BROMPTON FUNDS

Brompton Insights

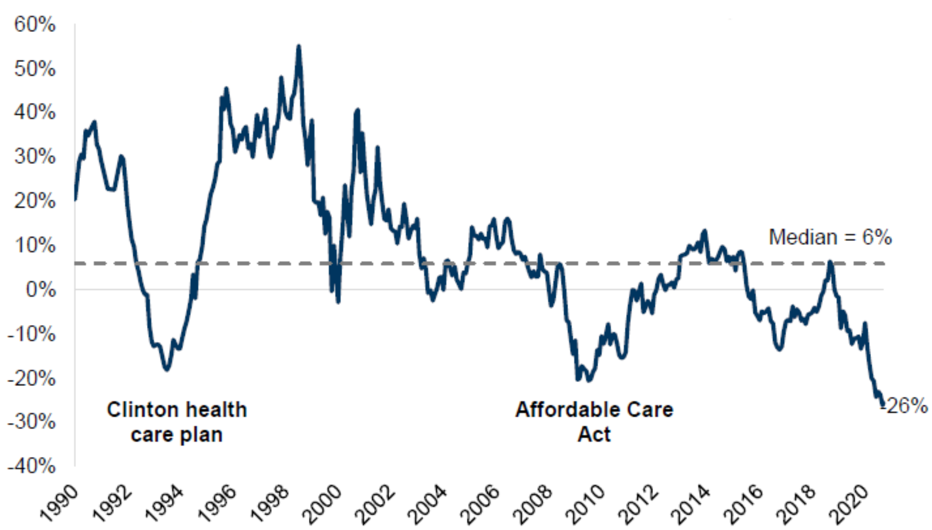
January 2021

Vaccine-Driven Recovery

Funds in focus: Brompton Global Healthcare Income & Growth ETF (HIG)

COVID-19 vaccines provide a line of sight for economic recovery as large sections of populations in developed countries are expected to be vaccinated by mid-2021. Over the past year healthcare innovation has been a focus given the speed in developing a vaccine using novel platforms. However, the healthcare sector has underperformed the broader market over the past two years. This was attributed mainly to policy uncertainty regarding drug pricing and potential reform towards a single-payor system (Medicare-For-All). As a result of these overhangs, the healthcare sector is trading at multi-decade discount to the S&P 500. The chart below demonstrates that the relative trading discount of healthcare to the S&P 500 is at the lowest point in 30 years. It's more interesting to note the recovery in healthcare multiples in the years following those prior low points in 1993 and 2009 after the political risk subsides.

Healthcare Sector Price-to-Earnings Premium/Discount to S&P 500 Index



Source: Goldman Sachs as of December 15 2020. Based on rolling forward 24 month estimate.

We believe that the current environment provides an attractive entry point for investing in healthcare. The cheap valuations already reflect the pricing pressures in the sector, which has been an ongoing issue for several years. In addition, the healthcare sector has strong earnings growth, second only to technology, and it has had the most consistent earnings estimates of all S&P 500 sectors, which demonstrates the defensive properties of the sector. The pandemic had created several backlogs in healthcare, which provide tailwinds during the recovery. This includes delayed elective surgeries, dental procedures and biotech launches, which should drive volumes during the rebound and provide meaningful earnings upside in the near-term. While we acknowledge that government policy remains an uncertainty for many sectors including healthcare, we note that President Biden's healthcare policy calls for a public option for consumers to receive health insurance which differs from a more drastic single-payer proposal (Medicare-For-All). We also think that it will be difficult for the Biden administration to make substantial changes given they have only a very narrow majority in congress. This suggests to us that healthcare is well positioned to move higher from this relative low point in trading metrics.

Brompton's Approach

We believe the healthcare sector plays a defensive role in portfolios while offering solid return potential. Unlike more cyclical sectors tied to economic growth, increased spending on health care is more secular in nature given the aging global population and increasingly longer life spans. We are cognizant of the structural changes in the health care landscape, particularly as governments and healthcare providers attempt to contain costs. Brompton Global Healthcare Income & Growth ETF (HIG) is actively managed and employs a barbell-approach by overweighting subsectors that have structural tailwinds, such as product innovation, and underweighting subsectors with near-term overhangs, such as pricing concerns and patent expiries. We also use a covered call writing strategy to enhance risk-adjusted returns and distributions.

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