

As at 01/31/2017	Value	1 Month (January)	YTD	Since Launch (ITD)
Share	103.75	-0.12%	-0.12%	3.75%
NAV	102.51	1.33%	1.33%	2.51%

Welcome to our second monthly update. We would characterise January as a clash between macro sentiment and stock fundamentals. It seems that macro uncertainty won out. As with December, the prevailing theme was ‘Trumponomics’.

Political uncertainty drives sentiment and performance

The Trust’s net asset value (NAV) appreciated 1.3% over the month. In contrast, the MSCI healthcare benchmark (which we consider to be the best proxy for the performance of the wider healthcare sector) declined 0.1% over the month in sterling terms. Both were impacted by the 1.2% decline in the dollar-sterling exchange rate, due to a combination of good UK economic data and a more confident Brexit speech from Theresa May, allied to ongoing uncertainty over expectations for US growth and inflation (and thus interest rates), driving a modest reversal in the recent strength of the dollar vs. key currencies.

The benchmark rose 2.1% in US Dollar terms, led by the Diagnostics (+8%), Healthcare IT (+7%) and Facilities (+5%) sub-sectors. Within the portfolio, the three most significant contributors to performance were Illumina (Diagnostics), Incyte (Biotech) and Tenet (Facilities), which all returned >20% over the period. As of February 7, the NAV stood at 104.99p.

We were able to raise additional capital during the month (c.9 mn new shares). We will continue to take advantage of our ability raise additional capital as and when conditions allow. To that end, a blocklisting application was approved at the beginning of February that can support the issuance of a further 15 mn shares and this has already been utilised.

Volatility greater than expected

NAV volatility has been greater than expected during the month. The teleological torture of trying to explain what drove the volatility in our portfolio would exhaust us all, we suspect, and frankly provide little illumination. However, we can offer some high level observations. In the absence of clarity on policy, one can understand the reluctance of the generalist investor to buy into healthcare and indeed, the opposite appears to be true. Fund flow data suggests money is still rotating out of the sector and into other industries. Nature abhors a vacuum, and this absence of support offers an unchallenged opportunity for the short-seller. We have thus seen rising short interest in several portfolio companies.

These factors have driven the higher than expected levels of volatility, even as the wider MSCI healthcare benchmark saw low levels of volatility in January versus prior periods. As noted last month, we have tended to invest into companies with high levels of operational gearing and this can of course work in both directions. Mindful of the prevailing conditions and their likely prolongation, it seems reasonable to expect that the portfolio will see higher than anticipated levels of volatility for some months to come, even though it is disconnected from fundamentals. On the other hand, our focus remains very much on the medium to longer-term performance of our holdings and these ongoing macro concerns may provide attractive entry points for additional investments by the Trust.

Summary

BB Healthcare Trust is a high conviction, unconstrained, long-only vehicle invested in global healthcare equities with a max of 35 stocks. The target annual dividend is 3.5% of NAV and the fund offers an annual redemption option. BB Healthcare is managed by the healthcare investment trust team at Bellevue Asset Management, which also manages BB Biotech.

Fundamentals continue to improve

Against this, little if anything has changed fundamentally, and we remain confident in the medium-to-long term theses that underpin our chosen investments. We have been pleased with the overall tone of updates from portfolio companies over the month. The JP Morgan healthcare conference is widely regarded as a key sentiment barometer (even if the new year typically illustrates the human tendency to view the coming twelve months in a positive light; the event’s underlying prognostic value is far more debatable!). Broadly speaking, the tone was positive and it afforded us the opportunity to meet with a number of management teams from portfolio companies and potential future investments. Eight of our holdings made some sort of guidance announcement around the conference and seven of these were positive (i.e. in line to better than prevailing market expectations).

Eight companies (not necessarily the same ones) have reported quarterly figures for the period to December and none have resulted in a diminution in our medium-term outlook for those companies, with a number seeing material upgrades. In general though, such positive news is not being rewarded by the market. It is as Orwell presciently noted: “people can foresee the future only when it coincides with their own wishes, and the most grossly obvious facts can be ignored when they are unwelcome”. Put simply, the market does not want to like healthcare.

US market uncertainties remain our key research focus

Stock fundamentals aside, our focus continues to be three broader US topics: Drug pricing, the potential repeal and replacement of the Affordable Care Act (ACA or ‘Obamacare’) and the likely longer-term impact on various healthcare sub-sectors from a tax reform proposal that might include a border tax component.

