Brompton Insights

Canadian Lifecos - Discreetly Outperforming... For Good Reason

July 21, 2025

Funds in focus: Brompton Lifeco Split Corp., Life & Banc Split Corp., Brompton North American Financials Dividend ETF

Canadian Lifecos Have Reduced Interest Rate Sensitivity

Canadian life insurance companies ("Lifecos") have significant exposure to various macroeconomic factors including interest rates, equity markets, and corporate credit. Interest rates typically have the biggest impact on the sector as Lifeco reserves and earnings have historically had a high degree of economic sensitivity to changes in interest rates. This is the result of a duration mismatch between a Lifeco's insurance liabilities and its invested assets. Most life insurance products result in a long duration liability for the company that writes the policy. This occurs since buyers of life insurance policies are often in their early 40s and therefore expected to live for several decades. A Lifeco's invested assets, on the other hand, typically have a shorter duration profile. This mismatch means that Lifecos are generally helped by rising interest rates and hurt by declining interest rates.

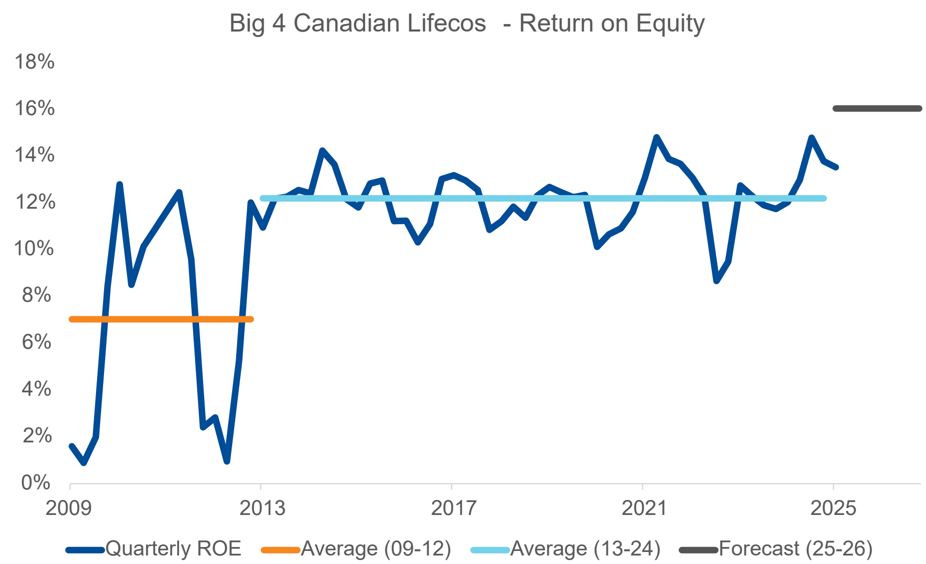
Over the past decade, however, the Canadian Lifecos have taken significant steps to reduce the pain caused by low interest rates, while still maintaining some upside exposure to higher rates. The biggest factors contributing to this are:

- Shift in business mix to focus on products with less interest rate sensitivity;
- Re-pricing of insurance products to account for low interest rates when determining the customer premiums;
- Better management of the asset and liability mismatch through the investment portfolio and hedging activities; and
- Focus on cost cutting and operating efficiency.

Canadian Lifecos are Generating Higher and More Consistent Returns

As a result of these measures, the life insurance sector has been able to generate higher and more consistent returns over the past several years. Exhibit 1 shows the median quarterly return on equity (ROE) for the Canadian Lifecos from 2009 to present. For the period from 2009 to 2012 the median ROE averaged 7.0%, while this improved to 12.2% for the period from 2013 to 2024 and is expected to rise to 16.1% in 2025-2026 according to Bloomberg consensus forecasts.

