BROMPTON FUNDS

Brompton Insights

June 2022

Healthcare - A Healthy Dose of Defense

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

The current equity bear market regime and recessionary concerns due to the fast pace of Fed rate hikes have prompted investors to seek defensive income-oriented strategies. We believe the healthcare sector provides both stable dividend and defensive characteristics. Demand for healthcare services continues to increase, with a growing and aging population enjoying longer lifespans. In addition, continued innovation in the sector drives the introduction of new treatments for more complex diseases and expanding market opportunities for Healthcare companies. Many large cap healthcare stocks generate durable cash flow, due to their diverse product offerings, and can maintain pricing power and pass-through costs in inflationary environments. These are attractive defensive investment characteristics. Since the 1960s, Healthcare has outperformed the broader market by approximately 3 percentage points annualized when inflation was elevated as shown in the figure below. In the past decade, Healthcare has also been one of the only parts of the market to consistently outperform when growth was slowing and real interest rates were rising.

Median Monthly Real U.S. Equities Returns by Core CPI Inflation Cycle Phase (Annualized)

			High		Low	
	High	Low	Rising	Falling	Rising	Falling
Market Factors (long/short)	9%	15%	2%	15%	4%	19%
Value	4%	3%	6%	1%	5%	2%
Size	1	1	0	2	(4)	4
Sectors (vs. Russell 3000)						
Healthcare	3pp	(1)pp	4pp	0pp	(1)pp	(0)pp
Energy	1	(3)	5	(2)	13	(7)
Real Estate	1	1	(1)	4	1	2
Consumer Staples	1	(0)	3	(1)	3	(1)
Industrials	(1)	1	(0)	(1)	1	2
Utilities	(1)	(5)	(1)	(1)	3	(7)
Financials	(1)	(2)	(1)	(1)	(2)	(2)
Consumer Discretionary	(1)	2	(0)	(2)	3	1
Communications Services	(2)	(2)	(3)	(0)	(4)	(2)
Information Technology	(2)	1	(6)	(1)	(1)	3
Materials	(4)	2	1	(9)	6	(1)

Source: Goldman Sachs, as of November 18, 2021

The Healthcare sector performs consistently well both heading into a recession and following a recession. The chart below compares sector performance across 5 recessions since 1981 and shows that over the twelve months following the start of a recession, Healthcare had a median return of 14% relative to the S&P 500, which makes it the second-best performing sector following Consumer Staples. This is driven by fundamentals since the Healthcare sector has grown earnings per share during each of the last six recessions. As a result, we believe investors who are concerned about a recession should have some exposure to Healthcare, particularly since the Healthcare weighting in the Canadian market is miniscule (less than 0.5% of the S&P/TSX).

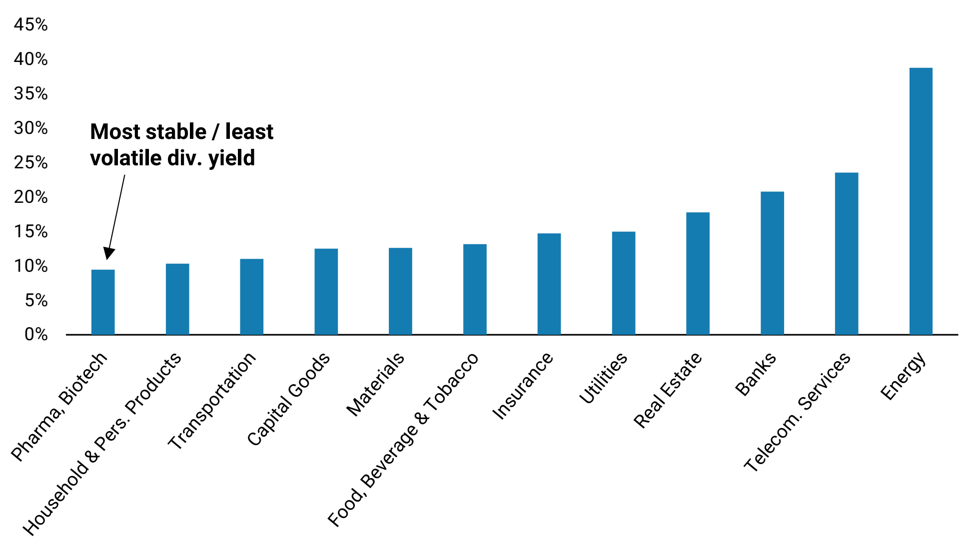
Median Return in Months Around Recession

	BEFORE recession starts			AFTER recession starts		
	12m	6m	3m	3m	6m	12m
S&P 500	6%	2%	(3)%	(6)%	(5)%	0%
Sectors relative to S&P 500						
Energy	24pp	5pp	6pp	(3)pp	(7)pp	(9)pp
Consumer Staples	9	10	2	7	8	17
Healthcare	5	2	(0)	3	6	14
Utilities	5	7	5	(0)	4	(2)
Comm Services	3	1	2	3	2	(2)
Industrials	1	2	(2)	(4)	(2)	(6)
Materials	(2)	0	(1)	2	1	0
Consumer Discret.	(5)	(4)	(2)	4	(2)	3
Financials	(6)	(2)	(5)	(6)	(4)	(1)
Info Tech	(8)	(2)	(5)	(2)	8	(4)
Real Estate	(12)	(7)	(5)	(9)	(12)	(6)
Indices relative to S&P 500						
Nasdaq 100 Russell	5pp	4pp	2pp	(5)pp	(4)pp	(5)pp
1000 Growth Russell	3	3	2	(1)	(1)	(2)
2000 Russell 1000	(7)	(3)	(1)	(1)	5	2
Value	(9)	(5)	(4)	(2)	3	(3)

Source: Goldman Sachs, as of May 18, 2022

The pharma and biotech subsectors have one of the most stable and least volatile dividend yield profiles compared to other dividend paying industries. We believe this consistency is an attractive defensive feature for investors looking for dividend stability.

Standard Deviation of Change In Dividend Yield (Industries with Yield >1.5%)



Source: Morgan Stanley, as of April 25, 2022

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 sub-sector weightings within healthcare which is tilted towards companies with long/durable product cycles and lower research and development intensity. We also use an actively managed call writing overlay to harvest volatility risk premium which enhances risk-adjusted returns.

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