

As at 04/30/2017	Value	1 Month (April)	YTD	Since Launch (ITD)
Share	113.625	-0.87%	9.39%	13.63%
NAV	111.21	0.73%	9.93%	11.21%

Welcome to our April 2017 update. Once again, macro events overshadowed fundamentals, with currency fluctuations weighing heavily on performance. The wider sector was listless, as a paucity of company news flow and continued lack of progress on the Trump administration's legislative agenda left investors struggling for conviction.

Macro factors dominate once more

The Trust's net asset value (NAV) increased 0.7% over the month to 111.20p. In contrast, the benchmark MSCI Healthcare Index declined 1.4% over the same period in sterling terms. This was largely driven by poor reporting from the mega-cap pharma companies (~36% of the Index by weighting) as price competition in a number of categories is intensifying. This was not unexpected and is a key reason why we have limited exposure to this group. The rest of the sub-sector performances were unremarkable.

The index appreciated 1.8% in US\$ terms, but this was more than offset by sterling's 3.2% rise versus the dollar over the month, the biggest monthly move since September 2016. We were also hurt by the relative move in the Yen and, to a lesser extent, the Euro. All in all, we estimate the adverse impact of currency on the portfolio's NAV was 3.8% over the month.

Sterling's rise was driven by a combination of factors: better-than-expected economic news out of the UK, further weakening of the market's conviction in the pro-growth Trump political agenda becoming a reality and of course the surprise announcement of a UK general election (which accounted for >2% of the rise) on the premise that an election will dilute the influence of the 'hard brexit' wing within government.

The three most significant positive contributors to this month's portfolio performance were Ionis (Biotech, +21%), MacroGenics (Biotech, +19%) and Align (Dental, +17%). We will return to Align, our biggest holding, in more detail below. The former two were the worst performers in March and have effectively round-tripped back to where we stood at the end of February.

This month's notable laggards were Tenet Healthcare (Facilities, -13%), Vectura (Specialty Pharma -8%) and AmerisourceBergen (Distributors, -7%). Both Tenet and ABC's performances reflect concerns raised by competitor results and we fully expect them to recover. Indeed, Tenet has already risen 18% since its results on 1 May.

Developments within the Trust

Although we continue to evaluate a number of potential opportunities, no new stocks were added to the portfolio during April. This does not in any way reflect a paucity of exciting ideas, far from it. Rather, the continued overhang of US healthcare reform leaves us sensitive to the potential adverse impact of short-term timing on some of the ideas we are considering. Furthermore, we continue to see opportunities to deploy additional capital within the existing names that we hold.

We exited our position in Alere on the back of a revised takeover proposal from Abbott, drawing their litigious courtship to a close. We are thus back to 32 positions in the portfolio. Leverage remains unchanged from March end at ~4% of NAV.

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.

A further 3.15m shares were issued under the block listing facility during April and we appreciate the continued positive feedback from existing shareholders looking to increase their exposure to the Trust.

Let's get something straight...

One of the moral conundrums of healthcare innovation is the curative intervention. Of course, this is the holy grail of any treatment plan (second only to preventing the condition in the first), but in the healthcare industry you are effectively getting rid of your potential future customers. The incredible impact of the latest generation of Hep C drugs serves as a perfect example of this dynamic in action. Humanity could see the end of burdensome disease within 20 years, thanks to Gilead, AbbVie et. al.

What if one could find a market where we could be certain that there will never be a cure and where consumer demand will similarly never ebb away. If only one could then find a disruptive innovator set to revolutionise this market. Surely, such a stock would be the backbone of a healthcare portfolio and a fantastic source of long-term compounding returns?

We think Align is just such an opportunity with its Invisalign teeth straightening system. At its core, Invisalign uses 3D-printed plastic liners (like a mouthguard) to pull teeth into the correct alignment. Sometimes small plastic 'buttons' are glued to the teeth to allow the guard to apply more torque for more complex movements. For many people, the treatment is largely invisible and, because it is computer-led, can often be administered by a dentist rather than an orthodontist.

