BROMPTON FUNDS

Brompton CLO Primer

What are CLOs?

A **Collateralized Loan Obligation** ("CLO") is a type of fixed income investment which is categorized as a "structured credit investment", a sector of the fixed income market that also includes asset-backed and mortgage-backed securities. To start the process, a "CLO Manager" (a specialized fixed income investment manager) takes the initiative to organize a special purpose investment company (a "CLO Fund") to raise capital. The CLO Fund issues various tranches of rated debt (CLOs) and one tranche of equity to investors. The CLO Manager then invests the proceeds on the CLO Fund's behalf, primarily in non-investment grade, senior-secured bank loans.

The various tranches of CLOs each carries a different credit rating. CLO tranches rated AAA are the highest quality and have first priority of claim on the value of the loans in the CLO Fund's portfolio and the cash flow the corporate loans produce, and are typically referred to as the "Senior" tranche. The "Mezzanine" CLO tranches are rated AA, A, BBB and BB and they have progressively lower priority of claim on portfolio value and cash flows. The equity tranche has the lowest priority claim on only residual asset value or cash flow, if any, after all the CLO debt tranche claims are satisfied. AAA CLO tranches typically offer the lowest coupon to investors but also carry the higher credit rating and therefore the lowest risk. Mezzanine CLO tranches carry higher coupons commensurate with their progressively higher risk levels.

Each CLO tranche provides protection from default to any more senior CLO tranche(s) that it is subordinate to, and the equity provides protection for all CLO tranches.

The portfolio of underlying loans is actively managed by the CLO Manager of the CLO Fund for a fixed period of time known as the reinvestment period, during which time the CLO Manager may buy and sell individual loans to create trading gains or mitigate losses. The CLO Fund's portfolio will generally be required to adhere to certain diversification rules established by the CLO Fund to mitigate against the risk of concentrated defaults within a given industry or sector. After a specified period of time, the majority owner of the equity tranche may seek to call the outstanding CLO tranches or refinance its position. If the CLO tranches are not called or refinanced when the reinvestment period ends, the CLO Fund uses cash flows from the underlying loans to pay down the outstanding CLO tranches and eventually wind up the CLO Fund's operations.

CLO Funds are similar to a bank in that they have assets made up of loans but instead of a bank directly holding the loans, a CLO Fund manages the loans and distributes the cash flow to investors through a structured, tiered system of tranches.

Similarities to a Bank

CLOs are actively managed lending vehicles capitalized more conservatively than typical banks.

ROYAL BANK OF CANADA

	CAD$B	%
Total assets	2,191	100
Deposits	1,442	65.8
Short-term borrowings	320	14.6
Long term debt	14	0.6
Other liabilities	282	12.9
Equity	133	6.1

- Assets made up primarily of corporate and consumer loans
- Debt and liabilities make up 94% of total assets
- Equity makes up 6% of total assets

BLACKROCK

Magnetite CLO 2024-41	USD$M	%
Total assets	509	100
AAA notes	320	62.8
AA notes	60	11.8
A notes	29	5.6
Mezzanine notes	51	10.0
Equity	49	9.8

- Assets made up actively traded U.S. corporate loans
- Debt makes up 90% of total assets
- Equity makes up 10% of total assets

Royal Bank of Canada financials taken at 1/31/2025. CLO structure of Magnetite CLO Ltd 2024-41 managed by BlackRock Financial Management and led by RBC Capital Markets with Deutsche Bank Trust as trustee.

A CLO's Underlying Assets are Senior-Secured Loans

A portfolio of corporate loans act as the collateral supporting the CLO tranches. The U.S. loan market is a large, liquid market with $1.4 trillion outstanding as of December 31, 2024 (J.P. Morgan). The loans that CLO Funds invest in are usually broadly syndicated loans made to non-investment grade companies to support a range of activities, including mergers and acquisitions, stock repurchases, dividend payments, leveraged buyouts, or investment in new projects.

