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Brompton Global Healthcare Income & Growth ETF

Portfolio Manager Commentary - March 31, 2024

U.S. Markets Review

Looking forward to the rest of 2025, in our view, the tariff fears and trade tension introduced by the Trump administration will continue to weigh on the U.S. economic outlook, as these policies complicate Federal Reserve's monetary decisions and overshadow corporates earnings. Value stocks have outperformed relative to growth, and we believe that rotation into defensive sectors will continue. Conversely, growth stocks, particularly those tied to AI hype, are likely to remain vulnerable amid economic headwinds and elevated valuations. We need more economic data such as CPI and unemployment to confirm an economic downturn, but leading indicators such as business and consumer confidence readings are already showing significant declines, raising concerns about U.S. growth prospects. We expect heightened volatility levels to continue, creating opportunities for covered call strategies to generate additional income and lower portfolio volatility.

Healthcare Sector Review & Outlook

Healthcare stocks lagged the broader market with the S&P 500 Healthcare Total Return Index up 2.6% vs the S&P 500 up 25%. Weaknesses in the sector were relatively broad based across providers, biotech and life sciences with equipment and pharmaceuticals performing well. Although the large pharmaceutical subsector is faced with headwinds from the drug-price negotiation provisions in the Inflation Reduction Act, we believe the tailwind from the anti-obesity theme will partially offset the effects. Some pharmaceutical and biotech companies face additional headwinds from economic pressures and anti-corruption investigations in China. We do not expect major near-term drug policy changes from US President Donald Trump. In the managed care sector, the administration's pro-business stance supports employment growth that could expand commercial enrollment in 2025 as well as deregulation efforts could lower medical cost inflation which remains persistently high. As the anti-obesity revolution matures, we believe there could be disruption in the cadence of hospital and medical technology volumes as healthier weight among the population reduces the prevalence of obesity-related conditions.

The market opportunity for anti-obesity drugs is shaping up to become one of the largest pharmaceutic therapeutic categories. The global market for chronic weight management is projected to reach $100 billion in 2030 up from $6 billion in 2023 according to Goldman Sachs (October 16, 2023). The anti-obesity drug market is anticipated to be somewhat of a duopoly between Novo Nordisk's semaglutide (Ozempic-diabetes, Wegovy-chronic weight management) and Eli Lilly tirzepatide/Mounjaro (GLP-1/GIP dual-agonist). Industry commentary and clinical data suggest that Eli Lilly could enjoy leading market share given later stage clinical development of orforglipron (oral GLP-1 agonist), and retatrutide (a triple hormone receptor agonist of GLP-1). Beyond pharmaceutical drug companies, anti-obesity is a tailwind for contract drug manufacturers and distributors through increased volumes as well as healthcare tools through upstream (active pharmaceutical ingredients – amino acids and resins) and downstream (fill and finish services that consist of sterilization and assembling, filling, and processing autoinjector devices).

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. Industry commentary suggest that a GOP Senate majority is likely to push for a repeal of the Inflation Reduction Act's negotiation provisions however, incoming US President Donald Trump may not go along with the repeal.

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. The inflation-driven cost of providing medical care, partly fueled by a jump in compensation and other operating expenses in the past few years, could keep propelling medical costs through 2025. The Trump administration's expected policy to deregulate and decentralize could lower health-care unit-cost inflation, however this will take some time to play out.

Demand for healthcare 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

Brompton Global Healthcare Income & Growth ETF (the "Fund") was up 7.7% in Q1 2025 versus the MSCI World Health Care Total Return Index which was up 5.3%.

The Fund was market weight Healthcare Equipment, which contributed to performance ahead of the benchmark. Top holdings include Intuitive Surgical (up 55%), Boston Scientific (up 54%) and Stryker (up 21%).

An overweight position in Healthcare Distributors contributed to performance which was ahead of the benchmark. Top holdings include Mckesson (up 24%), Cardinal Health (up 19%) and HCA (up 12%).

The Fund was underweight the Pharmaceuticals subsector, which contributed to performance but lagged the benchmark. Top holdings include Eli Lilly (up 33%), Bristol Myers (up 17%) and Merck (up 5%).

The Fund was market weight Biotechnology which detracted negatively to performance behind benchmark holdings. Our only top performer was Abbvie (up 19%).

The Fund was market weight Life Sciences with lagging the benchmark. There were no top performers as our holdings in Agilent, Thermo Fisher, Danaher and West Pharmaceuticals were down. This contributed negatively to overall portfolio performance causing it to lag the benchmark.

Annual Compound Returns[1]	YTD	1-YR	3-YR	5-YR	Since Inception[2]	Since Inception[3]
Brompton Global Healthcare Income & Growth ETF (CAD Hedged)	7.7%	(2.3%)	(0.3%)	6.9%	5.4%	-
Brompton Global Healthcare Income & Growth ETF (USD)	8.1%	(1.2%)	0.3%	7.5%	-	5.2%
MSCI World Health Care Total Return Index	5.3%	(0.6%)	3.1%	10.4%	8.4%	9.6%
MSCI World Total Return Index	(1.7%)	7.5%	8.1%	16.7%	11.5%	12.3%

(1) Returns are for the periods ended March 31, 2025 and are unaudited. The table shows the Fund's compound return for each period indicated compared with the MSCI World Health Care Total Return Index ("Health Care Index") and the MSCI World Total Return 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. The Fund is actively managed; therefore, its performance is not expected to mirror that of the Indices, which have more diversified portfolios and contain a substantially larger number of companies. Furthermore, the Indices' performance is 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. The performance information shown is based on net asset value per CAD and USD unit and assumes that cash distributions made by the Fund during the periods shown were reinvested at net asset value per CAD unit or USD unit in additional units of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future.

(2) Inception Date September 24, 2015.

(3) Inception Date August 8, 2019.

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