

As at 02/28/2017	Value	1 Month (February)	YTD	Since Launch (ITD)
Share	112.25	8.19%	8.06%	12.25%
NAV	112.30	9.55%	11.01%	12.30%

Welcome to our February 2017 update. Last month saw a welcome focus on fundamentals, with limited political/macro developments and a plethora of earnings reports and outlook updates. The majority of these were positive.

Solid fundamentals shine through

The Trust's net asset value (NAV) appreciated 9.6% over the month to 112.3p. In contrast, the MSCI healthcare benchmark (our proxy for wider sector performance) rose 6.9% over the month in sterling terms. The three most significant contributors to this month's portfolio performance were Alnylam (Biotech) +28%, Towa (Japan generics) +24%, and Macrogenics (Biotech) +15%. As of March 3, the NAV stood at 114.91p.

The Index rose 5.6% in US\$ terms, led by the Specialty Pharma (+11%), Facilities (+10%) and Distributors (+9%) sub-sectors, all of which we are materially overweight compared to the benchmark. These sectors were all major laggards in the US election period and their performance is hopefully the start of a re-rating. Even after this move, we still see considerable value in all three areas.

Probably because of the absence of political developments, sectoral volatility was low, both relative to recent months and prior periods, although we did see an increase into the last few days of the month leading up to Trump's address to Congress (more on that below). Counterparties are still reporting that flows are hedge fund dominated, with little evidence yet that the generalist long-only manager is willing to increase their exposure to healthcare despite a second month of broad-based outperformance versus the wider market.

As the reporting season draws to a close, we have seen a mostly positive raft of updates from our holdings. There have been three notable disappointments relative to market expectations: Gilead (Biotech), Perrigo (Specialty Pharma) and Teva (Generics). We remain committed to our holdings in all three companies and were cognisant of the risks regarding the near-term outlook in each case. One can always be wiser on short-term timing with hindsight; our focus remains on the question of where these stocks should be trading several years hence.

Gilead is, by almost any metric, hugely undervalued. The problem for investors is the pathway back to growth is unclear and likely to involve substantive M&A. Our view remains that the rating is at such a level that almost any deal would prompt a positive re-evaluation so it warrants being in the stock now to capture that upside. Meanwhile, the cashflow generation is such that we are being paid to wait.

Teva's challenges going into the year were well known – Copaxone 40mg would see genericisation, they have overpaid for recent generic acquisitions and guidance was unrealistic. We felt most of this was priced in and by and large this has proven right, with the stock trading sideways (with much volatility). With a consensus on the ex-Copaxone earnings power emerging, the question is now what the company can do to accelerate the stabilisation and return to growth of the generics business; we do not share the concerns over the company's ability to meet debt retirement schedules.

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.

Valuations in this area are low in historical terms and we continue to see considerable value for the patient investor.

Like Teva, Perrigo's problems have long been clear. The attraction for us was, and remains, its white-label OTC business. This has been overshadowed in recent years by an ill-conceived acquisition to increase exposure to prescription drugs that the current CEO is looking to unwind. This will take time and, in the interim, its royalty stream income helped to support earnings. This has now been sold, which has effectively raised the P/E multiple. The CFO has also left to join Amgen. The fundamental thesis remains intact, but we can see why sentiment has become more negative in the shorter-term.

The Portfolio continues to evolve and grow

February saw the issuance of a further 3.8m shares under our block-listing facility. The Trust continued to trade at a premium to NAV. We will look to take advantage of the opportunity to raise additional capital as and when conditions are appropriate.

Our loan facility came on line at the end of the month. It remains our intention to use this flexibly and exploit any mispricing events that occur in our portfolio holdings, investors should expect that gearing, over the longer term, will average 5-10% of the portfolio's net asset value.

We added one new position, our 33rd, early in the month, further increasing our exposure in the specialty pharma category. However, we swiftly returned to 32 stocks following the acquisition of Zeltiq by Allergan (another of our holdings). Although we saw this deal as inevitable in the longer-term, the timing and price were somewhat disappointing. Zeltiq has some important newsflow over 2017 and we feel that management should have held out longer and potentially secured a higher valuation, although the risk that key competitor Cynosure might be chosen instead may have been a factor.

The dynamics of the non-invasive fat removal market are very promotionally sensitive and it was no surprise that Cynosure also fell to a suitor shortly after Zeltiq was bought. The purchaser (Hologic, another portfolio holding) was unexpected though, and we have thus maintained our overall exposure to this high growth and attractive marketplace. That said, we much preferred Zeltiq's Coolsculpting to Cynosure's laser lipolysis as a product. We are currently evaluating the synergy case put forward by Hologic's management team, which is less clear than that for Allergan's acquisition of Zeltiq. This was reflected in the market's reaction to the deal's announcement.