On drug pricing, Trump’s nominee for HHS Secretary (Tom Price) did not endorse Trump’s direct negotiation proposal from the campaign trail when asked about it in his confirmation hearing. We have still yet to see a tangible policy proposal that would result in an immediate lowering of drug prices. The President’s month-end meeting with key industry figures was similarly unclear. Not only did it fail to yield any clarity on tangible policy proposals, it managed to include more “we have to get drug prices down” rhetoric whilst excluding commentary around the previously suggested Medicare government price negotiation or parallel importation as mechanisms to do so.

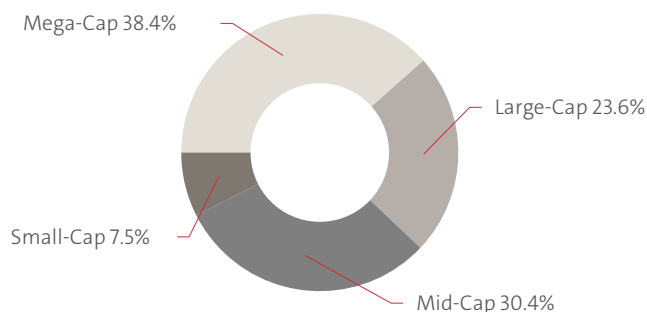
Furthermore, there was a distinct absence of “bigly” at the meeting, which we rather enjoy hearing (it’s not a neologism, the word has been in the dictionary for years). As a final thought, we are mindful that it was Congressional Republicans who ultimately prevented any language around drug price negotiation going into the original Obamacare legislative proposals in 2009/10 and similarly around the preceding Medicare Part D negotiations under Bush. We continue to think a legislative proposal supporting direct price negotiation is a remote possibility in the current (i.e. Republican-led) Congress. Despite this, a number of biotech and specialty pharma companies are pricing in dramatic price reductions and we see considerable upside reward from such cases if we are patient.

The debate around the ‘repeal and replace’ of the ACA is complex. From a practical perspective, the outcome looks increasingly likely to be a compromise between existing Republican proposals in the House and Senate. The Federal government looks to want to push the burden toward States and then provide assistance through some sort of block grant. Transitional arrangements will be necessary if, as Tom Price suggested, no-one is going to lose out on coverage afforded to them via the ACA. It has been suggested that the switchover process could take 2-3 years. We remain of the view this will be a net win for insurers and of some risk to facilities/services providers if the transition period is not well structured and results in an increase in uncompensated care on the ambulatory and emergency side. We continue to feel that the latter downside is increasingly priced in, whereas the former is still under-appreciated.

There has been little further clarification on the potential shape of any tax reform proposal. Trump has vocally questioned the ‘border adjustment’ element of current Republican reform proposals. Without such an offset, any headline Corporation tax cut would swell the primary deficit and this is likely to be anathema to fiscal conservatives. This highlights what are likely to be irreconcilable ideological differences and the tax reform process is probably going to take much longer than one might have initially expected, given Trump’s focus on this topic during his campaign. We still believe that a number of our portfolio holdings would benefit disproportionately from a headline rate cut and any repatriation window for cash trapped offshore. However, we continue not to reflect any such benefits in our base case assumptions as the pathway to, and timeframe for, realising any earnings upside remains unclear.

Paul Major and Daniel Koller

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.01.2017

TOP 10 HOLDINGS

Walgreens Boots Alliance	6.0%
Amgen	6.0%
Align Technology	5.9%
Anthem	4.8%
Celgene	4.4%
Gilead Sciences	4.4%
Eli Lilly	4.3%
Intuitive Surgical	4.2%
AmerisourceBergen	4.0%
Incyte	3.9%

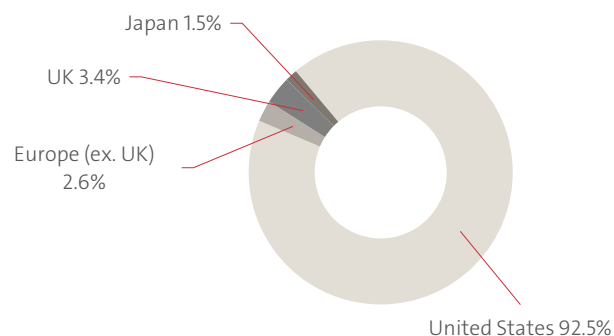
Source: Bellevue Asset Management, 31.01.2017

SUB SECTOR BREAKDOWN

Biotechnology	22.8%
Medtech	21.4%
Specialty Pharma	18.1%
Pharma	12.1%
Managed Care	8.3%
Other Healthcare	6.0%
Diagnostics	5.1%
Distributors	4.0%
Facilities	2.1%
Cash	0.1%

Source: Bellevue Asset Management, 31.01.2017

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.01.2017

“five companies representing ~14% of the portfolio have a non-US legal domicile (primarily for tax reasons) but operate out of the United States and their primary stock market listing (in terms of volume traded) is in the United States”.

