PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2018

Portfolio Review

Global Healthcare Income & Growth ETF was up 3.6% during the first half of 2018. This compares to the MSCI World Health Care Index, which was up 1.9%. The Fund benefitted from strong performance in our medical devices holdings, such as Boston Scientific and Edwards Lifesciences, which were up 31.9% and 29.2%, respectively. Boston Scientific shares rallied in June on speculation that Stryker, a medical device manufacturer, made a take-over offer that would potentially combine the two medical device giants into a powerhouse with a total value of over US$110 billion. However, Stryker later released an official statement dispelling the rumour. Boston Scientific continues to benefit from strong momentum in its rhythm-management franchise, particularly its defibrillator sales, while the upcoming launch of the new Lotus TAVR product should act as a positive catalyst. Edwards Lifesciences lost some momentum on weaker than expected Q1 results after rallying off a strong 2018 revenue guide in Q4. However, Edwards gained FDA approval to begin a new study for its Centera valve that has best-in-class outcomes in Europe, and we expect that this should lift sentiment. The company remains dominant in the transcatheter aortic valve replacement (TAVR) market, which remains only 20% penetrated globally and continues to grow at a double digit rate.

The Fund's solid gains were partially offset by weak performance from Celgene and Johnson & Johnson, which were down 23.9% and 12.0%, respectively. Sentiment surrounding Celgene has been poor since the company trimmed its 2020 guidance in late 2017. However, we believe the acquisition of Juno Therapeutics will strengthen Celgene's position in the growing immunotherapy market, and investor sentiment should improve as the company delivers on clinical data. We view the selloff after Johnson & Johnson's Q4 results as an overreaction to what we believe were in-line results and solid 2018 guidance. We favour the company's diversified global franchises, especially its most profitable pharma unit and consistent free cash flow generation, which combine to make Johnson & Johnson a core holding in the portfolio.

In March, the portfolio was rebalanced and reconstituted which resulted in the removal of Medtronic, Merck, Regeneron and Roche, and the addition of AbbVie, Abbott, Centene, Humana, IQVIA, Koninklijke Philips and Zoetis. The net result was increasing our total holdings to 24 from 21, further reducing the portfolio's exposure to pharmaceuticals and biotechnology and increasing the Fund's exposure to higher growth segments in managed care and medical supplies and device companies. We believe a further reduction to the pharmaceuticals and biotechnology sectors was prudent given the continued political attention on drug pricing as well as pricing pressures seen as a result of increased generic competition. The Fund remains overweight Healthcare Equipment & Services given strong earnings growth driven by robust end market opportunities.

We own marquee companies like UnitedHealth Group, given its positioning as the #1 health insurer in the U.S., as well as Johnson & Johnson, due to its well-diversified business and strong global franchises. In the managed care sector, we favour Humana's exposure to strong trends in Medicare Advantage enrollment and Centene's #1 market share position in Medicaid Managed Care. We believe our holdings in the life science tools and diagnostics companies and the contract research outsourcing players should stand to benefit from increased biopharma R&D budgets. Additionally, higher medical spending and an increased number of surgical procedures, driven by an aging population globally and a rising middle class in emerging markets, should drive sustained long-term profitability of medical technology companies, particularly those involved in the cardiology, orthopedics and supplies segments. Though we remain cautious on the biotechnology and pharmaceutical complex, we continue to own companies with strong market share, robust drug pipelines and exposure to higher growth market segments, such as oncology, immunology and rare diseases.

Market Review

U.S. equities, as represented by the S&P 500 Index, finished the first half of 2018 up 2.6%. The S&P 500 Index experienced significant volatility with the VIX Index averaging 16.3%, hitting a low of 9.2% in January before climbing to a high of 37.3% in February. This was primarily driven by rising anti-trade rhetoric between the U.S. and China combined with news concerning Facebook and the alleged breach of data, which negatively impacted sentiment in a sector that has exhibited strong leadership in the market. The best performing sectors in the S&P 500 Index were Consumer Discretionary, Information Technology and Energy while the worst performing sectors were Consumer Staples, Telecom, and Industrials.

The most notable policy development during the first half of 2018 was the Federal Reserve's decision to raise its benchmark interest rate by 25bps at both the March and June meetings by an FOMC committee now led by Jerome Powell as Chairman. The benchmark target range now stands at 1.75% to 2.00%, while the Federal Reserve remains on track to reduce the size of its balance sheet by US$600 billion annually. The Fed continues to observe data points that suggest the labour market is strengthening and that economic activity has been rising at a solid rate, but they will adjust monetary policy depending on the evolution of the data. Meanwhile, the market continues to price in a measured path for future interest rate increases reflecting the high level of central bank accommodation that is still available to the economy. The Fed anticipates hiking rates 2 more times in 2018 and 3 times in 2019.

