

**TSX: PWI, PWI.PR.A**

**BROMPTON**  
FUNDS

# **Sustainable Power & Infrastructure Split Corp.**

## **Interim Report 2024**

**VALUE  
INTEGRITY  
PERFORMANCE**

**THE FOUNDATION FOR EXCELLENCE**

## MANAGEMENT REPORT OF FUND PERFORMANCE

August 13, 2024

This interim management report of Fund performance for Sustainable Power & Infrastructure Split Corp. (the “Fund”) contains financial highlights but does not contain the unaudited interim financial statements of the Fund. The unaudited interim financial statements follow this report. You may obtain a copy of the audited annual or unaudited interim financial statements, at no cost, by calling 1-866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at [www.bromptongroup.com](http://www.bromptongroup.com) or SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may also contact us by using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, Independent Review Committee’s report, or quarterly portfolio disclosure.

## THE FUND

Sustainable Power & Infrastructure Split Corp. is a mutual fund corporation managed by Brompton Funds Limited (the “Manager”). The Fund has Class A and Preferred shares outstanding which are traded on the Toronto Stock Exchange (“TSX”) under the symbols PWI and PWI.PR.A, respectively. The Class A and Preferred shares are RRSP, DPSP, RRIF, RESP, TFSA and FHSA eligible. The Preferred shares have a low-to-medium risk rating and are rated Pfd-3 by Dominion Bond Rating Service Limited (“DBRS”).

Preferred shares of the Fund receive fixed, cumulative quarterly payments. Payments may consist of ordinary dividends, capital gains dividends or returns of capital. Preferred shares have a priority claim ahead of the Class A shares on the Fund’s assets in the event of liquidation. However, the Net Asset Value of Preferred shares generally does not benefit from growth in value of the underlying investments. Generally, the Class A shares capture the price movement of the underlying investments but in a more magnified way than if an investor owned the underlying portfolio of securities directly. This magnification of return is commonly known as “leverage”, which is provided by the Preferred shares.

## INVESTMENT OBJECTIVES AND STRATEGIES

The Fund’s investment objectives are:

- i) to provide holders of Preferred shares with fixed, cumulative, preferential quarterly cash distributions and to return the original issue price of \$10.00 per Preferred share to holders; and
- ii) to provide holders of Class A shares with regular monthly non-cumulative cash distributions, and the opportunity for capital appreciation through exposure to the Portfolio.

To achieve these objectives, the Fund invests in a globally diversified and actively managed portfolio consisting primarily of dividend-paying securities of power and infrastructure companies, whose assets, products and services the Manager believes are facilitating the multi-decade transition toward decarbonization and environmental sustainability. The Portfolio includes investments in companies operating in the areas of renewable power, green transportation, energy efficiency, and communications, among others (“Sustainable Power and Infrastructure Companies”). In seeking to achieve its investment objectives, the Fund targets investments in Sustainable Power and Infrastructure Companies that have strong and/or improving environmental, social and governance (“ESG”) characteristics as identified by the Manager. The Manager integrates ESG considerations to complement fundamental analysis in its security selection process. The qualitative ESG policies and practices considered include, but are not limited to, a company’s environmental sustainability, diversity of employees, and corporate governance. The Manager reviews ESG ratings from third party data providers such as Bloomberg, MSCI, S&P Global, Sustainalytics, Refinitiv, ISS, and others that provide independent and objective ratings as an input to the overall investment analysis and risk assessment of a company.

The Fund will only invest in issuers with a market capitalization of at least \$2 billion. In addition, up to 25% of the Portfolio may be invested indirectly through exchange-traded funds (“ETF”), including funds managed by the Manager, for the purposes of enhanced diversification and return potential, at the discretion of the Manager.

The Manager, at its discretion, selectively writes covered call options from time to time on the portfolio, to generate additional distributable cash for the Fund and to reduce volatility. The Fund hedges substantially all of its foreign currency exposure back to the Canadian dollar.

## RECENT DEVELOPMENTS

### Preferred Share Risk Rating

On August 7, 2024, the Fund announced that it has voluntarily elected to report a low-to-medium risk rating for the Preferred shares. The risk rating is intended to offer a risk classification that is directly comparable to the standard ratings reported by Canadian ETFs and mutual funds. This rating can be considered in addition to the existing credit rating assigned by Morningstar DBRS to better assess the risk profile of the Preferred Shares.

