Brompton Insights

3 Mega Trends Driving Investment in Real Assets

BROMPTON FUNDS

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Fund in focus: Brompton Sustainable Real Assets Dividend ETF (BREA), Sustainable Power & Infrastructure Split Corp. (PWI)

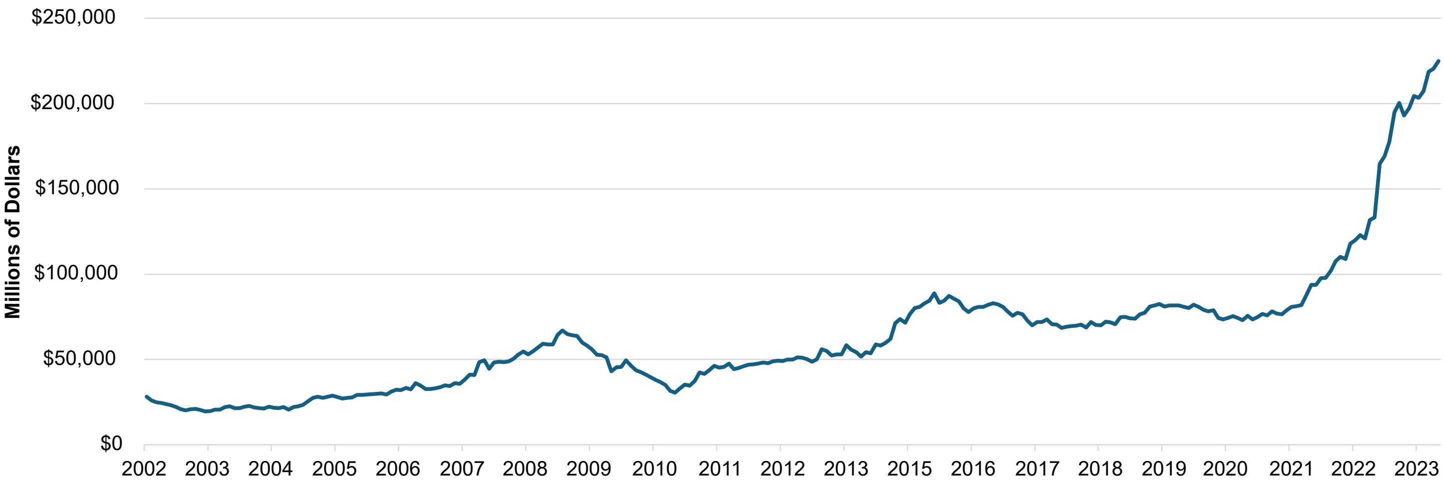
Real assets are benefiting from an attractive opportunity to participate in long-term growth trends and government stimulus on both sides of the Atlantic. Reshoring, de-carbonization, energy independence and the data center build out to meet rising AI demand are leading to various companies seeing a large increase in backlogs and revenue.

The Mega Trends

Trend 1 – Reshoring

Supply chain disruptions caused by the COVID-19 pandemic and subsequent geopolitical events have made businesses realize the importance of diversifying their supply chain and manufacturing closer to the end customer. This has led to an increased build out of manufacturing facilities in North America, especially for sensitive technologies such as semiconductors. Total manufacturing spending has more than doubled post-COVID compared to its pre-COVID levels as shown in the chart below.

Total Construction Spending: Manufacturing in the United States



Source: Federal Reserve Bank of St. Louis, U.S. Census Bureau, as of January 1, 2024. Total Construction Spending: Manufacturing in the United States, Millions of Dollars, Monthly, Seasonally Adjusted Annual Rate.

Given rising costs since the turn of the decade, particularly in labour, there is a focus on automation and productivity enhancing technologies in manufacturing that should lower operating costs in the future.

Trend 2 – Energy Independence and De-Carbonization

At the same time, increased geopolitical uncertainty and rising environmental concerns have increased the urgency for Western governments to become more energy independent. They are also more concerned about rising carbon emissions and are setting ambitious targets of transitioning vehicles to electric from internal combustion engines. This has led to an increased build out of renewable energy plants and corresponding investments into grid infrastructure assets to support the increase in electrification. The IEA estimates that we need to double grid investment to $600 billion per year by 2030 to meet the growing need for electricity demand.[1]