INVESTMENT FOCUS

- The BB Healthcare Trust invests in a concentrated portfolio of listed equities in the global healthcare industry (maximum of 35 holdings)
- Managed by Bellevue Asset Management AG ("Bellevue"), who manage BB Biotech AG (ticker: BION SW), Europe's leading biotech investment trust
- The overall objective for the BB Healthcare Trust is to provide shareholders with capital growth and income over the long term
- The investable universe for BB Healthcare is the global healthcare industry including companies within industries such as pharmaceuticals, biotechnology, medical devices and equipment, healthcare insurers and facility operators, information technology (where the product or service supports, supplies or services the delivery of healthcare), drug retail, consumer healthcare and distribution
- There will be no restrictions on the constituents of BB Healthcare's portfolio by index benchmark, geography, market capitalisation or healthcare industry sub-sector. BB Healthcare will not seek to replicate the benchmark index in constructing its portfolio

FIVE GOOD REASONS

- Healthcare has a strong, fundamental demographic-driven growth outlook
- The Fund has a global and unconstrained investment remit
- It is a concentrated high conviction portfolio
- The Trust offers a combination of high quality healthcare exposure and a 3.5% dividend yield
- BB Healthcare has an experienced management team and strong board of directors

MANAGEMENT TEAM



Paul Major



Daniel Koller

GENERAL INFORMATION

Issuer	BB Healthcare Trust (LSE main Market (Premium Segment, Official List) UK Incorporated Investment Trust)
Launch	December 2, 2016
Market capitalization	GBP 170.0 million
ISIN	GB00BZCNLL95
Investment Manager	Bellevue Asset Management AG; external AIFM
Investment objective	Generate both capital growth and income by investing in a portfolio of global healthcare stocks
Benchmark	MSCI World Healthcare Index (in GBP) - BB Healthcare Trust will not follow any benchmark
Investment policy	Bottom up, multi-cap, best ideas approach (unconstrained w.r.t benchmark)
Number of ordinary shares	159 131 000
Number of holdings	Max. 35 ideas
Gearing policy	Max. 20% of NAV
Dividend policy	Target annual dividend set at 3.5% of preceding year end NAV, to be paid in two equal instalments
Fee structure	0.95% flat fee on market cap (no performance fee)
Discount management	Annual redemption option at/close to NAV

DISCLAIMER

BB Healthcare Trust PLC (the «Company») is a UK investment trust premium listed on the London Stock Exchange and is a member of the Association of Investment Companies. As this Company may implement a gearing policy investors should be aware that the share price movement may be more volatile than movements in the price of the underlying investments. Past performance is not a guide to future performance. The value of investment and the income from them may fall as well as rise and is not guaranteed. An investor may not get back the original amount invested. Changes in the rates of exchange between currencies may cause the value of investment to fluctuate. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially over time. This document is for information purposes only and does not constitute and offer or invitation to purchase shares in the Company and has not been prepared in connection with any such offer or invitation. Investment trust share prices may not fully reflect underlying net asset values. There may be a difference between the prices at which you may purchase ("the offer price") or sell ("the bid price") a share on the stock market which is known as "bid-offer" or "dealing" spread. This is set by the market makers and varies from share to share. This net asset value per share is calculated in accordance with the guidelines of the Association of Investment Companies. Net asset are stated inclusive of income received. Any opinions on individual stocks are those of the Company's Portfolio Manager and no reliance should be given on such views. Any research in this document has been procured and may not have been acted upon by Bellevue Asset Management AG for its own purposes. The results are being made available to you only incidentally. The view expressed herein do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the view of Bellevue Asset Management AG and no assurance are made as to their accuracy.

CONTACT

Bellevue Advisors Limited
 Claude Mikkelsen, Director of Investor Relations
 Phone: +44 (0) 203 770 67 85
 E-Mail: cmi@bellevue.ch
 Henry Wood House
 2 Riding House Street
 GB-W1W 7FA London
www.bbhealthcaretrust.com