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

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - MARCH 31, 2021

Global Markets Review

It has been one year since COVID-19 was declared a global pandemic. Global stock markets extended the recovery seen since November last year to close at all-time highs during the first quarter of 2021. All in all, global markets finished the quarter with solid performance, especially for pro-cyclical sectors, as several of them enjoyed double digit returns. The MSCI World Index gained 5.0% with the Energy sector the best performing sector, gaining 22.2% during the quarter; Financials was the second-best performing sector, outperforming the MSCI World Index by 8.3%. In North America, the S&P 500 was up 6.2% led by gains from the Energy sector, while the S&P/TSX Composite was up 8.1%, with Heath Care and Energy as the top performing sectors. In Europe, the STOXX 600 was up 8.4% for the quarter. Italy and France had the best performance, where the FTSE MIB and CAC 40 were up 11.3% and 9.6%, respectively. Germany's DAX gained 9.4%. Spain and U.K. also finished the quarter with solid returns as the IBEX 35 and FTSE 100 increased 6.7% and 5.0%, respectively.

During the quarter, global economies continued the path to recovery while certain parts of the world combated a third wave of COVID-19. We saw sequential improvement in manufacturing production as the March PMI reached a record high of 64.7 in the U.S., the unemployment rate continued declining during the first quarter. In the U.S., Democrats gained control of both the Congress and the White House for the first time since 2011. Election of Joe Biden as the 45th president of the United States paved the way for further fiscal stimulus. Biden's sharp focus on immunization efforts in combination with unprecedented fiscal stimulus pushed stock markets to new highs in March. At the same time, as a reflection of the improved growth outlook, global yield curves steepened and the U.S. 10-year treasury yield recovered to above 1.7%. Cyclical parts of the economy led the equity market rally, with Energy, Financials, Industrials and Materials gaining the most, while defensive sectors such as Consumer Staples and Utilities lagged. Performance of Information Technology stocks was lackluster overall due to investor sentiment shifting away from large capitalization growth names during the quarter. Risk appetites continue to favor pro-cyclical stocks as global economies pick up its pace.

Effective central bank and government policies played an essential role in the recovery of global equities. In North America, both the Federal Reserve and the Bank of Canada (BoC) remained highly accommodative and kept interest rate unchanged during the first quarter. In March, President Biden signed a US$1.9 trillion pandemic relief bill, titled the American Rescue Plan, into law. The plan includes additional stimulus cheques, enhanced unemployment aids, rental assistance and childcare support among other assistance. During the most recent FOMC meeting in March, the Fed saw Q1 2021 GDP expanding at a faster pace than Q4 of 2020 as well as improvement in labor market conditions. Consumer spending also fared better than Q4 of last year. In Canada, GDP growth in Q1 of 2021 is expected to be positive rather than the contraction projected back in January. While higher commodity prices and improvement in demand brightened the prospect of a recovery, employment levels remain well below pre-COVID levels. As such, the BoC expect to hold policy interest rates at the current level until at least 2023.

In Europe, the European Central Bank (ECB) kept the benchmark interest rate unchanged at -0.50%. ECB's president Christine Lagarde noted the uncertainty surrounding Europe's economic outlook due to the ambiguous dynamics of the pandemic and the unpredictable speed of inoculation campaigns. The Governing Council is continuing the current pace of purchase under the pandemic emergency purchase programme (PEPP) in the amount of EUR1,850 billion until at least the end of March 2022. Purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR20 billion. The ECB projects an annual real GDP growth of 4% and an annual inflation rate of 1.5% in 2021.

At the end of the first quarter, the number of confirmed infections worldwide exceeded 134 million, about one and a half times greater than the number of infections at the end of 2020. On the other hand, global vaccination efforts are well underway, with the U.S. having administered 171 million doses of the vaccine as of the first week of April. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2021, the global economy is projected to grow 6% in 2021, up from the previous forecast of 5.2%. The contraction of 2020 was also smaller than the previous projection due to outsized growth in the second half of 2020 driven by easing of lock-down measures. However, there still remains a high degree of uncertainty surrounding the global economic outlook; such as whether the new COVID-19 strains are susceptible to current vaccines, capacity adjustments in the economy and effectiveness of global policies.

Looking forward to the rest of 2021, we believe the rotation into pro-cyclical sectors is set to continue. First, wide COVID-19 vaccine coverage should allow societies to gradually normalize over the course of the year. Second, the Biden administration is laser-focused on boosting the economy through the American Rescue Plan and the proposed US$2.25 trillion infrastructure plan since his election, which should be supportive of further economic recovery. Third, the personal savings rate is sitting at the highest rate in the past decade. Consumers have a strong propensity to spend, which in turn should fuel economic growth. Overall, we are optimistic about equity performance heading the upcoming quarter. U.S. large capitalization stocks are likely to participate in the market rally but not necessarily lead the performance. Pro-cyclical sectors should extend their leadership that we saw since November into the upcoming quarters.