## RISKS

Risks associated with an investment in the shares of the Fund are discussed in the Fund's 2023 Annual Information Form, which is available at [www.bromptongroup.com](http://www.bromptongroup.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). There were no changes to the risks during the period ended June 30, 2024 that could materially affect an investment in the shares of the Fund as they were discussed.

## RESULTS OF OPERATIONS

### Distributions

Class A share cash distributions for the six months ended June 30, 2024, amounted to \$0.40 per share, unchanged from the six months ended June 30, 2023, reflecting monthly cash distributions of \$0.06667 per Class A. Preferred share cash distributions declared were \$0.25 per share for the six months ended June 30, 2024, unchanged from the same period in 2023. Since its inception date of May 21, 2021, the Fund has paid total cash distributions of \$2.40 per Class A share and \$1.56 per Preferred share.

The Fund has a distribution reinvestment plan which allows participating Class A shareholders to automatically reinvest monthly distributions, commission free, in additional Class A shares of the Fund. Pursuant to this plan, during the period ended June 30, 2024, 3,933 Class A shares were acquired in the market at an average price of \$7.05 per Class A share.

### Revenue and Expenses

The Fund earned revenue of \$0.39 per Class A share during the six months ended June 30, 2024, compared to \$0.30 per Class A share during the six months ended June 30, 2023. The increase was largely driven by an in-kind dividend from the General Electric spin-off of GE Vernova.

Expenses for the period ended June 30, 2024, amounted to \$0.15 per Class A share unchanged from the same period in 2023. Expenses included issue costs, agents' fees and Preferred share premium/discount amortization as a result of issuing Preferred shares. Any issuance-related costs were borne by the new subscribing shareholders through the payment of a premium issue price over the Net Asset Value at the time of issuance. Excluding these expenses, Class A share expense was \$0.15 per share for the period ended June 30, 2024, compared to \$0.14 per Class A share from the same period in 2023.

### Net Asset Value

The Net Asset Value per Class A share was \$8.60 at June 30, 2024, up 32.9% from \$6.47 at December 31, 2023. The aggregate Net Asset Value of the Fund was \$61.4 million at June 30, 2024, up from \$58.4 million at December 31, 2023. For the purpose of calculating the Net Asset Value of the Fund as a whole, the Preferred shares are not considered a liability of the Fund.

### Investment Portfolio

As at June 30, 2024, the Fund's investment portfolio included 26 securities across 6 sectors and 1 exchange-traded fund investment which is managed by the same Manager, compared to 28 securities across 7 sectors and 1 exchange-traded fund investment at December 31, 2023. During the six months ended June 30, 2024, the Fund bought 6 new securities (including a new security from a corporate action) and sold 8 securities. The exchange-traded fund is Brompton Sustainable Real Assets Dividend ETF and this investment provides exposure to global real asset companies. As of June 30, 2024, the underlying ETF represented 5.1% of the Fund's Net Asset Value (the Net Asset Value includes the value of the preferred shares). The investment weightings and a detailed listing of the Fund's holdings are provided in the financial statements.

To achieve the investment objectives, the Manager uses a multi-disciplinary investment process that includes fundamental, qualitative, and technical research to construct the portfolio. As a part of this process, the Manager has integrated ESG considerations into the fundamental analysis and has targeted investments in companies that have strong and/or improving environmental, social and governance ("ESG") characteristics. The qualitative ESG considerations may include, but are not limited to, reviewing a company's policies and practices in regards to environmental sustainability, diversity of employees, and corporate governance. The Manager also reviews ESG ratings from third party data providers such as Bloomberg, MSCI, S&P Global, Sustainalytics, Refinitiv, ISS, and others that provide independent and objective ratings as an input to the overall investment analysis and risk assessment of a company.

