Brompton North American Low Volatility Dividend ETF

BROMPTON FUNDS

Portfolio Manager Commentary - March 31, 2022

Global Markets Review

First quarter of 2022 was a difficult start after a stellar 2021, with a majority of global equity markets experiencing turbulent performance. The Russia-Ukraine war, monetary uncertainty, and inflation concerns fueled a rise in market anxiety. For the three-month period ended March 31, 2022, the MSCI World Index fell by 5.0%. The index fell to the quarter-low in early March, followed by a sharp rebound through month-end. Energy was the best-performing sector, up 31.0%, while Consumer Discretionary was the bottom-performing sector, down 10.6%. In North America, the S&P 500 dropped 4.6%, while the S&P/TSX Composite gained 3.8%, well ahead of most global equity markets. The energy sector was the top performer in both the S&P 500 and S&P/TSX Composite. In Europe, the STOXX 600 was down 5.9%. The U.K. was the only developed European market that a registered positive return, with FTSE 100 up 2.9%. Spain and Switzerland fell by -2.6% and -4.3% respectively. France, Italy, and Germany also finished the period in negative territory with the CAC 40 down 6.7%, FTSE MIB down 8.1%, and DAX down 9.3%.

As the global economy was looking to emerge from the COVID-19 pandemic, the war between Russia and Ukraine became the top exogenous shock that escalated the existing concerns over inflation pressure and supply chain disruptions. Major economic indicators were mixed during the first quarter. U.S. Manufacturing PMI entered March at 57.1, the lowest reading since September 2020. On the positive side, we continued to see sequential decline in unemployment rates. However, inflation kept rising, as the March CPI data hit 8.5%, particularly through food and gasoline. Global yields rose sharply, with the U.S. Treasury market suffering from one of its worst selloffs on record. The 2-year and 10-year Treasury spread narrowed during Q1 and turned negative by the end of March for the first time since August 2019. The U.K. Gilt yield curves also flattened during the quarter, but not as pronounced as the U.S. Value stocks dominated in Q1 as rising rates weighed on growth names. Commodity-oriented stocks, such as crude oil, natural gas, and agricultural producers, led the rally amid the fear of tightening supply. This was also due to the Russia-Ukraine war and sanctions from the U.S. and its allies.

During the first quarter, central banks in developed economies delivered more hawkish stances of their monetary policy to combat inflationary risks. At the March Federal Open Market Committee ("FOMC") meeting, the Federal Reserve raised interest rates by 25 basis points, lifting its 0%-0.25% policy rate since March 2020. The policy rate change also marks the first rate hike since December 2018. As the Fed signaled further hikes at all six remaining meetings this year, the market is pricing in a 2.5%-2.75% target rate by year-end. The Committee also indicated in the recent Fed Minutes that they will begin to reduce the size of their balance sheet at a faster pace than was experienced in 2017-2019, reflecting more aggressive tightening and upward pressure on yields.

In Canada, the Bank of Canada (BoC) also commenced the tightening cycle to raise the overnight policy rate by 25 basis points to 0.5% at the March meeting. Even though Governor Macklem did not provide a detailed timeline on changing the reinvestment plan, he suggested that they will end purchases of government bonds, rather than slowly taper the reinvestment phase once the process of balance sheet reduction starts. The Bank is also open to 50-basis-point moves at individual meetings to tackle the rising inflation.

The European Central Bank (ECB) kept the benchmark interest rate unchanged at -0.50%. ECB President Christine Lagarde did not rule out the possibility of raising the policy rates this year. The Governing Council was clear on the necessity to reduce the asset purchases program (APP) over the coming months, while leaving it to the June meeting to decide on when to end the program. The decision is set to taper the APP from EUR40 billion in April to EUR30 billion in May, and EUR20 billion in June. Meanwhile, the pandemic emergency purchase program (PEPP) ended in March as stated in previous ECB meetings. In the U.K., the Bank of England (BoE) voted to lift the policy rate by two consecutive 25 basis points in its February and March meetings to 0.75%. The BoE also expected inflation to peak around 7.25% in April and dissipate over time. However, as the projections were published in February before the Russia Invasion of Ukraine, the upward pressure on inflationary risks could persist longer than projected.

