PORTFOLIO MANAGER COMMENTARY - SEPTEMBER 30, 2021

Global Markets Review

Following a stormy month in September, global equity markets narrowly extended positive gains during the quarter. For the three-month period ending September 30, 2021, the MSCI World Index edged up 0.1%, led by the Financials sector, which gained 2.2%; Energy was the second-best performing sector, rising 1.6% during the quarter and boosted by robust oil and gas prices. In North America, the S&P 500 was up 0.6%, also driven by Financials, while the S&P/TSX Composite was up 0.2%, with Consumer Staples and Industrials as the top performing sectors. In Europe, the STOXX 600 rose 1.0% during the quarter. Italy and the U.K. were the best-performing countries, where the FTSE MIB was up 3.0% and the FTSE 100 was up 1.9%. CAC 40 and IBEX 35 ticked up 0.4% and 0.3%, respectively. Switzerland and Germany finished the period in negative territory, down 2.4% and 1.7%, respectively.

Global economies continued the path to recovery through the third quarter, while sentiment on the growth deceleration has weighed on the market. U.S. manufacturing PMI came in at 61.1 for September, the strongest reading during the quarter, while the unemployment rate also saw sequential improvement. Nonetheless, inflationary pressures remained elevated, with August core CPI at 4%, despite dropping from the June high (4.5%). Global yields spiked after bottoming in August. The U.S. 10-year Treasury yield peaked above 1.5% after a mildly hawkish Federal Open Market Committee (FOMC) meeting. The U.K. 10-year Gilts also mirrored its U.S. peer, touching 1% for the first time since May 2019. These triggered market selloffs of high-growth names especially among Information Technology and Healthcare sectors in the back half of September, while value stocks in Financials and Energy sector were buoyed on the back of rising yields. Although growth still outperformed value during the quarter, the gap has narrowed since mid-September, which coincides with rising yields. At the same time, uncertainties around China's slowing economic momentum and contagion risks due to the property developer Evergrande's debt crisis also sent market volatility higher in September.

There were few major monetary policy changes among global central banks in developed economies during the quarter, with inflationary pressures becoming the key variable for the pace of policy shifts. The Federal Reserve left the policy rate unchanged at 0%-0.25% at the September FOMC meeting, while acknowledging that "a moderation in the pace of asset purchases may soon be warranted". The latest median dot plot projects the fed funds rate at 1% by the end of 2023 and 1.75% by the end of 2024. Moreover, the 2021 inflation outlook was substantially lifted again to 4.2%, 80 bps above the June estimate, reflecting stickier inflation than had previously been expected. Real GDP forecast for the year was also revised down to 5.9% from 7%, implying headwinds in the near-term economic growth outlook.

In Canada, the Bank of Canada (BoC) kept all policy variables unchanged in the September statement, including the overnight policy rate at 0.25% and government bond purchases at C$2 billion per week. On inflation, the central bank still saw the current spike as transitory, highlighting that wage increases have been moderate and medium-term inflation expectations are well anchored. BoC Governor Tiff Macklem also released a roadmap to exit monetary stimulus, outlining that once the new stimulus is removed the first step would be to move to the reinvestment phase of the QE program (most likely cutting bond purchases from C$2 billion per week to C$1 billion). He also reiterated that the reinvestment would be maintained well past the initial rate hikes.

The European Central Bank (ECB) kept the benchmark interest rate unchanged at -0.50%. President Christine Lagarde repeated in September that the upswing in inflation was temporary, and that base effect and rising energy prices would not result in lasting inflation. The Governing Council decided to moderately lower the pace of purchases under the pandemic emergency purchase program (PEPP) from that of the past two quarters, with an unchanged envelope of EUR1.85 trillion through the end of March 2022 at the least. Purchases under the asset purchase program (APP) will progress at a monthly pace of EUR20 billion. The ECB raised their projections on 2021 annual real GDP growth for the euro area to 5% from 4.6% in the June assessment and annual inflation rate to 2.2% from 1.9% in June. Despite the bullish tone on the economic rebound, it is still too early to call for an end of the PPEP, as the decision will still depend on upcoming economic data before the December meeting. The Bank of England (BoE) voted in September to keep the policy rate unchanged at 0.1% and maintain the asset purchase target of £875 billion, while revising down the Q3 GDP forecast to 2.1% from 2.9%. BoE also reiterated that it expected CPI inflation to rise slightly above 4% this year, double its target, largely on the back of upside risks posed by hefty energy and goods prices. On the political front, Olaf Scholz of the Social Democrats narrowly led Chancellor Angela Merkel's Conservatives in the German election. This narrow victory suggests that long negotiations lie ahead before a coalition government can emerge, which could raise extended period of market and policy uncertainties.

