

Covered Call Primer

A covered call option strategy involves investing in a portfolio of stocks and then writing (selling) call options on the same stocks that are held in the portfolio. This strategy allows the Fund to generate income from the call options, in addition to receiving any dividend income from the stocks held in the portfolio, and provides the opportunity to participate in equity market returns with potentially less volatility.

A call option on a stock is a contract that gives the buyer of the option the right, but not the obligation, to buy the stock at a specified price (or “exercise price”) until a pre-determined date (the expiry date). If the stock price rises above the strike price, the option buyer will exercise the option. If the stock price remains below the strike price, the option buyer will let the option expire.

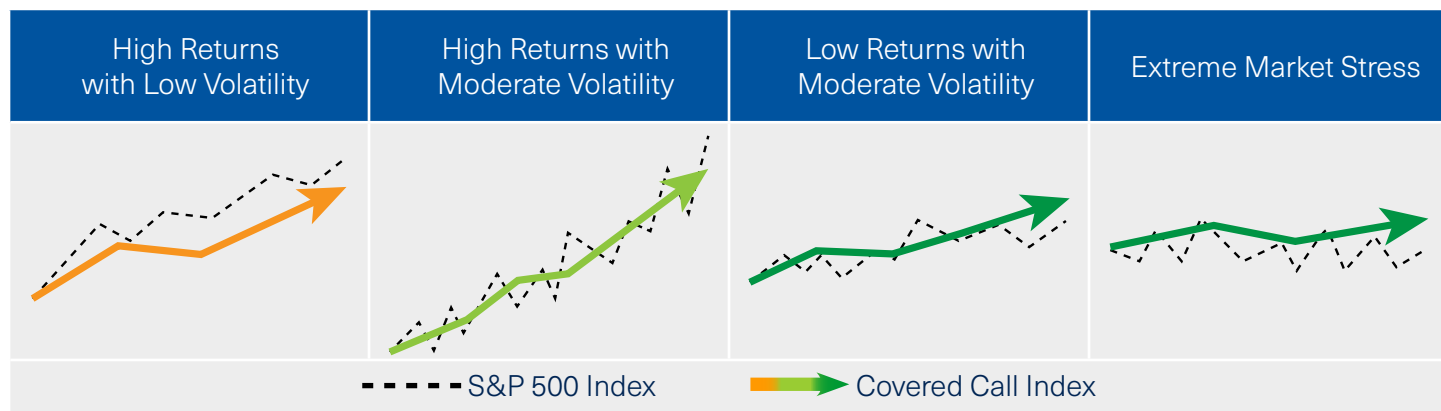
The price the buyer pays for the option is called a premium. The premium is determined based on

- (i) the difference between the stock price and the strike price, where a bigger spread leads to a higher price;
- (ii) the volatility of the underlying stock, where greater volatility leads to a higher price; and
- (iii) the time to expiration of the option contract, where a longer time period leads to a higher price.

Covered call strategies are inherently tax-advantaged since the premiums earned from writing call options are taxed as capital gains.

How a Covered Call Strategy Works in Rising, Falling and Flat Markets

How a covered call strategy might enhance the total return of a fund depends on the current market environment and how the underlying holdings perform.



Figures of relative performance are for illustrative purposes only

Brompton’s Active Covered Call Strategy

Brompton’s covered call funds offer investors exposure to a portfolio of large capitalization equities and are designed to provide regular distributions, the opportunity for capital appreciation and lower volatility than would otherwise be experienced by holding the same portfolio of equities directly. By using a covered call strategy, Brompton can draw on three main sources of potential total return for the fund: (i) capital appreciation of the underlying equities in the portfolio; (ii) dividend income from the portfolio; and (iii) premiums earned from writing call options.

A variety of factors can impact the risk/return profile and overall success of covered call strategies. Brompton’s portfolio management team carefully selects and manages both the underlying equity portfolio as well as the call options, while also considering how these two components might perform under various market conditions. The construction and management of the covered call option strategy is a complex and dynamic process that is difficult and costly for individual investors to

replicate in their own portfolios.

