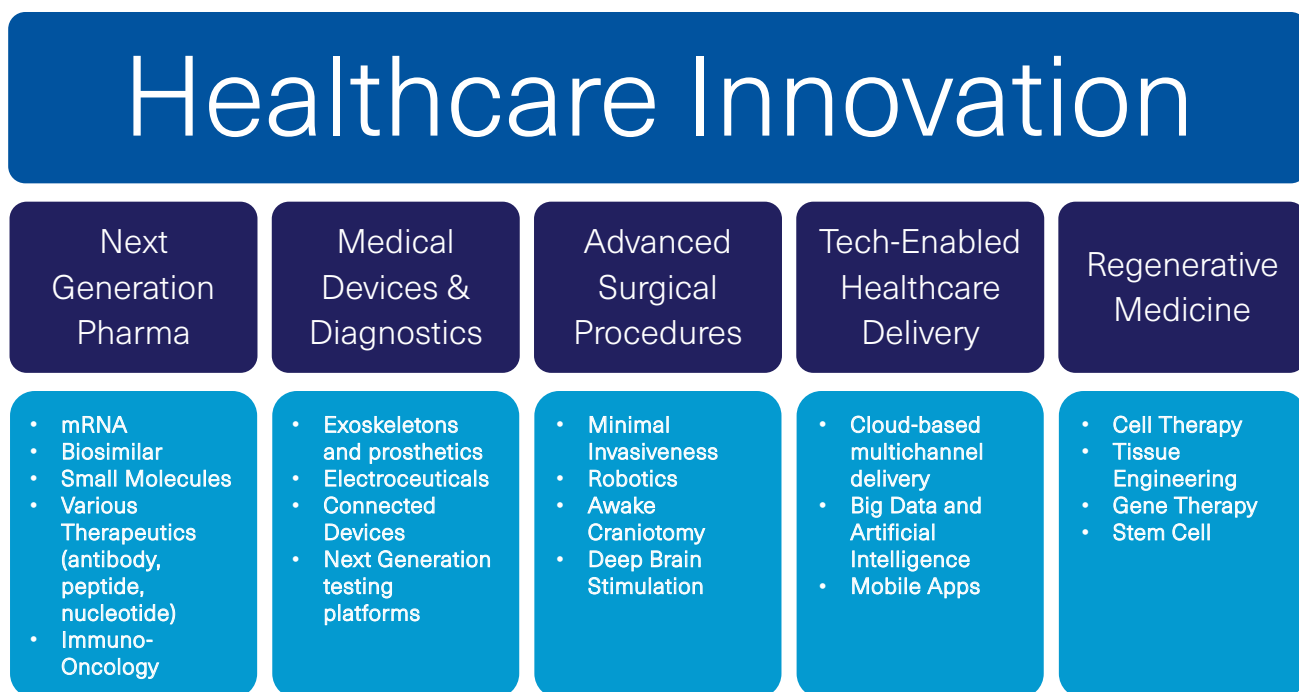


Fund in focus: Brompton Global Healthcare Income & Growth ETF (HIG & HIG.U)

Global demand for healthcare continues to rise given demographics (aging global population and increasingly longer life spans) and economic growth. Innovation in the sector plays a key role in improving the health of the world’s population. As an example, innovation from the mRNA platform resulted in the rapid development of the COVID-19 vaccine, the fastest development and approval for a vaccine in history. Pharmaceutical companies, medical and other technology companies as well as academia continue to drive R&D investments in various areas such as new medicines, procedures, medical devices, technologies, and delivery models. We believe we are at a tipping point as tech-enabled innovations disrupt healthcare ecosystems to drive greater efficiencies and improve patient outcomes.

Healthcare is one of the few sectors that has a positive correlation to both rising rates and falling future expected inflation rates and since 1960, the healthcare sector has outperformed the broader market by 3% per year.¹ 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.

In the Figure below, we highlight areas in healthcare that continue to see increased innovation which is expected to drive long-term opportunity in the sector.



Source: Brompton Funds

Next Generation Pharma – Oncology is the world’s largest pharmaceutical area representing 16% of global pharmaceutical sales in 2019.² Immuno-oncology is one of the disruptive trends that could shape oncology. Immuno-oncology is the study and development of treatments that take advantage of the body’s immune system to fight cancer. By providing the immune system with tools for recognizing tumours, immuno-oncology therapies can enable recognition and response to the presence of cancer that our innate immune surveillance mechanisms may have missed. According to Bloomberg, immuno-oncology assets are estimated to represent approximately half of top-ten company pipelines.