The loans are typically senior-secured which means the loans occupy a senior position in a company's capital structure, are secured by a company's assets and rank first in priority of payment ahead of unsecured debt and other liabilities in the event of bankruptcy. The senior secured position of these loans has contributed to higher historical recoveries in default scenarios than those seen in the high- yield bond market (J.P. Morgan, December 31, 2024).

Loans carry floating-rate coupons typically benchmarked to the Secured Overnight Financing Rate (SOFR) and pay interest on a monthly or quarterly basis. Therefore, as rates rise, loan coupons reset and provide investors with higher income payments. The loan asset class has proven to be resilient through most market cycles, as the income from loans helps drive overall positive total returns even during periods of price volatility. The U.S. loan market has produced positive returns in 28 of the last 31 years (Credit Suisse Leveraged Loan Index, as of December 31, 2024).

Many large, well-known companies issue senior loans to meet some of their financing needs:

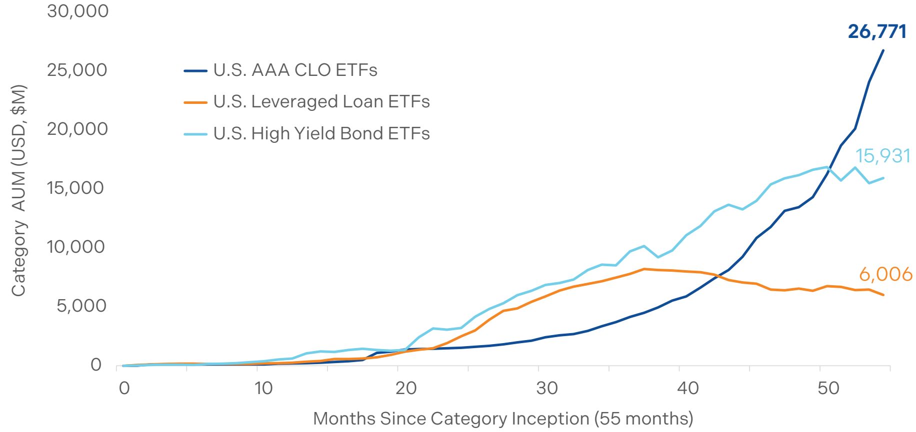
UNITED · Virgin · Charter Communications · crocs · AIR CANADA · Hilton · BURGER KING

PETSMART · Formula 1 · LIBERTY GLOBAL · Uber · McAfee · CANADA GOOSE

CLOs – A Large, Growing Market

The CLO market is a large, growing market. J.P. Morgan estimates that the U.S. CLO market has grown to USD$1.06 trillion and the CLO market in the European Union has grown to EUR€248 billion, or a combined USD equivalent of $1.35 trillion (J.P. Morgan, as of November 20, 2024). New issuance in both the US and European CLO markets nearly doubled between 2023 and 2024, with US$202bn in new issue deal volumes priced in the U.S. and EUR€48bn in Europe in 2024 (Deutsche Bank AG, February 11, 2025).

Historically, most CLOs were privately sold to large institutional investors such as banks, insurance companies, and asset management companies. But as the market has grown, CLOs have become more broadly accessible to retail investors through ETFs. The chart below illustrates the growing popularity of CLO ETFs, showing that CLO ETFs in the U.S. have grown faster than leveraged loan ETFs or high yield bond ETFs.