The geopolitical tensions have been on the center stage in the first quarter, where Russia surprised the world with a full-scale military action on the Ukrainian border in late February, marking the first major military conflict in Europe in decades. Many developed countries have imposed economic sanctions on Russia, including banning Russian oil exports and its financial institutions from SWIFT. As a result, the conflict sent commodity prices such as crude oil, natural gas, and wheat sharply higher, which exacerbated the already-high inflation and supply chain bottlenecks, especially in Europe. In response, the U.S. announced to releasing 180 million barrels of crude oil over a six-month period from its Strategic Petroleum Reserve (SPR). The global oil supply had been tight even before the war. This has largely benefited commodity producers, resulting in Energy being the best-performing sector among

most global equity indices. As market sentiment rose in response to the war, concerns over a global economic slowdown have been intensifying.

Looking forward to the rest of 2022, the global economy and broad equity markets will continue to be driven by high inflation readings, normalized monetary policies, and the unknown war duration. In addition, the impact of COVID-19 cannot be ignored yet, as many countries have seen rising cases after loosening pandemic measures. China in particular has extended strict lockdowns on major cities to contain the outbreak. In this vein, it would be inevitable to see market turbulence persist in the near-term, which raises the importance of active portfolio strategies. The barbell approach (owning both cyclicals and defensive) remains our preferred strategy, while favoring dividend-paying quality companies, which generally demonstrate solid balance sheets, stable earnings growth, and reasonable valuations. In our stock selection process, we also carefully examine the candidate's Russian exposure and pricing power to deal with the uncertainties arising from geopolitical conflict and rising inflation.

Portfolio Review

Brompton North American Low Volatility Dividend ETF (the "Fund") focuses on lowering total portfolio volatility through investing in a diversified blend of North American equities with a minimum market cap of $5 billion. During the first quarter of 2022, BLOV was down 2.0% versus the benchmark (MSCI Minimum Volatility USA) which was down 3.8%.

In the first quarter of 2022, the Low Volatility factor continued its strong performance versus the market, a trend that began in the middle of the first quarter of 2021 when high beta stocks began to falter. With skew rising on the S&P 500 along with increasing interest rate volatility, we believe the Low Volatility factor will continue to outperform as excessive risk taking by investors makes low volatility equities underpriced, and this bodes well for long-term risk-adjusted returns. We note that the low volatility factor has generated a positive premium in every decade since 1929, with a higher level of statistical significance than the other factors.[1]

For Q1 2022, the Fund was overweight Communication Services, which outperformed and contributed to positive performance relative to the benchmark. Top performers included Telus (+12%) and BCE (+8%). Underweight positions in Consumer Discretionary and Information Technology also contributed to the Fund's outperformance relative to the benchmark since the returns for these sectors were negative during the period. The Fund also benefitted from its overweight position in Consumer Staples, which remains as the Fund's largest sector weighting and continues to be a source of strength in the current market environment.

The Fund was overweight the Materials sector, which was one of the strongest performing sectors during the quarter with returns that approximately matched the benchmark. The top performers in this sector were Franco-Nevada (+15%) and Wheaton Precious Metals (+9% since it was added to the portfolio during the quarter). The Fund's Utilities position registered positive returns but failed to outperform the benchmark, while the Fund continues to have no exposure to Energy and Financials, both of which performed well during the period and therefore the underweight position resulted in negative performance relative to the benchmark. The Fund was underweight Industrials, which underperformed during the quarter, but our position in Expeditors International of Washington Inc., which was down 24%, was a drag on performance.

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[2]	YTD	1-YR	Since Inception[3]
Brompton North American Low Volatility Dividend ETF	(2.0%)	20.2%	16.0%
MSCI USA Minimum Volatility Gross TR USD Index	(3.8%)	13.8%	16.4%

(1) Blitz, David and van Vliet, Pim and Baltussen, Guido, The Volatility Effect Revisited (August 26, 2019).

(2) Returns are for the periods ended March 31, 2022 and are unaudited. The table shows the Fund's compound returns for each period indicated compared with the MSCI USA Minimum Volatility Gross TR USD Index ("Minimum Volatility Index"). The Minimum Volatility Index is designed to reflect the performance characteristics of a minimum variance strategy applied to the large and mid cap U.S. equity universe. The Minimum Volatility Index is calculated using Barra Optimizer to optimize its MSCI parent index for the lowest absolute volatility with a certain set of constraints. The Fund invests in equities from North American issuers with a minimum market cap of $5 billion and employs quantitative analysis with an active fundamentals overlay to construct a portfolio with lower overall volatility than the market. It is therefore not expected the Fund's performance will mirror that of the Minimum Volatility Index. Further, the 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.

(3) Inception date April 30, 2020.

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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