Healthcare Sector Review & Outlook

The pace of Covid-19 vaccination efforts continues to be a focus as this provides a line of sight for economic recovery. According to Bloomberg, Covid-19 vaccine doses that have been administered so far represents only 5% of the global population. This distribution rate is skewed toward high income countries, which are getting vaccinated at a rate 25 times faster than low-income countries. At the current pace, 75% of the US population will be vaccinated by mid-2021. As vaccinations progress through 2021, we expect gradual normalization of medical trends and increasing utilization across subsectors within healthcare.

The pharma subsector continues to face near-term headwinds from delayed drug launches and the low rates of diagnoses of certain diseases which require regular doctor visits. Partially offsetting this is the benefit of pandemic-driven cost savings which could suggest a longer-term change in which drugs are marketed and sold. Pricing pressure continues to be a headwind, impacting large pharma sales in the mid-single digits and would likely continue over the next few years according to Bloomberg. This is attributed to negative channel mix from high unemployment which are pushing people to lower-priced channels.

US President Biden's $2.3 trillion infrastructure plan provides $400 billion towards more medical care at home for seniors. This ultimately shifts treatment away from hospitals and medical institutions, which is more expensive than home/community care. The current Medicare system does not cover daily care home needs and long-term stay in nursing homes. While Biden's proposal does provide some relief to curb escalating costs in the healthcare system, the focus continues to remain on his campaign promise – creation of a public option or Medicare-like plan to supplement existing healthcare programs.

Healthcare innovation remains a focal point especially given the success in novel platforms such as Moderna's mRNA platform in the rapid development of a Covid-19 vaccine. We believe there will be a renewed focus on evaluating the potential for unrealized value across biotech companies that offer revolutionary platform technologies and processes. Examples include 1) gene editing - making permanent, precise edits to the genome to repair underlying genetic mutations or to create engineered immune cells for enhanced therapeutic benefit and 2) use of machine learning algorithms and artificial intelligence to better understand native biology and thus aid in the design and development of novel therapies.

Overall, we believe the healthcare sector plays a defensive role in portfolios while offering solid return potential, and unlike more cyclical sectors tied to economic growth, increased spending on health care is likely to be secular in nature given the aging global population and increasingly longer life spans. We also note that the healthcare sector is trading at a multi-decade discount to the S&P 500 despite having the least negative 2021 earnings revision of any other sector, which makes it very attractive from a risk/reward perspective.

Portfolio Review

Brompton Global Healthcare Income & Growth ETF (the "Fund") was down 0.2% in Q1 versus the MSCI World Health Care Index, which was up 0.9%.

The Fund's market underweight position in the Biotechnology subsector did not overly detract from performance relative to the benchmark. Top performers include Amgen (up 9%) and Abbvie (2.2%).

An overweight position in the Life Sciences subsector contributed to the Fund's performance. Top holdings include Agilent (up 7.5%) and Mettler-Toledo (up 1.4%).

The Fund was underweight the Pharmaceuticals subsector, with performance relatively in-line with the benchmark. Top performers include Eli Lilly (up 11%), Johnson & Johnson (up 5%) and Astrazeneca (up 1.4%).

An overweight exposure to the Healthcare Equipment subsector detracted from performance as well as lagged the benchmark. Top holdings include Abbott (up 9.9%), Boston Scientific (up 7.5%) and Koninklijke Philips (up 5.3%).

The Fund's market weight exposure to the Managed Healthcare subsector contributed to performance though trailed the benchmark. Top performers include UnitedHealth (up 6.5%) and Humana (up 2.4%).

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[1]	1-Year	3-Year	5-Year	Since Inception[2]	Since Inception[3]
Brompton Global Healthcare Income & Growth ETF (CAD Hedged)	23.7%	10.9%	8.5%	7.1%	-
Brompton Global Healthcare Income & Growth ETF (USD)	25.3%	-	-	-	9.3%
MSCI World Health Care Index	29.8%	14.1%	12.2%	10.2%	18.7%
S&P/TSX Composite Index	44.3%	10.2%	10.0%	9.6%	12.4%

(1) Returns are for the periods ended March 31, 2021. 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 S&P/TSX Composite Index ("Composite Index") (together the "Indices"). The Health Care Index represents the healthcare industry group of the MSCI World Index. The Composite Index tracks the performance, on a market weight basis, of a broad index of large-capitalization issuers listed on the Toronto Stock Exchange. The Fund invests in at least 15 large-capitalization healthcare companies. It is not expected that the Fund's performance will mirror that of the Indices, since the Health Care Index contains a substantially larger number of companies and the Composite Index is more diversified across multiple industries. Further, 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.

(2) Inception Date September 24, 2015.

(3) Inception Date August 8, 2019.

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