

**Portfolio Manager Commentary - December 31, 2024****Global Markets Review**

Global equity markets finished the year with another year of strong performance bolstered by a combination of moderating inflationary pressures, easing monetary policy, and resilient corporate earnings. Enthusiasm over the artificial intelligence (AI) theme drove significant gains in U.S. indices. Donald Trump's victory in the U.S. election also helped boost the domestic equity markets on the expectations of deregulation and a corporate tax cut despite uncertainties surrounding his proposed tariff and immigration policies. In global equity markets the MSCI World Total Return Index finished the full year with a 19.2% gain, while the S&P 500 rose 25.0%, climbing to all-time high in November. Communication Services (+40.2%) and Technology (+36.6%) were the best-performing sectors. Both sectors benefited from the development of AI themes. The S&P/TSX Composite was up 21.7% buoyed by Technology and Financials. In Europe, the STOXX 600 registered a 9.6% return for 2024. Spain, Italy, and Germany were the best-performing countries, gaining 20.0%, 18.9%, and 18.8%, respectively, while the U.K., Switzerland, and France all finished in positive territory, up 9.6%, 7.5%, and 0.9%, respectively.

Inflation continues to moderate, which has enabled global central banks to shift to accommodative monetary policies. In the U.S., inflation was 2.9% in 2024, while the unemployment rate remained relatively low at 4.1% as of the end of the year. The U.S. economy remains healthy and has managed to avoid a recession. However, the manufacturing PMI remained below 50 in the second half of 2024, which is an indicator of softness in the manufacturing sector. As the inflationary pressure meaningfully abated, the Federal Reserve started its long-awaited cutting cycle in September. The bond market was volatile in Q4 with the U.S. 10-year Treasury yield rising sharply from 3.6% in September (the lowest of the year) to approximately 4.6% by year end, which resulted in a steepening of the yield curve. The rebound in yields raised concerns over inflation returning due to President Trump's tariff and immigration policies, which has resulted in fewer rate cuts being priced into the market for 2025. Global bond markets, such as the U.K. Gilt and the German Bund, mirrored the sell off in U.S. Treasuries. In equities, growth outperformed value for both large cap and small cap, while large cap tech names were the primary contributors to the index performance even though they showed signs of losing momentum during the back half of the year. Strong performance was also seen from a broader group of stocks in 2024 relative to 2023, including strength Financials and Consumer Discretionary.

After kicking off the interest rate cutting cycle with a 50 bps cut in September, the Federal Reserve (the "Fed") cut interest rates by 25 bps each in the November and December meetings bringing the target range to 4.25%-4.5%. However, at the December meeting the Fed triggered a market sell-off after Fed Chair Jerome Powell emphasized a more cautious stance on the number of interest rate cuts expected in 2025. By the end of December, the Fed Funds Futures have priced in two additional 25 bps rate cuts in 2025, which was down from four cuts priced in as of September. Despite inflation coming down significantly, it remains slightly elevated relative to the Fed's 2% target. Therefore, we expect the Fed to tread lightly with interest rate cuts in 2025. On the political front, Donald Trump won the presidential election, and Republicans took control of Congress. The new administration's policies surrounding tariffs, immigration, regulation, and taxes will be the key to watch heading into 2025.

The Bank of Canada ("BoC") reduced its overnight policy rate to 3.25% after 50 bps cuts in both October and December in 2024. By year end of 2024, the BoC had made 175 bps cuts cumulatively since the start of its rate cutting cycle, which began in June. The BoC noted that the Canadian economy remains in excess supply, with labour market slack rising as population growth outpaced job creation. As for forward rate guidance, the BoC acknowledged that while further rate cuts in the future are expected, the timing and pace will still be guided by incoming data. The central bank signaled it would take a more gradual approach as the policy rate is now at the top end of its 2.25%-3.25% estimated range for the neutral rate. As the policy rates declined faster than in the U.S., the policy divergence resulted in Canadian dollar depreciation against the U.S. dollar. Moreover, rising unemployment rates, muted investment activities, and trade policy uncertainty from the Trump administration continue to weigh on the already fragile economic fundamentals.