## Sustainable Power & Infrastructure Split Corp. - Interim Report 2024

The Fund's portfolio continues to meet the Fund's ESG-related investment objectives and strategies. The securities that the Fund sold and purchased in the first half of 2024 were a result of many different factors, including re-allocation of sector weighting, fundamental analysis and technical analysis. None of the securities sold in the first half of 2024 were a result of them not meeting ESG characteristics. The new purchases in the Fund's portfolio all, in the Manager's view, have positive and/or improving ESG characteristics. The 5 new purchases in the Fund's portfolio are Canadian Pacific Kansas City, Eaton Corp's, Motorola Solutions, Shin Etsu Chemicals and Waste Connections. Canadian Pacific Kansas City has smaller carbon footprint than transporting by truck. Eaton Corp's products and services are leveraged to the "Electrification of Everything" megatrend as the world becomes increasingly more electrified and connected. As such, its four-part sustainability strategy includes creating sustainable solutions, reducing its own footprint, engaging its employees and communities, and doing business right and transparently. Motorola Solutions' ESG programs center around six pillars: environmental impact, human capital management, community engagement, public safety, supply chain diversity, fair labor practice. Shin Etsu Chemicals has an ESG committee aimed to reduce GHG emissions, develop and manufacture eco-friendly products, promote renewable energy, and rationalize logistics. As critical components in manufacturing microchips and solar panel, silicon wafers help mitigate technology's environment impact. Waste Connections has committed to spending \$500MM to meet their ESG-related targets and has set goals of increasing offsets to emissions by at least 50%, increasing resources recovered by at least 50%, increasing biogas recovery by at least 40%, and processing at least 50% of leachate on site. Waste Connections continues to invest in landfill gas recovery systems in addition to electric and alternative fuel vehicles.

For the six months ended June 30, 2024, the Fund's portfolio recorded net realized gains of \$0.7 million and a change in unrealized gains of \$8.2 million. The Industrials sector significantly contributed to this gain with \$5.4 million, representing over half of the portfolio's overall net gains for the period, followed by the Energy sector with \$2.2 million.

During the first six months of 2024, the Fund selectively wrote covered call options on the underlying securities in the portfolio and generated premiums of \$0.3 million. The net realized and change in unrealized loss on option writing was \$38.8 thousand which represents the premium received, less the amount paid to close out the options at expiry. As at June 30, 2024, there were 354 option contracts outstanding, with a notional value representing 9.9% of the portfolio.

As at June 30, 2024, the Fund had foreign currency exposure to the US dollar, Euro, Japanese yen, Swiss franc, British pound and Hong Kong dollar, which was substantially hedged through its foreign currency forward contracts. For the period ended June 30, 2024, the net realized and change in unrealized loss from foreign currency forward contracts was \$0.5 million. The loss was largely offset by the foreign currency gain of the respective foreign currency denominated securities in the investment portfolio.

### Portfolio Sectors

Net Gains (Losses) by Sector (millions)	% of Portfolio as of 30-Jun-24	Realized \$	Change in Unrealized \$	Total \$
Communication Services	4.2	(0.2)	0.5	0.3
Consumer Discretionary	-	(0.1)	-	(0.1)
Energy	17.4	(0.2)	2.4	2.2
Industrials	43.6	0.6	4.8	5.4
Information Technology	8.9	-	0.6	0.6
Materials	6.0	0.3	(0.3)	-
Utilities	14.8	0.7	-	0.7
Investment Funds	5.1	-	0.4	0.4
Options	-	(0.1)	-	(0.1)
Foreign currency forward contracts	-	(0.3)	(0.2)	(0.5)
<b>Total</b>	<b>100.0</b>	<b>0.7</b>	<b>8.2</b>	<b>8.9</b>

<b>Geographic Split</b>	<b>% of Portfolio as of 30-Jun-24</b>
United States	45.6
Canada	16.2
Japan	11.1
France	8.6
Ireland	7.0
Italy	6.7
Great Britain	4.8
<b>Total</b>	<b>100.0</b>

### **Liquidity**

To provide liquidity for shareholders, the Class A shares and Preferred shares of the Fund are listed on the TSX. Investors also have the right to retract their shares in accordance with the Fund’s retraction provisions for each class of share.

### **RELATED PARTY TRANSACTIONS**

Related party transactions consist of services provided by the Manager pursuant to a management agreement. See the Management Fees section below. As at June 30, 2024, 3.3% of the Fund’s Preferred shares were held by an investment fund managed by the Manager (December 31, 2023 - 3.3%).

### **MANAGEMENT FEES**

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.75% per annum of the Net Asset Value of the Fund, plus applicable taxes. The Fund does not pay any management fees on investments in funds managed by the Manager. The Net Asset Value of the Fund is determined by taking the total assets of the Fund and deducting the Fund’s liabilities. For this purpose, the Preferred shares are not considered a liability of the Fund. The management fee is used by the Manager to cover its costs to obtain the Fund’s assets, the cost to administer the Fund, the cost of investment management services and for profit. For the period ended June 30, 2024, management fees amounted to \$0.2 million.

