EDISON

BB Healthcare Trust

Pre-IPO research

Focused portfolio of global healthcare names

Investment companies

BB Healthcare Trust (BBH LN) will be a new global healthcare investment trust managed by Swiss specialist Bellevue Asset Management. Like its established stablemate BB Biotech, it will hold a focused and actively managed portfolio of a maximum of 35 investments chosen for their capital growth potential, although it will draw its ideas from the whole healthcare universe rather than focusing narrowly on the biotechnology sector. Structured as a UK-listed investment trust, the fund will target an annual dividend of 3.5% of NAV and will offer an annual redemption facility.

Reasons to invest in healthcare

With the world's population becoming both more affluent and older, access to and demand for healthcare services are increasing. Data from the OECD shows that rising GDP leads to proportionately higher spending on healthcare, while older people tend to have more health issues and therefore consume a larger amount of healthcare products and services. At the same time, scientific discovery continues apace, with ever greater understanding of the human genome and disease processes, and the relatively tiny proportion of diseases (c 4%) currently classed as 'curable' illustrates the significant potential for further advances.

Investment strategy

The investment team responsible for BB Healthcare Trust is building a concentrated, global portfolio of companies from across the healthcare spectrum, targeting capital growth potential in excess of that of the MSCI World Health Care index. The trust is likely to be US-biased and have greater exposure to smaller companies than the index. The life sciences expertise of the broader investment team, who have a long track record running BB Biotech, means they are able to assess potential investments from a clinical as well as a financial perspective.

Why invest through a closed-end fund?

As seen in the sell-offs in healthcare (particularly biotechnology) stocks over the past 12 months, the sector can be vulnerable to swings in sentiment. The closed-end nature of an investment trust means the manager will not be troubled by daily inflows and outflows from the portfolio, and will arguably be better placed to ride out short-term ups and downs than a manager of an open-ended fund. In addition, the ability to deploy gearing gives the manager flexibility on the timing of purchases and sales, as well as potentially boosting returns. Furthermore, a trust is able to hold a more concentrated portfolio than would be feasible for a UCITS fund.

Risks

All equity investment involves risk, although early-stage companies involved in drug development have a greater risk of binary outcomes than others in the sector. To mitigate this, BB Healthcare Trust will invest across a range of healthcare sectors. There is currency risk inherent in the likely large and unhedged exposure to US dollar-denominated assets. While all closed-end funds carry discount risk, BB Healthcare Trust aims to mitigate this through its above-market target yield and annual redemption opportunity. However, the fact that the yield is likely to be mostly funded out of capital carries a risk of capital erosion.

27 October 2016

Issue price	100p
Target issue proceeds	£200m
Target initial NAV	98.5p
Target initial yield	3.5%

Company website

www.bbhealthcaretrust.com

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Next events

Publication of prospectus	Early November 2016
Listing	Early December 2016

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Bellevue Asset Management is a research client of Edison Investment Research Limited

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Exhibit 1: Trust at a glance

Investment objective and fund background

BB Healthcare Trust will seek to generate capital growth by investing in a focused portfolio of global healthcare stocks. Managed on a bottom-up basis and unconstrained by any benchmark, the portfolio will be made up of a maximum of 35 'best ideas', drawn from around the world and across the market capitalisation spectrum. The manager's specific return objectives are: (i) to beat the total return of the MSCI World Healthcare Index (in sterling) on a rolling three-year period (the index total return including dividends reinvested on a net basis); and (ii) to seek to generate a double-digit total shareholder return per annum over a rolling three-year period. There is a target annual dividend of 3.5% of NAV, calculated at the preceding year-end and paid in two equal instalments. It is currently expected that the dividend will be mostly funded out of capital.

Expected timetable (subject to change)

Publication of prospectus	early November 2016
Opening of offer for subscription/offer to intermediaries	early November 2016
Offer for subscription/offer to intermediaries closes	late November 2016
Placing closes	late November 2016
Results of issue published	late November 2016
Admission to trading on LSE	early December 2016

Forthcoming announcements/catalysts		Capital structure		Trust details	
Year end	30 November	Gearing	Up to 20% of NAV	Portfolio manager	Bellevue Asset Management AG
Dividends paid	Twice-yearly basis	Annual mgmt fee	0.95% of market cap	Investment team	Daniel Koller, Paul Major
Launch date	early December 2016	Performance fee	None	Address	2 Mermaid House Puddle Dock London EC4V 3BD
Trust life	Indefinite				
Redemption facility	Annual				

Dividend policy

The trust will target a dividend of 3.5% of preceding year-end NAV, to be paid in two equal instalments, with the balance above the portfolio's natural yield to be paid out of capital; total target dividend in the first financial period of 3.5p per share.

Share buyback policy

An annual redemption opportunity at approximately NAV will be offered.

