Portfolio Manager Commentary - March 31, 2022

Crude Oil Review

Oil prices gathered strong momentum in the first quarter of 2022 on the back of geopolitical tensions between Russia and Ukraine, reaching the highest levels since 2008. West Texas Intermediate (WTI) finished the quarter at US$100.28 per barrel by March 31st. Brent oil prices kept trading at a premium and closed at US$107.91 for the quarter. We saw Brent climb towards US$100 as demand recovered from the pandemic, while supply remained tight. After Russia invaded Ukraine, and following waves of sanctions against Russian oil export, Brent oil prices surged to sub-US$140 intraday in early March and remained choppy towards the quarter end. In Canada, heavy oil spreads traded at a discount of US$11.4 per barrel by the end of the quarter.

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 imports. As a result, the conflict sent oil prices higher, which exacerbated the already-high inflation and supply chain bottlenecks. This has largely benefited oil & gas companies, resulting in Energy being the best-performing sector among most global equity indices. Fund flows rotated into the energy space at the expense of growth companies. Further recovery of economic activities is expected to continue bolstering the demand for crude oil. However, the unknown duration of the war will cloud the demand outlook in the near term. According to March International Energy Agency (IEA) oil market report, the global oil demand was revised down by 1.3 million barrels per day for the second quarter to year end, translating into 2.1 million barrels per day on average in 2022.

During the most recent OPEC+ meeting, the alliance decided to modestly adjust upward the May production by 432 thousand barrels per day from the 400-thousand baseline set in the previous meeting. The UAE and Saudi Arabia are the only two OPEC oil producers with spare capacity that could help alleviate the oil shortfall from Russia, but so far neither are willing to tap into their reserves. The UAE has maintained a strong public stance to keep Russia in the producer group. Meanwhile, Houthi’s attack on Saudi energy infrastructure further escalated the geopolitical tensions in the region, with little progress on Iranian negotiations. Outside of the alliance, despite the U.S. announcing 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 since even before the war. Moreover, the SPR release indicates a higher likelihood of further sanctions by the Biden administration against Russia.

Portfolio Review

Units (1 Class A share plus 1 Preferred share) of Brompton Oil Split Corp. (the “Fund”) were up 41.8% in the first quarter of 2022. This compares to the S&P/TSX Capped Energy Index, which was up 37.5%, and the S&P 500 Energy Index, which was up 39.0% over the same period. Top performers included Occidental Petroleum, APA Corp, and Marathon Oil, which returned +96.2%, +54.3% and +53.4% respectively in local currency terms. Upstream players involved in the exploration and production (E&P) process outperformed midstream players during the quarter.

The portfolio was rebalanced and reconstituted in late March and the number of holdings remains at 19 North American oil companies. We sold one Canadian E&P stock and added one U.S. energy service company, adding up to 11 names in the U.S. and 8 names in Canada. We currently favor upstream players who produce oil and gas since they are more sensitive to oil price increases. Fracking spreads and rig counts largely continued the upward trend since January. North American energy stocks continued to trade at a significant discount relative to the broader market, although the discount narrowed during the quarter. On an absolute basis, the group kept trading at cycle low EV/EBITDA valuations. Given a solid Q4 earnings profile, the driver of share price appreciation will still be focused on a low cost structure, robust cash flow, and increasing dividend payouts. Current macro and geopolitical factors are still viewed as tailwinds for the North American energy companies, even though the growth momentum could normalize as these factors are priced in. As global monetary policies tighten, North American energy players are less levered than other industries and therefore better positioned in this rate-hike environment. Furthermore, the U.S. and Canadian players are preferred to their European counterparts because they have much less exposure to Russia. Our portfolio is well positioned to benefit from a sustained rebound in global oil and gas demand. The portfolio holdings are primarily spread across exploration & production companies and a few integrated oils to provide investors with exposure to key resource plays that we believe have the strongest return potential.

Looking out to the rest of 2022, as market participants focus on the geopolitical developments and the absence of spare capacity, the oil market will remain elevated and volatile. Production ramp-up and visibility on the Russia-Ukraine conflict should stabilize the oil market, but the timing will be challenging to forecast. We expect to see further investor engagement into the sector, driven by concerns over inflation readings and geopolitical uncertainties. Over the years, the industry's cost structure has fallen significantly. High quality oil producers were able to cope with the current crisis much better than in previous cycles. At current prices, oil producers are still exercising capital discipline, with some operators projecting low-to-mid single digit production growth. Energy producers are generating plenty of cash flow at current oil prices. We also believe free cash flow is set to advance further on existing capex estimates, allowing for acceleration of returns to shareholders. In addition, the impact of COVID-19 has waned as travel returns rapidly with many countries loosening restrictions. In this regard, we believe that the current macro environment and sector fundamentals still present a bullish outlook on the North American oil producers.

Laura Lau, SVP & Chief Investment Officer

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Annual Compound Returns[1]	YTD	1-YR	3-YR	5-YR	Since Inception[2]
Brompton Oil Split Corp. - Unit	41.8%	88.9%	14.1%	2.5%	(0.2%)
S&P/TSX Capped Energy Index	37.5%	97.5%	17.7%	5.7%	3.1%

(1) Returns are for the periods ended March 31, 2022 and are unaudited. The table shows the Fund's compound return on a unit for each period indicated compared with the S&P/TSX Capped Energy Index ("Energy Index"). The Energy Index is derived from the Composite Index and tracks the performance of equity securities that are in the energy sector of the Toronto Stock Exchange (the "TSX"). The Fund invests, on an approximately equal-weight basis, in a portfolio comprised of at least 15 large-capitalization North American oil and gas companies. Since the Energy Index has more diversified portfolios that only include TSX-listed issuers, it is not expected that the Fund's performance will mirror that of the Energy Index. The Energy 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. 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 February 24, 2015.

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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.

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