### **FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund’s financial performance for the fiscal periods indicated. This information is derived from the Fund’s unaudited interim and audited annual financial statements which have been prepared in accordance with IFRS Accounting Standards. *The information in the following tables is presented in accordance with National Instrument (“NI”) 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per Class A share.* The increase (decrease) in Net Assets from operations is based on average shares outstanding during the period, and all other numbers are based on actual shares outstanding at the relevant point in time.

**Net Assets per Class A Share<sup>1</sup>**

<b>For the period/year ended</b>	<b>June 30, 2024</b>	<b>December 31</b>		
		<b>2023</b>	<b>2022</b>	<b>2021<sup>2</sup></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net Assets, beginning of period/year <sup>3,4</sup>	<b>6.47</b>	6.28	10.09	9.29
<b>Increase (decrease) from operations:<sup>5</sup></b>				
Total revenue	<b>0.39</b>	0.46	0.51	0.46
Total expenses <sup>4</sup>	<b>(0.15)</b>	(0.26)	(0.31)	(0.48)
Preferred share distributions	<b>(0.24)</b>	(0.50)	(0.50)	(0.31)
Realized gains (losses)	<b>0.20</b>	(0.06)	(1.68)	(0.85)
Unrealized gains (losses)	<b>2.35</b>	1.26	(1.15)	2.17
<b>Total increase (decrease) in Net Assets from operations</b>	<b>2.55</b>	0.90	(3.13)	0.99
<b>Distributions to Class A shareholders:<sup>3,6</sup></b>				
Return of capital	<b>n/a</b>	0.73	0.80	0.47
<b>Total distributions to Class A shareholders</b>	<b>0.40</b>	0.73	0.80	0.47
<b>Net Assets, end of period/year<sup>2</sup></b>	<b>8.60</b>	6.47	6.28	10.09

<sup>1</sup> The financial information was prepared in accordance with IFRS Accounting Standards.

<sup>2</sup> Period from May 21, 2021 (commencement of operations) to December 31, 2021.

<sup>3</sup> Net Assets per Class A share and distributions per Class A share are based on the actual number of Class A shares outstanding at the relevant time.

<sup>4</sup> The opening Net Assets per Class A share is net of agents' fees and issuance costs on Class A shares and Preferred shares. For financial reporting purposes, the costs related to Preferred shares, in the amount of \$0.28 per share, have also been reported as an expense during the period from May 21, 2021 to December 31, 2021. Total expenses, excluding the agents' fees and issuance costs on Preferred shares, were \$0.20 per share.

<sup>5</sup> The increase (decrease) in Net Assets from operations per Class A share is based on the weighted average number of Class A shares outstanding over the fiscal period.

<sup>6</sup> Allocations for tax purposes for the period ended June 30, 2024 are not available until year end

**Ratios and Supplemental Data (Based on Net Asset Value)**

As at	June 30, 2024	December 31		
		2023	2022	2021
Net Asset Value (\$) (000s) – including Preferred shares	<b>61,358</b>	58,420	60,771	64,720
Number of Class A shares outstanding (000s)	<b>3,299</b>	3,546	3,732	3,222
Management expense ratio (“MER”) - Class A shares <sup>1</sup>	<b>9.36%</b>	11.33%	10.63%	15.06%
Trading expense ratio <sup>2</sup>	<b>0.12%</b>	0.16%	0.09%	0.32%
Portfolio turnover rate <sup>3</sup>	<b>20.35%</b>	58.49%	31.37%	n/a
Net Asset Value per unit (\$) <sup>4</sup>	<b>18.72</b>	16.60	16.41	20.21
Net Asset Value per Class A share (\$)	<b>8.60</b>	6.47	6.28	10.09
Net Asset Value per Preferred share (\$) <sup>5</sup>	<b>10.00</b>	10.00	10.00	10.00
Closing market price - Class A shares (\$)	<b>8.00</b>	6.19	7.55	9.87
Closing market price - Preferred shares (\$)	<b>10.13</b>	9.98	9.75	10.50

<sup>1</sup> MER for Class A shares is based on the requirements of NI 81-106 and includes the total expenses of the Fund for the stated period, including distributions on Preferred shares, Preferred share premium/discount amortization, issuance costs and a proportionate share of any Underlying Funds’ expenses, but excluding brokerage commissions on securities transactions, and is expressed as an annualized percentage of the average Net Asset Value of the Fund for Class A shares over the period. Please see the Expense Ratio section following this table for further discussion of the calculation.