The European Central Bank cut its benchmark interest rate by 25 bps in both October and December meetings bringing the rate to 3.15%. President Christine Lagarde indicated more cuts are expected in 2025 saying current data suggest the direction of travel currently is very clear while also noting that data will still determine the pace and size of rate cuts, and that risks to inflation are not one-sided. Despite consecutive rate cuts, the European economy remains weak. Activity indicators such as eurozone manufacturing PMI finished the year in contraction territory. Meanwhile, the two major economic engines in the eurozone, France and Germany, experienced political instability during Q4. In France, Prime Minister Michel Barnier lost a no-confidence vote in December as other parties declined to back his budget, while no new parliamentary elections will be held until July 2025. In Germany, Chancellor Olaf Scholz dismissed Finance Minister in November causing the collapse of the three-party coalition government. In the U.K., the Bank of England left the policy rate unchanged at 4.75% in December after delivering a 25 bps cut in November. The central bank highlighted a more balanced labour market and upside risks to inflation in the near term.

Artificial intelligence remained the year's dominant investment theme fueling market enthusiasm and a transformative industry shift. The "Magnificent Seven" mega cap tech stocks delivered outsized returns, boosting the S&P 500. The seven names added about \$6 trillion of market cap in 2024. Meanwhile, broader market breadth, indicated by the advance/decline line for the S&P 500, suggests wider participation in the rally beyond large-cap tech. Consecutive Fed rate cuts, durability of the U.S. consumer, and optimism around pro-business policies from the Trump administration bolstered equity performance in sectors such as Financials. Outside of the U.S., equity market performance was mixed. European equities lagged on the back of elevated energy costs, sluggish export demand, and political instability in major economies like Germany and France. Japan registered another stellar return this year with the Nikkei 225 Total Return Index rising 21.3% on the continuation of foreign investor interest, monetary policy normalization, healthy wage growth, and improving corporate earnings and governance. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in October 2024, the global economy is projected to grow 3.3% in 2025, revised up by 0.1 percentage points from the July forecast. The outlook also highlights that persistent services inflation is impeding overall disinflation efforts, complicating the path to monetary policy normalization.

Looking forward to 2025, in our view, we expect to continue to see a widening of breadth in the market. Returns over the past 3 years have been dominated by the "Magnificent Seven" mega cap stocks. This trend peaked in mid-2024, and we have recently seen outperformance from a broader group of stocks, including mid-caps, particularly on the back of the U.S. election results in November. While we are still bullish on the Technology sector, broadening participation is positive for stock pickers and active management. In terms of the economy, we believe that a soft landing has been achieved and that we remain on a path back to normal in terms of both inflation and interest rates. The U.S. economy will continue to benefit from a strong consumer and continued growth in private sector capex, particularly around the themes of re-shoring, electrification, and artificial intelligence. The incoming policies under the new Trump administration will be the key to drive the market sentiment. Tax reform and deregulation would stimulate growth and benefit in particular domestic and cyclical sectors, while tariffs and trade policy uncertainties could weigh on Europe and China and create headline risks. We also expect increased volatility in 2025 and believe 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.

## **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 pharmaceutical 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 flat in 2024 versus the MSCI World Health Care Total Return Index which was up 1.6%.

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 <sup>1</sup>	1-YR	3-YR	5-YR	Since Inception <sup>2</sup>	Since Inception <sup>3</sup>
Brompton Global Healthcare Income & Growth ETF (CAD Hedged)	(0.1%)	(5.6%)	2.1%	4.7%	-
Brompton Global Healthcare Income & Growth ETF (USD)	0.6%	(5.1%)	2.8%	-	3.9%
MSCI World Health Care Total Return Index	1.6%	0.2%	6.7%	8.0%	9.0%
MSCI World Total Return Index	19.2%	6.9%	11.7%	12.0%	13.3%

(1) Returns are for the periods ended December 31, 2024 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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