Exhibit 1 – Better earnings quality through consistently higher ROEs



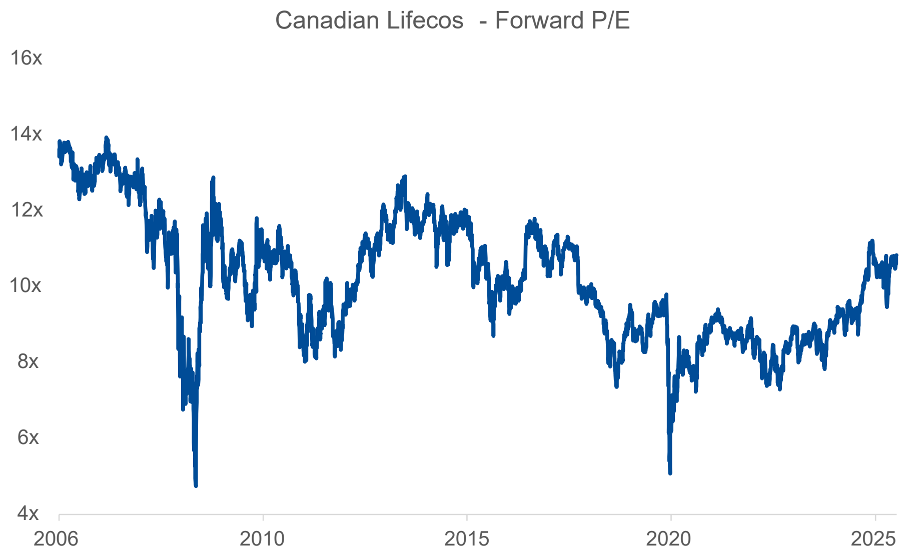
Source: Bloomberg (June 30, 2025)

Additionally, while some of these factors, such as a shift in business mix and better balance sheet management, also reduce the benefits of higher interest rates, other factors, such as product re-pricing and operating efficiency, mean that the Lifecos stand to benefit significantly from the rise in rates we have seen over the past two years as new premiums are invested into higher yielding assets.

Valuation Disconnect: Canadian Lifecos are Trading at a Significant Discount

In our view, higher and more stable returns demonstrate that Canadian Lifecos have been producing better quality earnings over the past several years than they did a decade ago. We believe that this should have translated into an improvement in valuations. However, we believe that this has only just begun. Exhibit 2 shows that the Canadian Lifecos currently trade at only 10.8x forward P/E, which is a substantial discount to the broad market. Given the improvement in fundamentals, we believe that valuations can continue to push higher over the next several quarters.

Exhibit 2 – Valuation multiples look attractive



Source: Bloomberg (June 30, 2025)

Given the improvement in earnings quality and the expectation for higher ROEs in 2025 and 2026, we believe that there is upside potential in valuations and that the Lifecos present an excellent buying opportunity at this time.

Brompton's Approach

At Brompton, we have decades of experience investing in Financials and have several products that investors can use to get exposure to the Canadian Lifecos, including in our split share funds and ETFs.

Brompton Lifeco Split Corp. (LCS) and **Life & Banc Split Corp. (LBS)** invest in Canada's four largest life insurance companies, offering enhanced capital appreciation potential and monthly cash distributions.

Compound Annual Returns[1]	Yield[2]	1-Yr	3-Yr	5-Yr	10-Yr
Brompton Lifeco Split Corp. (TSX: LCS)	10.2%	92.3%	63.9%	61.2%	17.2%
Life & Banc Split Corp. (TSX: LBS)	12.5%	79.9%	33.6%	40.9%	17.5%

Brompton North American Financials Dividend ETF (BFIN) provides monthly distributions and the opportunity for capital appreciation through an investment in an actively managed, diversified portfolio of large cap North American financial services companies.

Compound Annual Returns[1]	Yield[2]	1-Yr	3-Yr	5-Yr	Since Inception	Inception Date
Brompton North American Financials Dividend ETF, CAD-hedged (TSX: BFIN)	5.8%	25.6%	16.5%	14.4%	9.2%	10/17/2018
Brompton North American Financials Dividend ETF, USD (TSX: BFIN.U)	5.7%	27.8%	17.0%	15.4%	11.4%	08/08/2019

[1]Returns are for the periods ended June 30, 2025, and are unaudited. The tables show the compound return on the Class A shares Brompton Lifeco Split Corp. and Life & Banc Split Corp. and the CAD and USD units of Brompton North American Financials Dividend ETF, for each period indicated. Past performance does not necessarily indicate how the funds will perform in the future. The performance information shown is based on the net asset value per Class A Share or net asset value per unit, as applicable, and assumes that distributions made by the funds on their Class A Shares or units, during the in the periods shown were reinvested (at the net asset value per Class A Share or net asset value per unit) in additional Class A Shares or units of the respective fund. Past performance does not necessarily indicate how the funds will perform in the future.

[2]An estimate of the annual yield an investor would receive if the most recent monthly distribution remained unchanged for the next 12 months, stated as a percentage of the closing market price of the Class A Shares or units on June 30, 2025. Source: LSEG Workspace.

BROMPTON FUNDS

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