

Funds in focus: [Brompton Global Healthcare Income & Growth ETF \(HIG\)](#)

Obesity is the fifth leading risk factor contributing as a primary cause of death globally and is responsible for over 3 million adult deaths each year through obesity-related conditions like diabetes, heart disease and hypertension according to the World Health Organization. The World Obesity Federation projects that by 2035 over half of the global population will be overweight/obese.<sup>1</sup> We note that there is a significant societal impact because of obesity in terms of treatment cost and lost productivity. Failure to curb the rise in obesity could impact the global economy by 3% of GDP (\$4 trillion) by 2035 according to the World Obesity Federation.<sup>1</sup>

Pharmaceutical companies have been developing weight management drugs for over 3 decades. However, early products yielded modest weight reduction (less than 10% body weight reduction) with some facing safety concerns. Recent innovations have produced medications that mimic incretin hormones, which are gut hormones that aid in digestion and blood glucose control. These medications are classified as incretin mimetics and include glucagon-like peptide-1 (GLP-1) and glucose-dependent insulintropic polypeptide (GIP), which are approved for people with Type 2 diabetes and for chronic weight management in certain people. Incretin mimetics have demonstrated weight loss in the mid 20% range, which approaches weight loss achieved through bariatric surgery, with GLP-1 having a tolerable safety profile.

The market opportunity for anti-obesity drugs is shaping up to become one of the largest pharmaceutical therapeutic categories. The global market for chronic weight management is projected to reach \$100 billion in 2030 up from \$6 billion in 2023 according to Goldman Sachs (October 16, 2023). The anti-obesity drug market is anticipated to be somewhat of a duopoly between Novo Nordisk's semaglutide (Ozempic-diabetes, Wegovy-chronic weight management) and Eli Lilly tirzepatide/Mounjaro (GLP-1/GIP dual-agonist). Industry commentary and clinical data suggest that Eli Lilly could enjoy leading market share given later stage clinical development of orforglipron (oral GLP-1 agonist), and retatrutide (a triple hormone receptor agonist of GLP-1). Novo Nordisk and Eli Lilly have delivered substantial returns to investors, even outpacing the Magnificent 7 stocks over the last three years, as shown in the chart below.

	YTD	1-Year	3-Year	5-Year
Eli Lilly	33%	145%	57%	45%
Novo Nordisk	20%	73%	55%	40%
Bloomberg Magnificent 7 Index	12%	78%	25%	43%

Source: Bloomberg as of March 5 2024

We believe there is ample opportunity for other healthcare companies in the anti-obesity revolution. There are over 54 next generation anti-obesity medications in clinical trials or with positive phase 3 data according to Bloomberg (March 5, 2023). These next generation weight-loss drugs seek product differentiation across a variety of factors including efficacy, side effect profile, combination potential, maintenance potential, route of administration, quality of weight loss (fat mass vs. lean mass). Beyond pharmaceutical drug companies, anti-obesity is a tailwind for contract drug manufacturers and distributors through increased volumes as well as healthcare tools through upstream (active pharmaceutical ingredients – amino acids and resins) and downstream (fill and finish services that consist of sterilization and assembling, filling, and processing autoinjector devices). As the anti-obesity revolution matures, we believe there could be disruption in the cadence of hospital and medtech volumes as healthier weight among the population reduces the prevalence of obesity-related conditions. Looking beyond healthcare, the anti-obesity revolution could alter the dynamics of consumer demand for food, beverage, sports and leisure activities.

## 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 and use a call writing overlay to harvest volatility risk premium which enhances risk-adjusted returns.

(1) World Obesity Federation. World Obesity Atlas 2024. <https://data.worldobesity.org/publications/?cat=22>

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