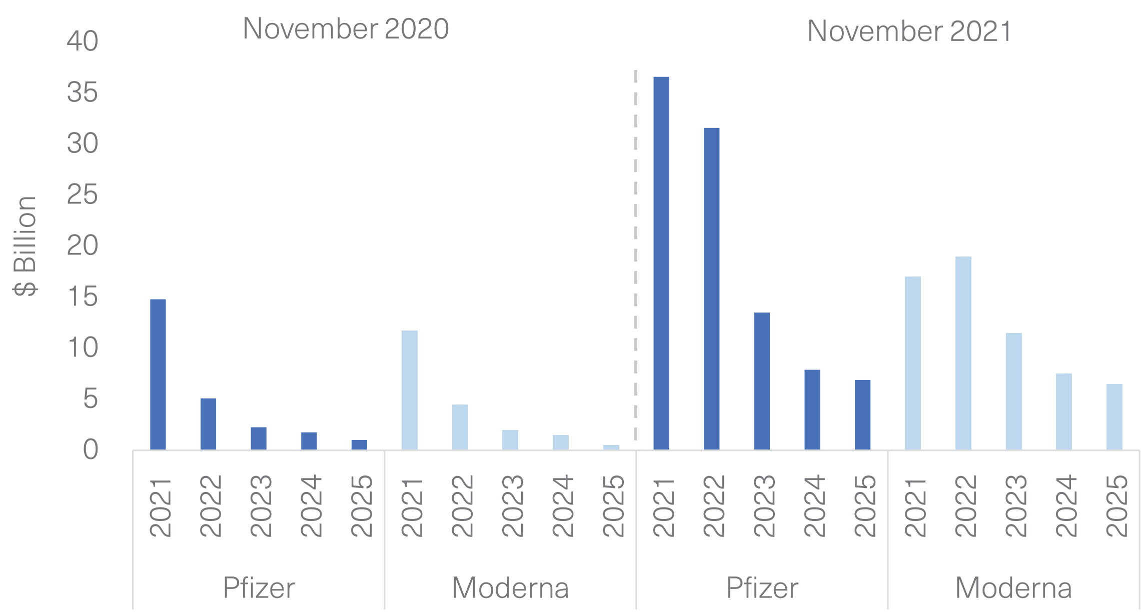
Healthcare: Vaccine as a Service

Fund in focus: Brompton Global Healthcare Income & Growth ETF (HIG & HIG.U)

The newest COVID-19 variant, Omicron, has placed a spotlight on the healthcare sector, particularly vaccine manufacturers and life science companies. Initial reports suggest that this latest strain is spreading at a faster rate than previous ones, including Delta, but it remains to be seen if that has to do with its contagiousness or its ability to escape immunity, whether that immunity was obtained through vaccination or prior infection. While it is too early to conclude the level of efficacy the current line of vaccines has against infection by the Omicron strain, it is highly likely that the existing vaccines will continue to protect against severe outcomes, such as hospitalization and death. Additionally the novel platform for vaccine manufacturing promises to significantly reduce the time for developing a booster that specifically targets new COVID-19 strains. In the early days of the pandemic, COVID-19 revenue was estimated to be lump-sum in nature once vaccinated with a one or two dose regimen (see figure on the left below). Today, estimates for vaccine revenue have increased significantly for year 1 and year 2, which reflect the shift towards frequent booster shots (see figure on the right below). With the propensity of new strains having more mutations, more frequent boosters than originally envisioned could drive more recurring revenue for vaccine manufacturers. As it becomes increasingly likely that COVID-19 could become endemic like the flu, COVID-19 treatments and testing will continue to benefit the pharma, life sciences, and lab companies.

COVID-19 Vaccine Revenue Estimate



Source: Bloomberg (November 30, 2021)

Investors continue to be concerned about inflation, especially since the US Fed Chairman acknowledged that risk of higher inflation has increased. Healthcare is one of the few sectors that has a positive correlation to both rising rates and falling breakeven inflation, and since 1960 the healthcare sector has outperformed the broader market by 3% annualized, according to Goldman Sachs (November 16, 2021). Currently, healthcare represents 16% of 2022 EPS in the S&P 500, however the sector's market cap only represents 13% of the broader index. We believe the gap will narrow over time as share price appreciation generally follows earnings. Big political changes to push down drug prices are unlikely since they have been absent in the latest proposed bills. Overall, we believe the healthcare sector provides investors with an attractive reward/risk opportunity in the current inflationary environment with valuations at multi-decade troughs relative to the broader market and abating political/regulatory risk in the sector.

Brompton's Approach

We believe the healthcare sector plays a defensive role in portfolios while offering solid return potential. Brompton Global Healthcare Income & Growth ETF (HIG & HIG.U) provides significant exposure to the global healthcare sector. In addition, we actively manage the healthcare weighting across our global dividend portfolios (BDIV, GDV, EDGF). Brompton Global Healthcare Income & Growth ETF (HIG & HIG.U) is actively managed and employs a barbell-approach i.e. overweighting subsectors that have structural tailwinds and underweighting subsectors with near-term overhangs. We also use an actively managed call writing overlay to harvest volatility risk premium which enhances risk-adjusted returns

BROMPTON FUNDS

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