quarters, with an unchanged envelope of EUR1.85 trillion through the end of March 2022 at the least. Purchases under the asset purchase program (APP) will progress at a monthly pace of EUR20 billion. The ECB raised their projections on 2021 annual real GDP growth for the euro area to 5% from 4.6% in the June assessment and annual inflation rate to 2.2% from 1.9% in June. Despite the bullish tone on the economic rebound, it is still too early to call for an end of the PPEP, as the decision will still depend on upcoming economic data before the December meeting. The Bank of England (BoE) voted in September to keep the policy rate unchanged at 0.1% and maintain the asset purchase target of £875 billion, while revising down the Q3 GDP forecast to 2.1% from 2.9%. BoE also reiterated that it expected CPI inflation to rise slightly above 4% this year, double its target, largely on the back of upside risks posed by hefty energy and goods prices. On the political front, Olaf Scholz of the Social Democrats narrowly led Chancellor Angela Merkel's Conservatives in the German election. This narrow victory suggests that long negotiations lie ahead before a coalition government can emerge, which could raise extended period of market and policy uncertainties.

According to the statistics compiled by the World Health Organization, the number of confirmed infections worldwide exceeded 233 million by the end of September, while the weekly cases have continued to drop after peaking in August. On the other hand, global vaccination efforts are well underway, with 70% of the population fully vaccinated in Canada and 56% in the U.S. However, due to fears of vaccine effectiveness against the Delta variant and delay of the vaccine rollout for ages 5-11 in the U.S., the pace of reopening was slower than previously anticipated during the third quarter. Fiscal support in Q3 was a mixed bag. The American Rescue Plan, along with other assistances such as Child Tax Credit, continued enhancing household savings, which were channeled into consumer spending amid reopening. Furthermore, the U.S. Senate passed a \$1.2 trillion infrastructure package in August, with the House vote delayed to the end of October. However, as many fiscal stimuli are fading, the fiscal impulse on growth could turn negative next year according to Goldman Sachs.

Looking ahead to the rest of 2021, sector rotations into value and cyclical could persist if the yield curve finds its support and ticks up. However, volatility would potentially linger into the fourth quarter given rising inflation expectations and contracting monetary gauges, as well as global supply chain issues and China's growth deceleration. Market leaderships would be rotating among value/growth and cyclical/defensive alternatively within short timeframes. In this regard, the barbell approach to our portfolios is still the preferred strategy, supplemented by opportunities in the covered call writing amid high volatility risk in the near term. We expect to have clearer visibility after upcoming waves of corporate earnings for Q3 and key economic releases. At the same time, widening vaccine coverage, resilient fiscal support, and abundant household savings should keep fueling economic growth.

Portfolio Review:

Units (1 Class A share plus 1 Preferred share) of Global Dividend Growth Split Corp. (the "Fund") were down 0.8% for the third quarter of 2021, outperforming the MSCI World High Dividend Yield Index, which was down 2.0% over the same period.

The Fund benefited from its overweight positions in Real Estate. During the quarter, Industrial REITs saw robust rent growth in combination with high occupancy rates, which led major US Industrial REIT players to increase their 2021 guidance. We believe COVID-driven warehouse demand will remain robust heading into the next quarter and all the way into next year. We also have a positive view on Residential REITs given an acceleration of rent growth supported by favourable job trends in Canada and the US. The Fund currently has exposure to both core Canadian residential markets and US residential markets.

Stock picking in Industrials and Materials sectors also contributed to the Fund's outperformance. Current Industrial holdings including Robert Half and Schneider Electric delivered strong performance, partly driven by increased hiring activity for staffing agencies and energy-saving demand for automation players. Materials stocks are major beneficiaries of the infrastructure package. Our holdings should be able to monetize on increased demand for construction materials.

Overweight positions in Consumer Discretionary and Energy offset some of the Fund's gains. Automakers underperformed during the period mostly due to an output disruption caused by the global chip shortage. We believe auto output will remain muted for some time while supply constraints ease slowly; as a result, we have trimmed the Fund's exposure to auto players during the quarter. Within the Consumer Discretionary complex, home product store such as Tractor Supply and luxury goods player LVMH are able to maintain their profit margins due to their strong price power, while other major sector players see margin compressions. Energy was the second-best performing sector the MSCI World Index during the quarter. We continue to overweight the sector as oil prices break pre-COVID highs.

During the quarter, we trimmed positions in Consumer Discretionary and tilted the portfolio's exposure to more growth-oriented and high-quality names within Materials, Information Technology, Healthcare and Financials sectors. We believe the direction of the US 10-year treasury rate will play a crucial role in determining the direction of the equity market in the coming quarter. As the 10-year yield rate between 1.15% to 1.8%, we believe employing a barbell approach through maintaining proper exposure to both value-oriented names as well as growth-oriented names is appropriate.

Annual Compound Returns ¹	YTD	1-YR	3-YR	Since Inception ²
Global Dividend Growth Split Corp. - Class A	16.3%	33.3%	10.7%	10.9%
MSCI World High Dividend Yield Index	8.2%	20.8%	6.8%	7.2%
Global Dividend Growth Split Corp. - Preferred	3.8%	5.1%	5.1%	5.1%
S&P/TSX Preferred Share Index	17.4%	26.0%	5.1%	5.1%
Global Dividend Growth Split Corp. - Unit	10.1%	18.4%	7.8%	7.9%

⁽¹⁾ Returns are for the periods ended September 30, 2021. The table shows the Fund's compound returns on a Class A share, Preferred share and unit for each period indicated, compared with the MSCI World High Dividend Yield Index ("MSCI High Dividend Index") and the S&P/TSX Preferred Share Index ("Preferred Share Index") (together the "Indices"). The MSCI High Dividend Index targets companies from the MSCI Index (excluding Real Estate Investment Trusts) with high dividend income and quality characteristics and includes companies that have higher than average dividend yields that are expected to be both sustainable and persistent. The Preferred Share Index tracks the performance, on a market weight basis, of a broad index of preferred shares trading on the Toronto Stock Exchange that met the criteria relating to size, liquidity and issuer rating. The Fund invests in an actively managed portfolio. It is therefore not expected the Fund's performance will mirror those of the Indices which have more diversified portfolios. 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. 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 June 15, 2018.

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You will usually pay brokerage fees to your dealer if you purchase or sell shares of the Fund on the Toronto Stock Exchange or other alternative Canadian trading system (an "exchange"). If the shares are purchased or sold on an exchange, investors may pay more than the current net asset value when buying shares of the investment fund and may receive less than the current net asset value when selling them.

There are ongoing fees and expenses associated with owning shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about the Fund. You can find more detailed information about the Fund in the public filings available at www.sedar.com. The indicated rates of return are the historical annual compounded total returns including changes in share value and reinvestment of all distributions and do not take into account certain fees such as redemption costs or income taxes payable by any securityholder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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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