PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2021

Global Markets Review

The global economic reopening remains on track as the vaccine rollout gathers pace. All in all, global markets finished the quarter with solid performance, especially for pro-cyclical sectors, as several of them enjoyed double digit returns. The MSCI World Index gained 13.3% with the Energy sector being the best performer, gaining 33.2% during the first half of 2021; Financials was the second-best performing sector returning 21.1%, outperforming the MSCI World Index by 7.8%. In North America, the S&P 500 was up 15.2%, also led by the Energy sector, while the S&P/TSX Composite was up 17.3%, with Energy and Financials as the top performing sectors. In Europe, the STOXX 600 was up 15.8% for the first half of this year. France and Italy continued to be the best-performing countries, where CAC 40 and FTSE MIB were up 19.5% and 14.7%, respectively. Germany's DAX gained 13.2%. Spain and the U.K. also finished 1H21 with solid returns as the IBEX 35 and FTSE 100 increased 10.5% and 10.9%, respectively.

During the first half of 2021, global economies continued the path to recovery. U.S. Manufacturing PMI entered June at 60.6 after peaking at a record high of 64.7 in April, while the unemployment rate continued to decline, reaching 5.9% in June. In the U.S., Biden's sharp focus on immunization efforts in combination with unprecedented fiscal stimulus pushed stock markets to new highs by the end of 1H21. Global yield curves were mainly subdued in Q2 and flattening in June, with the U.S. 5 year to 30 year Treasury spreads narrowing to August 2020 levels. The U.K. yield curve also mirrored its U.S. peers. This has driven the sector rotation back from value to growth in the past month. Cyclical parts of the economy led the equity market rally during the first half of this year, with Energy, Industrials and Financials gaining the most, even though Financials were negatively affected by flattening yield curves in June. Performance of Information Technology stocks was lackluster during Q1, due to investor sentiment shifting away from large capitalization growth names, but they have had a big run since mid-May as investors took some profits and rotated back to high-growth names, sending both the S&P 500 and NASDAQ to new highs in June. Pro-cyclical stocks are still favored, while the risk-on mentality would keep sending growth stocks higher.

During the second quarter, several central banks in developed economies started to gradually shift their monetary policy stance amid growing concern over inflationary risks. During the June Federal Open Market Committee (FOMC) meeting, despite no policy rate hike, the Federal Reserve's dot-plot projections indicated at least two rate hikes in 2023, signaling an earlier than expected tightening. In response to inflation concerns, the Fed also lifted its inflation expectations to 3.4%, 100 bps above its previous estimate. Potential tapering of the bond-purchase program could commence late 2021 or early 2022. On the fiscal front, President Biden signed a US$1.9 trillion pandemic relief bill in March, titled the American Rescue Plan, into law. The plan includes additional stimulus cheques, enhanced unemployment aids, rental assistance, and childcare support among other assistance. In late June, a bipartisan group of senators and the White House reached a preliminary agreement on a potential $1.2 trillion infrastructure package. While the details are still under discussion, the bill would be another wave of robust fiscal stimulus.

In Canada, first quarter GDP grew by 1.4% year over year, making it the third consecutive quarter of growth. This was largely boosted by robust commodity prices, an improved labor market, as well as a heated housing market. The Bank of Canada (BoC) kept the overnight policy rate unchanged at 0.25% in the June statement and indicated that it would not raise rates until the damage from the pandemic is fully repaired. However, as the first central bank among advanced economies to shift to a less accommodative policy, the BoC reiterated a reduction in asset purchases, with another tapering expected on July 14.

The European Central Bank (ECB) kept the benchmark interest rate unchanged at -0.50%. President Christine Lagarde noted in June that rising inflation is temporary, largely on account of base effects, transitory factors, and an increase in energy prices. The Governing Council is continuing the current pace of purchases under the pandemic emergency purchase programme (PEPP) in the amount of EUR1.85 trillion until at least the end of March 2022. Purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR20 billion. The ECB raised their projections on annual real GDP growth to 4.6% (4% in March assessment) and annual inflation rate to 1.9% (1.5% in March assessment) in 2021. The Bank of England (BoE) kept the policy rate unchanged at 0.1%, and raised the annual inflation forecast by 50 bps to 3%. The BoE announced tapering of bond purchases from £4.4 billion a week to £3.4 billion at its May meeting.

By the end of the second quarter, the number of confirmed infections worldwide exceeded 183 million, about 2.15 times greater than the number of infections at the end of 2020. On the other hand, global vaccination efforts are well underway, with 47% of the population fully vaccinated in the U.S. and 31% in Canada. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2021, the global economy is projected to grow 6.0% in 2021, up from the previous forecast of 5.2%. The contraction of 2020 was also smaller than the previous projection due to outsized growth in the second half of 2020, driven by the easing of lockdown measures. However, there still remains a high degree of uncertainty surrounding the global economic outlook, such as whether the current vaccines are effective again new COVID-19 strain, capacity adjustments in the economy, and effectiveness of global policies.

Looking forward to the rest of 2021, we have constructed a barbell portfolio with a pro-cyclical tilt. A barbell approach allows us to better position in such a volatile environment, where leadership would likely oscillate between cyclical and defensive, or between value and growth. We expect to have clearer visibility once the market has a better sense of whether inflation is transitory and how global central banks will react. The portfolio is positioned pro-cyclically. We believe wide COVID-19 vaccine coverage should allow societies to gradually normalize over the course of the year. Second, the Biden administration is laser-focused on boosting the economy through the American Rescue Plan, which should be supportive of further economic recovery. Third, the personal savings rate is sitting at the highest rate in the past decade. Consumers have a strong propensity to spend, which in turn should fuel economic growth.

