Funds in focus: Brompton Tech Leaders Income ETF, Brompton Global Dividend Growth ETF

The "Magnificent Seven"—comprised of Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla—have captivated investors with their remarkable growth and market influence. Historical success and sheer size create a powerful initial attraction for investors seeking to mirror market performance through passive strategies. While the Mag7 have driven significant market gains in recent years, their dominance has led to concentration risk within major indices. The Mag7's weight within the S&P 500 Index (the "S&P 500") has risen from 12.3% in 2015 to 32% in 2025 and the group now generate almost 70% of the S&P 500 total economic profit.[1]

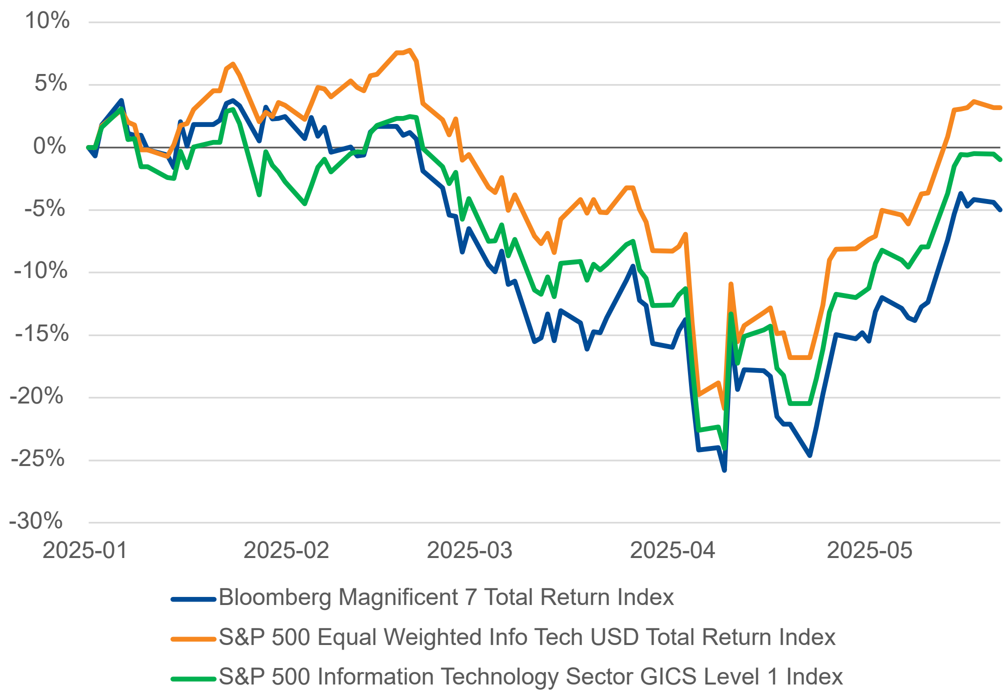
Mega-Cap Tech Concentration Poses Risk to Passive Investing

While passive investment in the S&P 500 is often perceived as a diversified approach, the significant concentration in a limited number of technology-related mega-cap stocks exposes investors to a considerable degree of stock-specific risk. The outsized influence of the Mag7 on the market brings about concerns regarding potential overvaluation and increased susceptibility to economic downturns. In Q1 2025, we witnessed challenges for the Mag7, partly driven by concerns about their valuations given headwinds from tariff wars and future earnings potential regarding investments in artificial intelligence.

Mag 7 Momentum Fades

The performance within the Mag7 itself has also shown a widening dispersion in 2025, with some companies significantly lagging, suggesting increased individual stock risk. Notably, earnings growth expectations for the Mag7 in 2025 are lower compared to 2024, while the S&P 500, excluding these seven stocks, is anticipated to experience higher earnings growth.[1] This evolving performance and earnings outlook suggests that the period of exceptional outperformance enjoyed by the Mag7 may be moderating. As a result, passive investors heavily weighted in these stocks could face meaningful downside risk.

Mag 7 Stocks Have Underperformed the Broader S&P 500 Tech Sector Year-to-Date



Source: Bloomberg, May 16, 2025

Active Tech Investing

Active management provides the essential tools and flexibility to navigate this dynamic environment effectively. By identifying and selectively investing in emerging trends, managing market volatility, diversifying across a range of innovative companies, and potentially providing downside protection during market corrections, active strategies offer a more strategic and potentially rewarding approach to technology investing. We believe investors should consider allocating a portion of their portfolio to actively managed technology funds, rather than passively holding a concentrated position in the Magnificent 7.

Brompton's Approach

Our approach to investing in technology companies across our funds, including Brompton Tech Leaders Income ETF (TLF, TLF.U) and Brompton Global Dividend Growth ETF (BDIV), focuses on valuation supported by revenue growth and cash flow generation. We prefer to invest in companies that have market leading positions, expanding pipelines of opportunity and above average return on invested capital. In TLF, we actively manage our weights to software, semiconductor, IT services and hardware stocks. This balances the risk/reward profile of the portfolio across growth, defensive and cyclical themes. In addition, we use an active call writing strategy to generate additional income and reduce overall portfolio volatility.

[1] *Source: Bloomberg, May 5, 2025*

BROMPTON FUNDS

VALUE
INTEGRITY
PERFORMANCE
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