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

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - MARCH 31, 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, which faces a surge in demand coupled with a shortage of medical supply manufacturing. With infection rates still increasing the most pressing concern lies in securing healthcare supplies including pharmaceuticals, personal protective equipment (PPE), ventilators and adequate testing kits. There are several initiatives underway for both vaccine and effective antiviral treatments. While it typically takes 5 to 7 years to develop a vaccine, industry participants are hopeful to have one for emergency use within 18 months.

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, vaccine manufacturers and 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 - 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.

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. 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. 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. During this pandemic, drug companies in general, have built up goodwill by pursuing R&D for vaccines, treatments, and donating drugs.

We believe the probability of implementing a Medicare For All proposal by various Democratic candidates has fallen to nearly zero now with Biden as the clear frontrunner. This overhang should continue to dissipate as we approach the November elections.

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 14.3% in Q1 2020 versus the MSCI World Health Care Index which was down 11.3%.

The Fund benefitted from an underweight exposure to Pharmaceuticals with relative performance better than the benchmark. Top performers include Novo-Nordisk (+5.4%) and Roche (+3.1%).

An overweight exposure to the Healthcare Equipment & Services subsector negatively impacted performance relative to the benchmark despite being defensive in light of headline risks. Holdings in Steris, Abbott and Danaher were resilient, down 8.8% on average versus the subsector down 18.6%.

The Fund's underweight exposure to Biotechnology also impacted performance relative to the benchmark. Our holdings in Amgen and Abbvie were down 15.3% and 12.8% respectively, which was in-line with the majority of constituents in the benchmark subsector. However relative strength in the benchmark was driven by a few stocks with exposure to Covid-19 clinical trials.

The Fund held an above market weight in the Managed Care subsector, 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.

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)	(4.7%)	4.3%	3.7%
MSCI World Health Care Index	1.4%	7.9%	6.2%
S&P/TSX Composite Index	(14.2%)	(1.9%)	3.1%

(1) Returns are for the periods ended March 31, 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 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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