# Brompton Global Healthcare Income & Growth ETF (TSX:HIG; HIG.U)

BROMPTON FUNDS

**Portfolio Manager Commentary - December 31, 2023**

### Healthcare Sector Review & Outlook

The healthcare sector performance significantly lagged the broader market in 2023. The sector, particularly the large pharmaceutical subsector, remains very sensitive to political risk especially heading into the US Presidential election. Drug pricing historically has been a topic of political debate though some may view it as rhetoric. Large pharma continues to face disruption beyond the pricing debate. For example, big data has also been increasingly used to assist in drug development and has helped 'level the playing field' in allowing for fast followers to develop drugs, which has left fewer blockbusters able to enjoy long competition-free periods. The healthcare equipment subsector is less sensitive to political risk relative to large pharma in our view. This is attributed to the fact that the sub sector is less reliant on government spending (US government accounts for only 30% of total equipment expenditure compared with 43% for prescription drug) and durable medical equipment represents only 1.6% of US total health consumption expenditure versus 19% for prescription drugs.

The obesity theme continues to dominate the pharma sector as the anti-obesity drug pipeline gains traction. In the near-term, manufacturing expansion has yet to keep pace with soaring demand for anti-obesity drugs. We believe securing a broad reimbursement and supply would facilitate widespread uptake and we note that Medicare coverage of obesity drug has not been approved. The market opportunity for anti-obesity drugs is estimated to reach $44 billion by 2030 up from

$2.5 billion in 2022 according to Bloomberg (June 13, 2023). Bloomberg estimates that the target population for obesity treatment is three times larger than that for type 2 diabetes, which totaled more than $50 billion in branded drug revenue in 2022. Obesity-related conditions like diabetes, heart disease and hypertension account for 20% of deaths worldwide. There is a significant societal impact because of obesity in terms of treatment cost and lost productivity.

Medicare drug-price negotiation provisions in the Inflation Reduction Act ("IRA") is a headwind for large pharma and biotech companies. The IRA provides a timetable for price cuts of at least 25% on a minimum number of drugs each year. The Congressional Budget Office estimates this could reduce spending on selected drugs by $3.7 billion in 2026 and about $100 billion over 10 years. We believe companies are reassessing development plans for drug pipelines and some have legally challenged the IRA. With the upcoming US presidential elections next year, we believe a repeal or expansions of drug provisions under the IRA is unlikely given the price reductions will be scheduled before the election and potential political gridlock would make changes challenging.

The Managed Care sector continues to enjoy strong volume growth with utilization approaching pre-COVID levels and elevated commercial growth rates given contract renewal. There is a meaningful backlog of procedures which will support volume recovery for hospitals in the near-term. Labour pressures continue to ease at hospitals given contract cost reductions and improved hiring dynamics. On the other hand, health insurers face continued headwinds driven by rising unit expenses, pharmacy-trend growth and other care inflators that could fuel an increase in medical costs heading into 2024.

The Life Sciences and Tools sector continues to face multiple headwinds including inventory restocking, a pulling forward of spend, and a downturn in capital equipment demand driven by record levels of funding, supply chain constraints and overcapacity. Partially offsetting this are anticipated tailwinds from anti-obesity drugs across both upstream (active pharmaceutical ingredients – amnio acids and resins) and downstream (fill and finish services that consist of sterilization and assembling, filling, and processing autoinjector devices).

We continue to believe that healthcare offers an attractive risk/reward opportunity. Valuations remain reasonable with the sector trading at a slight discount (1x) to the broader market on a forward P/E basis (60th percentile over the past 10 years). Demand for healthcare services continues to increase, with a growing and aging population enjoying longer lifespans. In addition, continued innovation in the sector drives the introduction of new treatments for more complex diseases and expanding market opportunities for healthcare companies. We believe stocks in our portfolio are well positioned in their respective end markets, driving growth and durable cash flow. Our active management approach allows us to capture factor rotations given the dynamic macro backdrop.

**Portfolio Review**

Global Healthcare Income & Growth ETF (the "Fund") was down 1.5% in 2023 versus the MSCI World Health Care Index which was up 4.3%. The underperformance was attributed to positioning in Biotech and Healthcare services given the risk/reward proposition heading into the year.

The Fund was overweight Healthcare Equipment, which contributed to performance ahead of the benchmark. Top holdings include Stryker (up 24%), Boston Scientific (up 21%) and Dexcom (up 8.4%).

An overweight position in Healthcare Distributors contributed to performance which was ahead of benchmark holdings. Top holdings include McKesson (up 24%) and Cencora (up 18%).

The Fund was underweight the Pharmaceuticals subsector, which contributed to performance in-line with benchmark holdings. Top holdings include Eli Lilly (up 61%), Novo-Nordisk (up 55%) and Zoetis (up 23%).

An underweight position in Managed Care did not overly detract from performance which was ahead of benchmark holdings. The only top performer was UnitedHealth (up 1%).

The Fund was relatively market weight Biotechnology which detracted from performance that lagged benchmark holdings. The only top performer was Vertex (up 15%).

A market weight position in Healthcare Services detracted from performance which significantly lagged the benchmark. Both our holdings in Cigna and CVS were down 20%.

The Fund was slightly underweight Life Sciences with performance lagging the benchmark. Our only top performer was Thermo Fisher (up 0.1%).

| Annual Compound Returns[1] | 1-YR | 3-YR | 5-YR | Since Inception[2] | Since Inception[3] |
|---|---|---|---|---|---|
| Brompton Global Healthcare Income & Growth ETF (CAD Hedged) | (1.5%) | 1.6% | 6.3% | 5.3% | - |
| Brompton Global Healthcare Income & Growth ETF (USD) | (0.9%) | 1.7% | - | - | 4.7% |
| MSCI World Health Care Index | 4.3% | 6.0% | 11.0% | 8.8% | 10.8% |
| MSCI World Index | 24.4% | 7.8% | 13.4% | 11.2% | 12.0% |

*(1) Returns are for the periods ended December 31, 2023 and are unaudited. The table shows the Fund's compound return compared for each period indicated compared with the MSCI World Health Care Index ("Health Care Index") and the MSCI World Index ("MSCI Index") (together the "Indices"). The Health Care Index represents the healthcare industry group of the MSCI Index. 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. It is not expected that the Fund's performance will mirror that of the Indices, since the Indices contain a substantially larger number of companies. Furthermore, the Indices are calculated without the deduction of management fees, fund expenses and trading expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on net asset value per unit and assumes that distributions made by the Fund on its units in the period shown were reinvested at net asset value per unit in additional units of the Fund.*

*(2) Inception Date September 24, 2015.*

*(3) Inception Date August 8, 2019.*



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