Brompton Tech Leaders Income ETF (TSX: TLF; TLF.U)

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.

Technology Sector Review & Outlook

In Q1, the pace of rising yields and increasing interest rate volatility drove factor rotations away from growth into value which was a headwind for the technology sector. While the fundamentals in the technology sector remains solid; increasing enterprise and consumer demand driving top line growth and cash flow generation with innovation expanding market opportunities, sector valuation is pressured in a risk-off market regime. We believe a rising rate environment shifts risk premia towards cash flow generating firms and those that return capital in the form of dividends and share buybacks. Our portfolio is well positioned to benefit from these factor rotations given our barbell approach in actively managing over weights on growth and value styles and our preference for investing in cash flow generating tech companies versus unprofitable ones. In addition, our call writing strategy allows us to harvest volatility risk premia from our portfolio.

Global IT spending is expected to grow 4% to $4.4 trillion in 2022 according to Gartner. Growth is expected to be driven by software (up 10% Y/Y) as organizations shift their focus to providing a more comfortable, innovative, and productive environment for their workforce. IT services is projected to grow 7% to $1.3 trillion driven by outsourcing and consulting as companies embrace digital transformation. Data center spending is projected to grow of 5.5% in 2022 as providers accelerate data center build out given the increasing demand for cloud computing and resumption of enterprise data center expansion. Overall, IT spending continues to be robust as economies reopen and large-scale system deployment slowly hit a cadence. However, geopolitical disruption, inflation, currency fluctuations and supply chain challenges could impact the timing of some enterprise IT spending and delivery of hardware.

The Global semiconductor market is projected to grow 11% to $680 billion in 2022 according to IC Insights. Last year the industry experienced a banner year, with 25% growth breaking the $600 billion level for the first time. Unexpected robust demand for semiconductor chips in data centers and consumer devices during the pandemic along with strong recovery in cyclical industries have overwhelmed the supply chain causing industry wide shortages. As a result, chipmakers are ramping up spending on new factories and production equipment. In 2021, semiconductor capex grew 34% to $152 billion according to IC Insights. Foundry chipmakers account for more than one-third of capex with spending on factories and equipment for 7/5/3 nanometer processes. By 2024, the 2 nanometer process is expected to be commercialized using next generation extreme ultraviolent lithography systems according to Bloomberg. These next generation chips will be used for 5G and artificial intelligence systems (self-driving, automation etc).

Overall, the technology sector remains an attractive structural growth story. The digital transformation opportunity, which is underpinned by enabling technologies such as cloud, hyper connectivity (e.g. 5G), digital media, e-commerce, payments and intelligent automation, provides many avenues for growth both in the near and long term. Disruptive emerging technologies, such as artificial intelligence and quantum computing, are expected to reshape business models and drive economic value add in the global economy. Stocks in our portfolio are uniquely positioned to benefit from this growth given their respective market position in the products and services they offer as well as degree of innovation that enhances competitive moats.

Portfolio Review

Brompton Tech Leaders Income ETF (the "Fund") The Tech Leaders Income ETF was down 13.5% in Q1 2022 versus the S&P 500 Equal Weighted Information Technology Index down 10.6%.

The Fund's overweight exposure to software outperformed benchmark holdings. Oracle was the top performer, up 2%.

An overweight exposure to semiconductors detracted from the fund's performance relative to benchmark holdings. On a relative subsector basis our holdings in Broadcom and Nvidia were top performers despite being down 5% and 7% respectively.

The Fund was underweight IT services with performance lagging the benchmark. The underperformance was attributed to our holding in Accenture, which was down 18%.

The Fund was underweight hardware and components with performance lagging the benchmark. Our only top performing holding was Apple down 1.5%. The performance of our holdings in Keysight and TE Connectivity were on par with the benchmark.

The Fund was overweight technology-related sub sectors such as interactive media and internet media given its holdings in Alphabet (down 3.5%) and Meta (down 34%).

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[4]	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception[2]	Since Inception[3]
Brompton Tech Leaders Income ETF (CAD Hedged)	30.4%	30.4%	35.3%	28.2%	17.8%	15.9%	-
Brompton Tech Leaders Income ETF (USD)	31.0%	31.0%	-	-	-	-	35.6%
S&P 500 Equal Weight Information Technology Index	28.9%	28.9%	33.9%	26.2%	22.4%	19.3%	31.9%

(1) 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 S&P 500 Equal Weight Information Technology Index ("Technology Index"). The Technology Index, a sub-index of the S&P 500 Index, tracks the performance of major North American information technology companies on an approximately equal weight basis. Since the Technology Index contains a substantially larger number of companies, it is not expected that the ETF's performance will mirror that of the Technology Index. The Technology Index is calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the ETF is calculated after deducting such fees and expenses.

(2) Inception Date May 20, 2011.

(3) Inception Date August 8, 2019.

The Fund has changed its technology benchmark from the S&P Information Technology Index to the S&P Equal Weight Technology Index. The S&P Equal Weight Technology Index tracks the performance of information technology companies included in the S&P 500 Index on an approximately equal weight basis. The S&P Information Technology Index, a sub-index of the S&P 500 Index, tracks the performance of information technology companies on a market cap weighted basis. Since the Fund also invests on an approximately equal weight basis the Manager believes that the S&P Equal Weight Technology Index provides a more comparable benchmark to assess relative performance of the Fund.

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Commissions, trailing commissions, management fees and expenses all may be associated with exchange-traded fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income tax payable by any securityholder that would have reduced returns. Exchange-traded 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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