On the fiscal side, the U.S. passed the first overhaul of the tax code in more than 30 years late in 2017, which reduced the corporate tax rate from 35% to 21% while offering U.S. companies a one-time tax break on repatriated funds by paying a 15.5% rate. Healthcare stocks are expected to benefit since most companies' tax rates should drop. Many of the companies in the portfolio operate globally and are likely to repatriate cash to boost dividends and/or share buybacks. Since many of the potential acquirers were waiting for the tax laws to be passed, we expect increased M&A activity now that the rules are in place. Trade war rhetoric between the U.S. and China escalated during the first half of 2018 with the first major move being made when President Trump introduced tariffs on solar panels and washing machines. The decision was not well received by China which currently produces approximately 65 percent of the world's solar modules. In March, the Trump administration raised import taxes on steel and aluminum by 25 percent and 10 percent, respectively, to which China responded by issuing tariffs on $2.4 billion in U.S. exports. In April, President Trump unveiled a list of 1,300 Chinese goods that could be hit with 25 percent tariffs and proceeded to implement a seven-year ban on exports to Chinese telecom company ZTE, which was subsequently reversed in June. In early July, the trade war between the U.S. and China officially got underway when the Trump administration confirmed that the U.S. would begin collecting tariffs on $34 billion in Chinese goods and warned that subsequent rounds could see tariffs on more than $500 billion of goods. In response, China's Ministry of Commerce issued a statement saying that the U.S. had launched the biggest trade war in economic history. In our view, we believe these global trade disputes will ultimately be settled amicably, though we acknowledge the possibility that rhetoric and actions may intensify further over the near term.

Healthcare Sector Review & Outlook

The most topical issues in the healthcare space during the first half of 2018 related to M&A and the Amazon effect. According to Bain & Company, corporate health care deal value surged to US$332 billion, up 27% year-over-year in 2017 though still well below the peak of US$432 billion in 2015. Several deals were announced during the first half of 2018. Cigna, a large U.S. health insurer, agreed to buy Express Scripts in a deal worth US$68 billion. This was on the heels of an announcement by CVS, a drugstore giant, agreeing to buy Aetna, one of the largest U.S. health insurers, for US$69 billion late last year. Sanofi, a global pharmaceutical company, also announced it would acquire Bioverativ, a dominant player in the hemophilia market, in a US$12 billion deal, while Albertsons announced a merger with the remainder of Rite Aid that was not already being sold to Walgreens Boot Alliance, valuing the new combined company at US$24 billion. In biotechnology, Celgene agreed to buy Impact Biomedicines for US$1.1 billion in order to gain an experimental blood cancer treatment and Juno Therapeutics for US$9 billion to boost its cancer pipeline. In May, Takeda Pharmaceuticals agreed to buy Shire for US$62 billion gaining a valuable rare disease franchise. Lastly, earlier in the year the Wall Street Journal reported that Walgreens Boot Alliance had made a takeover approach to Amerisource Bergen, a wholesale drug distributor, but cautioned that a formal offer had yet to be made and that a deal may not materialize.

During the first half of 2018, Amazon, Berkshire Hathaway and JP Morgan announced that they would pool efforts to create a company focused on technology solutions to offer its U.S. employees health care at a reasonable cost. The move generated widespread speculation that the trio would eventually make a more meaningful push into health care. This announcement followed several previously announced health care initiatives by Amazon last year, such as the sales of medical supplies online in the U.S., expanding the Prime Now delivery service in Japan to include drug sales and the creation of a dedicated health team. We believe these programs have put the health care industry on edge. In June, Amazon announced the acquisition of PillPack, an online pharmacy that delivers medications to customers in pre-sorted dosages designed to simplify the process of taking multiple medications a day. This acquisition marked Amazon's official move into the U.S. drug retail game and is likely to apply even more pressure on industry participants moving forward. The Fund continues to avoid companies that operate within the pharmacy supply chain, such as the health care distributors, PBMs and drug retailers, given our expectation for further margin compression and disruption from major global players like Amazon.

In our view, demographics will continue to drive global healthcare spending over the long term and the Fund remains well-positioned to benefit from this trend. Broadly speaking, we believe the healthcare sector plays a defensive role in portfolios while

With regards to structural changes in the health care landscape, particularly as governments and payors attempt to contain costs, the system is increasingly transitioning from fee-for-service models (paying fixed amounts for procedures and services) to value-based care, which is based on actual outcomes (quality of care). The Fund's strategy is to own vertically integrated companies, such as UnitedHealth Group, which we believe are well positioned to capitalize on this transition. For example, surgery can be conducted at UnitedHealth's surgical centers rather than having their managed care patients receive care at less cost-effective hospitals.

In our view, demographics will continue to drive global healthcare spending over the long term and the Fund remains well-positioned to benefit from this trend. Broadly speaking, 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.

Annual Compound Returns[1]	YTD	1-Year	Since Inception
Global Healthcare Income & Growth ETF	3.6%	(0.6%)	3.9%
S&P/TSX Composite Index	1.9%	10.4%	10.7%
MSCI World Health Care Index	1.9%	5.4%	6.7%

(1) Returns are for the periods ended June 30, 2018. The following table shows the Fund's compound return for each period indicated compared with the MSCI World Health Care Index ("Health Care Index") and the S&P/TSX Composite Index ("Composite Index"). 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 TSX. The Fund's portfolio is expected to invest in at least 15 healthcare companies. It is not expected that the Fund's performance will mirror that of the benchmark 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 benchmark indices are calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses.

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