<sup>2</sup> The trading expense ratio represents total commissions, transaction costs and a proportionate share of any Underlying Funds’ transaction costs expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period.

<sup>3</sup> The Fund’s portfolio turnover rate indicates how actively the Fund manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund’s portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not provided when the Fund is less than one year old. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of such investments during the period.

<sup>4</sup> A unit includes one Class A share and one Preferred share. Net Asset Value per unit is determined by the Net Asset Value of the Fund, for which the Preferred shares are not treated as liabilities. Net Asset Value per unit includes any distributions declared and not paid that are payable to Shareholders.

<sup>5</sup> Net Asset Value per Preferred share does not include the accrued Preferred share distributions.

**Expense Ratio**

In the current period ended June 30, 2024, the MER per Class A share, which includes agents’ fees, issuance costs, Preferred share premium/discount amortization and Preferred share distributions, was 9.36%, down from 11.33% in the prior year ended 2023. Expenses for agents’ fees and issuance costs were borne by the new subscribing shareholders as the share issuances were priced at an amount higher than the Net Asset Value per unit plus these associated expenses; therefore, any share issuances are not dilutive for the existing shareholders. Pursuant to the prescribed regulatory formula, these costs must be included in the MER calculation. The MER per Class A share excluding agent’s fees, issuance costs and Preferred share premium/discount amortization was 9.48% in the current period compared to 11.20% in the prior year. Excluding Preferred share distributions, the MER per Class A share was 3.12% in the current period down from 3.13% in the prior year.

The MER per unit (includes one Class A share and one Preferred share) of the Fund, excluding agents’ fees, issuance costs, Preferred share premium/discount amortization and Preferred share distributions, was 1.36% for the period ended June 30, 2024, compared to 1.19% from the year ended 2023. This latter ratio is more representative of the ongoing efficiency of the administration of the Fund.

## PAST PERFORMANCE

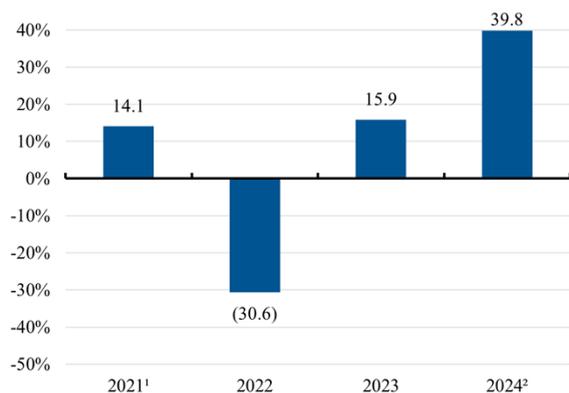
The performance information shown is based on Net Asset Value per Class A share and per unit (each unit consists of one Class A share and one Preferred share) and assumes that cash distributions made by the Fund during the periods shown were reinvested at Net Asset Value per Class A share and per unit in additional Class A shares and units of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future.

### Year-by-Year Return

The following charts show, in percentage terms, how investments held in a Class A share and a unit on the first day of the fiscal period would have changed by the last day of the fiscal period.

#### Class A Share

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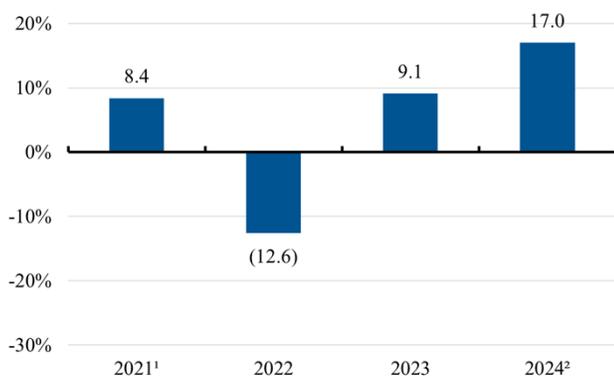


<sup>1</sup> Period from May 21, 2021 (commencement of operations) to December 31, 2021.

<sup>2</sup> Period ended January 1, 2024 to June 30, 2024.