Healthcare Sector Review & Outlook

The pace of COVID-19 vaccination efforts continues to be a focus as this provides a line of sight for economic recovery. According to Bloomberg, more than 3.3 billion COVID-19 vaccine doses have been administered across 180 countries, which represents 21.7% of the global population (~12% of the global population is fully vaccinated). This distribution rate is skewed toward high income countries, which are getting vaccinated at a rate 30 times faster than low-income countries. Vaccinating 70% to 85% of the population would enable a return to normalcy, according to infectious disease experts. On a global scale, at the current pace of 37.6 million doses a day, it would take another year to achieve a high level of global immunity. The rising dominance of the Delta variant and other variants continue to be a concern and there's been focus on how these highly transmissible variants could impact more unvaccinated economies. According to the scientific community, mRNA vaccines should remain largely effective against the Delta variant particularly severe disease, cases of the vaccinated getting infected have largely been mild or asymptomatic, hospitalizations and severe cases have remained low enough within vaccinated communities.

We expect normalization of medical trends and increasing utilization as COVID-19 vaccination progress. Lockdowns, which hindered new drug launches as well as rates of diagnoses with diseases requiring regular doctor's visits, are becoming less of a problem as the healthcare systems are returning to some normalcy with a massive backlog. The pandemic has affected some disease areas more than others. The cardiovascular market has largely recovered, however oncology remains below pre-pandemic levels, though improvements are evident in oral and chemotherapy-free regimes.

Large pharma companies continue to benefit from pandemic-driven cost savings which could suggest a longer-term change in which drugs are marketed and sold. Pricing pressure continues to be a headwind, impacting large pharma sales in the mid-single digits and will likely continue over the next few years according to Bloomberg. This is attributed to negative channel mix from high unemployment which are pushing people to lower-priced channels as well as macroeconomic related pharma headwinds. China is a key market for large pharma and pricing challenges continue to be a risk. Biosimilars and new biologic drugs originating from local Chinese firms remain a risk for large pharma, while further price cuts in 2021 and volume-based procurement are favoring Chinese companies.

The Life Sciences sector has benefited from pandemic related tailwinds given the outsized demand for virus-related work such as molecular testing and bioprocessing. We believe this demand will remain elevated, as the virus renews focus on drug production and likely widens opportunities for cross-selling. Liquid biopsy is a promising opportunity in the early cancer detection market. Liquid biopsies are noninvasive blood tests that search for cancer-related genetic signatures to diagnose early-stage patients prior to symptoms. The global next-generation sequencing oncology testing market (screening, therapy selection and monitoring) is expected to grow at a 27% CAGR reaching $75 billion in 2035 according to Bloomberg.

US President Biden's $2.3 trillion infrastructure plan provides $400 billion towards more medical care at home for seniors. This ultimately shifts treatment away from hospitals and medical institutions, which is more expensive than home/community care. The current Medicare system does not cover daily care home needs and long-term stay in nursing homes. While Biden's proposal does provide some relief to curb escalating costs in the healthcare system, the focus continues to remain on his campaign promise – creation of a public option or Medicare-like plan to supplement existing healthcare programs.

Healthcare innovation remains a focal point especially given the success in novel platforms such as Moderna's mRNA platform in the rapid development of a COVID-19 vaccine. We believe there will be a renewed focus on evaluating the potential for unrealized value across biotech companies that offer revolutionary platform technologies and processes. Examples include 1) gene editing - making permanent, precise edits to the genome to repair underlying genetic mutations or to create engineered immune cells for enhanced therapeutic benefit and 2) use of machine learning algorithms and artificial intelligence to better understand native biology and thus aid in the design and development of novel therapies

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. We also note that the healthcare sector is trading at a multi-decade discount to the S&P 500 despite having the least negative 2021 earnings revision of any other sector, which makes it very attractive from a risk/reward perspective.

Portfolio Review

Brompton Global Healthcare Income & Growth ETF (the "Fund") was up 8.7% in the first half of 2021 versus the MSCI World Health Care Index (the "Benchmark") which was up 10.2%.

The Fund was underweight the Pharmaceuticals subsector, which contributed to outperformance ahead of Benchmark holdings. Top performers include Eli Lilly (up 33%), Astrazeneca (up 18.8%) and Novo Nordisk (up 18.2%).

An overweight position in the Life Sciences subsector contributed to the Fund's performance which was relatively in-line with the Benchmark. Top holdings include Agilent (up 21.7%), Avantor (up 19.5%) and Mettler-Toledo (up 18.2%).

The Fund's overweight exposure to the Healthcare Equipment subsector contributed to performance however it lagged the benchmark. Top holdings include Idexx (up 22.9%), and Danaher (up 17.7%) and Boston Scientific (up 15.7%).

The Fund's market underweight position in the Biotechnology subsector detracted from performance relative to the benchmark as top performers Abbvie (4.7%) and Amgen (up 4.6%) were offset by weakness in Seagen (down 18.5%) and Exact Sciences (down 8.8%).

The Fund's market weight exposure to the Managed Healthcare subsector contributed to performance though trailing the benchmark. Top performers include UnitedHealth (up 11.9%) and Humana (up 5.3%).

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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)	8.7%	21.0%	12.6%	9.3%	8.4%	-
Brompton Global Healthcare Income & Growth ETF (USD)	8.8%	21.9%	-	-	-	13.1%
MSCI World Health Care Index	10.2%	23.6%	16.4%	12.9%	11.4%	21.6%
S&P/TSX Composite Index	17.3%	33.9%	10.8%	10.8%	10.7%	15.6%

(1) Returns are for the periods ended June 30, 2021 and are unaudited. 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 8, 2019.

BROMPTON FUNDS

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