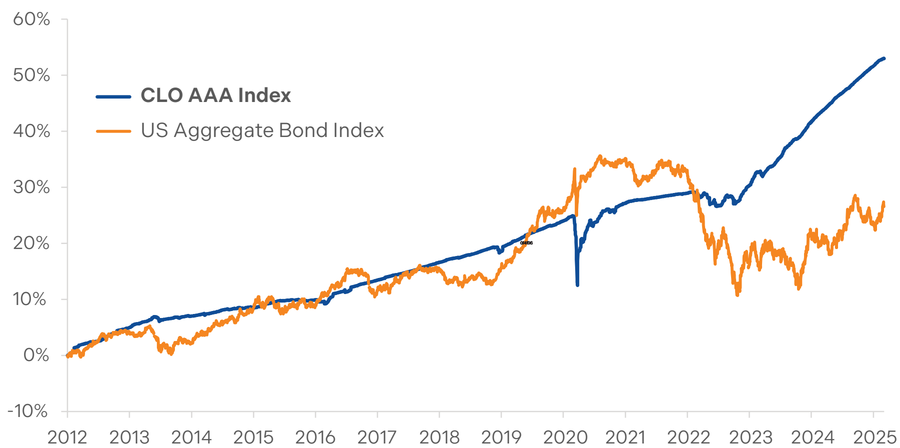


Source: Source: Morningstar, as of February 28, 2025. Data compares growth in AUM following the month of category inception for US AAA CLO ETF Category (inception in August 2020), US High Yield ETF Category (March 2007), and US Loan ETF Category (February 2011).

Benefits of Investing in CLOs

Proven Asset Class

Over the long term, AAA CLOs have outperformed investment grade bonds, with lower volatility.



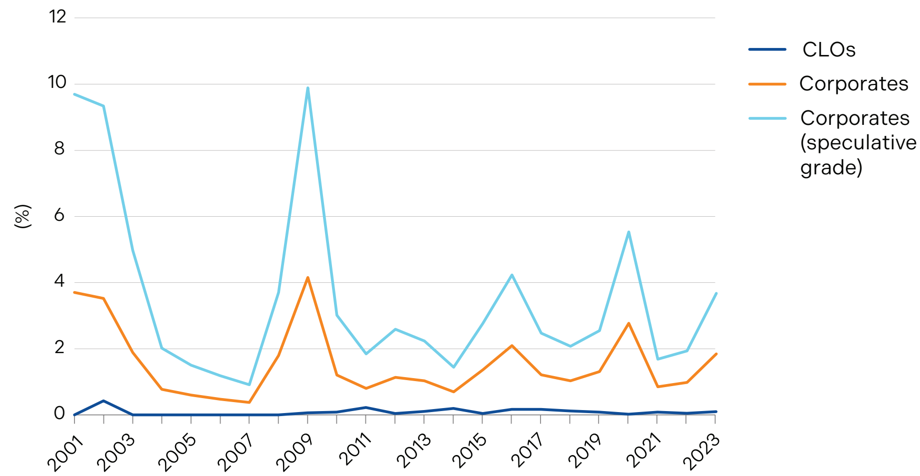
	CLO AAA Index Cumulative Return	US Aggregate Cumulative Return
5yr	28.2%	-5.0%
10yr	43.9%	17.6%
Inception	53.0%	26.6%

Source: Bloomberg L.P., as of 3/25/2025 for the Bloomberg US Aggregate Index and the JP Morgan AAA CLO Index. Inception date of the AAA CLO Index is 1/1/2012.

Low Historical Defaults

Historically, CLO default rates have been significantly lower than corporate bonds, as shown in the chart below. There have been zero defaults on record for CLOs rated A to AAA (S&P Global, 2023).

Annual global default rates for CLOs and corporate issuers



Source: S&P Global Default, Transition and Recovery 2023 Annual Study. Default rates for CLOs and corporates include all rated entities. Speculative grade corporates include only companies rated 'BB+' or below.

