PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2019

U.S. Markets Review

Global markets finished the year with strong performance. Almost all stock markets and asset classes enjoyed double digit returns for 2019. The MSCI World Index gained 28.4% with the Information Technology sector as the best performing sector, gaining 48.1% during the year. In the U.S., the S&P 500 was up 31.5% and broke above its previous all-time high in December. All 11 sectors finished the year with double digit gains, with Information Technology increasing 50.3%, followed by Communication Services at 32.7% and Financials at 32.1%. Energy and Health Care lagged the group relatively speaking, as sentiment remains weak for oil and gas stocks and Health Care equities continue to face regulatory scrutiny.

According to the latest forecast by the International Monetary Fund, the global economy is expected to grow 3.4% in 2020, a modest pickup from 2019's projected growth rate of 3.0%. Growth expectations were driven by a few topical issues. At the top of the list is progress on the U.S.- China trade war. During the month of December, expectation of a phase one trade deal between the U.S. and China partially alleviated long standing trade tensions between the two nations. As part of the trade deal, tariffs that were set to take effect on December 15th on about US$160 billion of consumer goods were averted; in exchange, China was expected to increase its purchases of American farm goods. The trade deal demonstrated compelling evidence of progress made by both sides and renewed market participants' confidence in global growth. Second, employment numbers and jobless claims are being closely monitored by investors for any signs of weakness. Employment and consumption continue to be robust and jobless claims remain at decade lows as service sectors across the globe kept labour markets buoyant and wage growth healthy. Lastly, Brexit-related fears subsided towards the end of 2019 after the U.K. held its third general election in four years in December, which resulted in Boris Johnson's Conservative party securing a parliamentary majority. We expect progress to be made on Brexit negotiations before the January 31 deadline and we anticipate 2020 to be a year of transition for the U.K.

Market performance and sentiment were also driven by central bank policies in 2019. In the U.S., the Federal Reserve (the "Fed") cut the policy rate three times during the year, reducing the target range by 75 basis points to the current range of 1.50% to 1.75%. Slowing growth in China and Europe, trade policy developments and geopolitical risks were cited as areas of concern, which drove the Fed's decision to cut interest rates. During the most recent policy meeting in December, Fed Chair Jerome Powell signaled that they would likely keep rates steady through 2020 amid a solid economy. We believe that the bar for Fed action is extremely high in a U.S. presidential election year.

Looking forward, we expect positive investor sentiment to continue to drive strong equity performance in 2020. On the U.S.-China trade front, we expect the U.S. and China to discuss the potential of a phase-two trade deal after the signing of the phase-one deal in January. In terms of central bank policy, we expect 2020 to be a quieter year for monetary policy as the Fed will be maintaining a dovish stance. Effects of the three consecutive rate cuts implemented by the Fed should begin to flow through to the economy in 2020. Lastly, in terms of volatility, we anticipate the 2020 U.S. federal election to be accompanied by slightly higher volatility during the year. Geopolitical tension between the U.S. and the Middle East could also be a source of volatility that we'll be paying close attention to.

Healthcare Sector Review & Outlook

In our view, demographics will continue to drive global healthcare spending over the long term. We are cognizant of the structural changes in the health care landscape, particularly as governments and payors attempt to contain costs, as the system increasingly transitions from fee-for-service models (paying fixed amounts for procedures and services) to value-based care, which is based on actual outcomes. Brompton Global Healthcare Income & Growth ETF (The "Fund") remains well-positioned to benefit from these underlying healthcare trends.

The healthcare sector remains very sensitive to political risk, particularly the large pharmaceutical subsector. The industry continues to face headwinds as US lawmakers reign in branded drug price increases. For example, US branded drug prices are 50-70% above those of Europe. The US government now accounts for 42% of drug spending compared with 25% in 2008. President Trump called for the need to deliver "greater price transparency to increase competition and lower costs". There is a clear risk that the US government could introduce an international reference pricing to Medicare to bring down drug prices (Medicare to be equal to international prices or 26% discount off international prices) which would then feed through to the commercial market. Drug pricing continues to be an area of focus in the upcoming US Presidential election. Democratic candidates have largely aligned on the need to reduce drug prices by: i) allowing the Health Secretary to negotiate lower Medicare prices; ii) allowing Americans to import lower-priced drugs from abroad; and iii) pegging the price of US prescription drugs to the median price in five major countries (Canada, the UK, France, Germany and Japan).

