

As at 03/31/2017	Value	1 Month (March)	YTD	Since Launch (ITD)
Share	114.625	2.12%	10.35%	14.62%
NAV	110.40	-1.59%	9.13%	10.40%

Welcome to our March 2017 update. With reporting season drawing to a close, the Republican healthcare agenda has dominated sentiment. A hastily presented and potentially damaging reform looks to have been shelved for now. If so, we move into April with healthcare reform seemingly a distant prospect, effectively rolling the clock back to where we were in mid-2016.

Uncertainty over direction in US weighed on the sector

The Trust's net asset value (NAV) decreased 1.6% over the month to 110.4p. The benchmark MSCI Healthcare Index decreased 0.5% over the month in sterling terms.

The Index rose 0.5% in US\$ terms, driven mainly by larger-cap Medical Technology and Conglomerate companies; the classic hallmarks of a flight to safety in the face of uncertainty. Specialty Pharma and Biotechnology were the worst performing sectors; both material exposures for our portfolio and this, along with our bias away from the mega-cap stocks explains most of the fund's performance delta from the benchmark over the month.

Counterparties report that overall activity levels were very low; leading us to conclude that investors were simply sitting on the sidelines through the healthcare reform process and it was notable that volatility levels were again low by historic standards despite all the political activity and uncertainty. Currency movements adversely affected the performance of both the Trust and the Index by around 1.0%.

The three most significant positive contributors to this month's portfolio performance were Align Technology (Med-Tech) +11%, Lundbeck (Pharma) +14%, and Wright Medical (Med-Tech) +11%. On the other side, the three worst performers were Ionis (Biotech) -20%, Mallinckrodt (-16%) and MacroGenics (Biotech) -13%, all three of which are smaller capitalisation stocks in the wider healthcare context. As of April 4th, the NAV stood at 111.32p.

Developments within the Trust

March saw the addition of two new stocks to the portfolio and our first exit of a position in the absence of M&A. We had held Allergan since inception, but began to trim our stake in February and fully exited during the month. We felt that the stock had been appropriately re-rated, having appreciated >25% since we launched. We have modestly increased our overall leverage to 3.9% of NAV from 2.3% at the end of February and hold 33 companies in the portfolio.

We continuously re-evaluate the relative weighting of all the positions on an ongoing basis and re-align them accordingly with our evolving investment theses. We also have a 'watch list' of companies that we are monitoring for potential inclusion into the portfolio if various developments come to pass. On average, the turnover has been around one company per month thus far, which is consistent with our long-term, low turnover strategy.

'Trumpcare' – the great unravelling

Obamacare came into force in 2010, some seven years ago. There have been many attempts since to overturn, de-fund or gut the legislation, all these failing at the final hurdle of White House sign-off. One bill, the 2015

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.

"restoring American's Healthcare Freedom Act" passed both the House and the Senate (incidentally, it was introduced by Tom Price, who is now HHS Secretary).

So, the path to 'Repeal and Replace' seemed well trodden. It is doubly ironic then that the axiom "failing to prepare is preparing to fail" is attributed to Benjamin Franklin, one of the founding fathers of the United States. One cannot help but feel that the failure of the 'The American Health Care Act' could have been avoided with more preparation and nuanced understanding of the political process. Our personal views on the bill's merits are secondary, although we did not think it an apposite replacement for Obamacare and will not mourn its passing.

The US healthcare market remains the most important driver of growth and profitability for our investable universe of companies and so the importance of the reform debate cannot be overstated. The situation remains fluid but we outline our current thoughts below.

We are thus left with three important questions: firstly, is healthcare reform truly off the table (Trump and other senior Republicans have suggested they will now move forward with other areas of their broader agenda). Secondly, is action on drug pricing similarly now unlikely?, and finally, does the administration's failure to bring this bill home raise doubts over its ability to deliver on other key issues like tax reform? One can only speculate about the answers currently, but it behoves us to have an opinion and reflect on how the various scenarios might impact our portfolio.

The US political outlook

Turning to our first question, we feel that Trump's populist instincts will lead him to secure a compelling win from his next proposal, so we imagine he is inclined to move on to tax reform (not to say that will be easy). However, Speaker Ryan seems determined to press on with ACA repeal and it does seem like the Republican Party is likewise keen to move forward whilst they have a majority in the Senate and the House. There is now seemingly a recognition, that even if the previous bill had passed the House, it would have failed in the Senate.

What might this mean in practical terms? The healthcare debate is riven with factions and we cannot see Democratic support for any rollback of entitlements, so there must be something that appeals to the whole spectrum of Republicans. That said, it is now apparent there is some remorse on the Right that the opportunity to repeal the ACA has passed. Therefore, we may now see something less extreme in terms of entitlement cuts, with those on the right accepting that something is better than nothing. We do not think there is enough momentum or support from the more centric Republicans for a 'Repeal only' motion. With no timeline for a second attempt given, it seems that the spectre of reform will linger for many more months yet.

