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

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2020

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. The Fund remains well-positioned to benefit from these underlying healthcare trends.

The global pandemic from COVID-19 has placed a spotlight on the healthcare sector, particularly in vaccines and antiviral treatments with several clinical trials ongoing. While it typically takes 5 to 7 years to develop a vaccine, industry participants are hopeful to have one for emergency use for COVID-19 within 18 months. As the world remains steadfast in developing a COVID-19 vaccine, large-pharma companies with a flu-vaccines business are expected to face supply constraints as winter approaches. In addition, other popular vaccines continue to face headwinds in the interim given impaired access to physicians, lack of supply and travel restrictions.

According to Bloomberg, COVID-19 could negatively impact global pharma sales by 3.3% in 2020 given reduced marketing, impaired access to certain drugs and delays to clinical trials. In addition, medical device sales could fall 4%-12% in 2020 due to COVID-19 given a slowdown in elective procedures. On the other hand, consumer health products would see stable and healthy demand. A COVID-19- induced recession will likely slow health insurers' premium revenue growth as increased unemployment levels would alter membership mix – lower revenue Medicaid membership will grow, while employer-based commercial enrollment will decrease. Health insurers with a government program focus would benefit the most from this membership mix shift. While a slowdown in elective and nonessential surgical and medical procedures could be a tailwind for many health insurers, it is likely offset by increased costs related to COVID-19 admissions.

Drug pricing continues to be a risk in the healthcare industry. Even if drug makers prove their importance during the pandemic, the longer-term trend of pressure on drug prices will not go away. Rising US unemployment boosts enrollment into affordability programs and squeezes net realized pricing. In addition, increased government indebtedness as a result of the pandemic will increase focus on cost cutting measures thereby increasing the pressure on drug pricing. In addition to pricing pressure, large pharma faces several cost pressures after the pandemic. In the near term, clinical trial delays will likely mean some trials would take longer to complete and lead to a minor increase in R&D costs, leading to later product launches. In the medium to long term, it's likely that the US government's resolve in pushing its "Buy US" order will mean drug makers need to replicate manufacturing in several locations, increasing their capital needs.

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 Revew

Brompton Global Healthcare Income & Growth ETF (the "Fund") was down 4.5% in the first half of 2020 versus the MSCI World Health Care Index which was up 1.7%.

An overweight exposure to the Healthcare Equipment & Services subsector negatively impacted performance relative to the benchmark due to the delay of elective surgeries. Top performers include Danaher (+15.5%) and Abbott (+6.1%). We continue to have a positive outlook in this space and believe that sales will improve as surgeries begin get back to normal.

The Fund's underweight exposure to Biotechnology did not overly detract from performance relative to the benchmark. Top performers include Abbvie (+14%) with Amgen relatively flat.

The Fund benefitted from an underweight exposure to Pharmaceuticals with relative performance better than the benchmark. Top performers include Novo-Nordisk (+14.7%), Roche (+10%) and Astrazeneca (+8.3%).

The Fund is relatively market weight in the Managed Care sub sector, which outperformed the benchmark holdings. 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.

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[1]	**1-Year**	**3-Year**	**Since Inception**[2]
Brompton Global Healthcare Income & Growth ETF (CAD Hedged)	1.6%	5.5%	5.9%
MSCI World Health Care Index	14.4%	10.4%	9.0%
S&P/TSX Composite Index	(2.2%)	3.9%	6.4%

(1) Returns are for the periods ended June 30, 2020. 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.

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Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
EMAIL info@bromptongroup.com

Website
www.bromptongroup.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3