We constantly evaluate the relative weightings of all of the positions on an ongoing basis and re-align them accordingly with our evolving investment theses. Thus far, none of our positions have reached the point where we feel it appropriate to take profits and close them. This is consistent with our long-term, low turnover strategy.

Disappointingly quiet on the macro front

The month saw investors gradually turn its attention to President Trump's ebullient prognostication that a repeal and replace plan for 'Obamacare' will come forward after the March Congressional recess. We, and others, were hopeful that some hints as to what this (and tax reform) might look like could come from his month-end Congressional address. In the end, we learned little that was incremental. It rather feels Trump is taking a CEO-like posture, imagining that he is mandating Congress to come up with the policy detail.

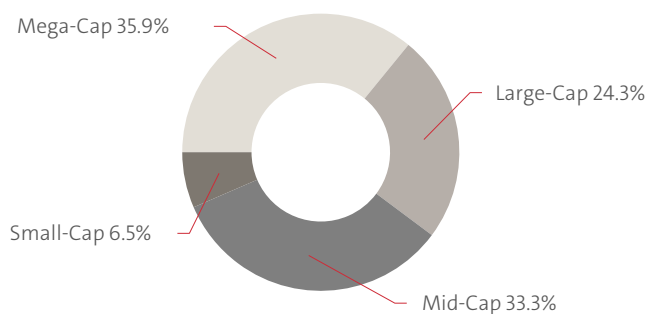
Such an approach might be reasonable and warranted on less contentious topics, but ideologically sensitive 'hot button' issues like healthcare and tax are surely much harder to form a consensus around. The Republican wing of Congress includes many different factions with strident views on these topics and reaching a consensus without clear direction from the White House may be difficult. Perhaps there is more going on the background than we realise, but for now the market may worry that there is no concrete execution plan for the President's vision.

We can at least be cheered that President Trump, HHS Secretary Price and Treasury Secretary Mnuchin have said that entitlement programme cuts are not a priority and Trump talked of protecting all Americans with respect to healthcare access. This may ease sentiment with respect to facilities and services operators over the concern that the uninsured population may grow in the shorter-term. There was also a vague nod to legal reform. Medical tort reform has been touted before (by both Bush and Obama) but there seems now to be greater support for it in Congress. Studies suggest that reform could drive one-time single digit percentage reductions in total healthcare expense and this is one of the most benign avenues for cost saving in terms of healthcare investments.

We are looking forward into the coming months with continued optimism that our balanced portfolio offers both material upside potential and some natural hedges against the more negative potential scenarios around reform. We also think that we are well placed to benefit disproportionately from any cut to the headline Federal tax rate.

Paul Major and Daniel Koller.

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 28.02.2017

TOP 10 HOLDINGS

Amgen	6.4%
Align Technology	6.2%
Anthem	6.2%
Walgreens Boots Alliance	6.0%
Celgene	4.4%
Eli Lilly	4.3%
Intuitive Surgical	4.2%
Gilead Sciences	4.1%
AmerisourceBergen	4.0%
Centene	3.7%

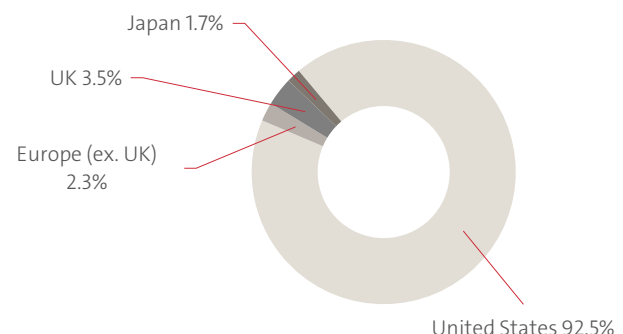
Source: Bellevue Asset Management, 28.02.2017

SUB SECTOR BREAKDOWN

Biotechnology	24.1%
Medtech	21.1%
Specialty Pharma	17.4%
Pharma	12.3%
Managed Care	9.9%
Other Healthcare	6.0%
Diagnostics	5.3%
Distributors	4.1%
Facilities	2.2%
Cash	-2.3%

Source: Bellevue Asset Management, 28.02.2017

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 28.02.2017

"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 182.9 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.

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