PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2018

Portfolio Review

Global Healthcare Income & Growth ETF ("the Fund") was up 5.0% during 2018. This compares to the MSCI World Health Care Index, which was up 3.0%. The Fund benefitted from solid performance in our medical devices holdings, such as Boston Scientific, Edwards Lifesciences and Abbott Laboratories, which were up 42.6%, 35.9% and 29.0%, respectively. Boston Scientific shares rallied in November on its announcement of the acquisition of BTC plc, a British rival, to expand its offering of medical devices to treat cancer and other disorders for USD$4.2 billion. Boston Scientific continues to demonstrate a strong ability to drive organic growth and push for revenue growth in higher margin areas. We also view the expansion into the transcatheter valve market in Europe with Lotus Edge heart valve in 2019 as a positive catalyst. Edwards Lifesciences rallied in September on improved sentiment for the broader transcatheter mitral valve repair/replacement market. Abbott Laboratories rose in September on new clinical data showing its MiltraClip device cuts the length of hospital stays and led to longer lives for heart-failure patents. The device is a less taxing procedure than the standard open-heart surgery that reduces severity of heart failure. We see its mitral valve being a longer-term tailwind and the launch of its Portico transcatheter aortic valve in U.S market in 2019 as growth drivers.

The Fund's gains were slightly offset by weak performance from Johnson & Johnson and Koninklijke Philips, which were down 5.1% and 5.0%, respectively. Koninklijke Philips was trading lower due to profitability concerns, particularly weakness in its Connected Care & Health Informatics segment, as well as persistent currency headwinds. We see the company's Diagnosis & Treatment segment being robust heading into 2019, as seen from double-digit growth in orders in diagnostic imaging, but remain cautious on its supply chain issues and competitive pressure on pricing. Concerns over the potential costs for Johnson & Johnson's ongoing lawsuits related to its talcum powder has sent the stock down 12% in December. We view the selloff as an overreaction but will continue to monitor the impact of the litigation. We still favour the company's diversified global franchises, especially its most profitable pharma unit, and consistent free cash flow generation.

In September, the portfolio was rebalanced and reconstituted which resulted in the removal of AbbVie Inc, Agilent Technologies Inc, Laboratory Corp of America Holdings and Shire Plc and the addition of Merck & Co, Pfizer, Illumina and Medtronic. The net result was maintaining our total holdings of 24, increasing the Fund's exposure to pharmaceuticals while remaining underweight overall, and increasing health care devices holdings. After the rebalance, we removed Allergan and Celgene to purchase Amgen and Lily due to their superior product cycles. We favor health care devices given the high growth potential prevalent in the sector, mainly driven by new product innovation and continued R&D productivity. We also decreased the exposure to biotechnology and health care services. We believe a further reduction to the biotechnology sector 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 in Managed Care, Healthcare Equipment and Life Sciences Tools & Services given their sound fundamentals and robust demand. In the managed care space, we own marquee companies like UnitedHealth Group, given its positioning as the #1 health insurer in the U.S., as well as Centene, with a #1 market share position in Medicaid Managed Care. We also favor Humana's exposure to strong trends in Medicare Advantage enrollment. 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, immuno-oncology and rare diseases. We believe our portfolio is well positioned to capture the growing market opportunities heading into 2019.

Healthcare Sector Review & Outlook

The most topical issues in the healthcare space during 2018 related to M&A, drug pricing and new entrants. Health care deal volume and size were both higher in 2018 compared to 2017, with Biotech and Pharmaceuticals remaining as areas with consistent M&A activity. Several deals were also announced throughout 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 drug retailer CVS, agreeing to buy Aetna, one of the largest U.S. health insurers, for US$69 billion late last year. Sanofi, a heart disease drugs 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. Lastly in December, Glaxosmithkline, a global pharmaceuticals company that develops and manufactures various respiratory, neurological and cardiovascular medications, agreed to buy cancer-drug maker Tesaro for $5.1B. In the biotechnology sub sector, Takeda Pharmaceuticals agreed to buy Shire for US$62 billion gaining a valuable rare disease franchise.

In terms of drug pricing, a more aggressive FDA continues to benefit generic-drug makers. The FDA approved an all-time high of 781 new generic drugs in fiscal year 2018. The FDA's push for more generic and biosimilar approvals is expected to continue next year. The Trump administration is expected to continue to advance a number of disruptive Medicare reimbursement proposals which would affect both Part B- and Part D- covered medicines. Drug makers and pharmacy benefit managers (PBMs) will be increasingLY affected by President Donald Trump's drug pricing blueprint. 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 margin compression from these policies and for disruption from major global entrants into the space, as discussed below.