Medical Devices – The global devices market is projected to be US\$658 billion in 2028 (5.4% CAGR 2021-2028).³ Medical devices help patients manage their medical conditions and provide doctors with the information they need to follow their patient's progress. These devices reduce the amount of time a person needs to spend at a doctor's office, medical clinic, or hospital undergoing tests. In vitro diagnostics, patient monitoring devices and diabetes care devices are the fastest growing segments. As an example, the pacemaker is a popular medical device with over 3 million people worldwide living with this device, and each year about 600,000 pacemakers are implanted to treat bradycardia patients. For diabetes patients, recent innovation now allows devices to deliver insulin automatically as needed without the patient requiring repeated testing and manual insulin injections.

Medical Diagnostics – These include medical tests that are used in early detection of a disease and identify the associated risk factors thereby creating opportunities for prevention and treatment. The global diagnostics market was valued at US\$56 billion in 2020 and is projected to grow at an annualized rate of 8.7% over the next 6 years.⁴ Immunoassay, point of care testing and self-testing are large market segments. Some of the innovations in diagnostics include:

1. Lab on chip - a device that integrates one or several laboratory functions on a single integrated circuit to achieve automation and high-throughput screening;
2. Real-time polymerase chain reaction - a method for detecting the presence of specific genetic material in any pathogen (RT-PCR is one of the most widely used laboratory methods for detecting the COVID-19 virus); and
3. Next generation sequencing - a massively parallel DNA sequencing technology which has revolutionized genomic research.

Advanced Surgical Procedures - Robotic surgery allows doctors to perform many types of complex procedures with more precision, flexibility and control. Robotic surgery is minimally invasive with higher precision and improves clinical outcomes. In the US, robot-assisted procedures accounted for 15.1% of all general surgeries in 2018, up from just 1.8% in 2012.⁵



Source: Intuitive Surgical (February 1, 2021)

Tech-Enabled Healthcare Delivery – Healthcare ecosystems are leveraging technology to improve patient outcomes, enhance efficiency and reduce cost in the healthcare system. It is estimated that the costs saved could lie anywhere between \$1.5 trillion and \$3 trillion a year by 2030, thanks to a range of interventions such as remote monitoring, big data, artificial intelligence and automation.⁶ The healthcare ecosystems of the future will be centered on the patient through the integration of patient-generated clinical data, health and wellness data, provider-generated data, financial data and social structure data.

Regenerative Medicine – Many diseases can be traced back to differences in the body's genetic code. Gene therapy is designed to fix these problems at the source by inserting or editing a corrected DNA sequence that can override the existing error. Genome medicine has come a long way since 1953 when the DNA structure was deciphered. The first genome therapy was approved in 2012 and in 2017 the first cancer gene therapy was approved. While genome medicine is still in the early stages, it has transformative potential across the entire spectrum of disease categories (cancer, neurology, ophthalmology, liver, etc.) and represents a US\$4.8 trillion total addressable market derived from the creation of new profit pools as well as disruption of the US\$1 trillion (annual sales) biopharmaceutical industry.⁷

Brompton's Approach

Brompton Global Healthcare Income & Growth ETF (HIG, HIG.U) provides diversified exposure to the global healthcare sector. In addition, we actively manage the healthcare weighting across our global dividend portfolios (BDIV, GDV, EDGF). We prefer to invest in healthcare companies that are market leaders with solid commercial product pipelines, versus early-stage healthcare companies. We believe this strategy provides better risk-adjusted returns, particularly in an inflationary environment. In addition, a diversified product pipeline mitigates risks associated with patent cliffs. We actively manage the subsector weightings within healthcare which is tilted towards companies with long/durable product cycles and lower R&D intensity. We also use an actively managed call writing overlay to harvest volatility risk premium which enhances risk-adjusted returns.

¹ Goldman Sachs, November 16, 2021.

² EvaluatePharma, July 2020.

³ Fortune Business Insights, May 25, 2021.

⁴ Research and Markets, February 2, 2021.

⁵ Journal of the American Medical Association, January 10, 2020. doi:10.1001/jamanetworkopen.2019.18911.

⁶ McKinsey Global Institute, May 7, 2021.

⁷ Goldman Sachs, April 10, 2018.

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