GLOBAL DIVIDEND GROWTH Split Corp.

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:**

Units (1 Class A share plus 1 Preferred share) of Global Dividend Growth Split Corp. (the "Fund") were down 6.4% for the first quarter of 2022. This compares to the MSCI World High Dividend Yield Index, which was up 0.2% over the same period.

The Fund benefited from its overweight positions in Energy and underweight positions in Consumer Staples. Energy was the best performing sector in both North America and Europe during the first quarter. Our Energy holdings including ONEOK, Imperial Oil and Canadian Natural Resources all contributed positively to the Fund's performance. WTI broke above US$120 for the first time since 2008. Oil supply demand balance remains tight given major sanctions imposed on Russia, and we do not expect these sanctions to be lifted anytime soon. Further, underinvestment in energy infrastructure in combination with the shift to energy independence should support energy prices heading into Q2. We continue to underweight the Consumer Staples sector. Within the space, we prefer market leaders including P&G, Archer-Daniels-Midland and L'Oréal who enjoy superior pricing power during high inflationary environments like the current one.

Offsetting some of the gains from the aforementioned sectors were the Fund's allocations to Financials and Materials sectors. Materials players have seen margin compression in the most recent quarter given rising raw materials costs and labour costs. We are monitoring the sector for signs of improvement. We are also more cautious on the Financials sector. Equity price declines have hampered new issuance for investment banks; loan growth is also expected to slow given a weaker economic backdrop. On the other hand we are cognizant of the fact that banks today have strong balance sheets. Rising interest rates and trading activities should also provide some upside for banks.

During Q1, we increased the Fund's defensive exposure by adding positions in Consumer Staples and Healthcare while remaining underweight both sectors and trimming positions in Consumer Discretionary. We believe a barbell approach with a more defensive tilt is the appropriate strategy in view of the fact that the Russian-Ukraine war will be ongoing. Given the need to achieve energy independence, especially in Europe, we are more constructive on the Utilities space, especially renewables. We believe the energy transition theme will be a tremendous tailwind for the sector.

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

| Annual Compound Returns[1] | YTD | 1-YR | 3-YR | Since Inception[2] |
|---|---|---|---|---|
| Global Dividend Growth Split Corp. - Class A | (12.4%) | 11.0% | 12.9% | 10.9% |
| MSCI World High Dividend Yield Index | 0.2% | 9.4% | 9.0% | 8.2% |
| Global Dividend Growth Split Corp. - Preferred | 1.3% | 5.1% | 5.1% | 5.1% |
| S&P/TSX Preferred Share Index | (2.5%) | 6.9% | 8.1% | 4.2% |
| Global Dividend Growth Split Corp. - Unit | -6.4% | 8.2% | 9.0% | 8.0% |

*(1) Returns are for the periods ended March 31, 2022. 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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