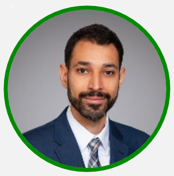
TD Global Healthcare Leaders Index ETF

As of March 2025

2025 MAR

TDOC



Analyst Commentary

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It was a busy start to the year for the Health Care sector, with updates out of JPMorgan Chase & Co. ("J.P. Morgan") Healthcare Conference in January, fourth quarter of 2024 earnings in January and February, and a changing policy and regulatory landscape as U.S President Donald Trump's Administration entered the Whitehouse.

Starting-off with the J.P. Morgan Healthcare Conference, it was a slow year for mergers and acquisitions ("M&A") at the conference, with the only large M&A deal announced being Johnson & Johnson Services, Inc. ("Johnson & Johnson") $14.6 billion acquisition of Intra-Cellular Therapies, Inc. (Intra- Cellular). This is being driven by the change in administration in Washington, as many Healthcare firms have put M&A plans on pause until there is greater clarity on the path forward for policy and regulations. Despite the macroeconomic uncertainty, companies across the Health Care sector are continuing to push forward on internal research and development efforts, new product launches, and looking to complete select early-stage tuck-in acquisitions to bring new technologies in-house.

Turning to February, investors pivoted their attention to fourth quarter of 2024 earning season and 2025 guidance from management teams. All-in, 82% of the S&P 500 Index ("S&P 500") Health Care companies met or exceeded fourth quarter earnings estimates. Revenues grew 7.6% Year-over-Year ("YoY"). Earnings grew 35.8% YoY (+4.7% if excluding the one-time impact of In-process Research and Development ("IPR&D") charges, which impacted Bristol-Myers Squibb Company ("Bristol-Myers Squibb ") and Gilead Sciences, Inc. ("Gilead Sciences") last year. Pharmaceuticals led the growth with revenues up 13% YoY, with Eli Lilly $ Company Ltd. ("Eli Lilly") accounting for approximately ("~") 40% of industry growth, driven by strong growth for diabetes and obesity drugs, Mounjaro (GLP-1 for Type 2 Diabetes) and Zepbound (GLP-1 for Obesity). Additionally, Healthcare providers & medical device names continue to see strength, driven by strong elective surgery volumes. In contrast, the Life Science Tools companies continue to post soft results, driven by a combination of weak demand for tools exiting the pandemic, weak Chinese demand, and weak demand from emerging biotech due to the weaker funding backdrop.

For the full-year 2025, Healthcare revenues are expected to grow ~7% YoY, and earnings grow ~18% YoY, with the overhang from the loss of COVID-19 related sales now behind us. Looking out over the next few years, the Portfolio Advisor ("we", "our") expect growth to normalize to the ~9% Compound Annual Growth Rate ("CAGR") seen over the last 30 years.

The third theme to call out this quarter is the changing policy and regulatory landscape out of the new administration in Washington. Key to watch will be actions from Robert F. Kennedy Jr, who was appointed the United States Secretary of Health and Human Services (HHS) in February. While President Donald Trump's administration has said multiple times that there will not be cuts to Medicare, there have been cuts to the headcount at HHS (including a 20,000 cut to headcount in April accounting for a quarter of the workforce). Fewer resources could delay drug trials and launches for the Pharmaceutical & Bio-technology industry, which risks having an impact on earnings growth in future years.

Finally, investors are also closely watching the proposed tariffs out of the new administration. Historically, tariffs were not a big deal for the Pharmaceutical & Bio-technology industry as pharmaceuticals have typically been protected under World Trade Organization (WTO) agreement. That said, President Donald Trump's administration is overriding WTO agreements by using the International Emergency Economic Powers Act. In recent decades the Pharmacy & Bio-technology industry has leveraged transfer pricing to reduce their effective tax rate. For example, a common practice is to use a subsidiary in Ireland (or another low tax jurisdiction) to produce the drug, and then sell the drugs to the U.S. subsidiary at a high price. This effectively shifts the profits from the U.S. to Ireland, ultimately reducing the effective tax rate in the process. Under the new tariff landscape, and assuming trading partners are not successful in negotiating a better deal with Donald Trump's Administration, Pharmaceutical companies will need to explore options including; shifting production domestically to avoid tariffs, shifting production to low tariff jurisdictions, reshore their intellectual property domestically to minimize the tariffs, or explore whether intermediaries can be used to limit the impact of tariffs. While Pharmaceutical & Bio-technology companies can pass along the cost of the tariffs for new drugs, for existing commercial drugs it will harder and take longer to pass those higher costs along due to existing contractual terms.

The TD Global Healthcare Leaders Index ETF ("TDOC") was up 4.4% year-to-date ("YTD") at the end of March 2025. Returns for Health Care have outpaced the global equity market with the MSCI World Index ("MSCI") posting a -1.8% decline YTD, driven by declines in Technology and data centre-related names.

The primary contributors to TDOC's performance in the first quarter of 2025 included Gilead Sciences, +22.3% quarter-over-quarter ("QoQ"), F. Hoffmann-La Roche Ltd ("Roche Holdings AG"), +20.4% QoQ and Vertex Pharmaceuticals Inc. ("Vertex Pharmaceuticals"), +20.5% QoQ. The primary detractors included Illumina Inc. ("Illumina"), -40.6% QoQ, Teva Pharmaceuticals Industries Ltd ("Teva"), -32.6% QoQ, and Moderna, Inc. ("Moderna"), -31.8% QoQ.

Looking out over the long run, we believe that TDOC continues to be well positioned and will continue to benefit from the many attractive attributes of the Health Care sector including largely inelastic demand, strong volume growth driven by an aging population, as well as historically strong research and development productivity which has repeatedly expanded the addressable market for healthcare. Combined with attractive valuations when compared to the broader market, we believe the Health Care sector remains well positioned to outperform over a multi-year horizon.

Standard Performance – TD Global Healthcare Leaders Index ETF

Returns as of March 31, 2025	1 Month	3 Months	6 Months	1 Year	Since Inception	Inception Date
TD Global Healthcare Leaders Index ETF	**-1.79%**	**3.79%**	**-0.98%**	**4.30%**	**7.66%**	**04/07/21**

Source: TD Asset Management Inc., as of March 31, 2025. Returns for periods greater than one year are annualized.

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