Drug pricing is, and always has been, a secondary topic. Lower drug prices would prove popular with Trump's base but we think it would be even harder to deliver than the ACA repeal. There is no obvious mechanism for the government to ingratiate itself into the process of buying drugs, nor any appetite on the Republican side to get involved (two such proposals failed in 2016 for instance). Rather like the Repeal bill, we feel that the spectre of legislative action, however unlikely, will continue to weigh on sentiment to some extent, but we see the risk having been priced in for some time now.

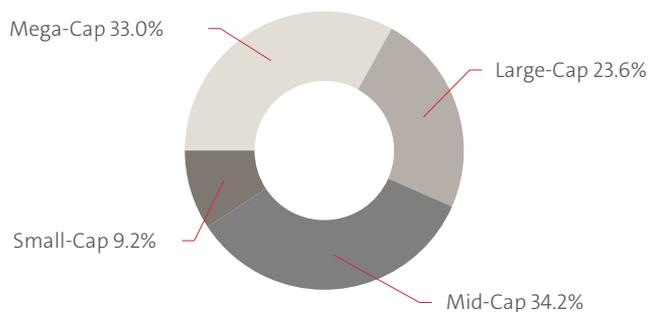
Can Trump deliver on tax reform? This is of far more value and importance to the wider US economy than the healthcare proposals and so is a must-win for the administration. There is acknowledgement on the Democratic side that tax reform would be constructive, albeit with a focus on lower earners and loophole closing than on some of the elements that Trump favours. Few can argue with the long-term economic benefits of infrastructure investment. Perhaps the most controversial aspect of the Republican Tax agenda has been 'border adjustment', which helps to keep the overall rate-cutting proposals revenue neutral and will encourage future investment to be domestically focused. Without the savings from ACA repeal, it will be harder to construct a budget-neutral reform that includes a material tax rate decrease.

However, border adjustment will influence key industries where materials and products are imported (e.g. food and low cost consumer goods), driving up prices and thus contributing to consumer inflation. The electorate may end up feeling poorer before they feel the wider benefits of economic growth and this will not sit well with some politicians. Some of this extra cost will need to be borne by suppliers and lobbying on this topic is considerable. Without the savings from ACA repeal, the border adjustment becomes more necessary to achieve a balanced budget, so it will be interesting to see how this debate moves forward. Trump does not seem sold on the logic of the border tax plan and in the end we may just see a modest tax cut rather than a more ambitious reform.

How are we positioned?

We have noted many times that we feel relatively well positioned for either the status quo or a rollback of Medicare and exchange insurance. We have also indicated that our balanced sub-sector exposures leave us well placed to benefit from any optionality around tax reform.

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.03.2017

TOP 10 HOLDINGS

Align Technology	6.8%
Anthem	6.1%
Walgreens Boots Alliance	5.9%
Amgen	5.9%
Celgene	4.4%
Eli Lilly	4.3%
Intuitive Surgical	4.3%
AmerisourceBergen	3.9%
Gilead Sciences	3.9%
Wright Medical	3.9%

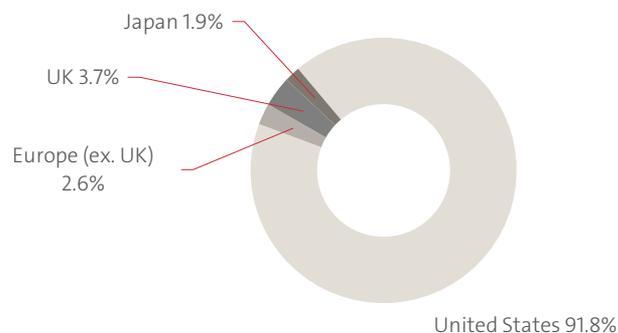
Source: Bellevue Asset Management, 31.03.2017

SUB SECTOR BREAKDOWN

Biotechnology	23.3%
Medtech	22.1%
Specialty Pharma	16.3%
Pharma	12.9%
Managed Care	9.7%
Diagnostics	7.1%
Other Healthcare	5.9%
Distributors	3.9%
Facilities	2.6%
Cash	-3.8%

Source: Bellevue Asset Management, 31.03.2017

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.03.2017

"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".

We see little impact one way or the other on our therapeutic (i.e. pharma/biotech/spec pharma) holdings (c59% of the benchmark and c52% our portfolio). Despite the rhetoric on drug pricing, Trump has appointed pro-industry figures into key roles (Price to HHS and Gottlieb to FDA) and we cannot see how “more government interference” would be acceptable to the Freedom caucus. Again, though, we do not foresee the valuation overhang from uncertainty in this area to ebb away in the near-term.

We have exposure to diagnostics at three levels – the consumer, the hospital and the academic/specialist laboratory sector. Demand from the latter remains uncertain given Trump’s budget proposal to slash NIH funding. We continue to think Congress will not support this, but ‘big ticket’ suppliers are likely to remain dogged by this issue until the final budget is settled later in the year. On the hospital and consumer side, an Obamacare rollback is probably a modest negative.

We continue to believe that the correct approach is to focus on the medium-term outlook and ignore the short-term ‘noise’ around these issues, beyond the opportunity that it may offer to purchase quality assets at distressed prices.

Paul Major and Daniel Koller

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

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 an 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.

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 188.2 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

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