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

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - SEPTEMBER 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. Brompton Global Healthcare Income & Growth ETF (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. According to Bloomberg, over $13 billion worth of contracts have been awarded to COVID-19 vaccine manufacturers. This represents one-third of total vaccine sales in 2019. Researchers are testing 44 vaccines in clinical trials on humans, and at least 92 preclinical vaccines are under active investigation in animals. There are currently 11 vaccines in phase 3 trials – where thousands of people are given the vaccine versus the control group which are given a placebo. Pfizer-BioNTech and Moderna vaccines are set to report phase 3 data by year-end, while AstraZeneca should be done by then in the UK and Johnson & Johnson is likely by 1Q 2021. The FDA advised vaccine makers that they would want to see evidence that vaccines can protect at least 50% of those who receive it. China and Russia have approved vaccines without waiting for the results of Phase 3 trials.

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 – government 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 garner attention from lawmakers. Even if drug makers prove their importance during the pandemic, the longer-term trend of pressure on drug prices will not go away. The healthcare sector is sensitive to the outcome of the US elections. Control of the Senate is important for future policy initiatives especially if the legislative filibuster is eliminated as this would allow passage of key bills with a simple majority. A Democrat controlled Senate, could clear a House-passed legislation allowing the federal government to negotiate Medicare drug prices which could reduce government drug spending by $448 billion over 10 years according to the Congressional Budget Office. The managed-care industry could face significant headwinds under a single-payer plan as private health insurance would only be allowed for services not offered under single payer. A buy-in option, which is more likely given its moderation, would create opportunities for managed care industry. Under this approach, individuals can buy into the Medicare program as well as keep their employer-sponsored insurance. This would appeal to both uninsured individuals and those who face exorbitant premiums in the ACA market.

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 was up 4.8% in Q3 2020 versus the MSCI World Health Care Index which was up 4.9%.

The Fund benefitted from an underweight exposure to Pharmaceuticals with relative performance better than the benchmark. Top performers include Merck (+26%), Zoetis (+21%) and Pfizer (+15%).

An overweight exposure to the Healthcare Equipment subsector contributed positively to overall performance. Top performers include Danaher (+22%), Abbott (+20%) and Stryker (+16%).

The Fund's underweight exposure to Biotechnology negatively impacted performance relative to the benchmark. Top performers include Seattle Genetics (+13%) and Amgen (+8.5%).

An overweight exposure to Life Sciences contributed positively to overall performance. Top performers include Thermo Fisher (+22%), IQVIA (+11%) and Agilent (+4%).

The Fund also benefited from its underweight exposure in the Managed Care sub sector with relative performance better than the benchmark. Top holdings include Humana (+7%) and United Health (+6%).

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[1]	YTD	1-Year	3-Year	5-Year	Since Inception[2]	Since Inception[3]
Brompton Global Healthcare Income & Growth ETF (CAD Hedged)	0.1%	7.7%	7.7%	6.7%	6.6%	-
Brompton Global Healthcare Income & Growth ETF (USD)	1.9%	9.9%	-	-	-	8.0%
MSCI World Health Care Index	6.7%	21.4%	11.2%	10.5%	9.5%	18.0%
S&P/TSX Composite Index	(3.1%)	0.0%	4.2%	7.1%	7.0%	2.2%

(1) Returns are for the periods ended September 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.

(3) Inception Date August 12, 2019.

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