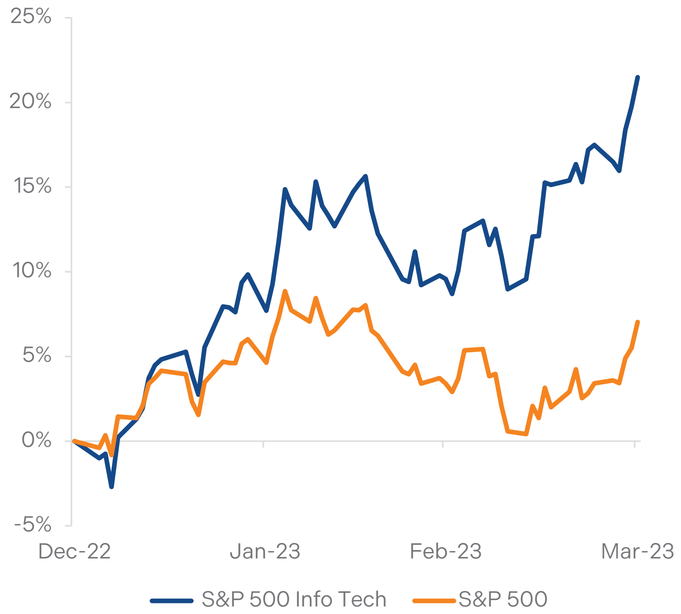
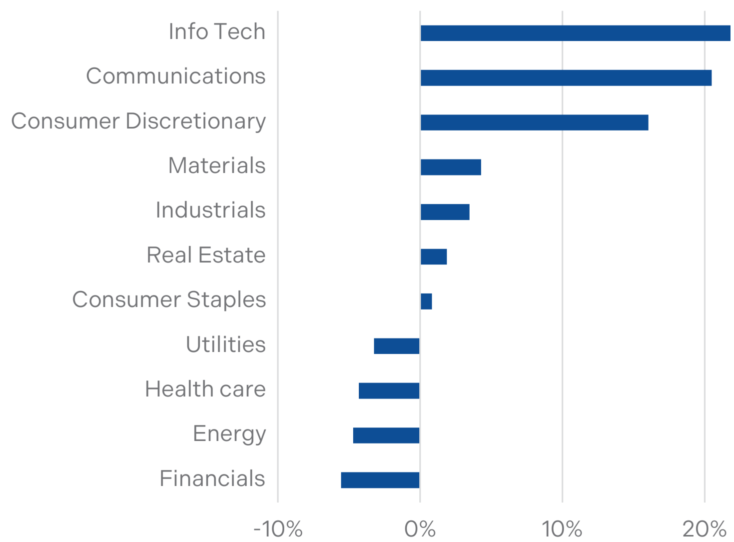
Funds in focus: Brompton Tech Leaders Income ETF (TLF, TLF.U), Brompton Global Dividend Growth ETF (BDIV)

The tech sector (S&P 500 Info Tech Index) has outperformed the broader market and all other sectors year-to-date, with a 21.5% total return vs 7.0% for the S&P 500 Index, despite macro headwinds and volatility in the bond market due to recent bank failures. Many investors are wondering whether the tech sector, particularly mega cap tech, is the new safety trade.