Clinical evidence suggests clear-aligner approaches are comparably effective to other approaches for moderate crowding of the front teeth (the main thing people get straightened) and the clinical evidence base for more complex issues continues to build. In general, these approaches require less frequent visits to the dentist than approaches using metal braces and can generate visible results faster, which is arguably half the incentive to stick with treatment to its end.

We've only just begun...

Invisalign has been on the US market since 1999 and there have been a number of iterations of the technology offering faster treatment times over a broader range of occlusions (we are now a fifth generation version). The company's marketing focus has historically been toward adults, but it is now targeting the teen market more intensively. A national campaign to target this market is about to begin in the US, ushering in a new phase of growth in what is already a 20%+ growth business (revenues grew >30% in Q1 17 and teen revenues even faster than this). It is worth noting that

teenagers account for around three quarters of orthodontic referrals. You don't need to try too hard to convince a teenager to choose clear plastic over metal train tracks; the trick is convincing their parents it is worth the additional expense. The cost of an Invisalign treatment in the UK is ~£2,500-4,500 and treatment duration is 6-18 months (depending on case severity).

Finally, these are predominantly self-pay markets and the power of branding should not be under-estimated as a barrier to entry for competitors beyond the obvious IP-based approaches. Such products are somewhat sensitive to overall consumer discretionary income trends but not to healthcare reform-related issues.

Align is forecast to double revenues over the coming four years, but this could well prove to be a conservative estimate. The business has low capital intensity and thus high cashflow, allowing Align to undertake share buybacks despite being a high growth company. Align offers a compelling mix of improved patient outcomes, under-penetrated markets, high barriers to entry and visible long-term growth. Hopefully the above offers some interesting insight into why it is our largest position, and is likely to remain so for some considerable time to come.

Paul Major and Daniel Koller

TOP 10 HOLDINGS

Align Technology	7.5%
Anthem	6.3%
Walgreens Boots Alliance	6.1%
Amgen	5.5%
Eli Lilly	5.4%
Intuitive Surgical	4.5%
Illumina	4.2%
Celgene	4.1%
AmerisourceBergen	3.9%
Gilead Sciences	3.8%

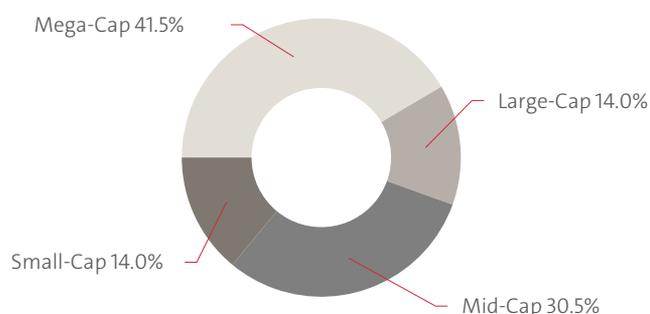
Source: Bellevue Asset Management, 30.04.2017

SUB SECTOR BREAKDOWN

Medtech	23.4%
Biotech	23.0%
Specialty Pharma	16.6%
Pharma	15.0%
Managed Care	8.1%
Other Healthcare	6.1%
Diagnostics	5.8%
Distributors	3.9%
Facilities	2.3%
Cash	-4.1%

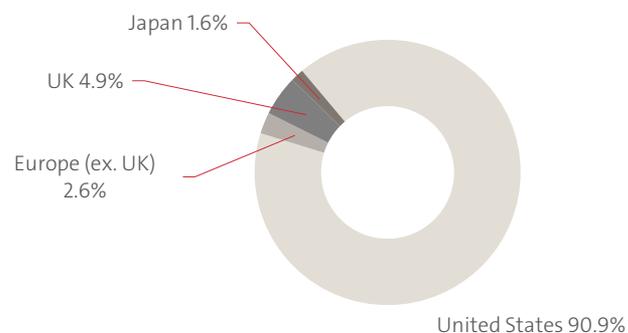
Source: Bellevue Asset Management, 30.04.2017

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 30.04.2017

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 30.04.2017

"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 190 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	167 340 675
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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