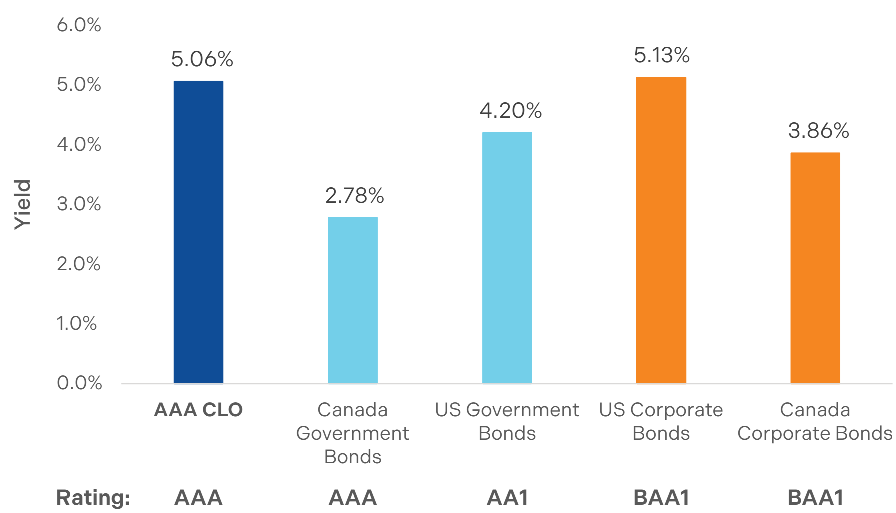
Low Interest Rate Risk

CLOs have yields that adjust with short-term interest rates, making them less sensitive to interest rate changes than most fixed-rate bonds, whose prices react inversely to changes in interest rates. As a result, the prices of floating rate securities tend to be more stable in volatile interest- rate environments compared to fixed-rate securities.

Attractive Yield

Despite their higher credit ratings, CLOs can offer attractive yields relative to other fixed income assets. AAA CLOs typically other yields comparable to corporate bonds, notwithstanding their higher average credit quality.

AAA CLOs Offer Attractive Yield with High Credit Quality

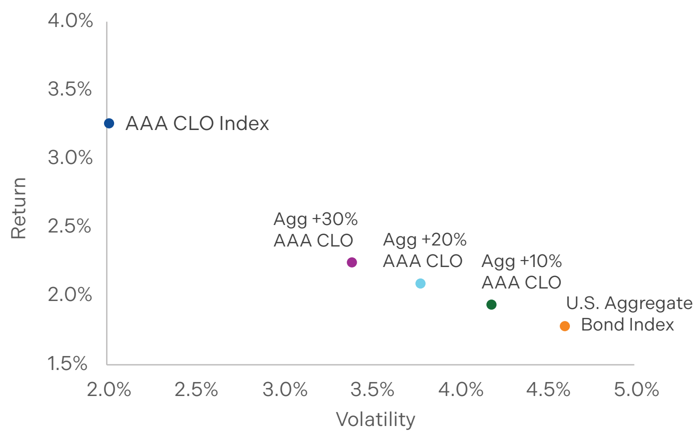


Source: Bloomberg, as at 3/5/2025. Bloomberg indices other than the J.P. Morgan AAA CLO Index. Ratings taken as the lower if split rated.

Diversification Benefits

By investing in CLOs, investors can diversify a traditional fixed-income portfolio, potentially benefiting from lower volatility, higher credit quality, reduced sensitivity to interest rate changes and lower correlations with other fixed-income categories. The charts below illustrate how adding an allocation of AAA CLOs to a core bond portfolio can enhance risk-adjusted returns and overall yield.

AAA CLOs Can Improve the Risk-Adjusted Returns of a Core Bond Portfolio



Source: Bloomberg L.P., as of 2/28/2025 for the Bloomberg US Aggregate Index and the J.P. Morgan AAA CLO Index. Returns are for the period 1/31/2012 to 2/28/2025. Assumes monthly rebalance.

How to Invest in CLOs

Brompton Wellington Square AAA CLO ETF (BAAA) offers investors access to high quality CLO investments historically available only to institutional investors, with the low cost, transparency, and liquidity benefits that come with an ETF.

BAAA is designed to provide attractive monthly distributions and capital preservation through investment in an actively managed portfolio of primarily AAA rated CLOs. Experienced CLO investment manager, Wellington Square Advisors Inc., selects CLOs for the portfolio, generally ranging in credit quality from AAA to BBB, with a minimum of 75% of the portfolio invested in AAA rated CLOs.

Wellington Square Advisors Inc. is a Canadian based independent investment manager with a long-term track record managing funds investing in CLOs, leveraged loans and corporate credit in the U.S., European and Canadian markets. Wellington Square's partners have backgrounds within CLO management and managing institutional funds for Canada's largest pension plans.

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

Website
www.bromptongroup.com

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

BROMPTON FUNDS

VALUE
INTEGRITY
PERFORMANCE
THE FOUNDATION FOR EXCELLENCE