Brompton Insights

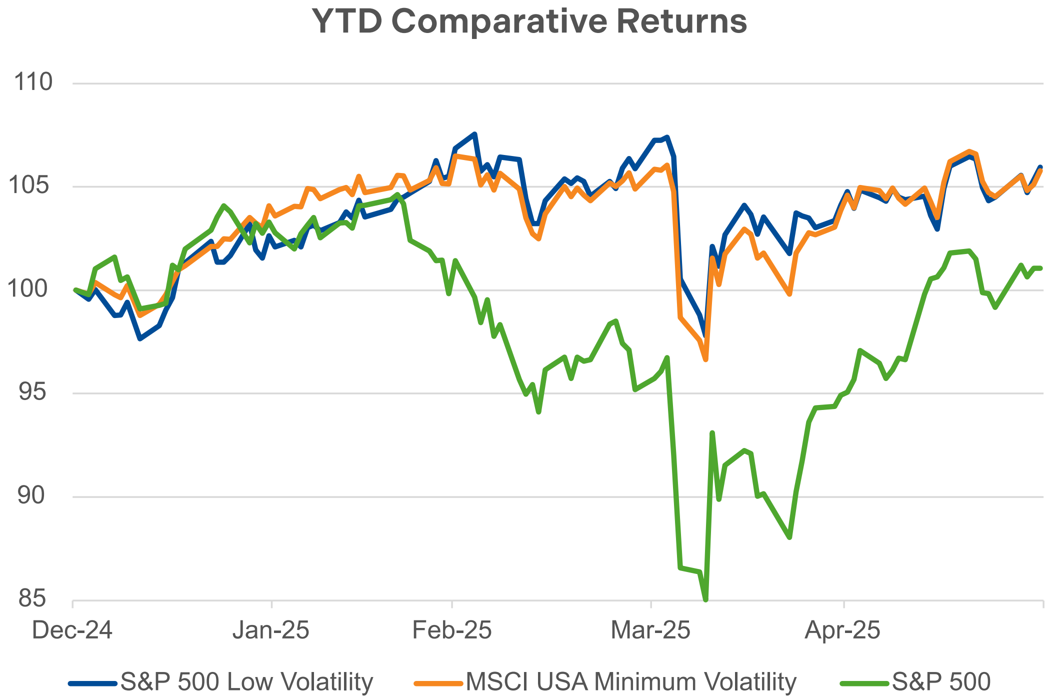
Weathering the Storm with Low Volatility

BROMPTON FUNDS

July 7, 2025

Funds in focus: [Brompton North American Low Volatility Dividend ETF]

Markets have been volatile so far in 2025. Policy uncertainty around trade and tariffs has driven big swings in equities with the S&P 500 Index suffering a 21% pullback from mid-February to early April and the VIX Index reaching a peak over 60 before markets rebounded, which is more than triple the long term average for volatility.[1] Amidst the chaos, low volatility strategies, which have underperformed over the past 5 years as investors have chased high beta, have begun to shine again. On a year-to-date basis these strategies have outperformed the S&P 500, while volatility has been 9 percentage points lower than the market. Additionally, the low volatility factor has had the second-best performance among S&P 500 factors, as shown in the table below.



Source: Bloomberg (May 30, 2025)

S&P 500 Factor	YTD Performance
Size	6.3%
Low Volatility	4.5%
Momentum	4.2%
Quality	1.4%
Growth	0.4%
Value	-3.7%

Source: Bloomberg (May 30, 2025)

Low volatility strategies offer investors a less risky way to participate in the equity market and have performed well in a number of different market environments. This is supported by over 90 years of empirical data, which show that, relative to the broad market, low volatility strategies offer better stability, higher risk-adjusted and absolute returns, and shallower drawdowns in volatile markets.[2]

In particular, Brompton believes that low volatility strategies offer four benefits for investors during periods of elevated market volatility, which we expect will continue over the next several quarters:

1. **Downside protection:** Low volatility strategies typically offer better downside protection and shallower drawdowns in volatile markets compared to an investment in broad-based equities. On a year-to-date basis, low volatility strategies have had downside volatility that is ~30% lower than that of the S&P 500 Index (Source: Bloomberg as of May 23, 2025).

2. **More consistent return profile:** Low volatility strategies aim to provide a steadier return stream, which can help investors stay disciplined and avoid making emotional decisions in challenging markets. We believe that these strategies offer investors a great way to stay invested during periods of elevated market volatility, as they allow investors to capture upside moves while reducing risk on the downside.

3. **Enhanced returns:** The "Low Volatility Effect" is a widely studied market phenomenon that shows that low volatility strategies have historically provided investors with better absolute and risk-adjusted returns over the long term. We believe that these strategies tend to perform best on a relative basis when markets are choppy.

4. **Diversification benefits:** Low volatility strategies often have lower correlation with broad-based equites, which means that these investments can enhance portfolio diversification and reduce overall risk. In our view, low volatility strategies work best as one component of a broader asset allocation.

In our view, the recent policy uncertainty around trade and tariffs is likely to persist in the near term. As such, we believe that the current period of elevated market volatility will continue for the foreseeable future and this presents an excellent opportunity for investors to allocate to low volatility strategies.

Brompton's Approach

Brompton North American Low Volatility Dividend ETF (BLOV) is designed to produce equity returns with lower volatility through investing in a diversified portfolio of North American large capitalization equities. Our Portfolio Management team uses quantitative analysis with fundamental analysis to construct a diversified portfolio with lower overall volatility than the market. An active covered call writing strategy is used to further reduce volatility and generate income.

Annual Compound Returns[3]	1-Year	3-Year	5-Year	Since Inception	Inception Date
Brompton North American Low Volatility Dividend ETF	12.6%	6.4%	8.0%	8.0%	April 30, 2020

[1] Source: Bloomberg, as of June 24, 2025. Average daily closing price of CBOE Volatility Index (VIX) from 1990-01-03 to 2025-05-30 was 19.49.

[2] Source: Blitz, David and van Vliet, Pim and Baltussen, Guido, The Volatility Effect Revisited (August 26, 2019). The Journal of Portfolio Management, 46(2).

[3] Returns are for the periods ended June 30, 2025 and are unaudited. The table above shows the Fund's compound returns for each period indicated. The performance information shown is based on net asset value per unit and assumes that cash distributions made by the Fund during the periods shown were reinvested at net asset value per unit in additional units of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future.

BROMPTON FUNDS

VALUE

INTEGRITY

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