#### PWI Unit

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<sup>1</sup> Period from May 21, 2021 (commencement of operations) to December 31, 2021.

<sup>2</sup> Period ended January 1, 2024 to June 30, 2024.

**SUMMARY OF INVESTMENT PORTFOLIO**

As at June 30, 2024

<b>Total Net Asset Value<sup>1</sup></b>	<b>\$ 61,357,866</b>	
<b>Portfolio Composition</b>	<b>% of Portfolio</b>	<b>% of Net Asset Value</b>
<b><u>Asia</u></b>		
<b>Japan</b>		
Industrials	7.8	7.8
Materials	3.2	3.2
<b>Total Asia</b>	<b>11.0</b>	<b>11.0</b>
<b><u>Europe</u></b>		
<b>France</b>		
Industrials	5.6	5.6
Utilities	2.9	2.9
<b>Great Britain</b>		
Materials	2.8	2.8
Utilities	2.0	2.0
<b>Ireland</b>		
Industrials	7.0	7.0
<b>Italy</b>		
Industrials	4.0	4.0
Utilities	2.7	2.7
<b>Total Europe</b>	<b>27.0</b>	<b>27.0</b>
<b><u>North America</u></b>		
<b>Canada</b>		
Industrials	6.8	6.8
Investment Funds	5.1	5.1
Energy	4.2	4.2
<b>United States</b>		
Energy	13.1	13.1
Industrials	12.1	12.1
Information Technology	8.8	8.8
Utilities	7.1	7.1
Communication Services	4.1	4.1
<b>Total North America</b>	<b>61.3</b>	<b>61.3</b>
<b>Total Investments</b>	<b>99.3</b>	<b>99.3</b>
Cash	0.7	0.7
Other net assets (liabilities)		0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<b>Top 25 Holdings</b>	<b>% of Portfolio</b>	<b>% of Net Asset Value</b>
Hitachi Ltd.	7.8	7.8
Schneider Electric SE	5.6	5.6
Trane Technologies PLC	5.2	5.2
Brompton Sustainable Real Assets Dividend ETF	5.1	5.1
Targa Resources Corp.	4.7	4.7
Roper Technologies Inc.	4.7	4.7
Constellation Energy Corp.	4.7	4.7
ONEOK Inc.	4.5	4.5
Cameco Corp.	4.2	4.2
Motorola Solutions Inc.	4.1	4.1
T-Mobile US Inc.	4.1	4.1
Prysmian SpA	4.0	4.0
Williams Companies Inc.	3.9	3.9
Parker-Hannifin Corp.	3.7	3.7
Quanta Services Inc.	3.7	3.7
General Electric Co.	3.7	3.7
Waste Connections Inc.	3.6	3.6
Canadian Pacific Kansas City Ltd.	3.2	3.2
Shin-Etsu Chemical Co Ltd.	3.2	3.2
Veolia Environnement S.A.	2.9	2.9
Linde PLC	2.8	2.8
Enel SpA	2.7	2.7
NextEra Energy Inc.	2.4	2.4
National Grid PLC	2.0	2.0
Eaton Corporation PLC	1.8	1.8
<b>Total</b>	<b>98.3</b>	<b>98.3</b>

<sup>1</sup> Net Asset Value of the Fund includes the value of the Preferred shares and Class J shares.

*The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available on the Fund's website at [www.bromptongroup.com](http://www.bromptongroup.com) within 60 days of each quarter end.*

## **MANAGER/PORTFOLIO MANAGER**

Founded in 2000, Brompton is an experienced investment fund manager with income focused investment solutions including exchange-traded funds (ETFs) and other TSX traded investment funds. Brompton's Portfolio Management team specializes in Canadian and global equity investments and is a leading manager of covered call writing strategies in Canada. Brompton actively manages 23 investment funds, which are listed on the TSX.



## PORTFOLIO MANAGER'S REPORT

July 2024

### Global Markets Review

Global Equity markets demonstrated robust performance in the first half of 2024, propelled by solid corporate earnings. Particularly, enthusiasm over artificial intelligence drove significant gains in U.S. indices. Easing inflation and expectations of interest rate cuts by major central banks also led to a broadening of the bull market across regions. For the six-month period ending June 30, 2024, the MSCI World Index gained 12.0%. In North America, the S&P 500 rose 15.3%, with Technology (+28.2%) and Communication Services (+26.7%) as the best-performing sectors. The momentum of the AI megatrend continued to fuel the market rally. The S&P/TSX Composite was up 6.1%, buoyed by Energy and Materials. In Europe, the STOXX 600 registered a 9.5% return for the first half of this year. Italy FTSE MIB and Swiss Market Index gained 13.4% and 11.0%, respectively. Spain, Germany, the U.K., and France all finished the period in the positive territory, up 11.0%, 8.9%, 7.9% and 1.9%, respectively.

