Brompton North American Low Volatility Dividend ETF

BROMPTON FUNDS

Portfolio Manager Commentary - June 30, 2022

Global Markets Review

The first half of 2022 was undoubtedly a difficult start for most global equity indices, with some of them entering a bear market during the period. The Russia-Ukraine war, global monetary tightening, and rampant inflation fueled a rise in recessionary concerns. For the six-month period ended June 30, 2022, the MSCI World Index fell by 20.3%. Energy was the only sector that a registered positive return (+24.7%), while Consumer Discretionary was the bottom-performing sector (-31.8%). In North America, the S&P 500 slumped 20.0%, while the S&P/TSX Composite lost 9.9%. Energy, again, was the best contributor to both markets. In Europe, the STOXX 600 was down 14.4% for the first half of this year. The U.K. FTSE 100 was the best-performing index (-1.0%). Spain and Switzerland were down by 5.3% and 14.3%, respectively. France, Germany, and Italy all finished the period in negative territory (CAC 40 -15.2%, DAX -19.5%, FTSE MIB -19.6%).

The global economic growth has been challenged by rising inflation. Exogenous shocks, such as the Russia/Ukraine war since the end of February and a two-month lockdown in Shanghai, have exacerbated the already-high inflationary pressure. Elevated energy prices are weighing on every aspect of industrial and consumer activities, while inventory levels are accumulating as both pandemic-induced supply shortages and demand start to ease. Major economic indicators in the U.S. confirmed an economic slowdown. May CPI surged to 8.6%, the highest reading since December 1981. Food and gasoline price increases have been the main drivers of inflation accelerating. Rising inflation is eroding real wage growth, while unemployment rates continued to see sequential declines so far this year. Manufacturing PMI entered May at 56.1, ticking up from the April low, but the gauge has largely trended down since its peak in March 2021. Global yields rose in response to the inflation overshoot and monetary tightening. The U.S. Treasury market suffered from one of its worst selloffs on record during the first half of 2022, while the 2-year and 10-year Treasury spread narrowed and dipped twice below zero during the period. Bond market selloffs also deepened in Europe on the expectation of a more aggressive pace of tightening from the European Central Bank. With the tight oil market and inflation on the rise, energy stocks showed robust performance, with many enjoying double-digit returns. The sector has become one of the few places to hide in this turbulent market. In addition, quality names which offer decent dividend yields in defensive sectors such as Consumer Staples and Utilities generally showed better resilience than cyclical and growth peers such as Consumer Discretionary and Technology sectors during the 6-month period.

During the second quarter, central banks in developed economies continued to deliver more hawkish stances of their monetary policy to combat inflationary risks. At the June Federal Open Market Committee ("FOMC") meeting, the Federal Reserve raised interest rates by 75 basis points to the 1.5%-1.75% range, representing the biggest increase in a single meeting since 1994. As the Fed signaled further hikes at all remaining meetings this year, the Fed Fund Futures market is pricing in another 165 basis points of tightening to 3.3% by year-end, including another possible 0.75% hike at the July meeting. The Committee also reiterated the balance sheet reduction at a pace of $47.5 billion a month starting from June 1 and will ramp up to $95 billion in September. GDP forecasts were also sharply revised down to 1.7% in 2022, down from 2.8% in the March estimates.

The geopolitical tensions have been on the center stage during the first half of 2022, where Russia surprised the world with full-scale military action on the Ukrainian border in late February, marking the first major military conflict in Europe in decades. As a result, the war, along with the consequent sanctions imposed by Western countries, 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 a release of 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. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2022, the global economy is projected to grow 3.6% for both 2022 and 2023, revised down by 0.8 and 0.2 percentage points lower respectively from January forecast. Due to war-induced commodity price surge, the IMF also expected inflation in advanced economies to rise by 5.7%.

Looking forward to the back half of 2022, we believe the protracted inflation has created challenge for the U.S. economic outlook. With the Fed's commitment to keep raising interest rates, whether it can engineer a soft landing becomes increasingly questionable. Consumer confidence dropped to a16-month low, dragged by food and energy costs due to inflation overshoot, while household savings have started to decline from pandemic highs. Fiscal stimulus from pandemic has faded and becomes a drag. Even though equity valuations have largely declined due to the market selloff, we remain cautious on growth sectors but do see opportunities

in some deep value names. In addition, the midterm election will serve as an additional risk factor to market volatility. In short, we believe U.S. equities would continue to suffer from asymmetrical downside risks amid headwinds from negative earnings revisions, while maintaining our preference for defensive characteristics.

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 half of 2022, BLOV was down 9.1% versus the benchmark (MSCI Minimum Volatility USA) which was down 12.6%.

In the first half of 2022, the Low Volatility factor continued its relative outperformance 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 factors1.

For the 6-month period, the Fund was overweight Communication Services, which strongly outperformed relative to the benchmark, despite negative absolute return. Consumer Discretionary was underweight in the Fund but was the only sector that registered positive absolute returns and outperformed the benchmark. Dollar General was the top performer (+5%). The Fund continued to have no exposure to Financials and Real Estate, both of which outperformed relative to the benchmark. The Fund also benefited from its overweight position in Materials, which slightly outperformed relative to the benchmark. Healthcare, despite an underweight position, also slightly beat the benchmark, thanks to Merck & Co. (+21%) and Johnson & Johnson (+5%).

The Fund was overweight Consumer Staples and Utilities, both of which underperformed relative to the benchmark. The Fund's underweight positions in Industrials and Information Technology also lagged the benchmark performances. No exposure to Energy resulted in the underperformance relative to the benchmark, as the sector rallied during the 6-month period.

Laura Lau, CIO

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Annual Compound Returns[2]	YTD	1-YR	Since Inception[3]
Brompton North American Low Volatility Dividend ETF	(9.1%)	5.4%	10.2%

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

[(2)] Returns are for the periods ended June 30, 2022 and are unaudited. The table shows the ETF's compound returns for each period indicated. Past performance does not necessarily indicate how the ETF will perform in the future. The information shown is based on Net Asset Value per unit and assumes that distributions made by the ETF on its units in the period shown were reinvested at Net Asset Value per unit in additional units of the ETF.

[(3)] Inception date April 30, 2020.

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