According to the statistics compiled by the World Health Organization, the number of confirmed infections worldwide exceeded 233 million by the end of September, while the weekly cases have continued to drop after peaking in August. On the other hand, global vaccination efforts are well underway, with 70% of the population fully vaccinated in Canada and 56% in the U.S. However, due to fears of vaccine effectiveness against the Delta variant and delay of the vaccine rollout for ages 5-11 in the U.S., the pace of reopening was slower than previously anticipated during the third quarter. Fiscal support in Q3 was a mixed bag. The American Rescue Plan, along with other assistances such as Child Tax Credit, continued enhancing household savings, which were channeled into consumer spending amid reopening. Furthermore, the U.S. Senate passed a $1.2 trillion infrastructure package in August, with the House vote delayed to the end of October. However, as many fiscal stimuli are fading, the fiscal impulse on growth could turn negative next year according to Goldman Sachs.

Looking ahead to the rest of 2021, sector rotations into value and cyclical could persist if the yield curve finds its support and ticks up. However, volatility would potentially linger into the fourth quarter given rising inflation expectations and contracting monetary gauges, as well as global supply chain issues and China's growth deceleration. Market leaderships would be rotating among value/growth and cyclical/defensive alternatively within short timeframes. In this regard, the barbell approach to our portfolios is still the preferred strategy, supplemented by opportunities in the covered call writing amid high volatility risk in the near term. We expect to have clearer visibility after upcoming waves of corporate earnings for Q3 and key economic releases. At the same time, widening vaccine coverage, resilient fiscal support, and abundant household savings should keep fueling economic growth.

Healthcare Sector Review & Outlook

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 which makes it very attractive from a risk/reward perspective.

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 6.59 billion COVID-19 vaccine doses have been administered across 184 countries, which represents 42.9% of the global population. 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 24 million doses a day, it would take 7 months to cover 75% of the global population. The rising dominance of the Delta variant and other variants continue to be a concern and there's been a 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.

The pandemic's effects on healthcare continue to evolve. 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. As an example, in Q3 physician office visits remain significantly above pre-pandemic levels and elective surgical procedure utilization is expected to trend back to pre-pandemic levels by the end of 2021, according to Bloomberg. In our view, subsequent COVID-19 waves are unlikely to be disruptive to the healthcare system given the increasing vaccination rates, which reduces the burden on hospitals.

Pricing pressure continues to be a headwind, impacting large pharma sales in the mid-single digits and would 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.

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.

Portfolio Review

Brompton Global Healthcare Income & Growth ETF (the "Fund") was up 3% in Q3 2021 versus the MSCI World Health Care Index which was up 1.1%.

The Fund was underweight the Pharmaceuticals subsector, which contributed to outperformance ahead of benchmark holdings. Top performers include Novo-Nordisk (up 15.2%), Merck (up 13.4%) and Zoetis (up 4.3%).

An overweight position in the Life Sciences subsector contributed to the Fund's performance which was ahead of the benchmark. Top holdings include Avantor (up 15.2%), Thermo Fisher (up 13.3%) and Charles River (up 11.6%).

The Fund's overweight exposure to the Healthcare Equipment subsector contributed to performance which was relatively in-line with the benchmark. Top holdings include Danaher (up 13.5%), Straumann (up 13.1%) and Masimo (up 9.75%).

The Fund's market underweight position in the Biotechnology subsector detracted from performance relative to the benchmark. During the quarter we exited our positions in Amgen and Exact Sciences given the poor risk/reward. Abbvie is the only biotech stock we hold, which was down 3.2%.

The Fund's market weight exposure to the Managed Healthcare and Facilities contributed to performance which was ahead of the benchmark. Top performers include HCA (up 17.6%) which was partially offset by weakness in UnitedHealth (down 2.1%) and during the quarter we exited our position in Humana.

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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)	11.9%	18.8%	9.6%	9.7%	8.5%	-
Brompton Global Healthcare Income & Growth ETF (USD)	11.8%	18.9%	-	-	-	12.9%
MSCI World Health Care Index	11.4%	19.2%	12.6%	13.1%	11.1%	19.5%
S&P/TSX Composite Index	17.5%	28.0%	11.1%	9.6%	10.3%	13.7%

(1) Returns are for the periods ended September 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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