BMO Global Health Care Fund

Quarterly Commentary

Market Commentary

Health Care outperformed the broader markets in the first quarter of 2025 ("the quarter"), as positioning continued to shift towards defensive sectors amidst broader market volatility driven by a wave of policy announcements from the new U.S. administration. Managed Care, Drug Distributors, and Facilities performed best in the quarter as they tend to have stable growth, little tariff exposure, and policy risks are largely priced in.

Despite the broader outperformance in Health Care, policy concerns remain, including the renewal of ACA subsidies, potential Medicaid cuts, proposed funding reductions for the National Institutes of Health, and challenges for the pharmaceutical sector, such as tax implications for repatriating intellectual property and potential drug price cuts.

The Fund performed in line with its benchmark (MSCI ACWI Healthcare index) over the quarter.

Attribution Comments

Fund performance benefitted from an overweight in managed care and a slight overweight in distributors, which was the best performing industry within the sector. On the other hand, the Fund was negatively impacted by an overweight in medical devices, following an unwind of crowded, higher beta names.

Our underweight in Novo Nordisk and our overweight in UNH were top contributors, while UCB and Acadia were our top detractors.

- **Novo Nordisk:** Our significant underweight in Novo Nordisk contributed positively to performance. Novo Nordisk continued to trade lower following disappointing phase III Cagrisema readout and a lack of acceleration in GLP-1 script data bringing up concerns on their competitive positioning versus Eli Lilly.

- **UNH**: In December, investor sentiment towards managed care was low following the tragic death of UnitedHealthcare's CEO and ongoing government attempts to reform the pharmacy benefit manager industry. In Q1 2025, sentiment reversed as managed care was seen as a defensive name within a volatile environment with most of the Company's policy risk already priced in.

- **UCB:** UCB continues to be a top idea, however the stock performance was impacted in the quarter by the broader market sell off, potential tariff risk, and low liquidity.

- **Acadia:** Despite low expectations, Acadia provided a 2025 guide well below expectations leading to downward pressure on the stock. We decided to sell our position after seeing the disappointing earnings and the potential cuts to Medicaid.

Outlook for Market/Fund

In this uncertain and volatile macroeconomic environment, we continue to advocate for exposure to the sector given its attractive valuation and defensive characteristics. While uncertainties surround RFK Jr's impact and the government's push for Medicaid cuts, these challenges appear largely priced in and many industries within Health Care offer steady growth with less policy sensitivity, providing compelling opportunities in this environment.

The Fund maintains a significant allocation to managed care, health care distributors, and medtech companies, where we see opportunities for earnings outperformance and potential for multiple expansion. We believe obesity will remain a key mega theme, with next-generation weight loss assets likely to stay at the forefront of investor interest. While sentiment around higher multiple / growth names remain challenged, we see opportunities to add to positions in names in which we believe there is significant earnings upside. We remain committed to identifying high-quality, innovative companies that can deliver sustainable returns in a dynamic healthcare landscape.

Buys/Sells

During Q1 2025, we reduced our positions in higher growth / higher multiple medtech companies which were vulnerable to fund flow rotation as the broader market weakened. We also reduced our exposure to capital equipment manufacturers in the face of potential headwinds to hospitals including potential funding cuts to hospitals and slower than expected recovery in China. We added a position in Medtronic, to gain exposure to the value segment of medtech. Overall, these changes resulted in a smaller active overweight in medtech.

We are underweight Tools given the poor earnings outlook and regulatory uncertainty facing the biopharma industry. We reduced our active underweight in pharma by adding weight towards value pharma, while increasing our position in the drug distributors, which are less policy sensitive. The drug distributors have steady growth with no exposure to tariffs, minimal FX risks, and Medicare Part D reform should help drive drug volumes higher which benefits the distributors.

We trimmed our position in Thermo Fisher Scientific and Danaher on the potential cuts to academic research funding, which contributed to weakness in the life science tools group. In addition, we don't see significant upside to guidance in 2025 given the lack of recovery in China and the risk of biotech research funding cuts. As such, we decided to take an underweight position in Tools.

Summit Therapeutics holds the U.S. and EU rights to Ivonescimab, a first-in-class bispecific PD-1 and VEGF antibody for the treatment of non-small cell lung cancer (NSCLC). In a clinical trial conducted by its partner Akeso in China, Ivonescimab demonstrated superior progression free survival over Merck's blockbuster oncology drug, Keytruda (2025 sales projected to exceed USD 30b) in treatment-naïve NSCLC patients. If Ivonescimab also delivers an overall survival in the same setting, it could challenge Keytruda's dominance and secure a position in the multi-billion-dollar oncology market.

Hold: After the recent weakness in UNH following the tragic murder of UnitedHealthcare's CEO and ongoing government attempts to reform the pharmacy benefit manager (PBM) industry, UNH rallied in Q1 2025, acting as a defensive haven amid the policy uncertainty with the new U.S. administration. We saw the share weakness towards the end of 2024 as a good opportunity to increase our position given (1) the company is well run with a strong track record, (2) valuation is attractive given expected earnings growth, and (3) our view that uncertainty around policy changes and the DOJ investigation are largely captured in the share price. Furthermore, we believe UNH acts as a high-quality defensive name in the large cap services space and should benefit amid macro uncertainty.

There is no currency hedging in this Fund.

Fund Codes & Fees

Series	Fund Code	MER (%)*
Advisor	BMO99335	2.07
Series F	BMO95335	1.00

*Annual Management Expense Ratios (MERs) are as of September 30, 2024.

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