Global economic data for the first half of 2024 continued to show a complex picture, with inflation remaining a key focus for monetary policy decisions. U.S. inflation moderated further, reaching 3.3% for the May reading, but remained above the Federal Reserve's 2% target. The labour market showed signs of cooling, as the unemployment rate ticked up (4.0% in May), while remaining low relative to historical averages. The U.S. economy remains healthy and has thus far managed to avoid a recession. Meanwhile, manufacturing PMI entered May at 48.7, an indication of contraction when the number is below 50. Bond markets experienced volatility, with the U.S. 10-year Treasury yield fluctuating between 3.8% and 4.7% before settling at 4.4% by the end of June. Uncertainties surrounding the inflation outlook led to no rate cuts during the six-month period. Other global bond performances such as U.K. Gilt and German Bund also mirrored the U.S. treasury. In equities, growth continued outperforming value for both large cap and small cap. Value stocks showed signs of catching up as investors sought more balanced portfolios. The technology sector, particularly companies expected to benefit from AI, kept driving market performance. Energy sector caught up with the oil price rally in Q1 and gave back some gains in Q2 along with falling oil prices, as OPEC+ unexpectedly signaled plans to return some supply to the market in the second half of the year.

The Federal Reserve left interest rates unchanged in the 5.25%-5.5% range in May and June Federal Open Market Committee ("FOMC") meetings. The FOMC stated that it does not expect to reduce rates until it has "gained greater confidence that inflation is moving sustainably toward 2%". Even though inflation has come down substantially since June 2022, the Fed's projected 2024 core PCE was revised upward from 2.4% to 2.6%, indicating ongoing concerns about price stability. Market expectations for rate cuts have shifted considerably since late 2023. At the beginning of the year, the market expected six 25-basis-point cuts. However, the current Fed fund futures market is pricing in only one rate cut by the end of 2024, with the timing remaining uncertain. The Fed's cautious approach reflects the complex economic landscape, balancing concerns about inflation with the desire to achieve a "soft landing" for the economy. We might see the next cut pushed out even further if current macro mix of inflation and labour market holds.

The Bank of Canada (BoC) reduced its overnight policy rate by 25 basis points to 4.75% in the June meeting. This policy shift makes the BoC the first G7 central bank to ease so far this year. The communication noted that "monetary policy no longer needs to be as restrictive". Thus, the focus now turns to the pace of forward rate guidance, as the market will question how sustainable the monetary easing will be. Furthermore, one rate reduction will not alleviate the pressure on household debt and weak business activities. The economic fundamentals remain fragile against a backdrop of declining labour productivity and muted investment, despite relieved wage and inflationary pressures. While the BoC has started its easing cycle, it's likely to proceed cautiously to ensure inflationary pressures don't rebound and to avoid reigniting the housing market.

The European Central Bank (ECB) cut the benchmark interest rate by 25 basis points to 4.25% in the June meeting. However, the Governing Council gave hawkish rhetoric that "domestic price pressures remain strong as wage growth is elevated and inflation is likely to stay above target well into next year". President Christine Lagarde did not outline a path of cuts or even acknowledge that more cuts are likely. Meanwhile, the ECB revised up its forecast for both headline and core inflation slightly for this year and next, implying continued uncertainties about inflation outlook. In the U.K., the Bank of England (BoE) has not yet started monetary easing, holding the policy rate unchanged at 5.25%. The BoE noted that while inflation has moderated from its peak, it remains above the 2% target. The labour market also remains tight, although there are signs of cooling. In Switzerland, the Swiss National Bank cut rates by 25 basis points to 1.25% in the June meeting and highlighted that the underlying inflationary pressure has decreased. The rate cut is partly aimed at supporting economic activity in the face of strong Swiss Franc.

