Brompton Global Infrastructure ETF (TSX: BGIE)

BROMPTON FUNDS

Portfolio Manager Commentary - September 30, 2024

Global Markets Review

The third quarter of 2024 finished with another solid return across most major equity indices. Despite pronounced market volatility in August due to an uptick in the unemployment rate and an interest rate hike from the Bank of Japan, the long-anticipated start of the Federal Reserve's ("Fed") cutting cycle helped the market secure strong quarterly performance. At the same time, inflationary pressures were meaningfully abating, allowing major central banks to continue their monetary easing, which supported the market rally into quarter end. For the three-month period ending September 30, 2024, the MSCI World Total Return Index gained 6.5%. In North America, the S&P 500 rose 5.9%, with Utilities (+19.4%) and Real Estate (+17.2%) as the best-performing sectors. Both sectors benefited from falling interest rates. The S&P/TSX Composite was up 10.5%, buoyed by Real Estate and Financials. In Europe, the STOXX Europe 600 Total Return Index registered a 2.7% return for the third quarter. The Spain IBEX 35 and the Germany DAX gained 9.5% and 6.0%, respectively. Italy, France, the U.K., and Switzerland all finished the period in positive territory, up 3.4%, 2.3%, 1.8% and 1.6%, respectively.

Global economic data for the third quarter of 2024 continued to show a complex picture with inflation softening further. The August inflation reading in the U.S. pointed at 2.5%, suggesting that price pressures were fading over the 3-month period. While a rise in the unemployment rate sparked fear of recession (4.2% in August), the broader trend indicates an economy demonstrating resilient growth. This spurred the Fed's decision to begin its long-awaited cutting cycle with a 50 basis-point (bps) reduction. The U.S. economy remains healthy and has thus far managed to avoid a recession. Meanwhile, manufacturing PMI entered August at 47.2, an indication of contraction when the number is below 50. In bond markets, the U.S. 10-year Treasury yield fell from 4.4% at the end of June to below 3.8% by the end of quarter. The yield curve between the 2-year and 10-year Treasury yields steepened to reflect the outlook for lower interest rate policy. Other global bond performances such as the

U.K. Gilt and the German Bund also mirrored the U.S. treasury. In equities, value outperformed growth for both large cap and small cap. Value names expecting to benefit from lower interest rates substantially outperformed, such as Utilities and Real Estate, while growth names in Technology sector, particularly those buoyed by the AI hype, showed signs of losing momentum after the rally during the first six months. Energy was the only sector that registered negative returns for both MSCI World Total Return Index and S&P 500 Total Return Index , largely due to muted global oil demand. China's economy struggled with manufacturing slowing down, raising concerns that oil demand might not recover as fast as anticipated.

The Fed cut interest rates by 50 bps to 4.75-5.0% range in the September Open Market Committee ("FOMC") meetings. This marks the beginning of a new monetary easing cycle. As inflation is coming down, the Fed has gained greater confidence that inflation is moving substantially towards its 2% target and highlighted that "risks to achieving its employment and inflation goals are roughly balanced". Other than emergency rate cuts during the pandemic, the last time the FOMC reduced the interest rate by 50 bps was in 2008 during the financial crisis. Despite no concerns about economic growth at the moment, the oversized rate cut suggests the Fed is shifting its focus from taming inflation to slowing job markets, where the unemployment rate has been rising modestly. The Fed Funds Futures have priced in at least two 25-bps cuts by December. This could mean another 50 bps cut in November, or it could indicate the Fed will move to a slower path with a quarter percentage point cut at the November and December meetings respectively. Regardless, the market should expect the Fed to keep cutting towards year-end.

The Bank of Canada ("BoC") reduced its overnight policy rate by 25 bps points to 4.25% in the June, July and September meetings. As the first G7 central bank to ease policy rates, the BoC then lowered the overnight rte by another 50 bps on October 23, 2024, setting the overnight rate at 3.75%. The BoC noted that excess supply in the Canadian economy is putting downward pressure on inflation. The statement also highlighted that the labour market continues to slow, although wage growth remains elevated compared to productivity. As for the forward rate guidance, the BoC reiterated it is "reasonable" to expect further rate cuts, if inflationary pressure continues to ease. As the policy rate declines, Canada's economic fundamentals remain fragile against a backdrop of declining labour productivity and muted investments. Further rate cuts should alleviate the pressure on household debt and weak business activities.

The European Central Bank ("ECB") cut the benchmark interest rate by 60 bps to 3.65% in the September meeting. This rate cut would provide some relief to the slowing economy in Europe.

President Christine Lagarde did not outline a path of forward rate guidance, but she painted a mixed picture of inflation in Europe: service inflation remains a major concern even as overall labour cost pressures moderated and were absorbed by corporate profits. Meanwhile, activity indicators such as eurozone PMI, pointed a worrying slowdown in the regional economy. Weak PMI data, together with cooling inflation readings, should bolster expectations of further rate cuts from the ECB. In the U.K., the Bank of England ("BoE") started its first 25 bps cut in the August meeting, followed by holding the rate unchanged at 5% in the September meeting. The BoE governor Andrew Bailey signaled confidence that inflation, particularly from the service sector and labor market, is being brought under control. However, he also noted the need for caution in unwinding the most aggressive monetary tightening in decades. On the political front, the Labor Party secured a majority in the U.K. election, ending 14 years of Conservative Party rule. The near-term implication on the U.K. equity market is limited, but the new government may increase its budget on home building, infrastructure projects, and healthcare.