In January 2018, Amazon, Berkshire Hathaway and JPMorgan announced that they are a creating a consortium to create a company focused on technology solutions to offer its U.S. employees health care at a reasonable cost. There were, however, few details released about this joint venture other than a core team being announced in June, including hiring a CEO and and COO. The move sparked speculation that the trio would eventually make a more meaningful push into health care. In June, Amazon announced the acquisition of PillPack, an online pharmacy that packages and delivers medications to customers, marked Amazon's official move into the U.S. drug retail game. The market is speculating about several potential moves from Amazon into the health care space including into health care distribution. This is likely to apply more pressure on industry participants moving forward.

Healthcare was the best-performing sector in the S&P 500 in 2018 with total return of 6.5%. 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 healthcare is likely to be secular in nature given the aging global population and increasingly longer life spans.

Market Review

The global economy continued to perform well in 2018 with real GDP growth of 3.6% as of Q2. This was led by the U.S. where tax reform passed in late 2017 boosted growth to 3.0%. Additionally, the unemployment rate sits near multi-decade lows and inflation remains stubbornly low but close to the Fed's target rate of 2%. However, this strength was partially offset by a moderate slowdown in Europe and Emerging Markets as the escalation of the trade war between the U.S. and China and the impact of tariffs had a negative impact on business activity along the global supply chain. Germany, the Euro area's largest economy, saw its economy shrink in the third quarter, while the threat of a hard Brexit also continues to weigh on European economies.

Central bank policies continue to dominate the markets. The Federal Reserve hiked rates four times in 2018 and its policy rate now sits at a target range of 2.25% to 2.50%, which we believe is near the bottom end of most economists' ranges for the neutral rate of about 2.5% to 3.5%. This resulted in rising interest rates across the yield curve for most of the year, before rates declined in the fourth quarter on fears of a global slowdown. The U.S. 10-year yield hit a high of 3.26% in October before falling and closing the year at 2.68%, while the spread between the 10-year and the 2-year hit a post-financial crisis low in December before closing the year at 19 bps.

The Fed also continued with its balance sheet normalization program that began in the fourth quarter of 2017. Through this program, which can also be referred to as Quantitative Tightening (QT), the Fed is shrinking its balance sheet by letting certain maturing assets runoff rather than reinvesting the principal proceeds. We believe that this program is widely misunderstood by many market participants and our view is that QT will not have a negative impact on the economy or markets in 2019.

Despite the general strength of the economy, U.S. and global equity markets experienced a significant uptick in volatility in 2018. After rallying to start the year, equity markets sold off in February before stabilizing in the second and third quarters. However, volatility returned in the fourth quarter as equity markets around the world sold off on fears that the escalating trade war had sparked a global growth slowdown and that the Fed had hiked too far and was going to cause the yield curve to invert, which has historically been a sign of a looming recession.

While U.S. stocks experienced a relief rally into the end of the year after the Christmas Eve bottom, the market finished the year in negative territory as the S&P 500 Index declined by 4.4% in 2018 after a 20.2% intra year peak to trough decline. In terms of U.S. sectors, defensive sectors generally outperformed cyclical sectors for the year, while Health Care, which was up 6.5%, Utilities, which were up 4.1%, and Consumer Discretionary, which was up 0.8%, were the only sectors to finish in positive territory. The worst performing sectors were Energy, Materials, Industrials, Financials and Communication Services, all of which finished with double digit losses as fears of a global slowdown had a more significant impact on these areas of the market.

Looking forward, we expect the global economy in 2019 to look much the same as it did in 2018 with global growth in the 3-4% range. U.S. growth is likely to slow in the second half after the benefits of tax reform are fully baked into the economy, but growth is likely to remain above 2% and we expect employment to remain strong with inflation in check. We do not expect the U.S. to enter a recession in 2019. We believe that the Fed is on hold with respect to further interest rate hikes at least until later in 2019 and that they should be able to continue shrinking their balance sheet at a slow pace without disrupting the market.

Annual Compound Returns[1]	1-Year	3-Year	Since Inception
Global Healthcare Income & Growth ETF	5.0%	3.1%	3.8%
S&P/TSX Composite Index	(8.9%)	6.4%	5.2%
MSCI World Health Care Index	3.0%	5.1%	5.6%

[1] Returns are for the periods ended December 31, 2018. Inception date September 24, 2015. 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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