Investor sentiment continued to improve during the first half of 2024, fueled by resilient corporate earnings, eased inflation, peak policy rates, and the artificial intelligence hype. The broader U.S. index performance continues to be driven by AI names, mainly in Technology and Communication Services. Meanwhile, deeper market breadth, indicated by the advance/decline line for the S&P 500, suggests wider participation in the rally beyond just mega-cap tech names. For example, cyclical sectors such as Energy and Financials have also shown more widespread and resilient performance. As the dominant weight of “big tech” skews the U.S. equity market valuations, investment opportunities have unveiled outside of the U.S. for global investors, such as Europe and Japan. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2024, the global economy is projected to grow 3.2% in both 2024 and 2025, with the former revised up by 0.1 percentage point from the January forecast. Global inflation is forecast to decline to 5.9% in 2024 and further to 4.5% in 2025.

Looking forward to the back half of 2024, in our view, we believe global central banks will continue to closely monitor the key economic indicators such as inflation and wage growth to decide the path of monetary policy. Markets started the year with complacency about how quickly central banks, especially the U.S. Federal Reserve, would cut policy rates this year. But it is worth noting that even with some central banks commencing the rate-cut cycle, monetary policy should remain restrictive towards year end and the path towards central banks’ target inflation is still challenging to policymakers. As a result, yields will continue to play an important role in dictating leadership between value and growth. While we remain positive on the Technology sector and favour AI themes, we believe leadership in equity market performance should broaden out, geopolitical risks should arise in the next 6 months, namely the European Parliament election, the U.S. Presidential election, and the ongoing conflict in the Gaza Strip. In this vein, 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**

Units (1 Class A share plus 1 Preferred share) of Sustainable Power & Infrastructure Split Corp. were up 17.0% during the first half of 2024.

Our positions in Industrials and Energy drove our strong performance. Our industrial picks benefitted from some large secular themes, the biggest of which was the anticipation for increased data center build outs for Artificial Intelligence, benefitting companies that provide electrical and cooling solutions. Secondly, the longer lead time for new airplanes also helped as older planes need to run longer, benefitting aerospace engine & equipment makers with increased after-market, higher margin revenue. Energy stocks also performed well as the backdrop of a stronger economy and tighter supply led to a higher oil price.

Partially detracting from our performance were some of our Material names with exposure to China. The Chinese economy continues to be weak following the COVID 19 shutdowns, with its construction sector continues to struggle with high leverage and lower demand.

During the year, we added exposure to Industrials and Technology, funding them through sales in Utilities, Communication and Consumer Discretionary. Our changes reflect our view that Industrials are benefiting from major secular growth trends such as data center build out, electrification and reshoring. In addition, a lot of these companies have cost plus contracts, thereby providing a strong hedge against inflation, which has remained sticky. We funded these through sales in Utilities and Communication Services. Higher inflation and a stronger economy are likely to keep rates higher for longer, which could lead to an underperformance from interest rate sensitive stocks.

The Fund’s portfolio continues to meet the Fund’s ESG related investment objectives and strategies. The securities that the Fund sold and purchased in 2024 were a result of many different factors, including re-allocation of sector weighting, fundamental analysis and technical analysis. None of the securities sold in 2024 were a result of them not meeting ESG characteristics. The new purchases in the Fund’s portfolio all, in the Manager’s view, have positive and/or improving ESG characteristics.

Canadian Pacific Kansas City - smaller carbon footprint than transporting by truck.

Eaton Corp - Eaton’s products and services are leveraged to the “Electrification of Everything” megatrend as the world becomes increasingly more electrified and connected. As such, its four-part sustainability strategy includes creating sustainable solutions, reducing its own footprint, engaging its employees and communities, and doing business right and transparently.

Motorola Solutions - Motorola ESG programs center around six pillars: environmental impact, human capital management, community engagement, public safety, supply chain diversity, fair labor practice.

Shin Etsu Chemicals - As critical components in manufacturing microchips and solar panel, silicon wafers help mitigate technology's environment impact. The company has an ESG committee aimed to reduce GHG emissions, develop and manufacture eco-friendly products, promote renewable energy, and rationalize logistics.

Waste Connections - The company has committed to spending \$500MM to meet their ESG-related targets. WCN has set goals of increasing offsets to emissions by at least 50%, increasing resources recovered by at least 50%, increasing biogas recovery by at least 40%, and processing at least 50% of leachate on site. The company continues to invest in landfill gas recovery systems in addition to electric and alternative fuel vehicles.

### **FORWARD-LOOKING STATEMENTS**

*Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances, except as required by law.*