Upbeat market sentiment persisted in the third quarter of 2024, amid cooled inflation and resilient corporate earnings, allowing global central banks in North America and Europe to ease their restrictive monetary policies. Fundamentals in the corporate sector still look robust, evidenced by overall solid Q2 earnings and forward-looking outlook. Leadership has shifted towards value from growth, especially those sectors expected to benefit from lower interest rates. Utilities and Real Estate substantially outperformed relative to peers in Q3. Large-cap tech names have lost steam since the end of June, even though their fundamentals remain strong. On the other hand, Asian markets experienced wild turbulence during the quarter. The Bank of Japan surprised the market by raising interest rates on the last day of July, leading to a repricing of Japanese bond yields. The abrupt narrowing in rate differentials between the U.S. and Japanese bond yields resulted in large JPY appreciation against USD. The impact on Japanese equity market was dramatic, with the TOPIX selling off 20% over 3 trading days in the first week of August. With the unwinding of the yen carry trade largely completed, the equity market recovered quickly. In China, the government announced a massive stimulus package, with key focuses on reviving the property markets, incentivising domestic consumption, and supporting the equity market. Major Chinese and Hong Kong indices surged following the announcement, erasing all losses over the past 12 months. However, it is questionable whether the fiscal and monetary stimulus will sustain the market rally and boost housing markets, as China's economic fundamentals remain weak.

Looking forward to the last quarter of 2024, in our view, we believe global central banks will continue to monitor unemployment and inflation numbers to decide the pace of the rate-cutting cycle. Now the question becomes whether the Fed, and global central banks at large, can reduce rates back to normal levels while stabilizing the economy. Equity markets have priced in a soft-landing scenario, but that leaves downside risk if the landing is not as soft as the consensus expects. For the near term, yields will continue to play an important role in dictating leadership between value and growth. We have turned more cautious in Q3 than the first half of this year. However, at this early stage of the global easing cycle, we believe it is reasonable to add weights to positions in cyclical sectors that should benefit, such as Financials, Real Estate, and Consumer Discretionary. Geopolitical risks should continue to keep market volatility in the spotlight, namely the U.S. presidential election, and the ongoing conflict in the Middle East. All in all, Brompton expects increased volatility from low levels and believes that investors will be well-served by strategies that have historically demonstrated lower volatility than the market, such as dividend growth and covered call strategies.

Portfolio Review

Brompton Global Infrastructure ETF (the "Fund") was up 9.6% in Q3 of 2024, compared to the Blended Index (75% Dow Jones Brookfield Global Infrastructure Composite Index and 25% Dow Jones Global Select Real Estate Securities Index), which was up 14.0% over the same period.

Most stocks performed well, with our picks in Industrials and Utilities performing particularly well. Constellation Energy (+30.1%), GE Vernova (+48.7%) and Vonovia (+28.4%) were our top performers. With hyperscalers focused on the generative AI race, the bottleneck in building out new data centers has become the availability of power. Constellation benefitted from its deal with Microsoft to restart Three Mile Island and for Microsoft to buy all the power produced from it at well above market rates. Similarly, portfolio companies such as GE Vernova and Quanta Services, amongst others, have benefitted from the need to build new power plants and grid infrastructure to support this increase in demand. With interest rates declining around the world, companies such as Vonovia, Hydro One, and Welltower are capitalizing on these lower rates alongside maintaining robust fundamentals.

Our strategic underweight positions in Real Estate and Energy sectors partially detracted from our overall performance.

While our chosen investments in these areas delivered strong absolute results, the sectors lagged the index due to our strategic underweight positioning. A decrease in interest rates during the quarter, evidenced by a roughly 60 bps decline in the US 10-year yield, resulted in heightened interest in rate-sensitive market segments. We began the quarter strategically underweight these sectors, focusing exclusively on companies with robust fundamental characteristics and promising self-help narratives.

During the quarter, we added weight in utilities, real estate, materials, and energy sectors. The downward trend in interest rates created a favourable environment for re-entering interest rate-sensitive names. Notably, the utilities sector continues to exhibit robust fundamentals, with electricity demand projected to experience substantial growth over the next decade, following a 20-year period of stagnation. This anticipated surge is primarily attributed to the increasing demand from data centers and the ongoing electrification trend across various industries.

Annual Compound Returns[1]	1-YR	1-YR	3-YR	Since Inception[2]
Brompton Global Infrastructure ETF	24.3%	32.8%	11.3%	12.4%
Infrastructure and Real Estate Index	13.1%	26.9%	5.5%	9.0%
MSCI World Total Return Index	19.3%	32.9%	9.6%	16.5%

(1) Returns are for the periods ended September 30, 2024 and are unaudited. The table shows the Fund's compound returns for each period indicated compared with the "Infrastructure and Real Estate Index" and the MSCI World Total Return Index ("MSCI Index"), (together the "Indices"). The Infrastructure and Real Estate Index consists of a 75% Dow Jones Brookfield Global Infrastructure Composite Total Return Index ("Global Infrastructure Index") and 25% Dow Jones Global Select Real Estate Securities Total Return Index (Select Real Estate Index"). The Global Infrastructure Index is designed to measure the performance of pure-play infrastructure companies domiciled globally. The index covers all sectors of the infrastructure market and includes Master Limited Partnerships in addition to other equity securities. To be included in the index, a company must derive at least 70% of cash flows from infrastructure lines of business. The Select Real Estate Index tracks the performance of equity real estate investment trusts and real estate operating companies traded globally. The index is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. The MSCI Index captures large- and mid-cap representation across 23 developed markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country. The Fund is actively managed; therefore, its performance is not expected to mirror that of the Indices which have more diversified portfolios and include a substantially larger number of companies. Furthermore, the Indices' performance is calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses. 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.

(2) Inception date April 30, 2020.

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