Trend 3 – Data Center Build Out

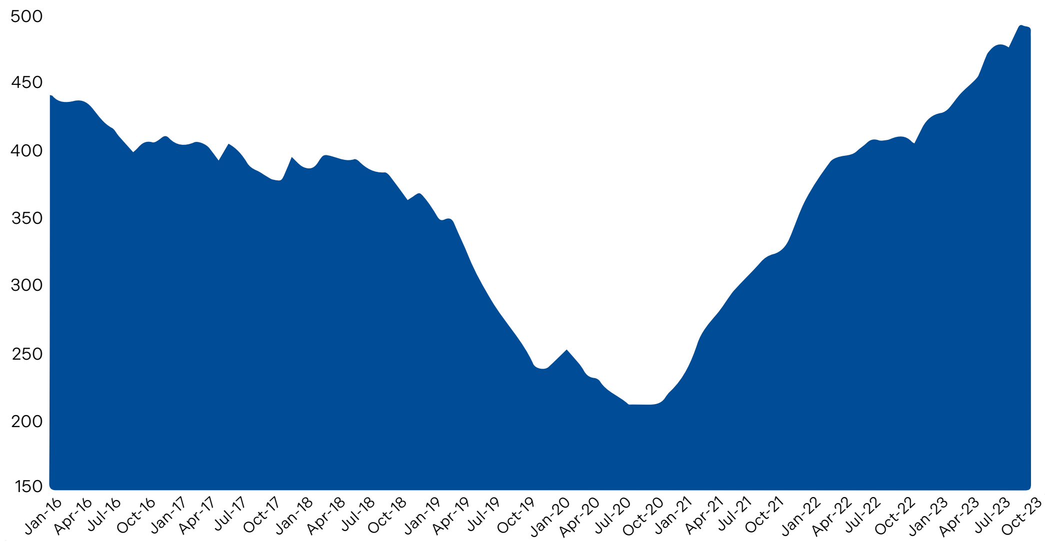
The rise in applications for cloud computing, the Internet of Things (IoT) and artificial intelligence (AI), has led to an unprecedented surge in demand for data usage. This has resulted in plans to build more data centers, as well as more power generators and grid connections to power these data centers. Spending on building datacenters could reach $100 billion in the next 5 years[2], while datacenter power consumption in the U.S. is projected to reach 35 gigawatts (GW) by 2030, up from 17 GW in 2022.[3]

Investment Implications

The process of building out this large asset base is incredibly capital intensive (UBS estimates $3 trillion of capex over the next 20 years[4]) and has received billions of dollars of support from the government in the form of the Infrastructure Reduction Act (IRA), the CHIPS Act and the Infrastructure Investment and Jobs Act (IIJA) in the U.S., with similar proposals in Europe. According to Eaton, mega project announcements in North America increased $415 billion in 2023, with only ~18% of them having started construction[5], leading to a multi-year runway.

All of this has provided an immense tailwind to companies that will build the infrastructure, power the infrastructure, and provide services to enable all this spending. As a result, Industrial backlogs in the U.S. are at a multi-decade high.

Backlogs up $250B vs COVID onset and still moving higher



Source: UBS Global Research, January 3, 2024.

Brompton's Approach

Brompton Sustainable Real Assets Dividend ETF (BREA) provides diversified exposure to global real asset companies including Infrastructure, Utilities, Energy, Materials and Real Estate sectors. Many investment fund strategies currently on the market focus only on one main sector, such as Infrastructure, REITs (real estate), or Energy. Brompton believes that having a broader investment universe with diversified exposure to multiple real asset sectors enhances the opportunity for capital appreciation while also providing "one-stop shopping" for investors.

Sustainable Power & Infrastructure Split Corp. (PWI) 's Class A shares offer leveraged exposure to a globally diversified portfolio of sustainable power and infrastructure companies for investors seeking enhanced capital appreciation potential and high monthly cash distributions. The portfolio may include companies operating in the areas of renewable power (wind, solar, hydroelectric), green transportation (electric vehicles, energy transportation and storage, railroads, carbon capture), energy efficiency (smart grids, smart meters, building efficiency), and communications (communication networks, 5G wireless technology), among others.

We prefer to invest in companies that are market leaders with strong balance sheets and have predicable free cash flow. We believe this strategy provides better risk-adjusted returns, particularly in an inflationary environment. In addition, diversified sector exposure mitigates investment risks in a volatile macro environment. We actively manage each Fund's sector weightings to strive to provide investors with optimal sector exposure depending on the state of the economy. We also use an actively managed call writing strategy to generate additional income and reduce overall portfolio volatility.

(1) IEA, October 2023. Electricity Grids and Secure Energy Transitions. https://www.iea.org/reports/electricity-grids-and-secure-energy-transitions

(2) Arizton Advisory & Intelligence, September 20, 2023. The US Hyperscale Data Center Construction Spending Will Exceed $100 Billion Over the Next Five Years, the Market to Worth $71.55 Billion in 2028- Arizton [Press Release]. https://www.prnewswire.com/news-releases/the-us-hyperscale-data-center-construction-spending-will-exceed-100-billion-over-the-next-five- years-the-market-to-worth-71-55-billion-in-2028-arizton-301933453.html

(3) McKinsey & Company, January 17, 2023. Investing in the rising data center economy. https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/investing-in-the-rising-data-center-economy

(4) UBS Global Research, January 3, 2024.

(5) Eaton Corporation, February 1, 2024. Q4 2023 Investor Presentation.

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Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
info@bromptongroup.com
www.bromptongroup.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3