Brompton takes an active approach to covered call writing with the aim to maximize total return. We determine what percentage of the portfolio and which equity securities to sell call options on based on market conditions and our investment outlook. We may write calls on a lower percentage of the portfolio in rising or low volatility markets in an effort to capture more market appreciation for the fund's portfolio, or a higher percentage in declining or high volatility markets in an effort to generate more option premium and provide a cushion against a market decline.

Brompton typically writes covered call options that are short-dated (1-2 months expiry). Writing short-term call options can increase the likelihood that the options to expire without being exercised, thereby allowing new calls to be written on the same underlying securities and potentially generating more premiums. In addition, Brompton will often write out-of-the-money calls to allow investors to participate in the upside potential of the underlying securities to a greater extent than do at-the-money calls. An out-of-the-money call sets the strike price above the market price (e.g. 1%-5% higher), allowing the fund to capture capital appreciation upside plus the option premium. Brompton may also write in-the-money call options on portfolio stocks that the Manager wants to sell. This tactic has two main benefits; it allows the Fund to generate call premium income from call options which have a high likelihood of being exercised, and having a stock called away due to option exercise can be a lower-cost way to sell a stock position (as there is no commissions charged when a call option is exercised).

Brompton's Covered Call Funds

TSX Ticker	Fund Name	Fund Overview	Management Fee
Exchange-Traded Funds (ETFs)			
<u>BDIV</u>	Brompton Global Dividend Growth ETF	Actively managed portfolio of large cap global dividend growth companies	0.75%
<u>BFIN</u>	Brompton North American Financials Dividend ETF	Actively managed portfolio of large cap North American financial services companies	0.75%
<u>BLOV</u>	Brompton North American Low Volatility Dividend ETF	Actively managed portfolio of low volatility North American large capitalization equity securities	0.55%
<u>BGIE</u>	Brompton Global Infrastructure ETF	Actively managed portfolio of global infrastructure companies	0.75%
<u>BMAX</u>	Brompton Enhanced Multi-Asset Income ETF	Actively managed portfolio of Brompton's equity covered call ETFs and preferred share ETFs	0.0%
<u>EDGE</u>	Brompton European Dividend Growth ETF	Actively managed portfolio of equity securities of large capitalization European Dividend Growth Companies	0.75%
<u>HIG</u>	Brompton Global Healthcare Income & Growth ETF	Actively managed portfolio of equity securities of large cap global healthcare companies	0.75%
<u>TLF</u>	Brompton Tech Leaders Income ETF	Actively managed portfolio of equity securities of large cap technology companies	0.75%

TSX Ticker	Fund Name	Fund Overview	Management Fee
Split Share Funds			
<u>DGS</u>	Dividend Growth Split Corp.	Portfolio of large-cap Canadian equities with high dividend growth rates and high current yields	0.60%
<u>GDV</u>	Global Dividend Growth Split Corp.	Actively managed portfolio of large-capitalization global dividend growth companies	0.85%
<u>LBS</u>	Life & Banc Split Corp.	Portfolio of Canada's four largest publicly-listed life insurance companies ("LifeCos") and the "Big Six" banks	0.60%
<u>LCS</u>	Brompton Lifeco Split Corp.	Portfolio of common shares of Canada's four largest publicly-listed life insurance companies	0.60%
<u>ESP</u>	Brompton Energy Split Corp.	Portfolio of common shares of at least 15 large-capitalization North American oil and gas issuers	0.70%
<u>PWI</u>	Sustainable Power & Infrastructure Split Corp.	Actively managed global portfolio of sustainable power & infrastructure companies	0.75%
<u>SBC</u>	Brompton Split Banc Corp.	Portfolio of common shares of Canada's "Big Six" banks	0.55%

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