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. Drug pipelines continue to expand with R&D spending expected to rise in the low-single digits over the next few years according to Bloomberg. The number of drug candidates in biopharma pipelines is at an all-time high and pipeline compounds now exceeding 15,000 growing at a 7.8% 5-year CAGR. Growth is being driven by strong R&D investment by large global pharmaceutical companies as well as advancement in drug screening and discovery. However, the R&D productivity amongst big pharma companies continues to be low; 69% of the portfolio of high-growth pharma has come from acquisitions or licensing arrangements since 2015 according to McKinsey.

The Food and Drug Administration (FDA) continues to push for more medical innovation and has ramped-up approval of drugs to treat rarer diseases. Approvals for biosimilars is expected to ramp up in 2020, according to Bloomberg. To date, the FDA has approved 14 biosimilars vs. more than 40 in Europe, where definitions around biosimilarity are less stringent and the approval process is more mature. Biosimilar drugs (typically modelled after drugs that use living organisms) and generic drugs (copies of synthetic drugs) are very different, mainly because while generic drugs are identical to the original in chemical composition, biosimilar drugs are "highly similar," but close enough in duplication to accomplish the same therapeutic and clinical result. As with generics, biosimilar cost savings for healthcare systems and the consumer are expected to be significant. According to the RAND Corporation, biosimilars could save the US health system close to $44 billion in the next ten years.

In US Managed Care, Medicare Advantage enrollment growth is likely to continue to grow at a high-single-digit pace in 2020, aided by a projected average monthly premium decline of 14% according to the Centers for Medicare & Medicaid Services (CMS). Lower costs to beneficiaries and an increased number of Medicare Advantage plans available (average beneficiary has access to 28 plans in 2020 vs. 24 in 2019) should drive enrollment to more than 24 million members, based on CMS projections. In 2019, Medicare Advantage reached 22 million members and represented 34% of total Medicare beneficiaries. Medicaid enrollment growth is expected to increase only 80 bps in 2020 after declines in 2017 (0.6%) and 2018 (1.7%) according to Bloomberg. Managed Medicaid enrollment is expected to continue as states seek economic relief from budgetary constraints

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. Strong growth trends in healthcare equipment include image-consciousness (e.g. dental implants); lifestyle (i.e. knee or hip surgery); and hearing aids. In addition, demographic trends provide tailwinds as many end users are over 60 (the age group spends three times more on healthcare).

There are other policy initiatives that seek to disrupt the healthcare landscape, which creates opportunity for some players at the expense of being a headwind to others. The Medicare For All proposal by various Democratic presidential contenders seeks to replace private health insurance with a government-run plan that covers primary care, hospital stays and prescription drugs for all Americans. This would essentially shift private spending to the public sector, eliminating the cost of administering private health plans and insurers' profits. The proposal would come with a hefty price tag, requiring new federal spending of more than $32 trillion over 10 years. While we think that it is unlikely this proposal will become law, rhetoric around the plan continues to weigh on sentiment.

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.

Portfolio Review

The Fund returned 22.0% in 2019 versus 23.9% for the MSCI World Health Care Index.

The Fund benefitted from being overweight the Healthcare Equipment & Services subsector, which we believe is relatively defensive in light of the headline risks. Notable performance contributions include solid returns from holdings in Edwards Life Sciences (+52%), Danaher (+50%) and Steris (+44%).

An underweight position in the Pharmaceuticals provided an incremental benefit to the Fund's performance. We believe our position weighting is prudent given the continued political attention on drug pricing. Holdings in our portfolio performed well, with top performers including Zoetis (+56%), AstraZeneca (+36%) and Novartis (+29%).

The Fund also benefited from an overweight exposure to the Life Sciences subsector with relative performance better than the benchmark. Top performing stocks include Thermo Fisher (+46%) and IQVIA (+33%).

The Fund held an above market weight in the Managed Care sub sector, which did not overly detract from performance relative to the benchmark. While policy proposals have created headline risk in this space, lack of congressional support for Medicare For All makes it less likely to be passed. We continue to own marquee companies like UnitedHealth Group, given its positioning as the #1 health insurer in the U.S., and Humana, given its exposure to strong trends in Medicare Advantage enrollment.

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Annual Compound Returns[1]	1-Year	3-Year	Since Inception[2]
Brompton Global Healthcare Income & Growth ETF (CAD Hedged)	22.0%	12.5%	7.8%
MSCI World Health Care Index	23.9%	15.4%	9.6%
S&P/TSX Composite Index	22.8%	6.9%	9.1%

(1) Returns are for the periods ended December 31, 2019. 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 amd 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.

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