Year-to-Date Performance



S&P 500 Sector Performance Year-to-Date

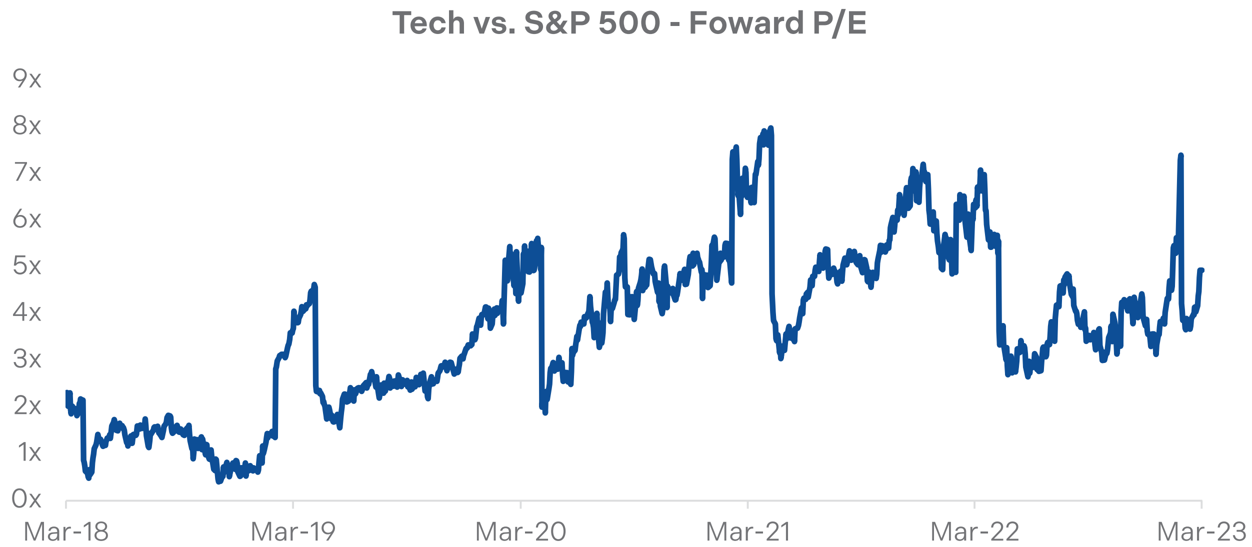


Source: Bloomberg, as at March 31, 2023

From a positioning perspective, heading into 2023, sentiment towards the tech sector was negative given last year's underperformance and as a result, the sector was generally underweighted. This extreme pessimism provided the ingredients for a rally in the sector, especially given recent earnings results which were better than expected and, in some cases, results were already priced in before the announcement.

Consequently, reported results acted as an event catalyst. A factor rotation into growth, from value, also fueled the rally in the tech sector. In addition, volatility in the energy and financial sectors helped drive the rotation into tech given the low correlation between them. In other words, due to idiosyncratic risk in the index constituents, when one sector underperforms another low correlated sector outperforms (all else equal).

The tech sector offers both offensive and defensive characteristics from a fundamental perspective. Companies with high recurring revenue and growth are considered offensive. Profitable ones with solid cash flow generation and return of capital (share buybacks and dividends) are considered defensive. Best in class tech companies have high rates of return on invested capital and exhibit a track record in accretive acquisitions. Tech companies that announced prudent cost optimization initiatives were rewarded by the market (given the subsequent share price appreciation) as this falls directly to the bottom line given high operational leverage. In our view the tech sector remains attractively valued, trading at 5x premium to the S&P 500 (75th 5-year percentile) which is 1.2x above the 5-year average, but well below prior peaks of 8x (Q1 2021) and recent peak of 7.4x in early February 2023.



Source: Bloomberg, as at March 20, 2023. Forward price-to-earnings (P/E) of the S&P 500 Information Technology Index relative to the S&P 500 Index.

Brompton's Approach

In our technology fund, Brompton Tech Leaders Income ETF (TLF, TLF.U), we first use top-down analysis to determine sub-sector weightings, considering a combination of quantitative, technical, style, market positioning, fundamental and valuation factors. When analyzing companies for inclusion in the portfolio, many factors may be considered including valuation, financials, business models, management, strategy, competitive positioning, products, future prospects, geographic exposure, among others. We prefer to invest in companies that have market leading positions, a combination of revenue growth and free cash flow generation, and an expanding pipeline of opportunities. Investors can also get exposure to technology in Brompton Global Dividend Growth ETF (BDIV) which invests in large capitalization global dividend growth companies. Both funds use an active covered call writing strategy to generate income and lower portfolio volatility.

BROMPTON FUNDS

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PERFORMANCE
THE FOUNDATION FOR EXCELLENCE

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