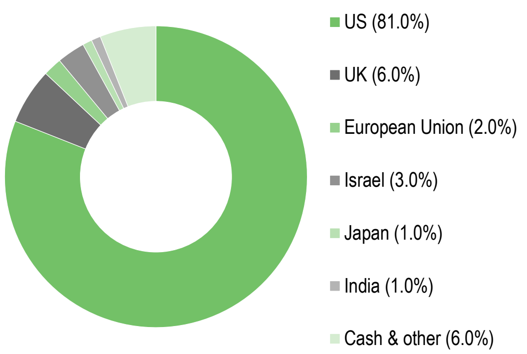
Indicative portfolio characteristics*

Number of holdings	Max 35
Target dividend yield	3.5%
Performance benchmark	MSCI World Health Care index

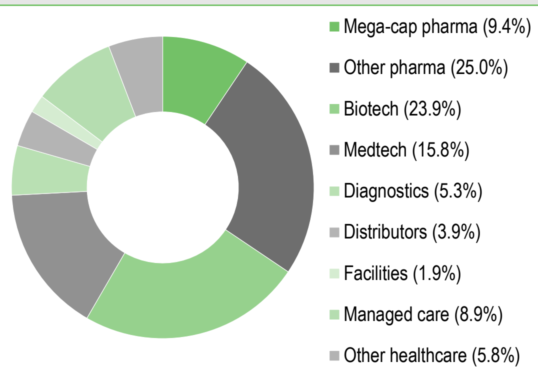
Indicative market cap breakdown*

Mega-cap ($50bn+)	41%
Large-cap ($10-50bn)	25%
Small and mid-cap (<$10bn)	33%
Mega-cap ($50bn+)	41%
Large-cap ($10-50bn)	25%

Indicative geographical breakdown*



Indicative sector breakdown*



Source: Bellevue Asset Management. Note: *Indicative portfolio is illustrative only. The trust's portfolio and the returns derived from such portfolio may differ. Indicative weightings are examples only of the type of investments that may be considered by the trust and are provided for illustrative purposes only.

Fund profile and summary

Company description: Focused global healthcare trust

BB Healthcare Trust (BBH LN) is a new investment trust, incorporated in the UK and to be listed on the premium segment of the Official List of the UK Listing Authority, and admitted to trading on the Main Market of the London Stock Exchange. The trust aims to bring the focused investment approach of its Switzerland-listed stablemate BB Biotech[1] to the broader healthcare universe, with the aim of achieving long-term capital growth (in sterling terms) in excess of the MSCI World Health Care index. The portfolio will be made up of a maximum of 35 stocks, drawn from a much broader global universe (c 3,000 companies) than the 130 mainly large-cap, developed market companies in the index. The trust will also target a yield of 3.5% of year-end NAV, to be paid in two instalments. This is currently expected to be mostly funded out of capital.

The trust will be managed by a team at Bellevue Asset Management, a specialist in the area of healthcare investment. Bellevue manages more than $3.8bn in healthcare investments across various products and mandates and has a team of 20 investment professionals focused on healthcare. Bellevue's portfolio managers and analysts have expertise in a broad range of life science disciplines, giving them an advantage in assessing the clinical as well as the financial qualities of potential investments. Dr Daniel Koller, head of Bellevue's healthcare investment trust team, will oversee management of the trust's portfolio and will receive advice and recommendations from Paul Major, a new hire brought in specifically for the launch (see page 7).

Why invest in healthcare?

We consider the backdrop to the global healthcare market on pages 6 and 7. Fundamentally, the investment case for the sector hinges on two things. First, the increased pace of scientific innovation means that some previously fatal diseases may now be managed as long-term health conditions or even cured. Advances in the diagnosis and understanding of genetics and disease processes should benefit sufferers of congenital conditions as well as illnesses such as cancer, while an accommodative regulatory backdrop, particularly in the key global healthcare market of the US, is encouraging research and development. Second, ageing populations globally, coupled with increasing affluence in developing markets, mean that demand for many healthcare services, from medicines to orthopaedic implants to care homes, is rising and will continue to do so. Although there is political pressure on drug pricing as a result of the US election, the healthcare sector is broad and global and includes those who benefit from older drugs going off-patent (such as makers of low-priced generics and biosimilars), while true innovation – which can offer real benefits to humanity – is unlikely to be choked off on the basis of cost. Companies generating efficiency gains ranging from better outcomes of surgeries to improved medical compliance will continue to improve both outcomes and healthcare effciencies.

Investment strategy and process

BB Healthcare Trust's investment strategy and process are described in greater detail on pages 7 to 10, but in brief, the manager has built a concentrated model portfolio of healthcare companies, drawn from around the world but biased towards the US, which have been selected based on an assessment of macro and political factors, clarity of approach, liquidity, valuation and growth potential.The new trust will build on the many decades of experience the managers of BB Biotech have established in understanding the opportunity for healthcare innovations from the bottom up, beginning with disease modelling, through the practitioner experience to the economic proposition.

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[1] BB Biotech is a client of Edison Investment Research.

The aim is to have a broad spread of subsectors within the portfolio, maintaining exposure to areas of innovation, while mitigating risk through diversification and allocation to areas of the market that are less dependent on binary outcomes.

Differentiation of BB Healthcare Trust

The section on pages 10-11, 'Existing funds investing in healthcare', looks at the peer group of closed-ended funds available to UK investors. There is more than £5.5bn invested in these funds, but in our view BB Healthcare Trust offers a sufficiently differentiated proposition to attract support from investors. We see four main differentiating features:

- **Concentrated portfolio**. The only peer with a similarly high-conviction portfolio is stablemate BB Biotech, which invests only in the biotech sector. BB Healthcare Trust will offer the same focused approach, but will invest across the broader global healthcare sector.
- **Above-market target yield.** While three of the peers have adopted a high distribution policy, BB Healthcare will be the only UK-listed healthcare generalist to do so (the others are two biotech funds and a Switzerland-listed generalist).
- **Annual redemption opportunity.** This differs from a tender offer, where the tender price is usually set at a noticeable discount to NAV, in that it will offer investors the option to redeem some or all of their holding at approximately NAV.
- **Geographical focus**. The model portfolio for BB Healthcare Trust is currently heavily skewed to the US, at c 80% compared with c 45-65% for the two UK-listed generalist peers. However, for all three trusts this is largely a function of bottom-up stock selection and is therefore subject to change.

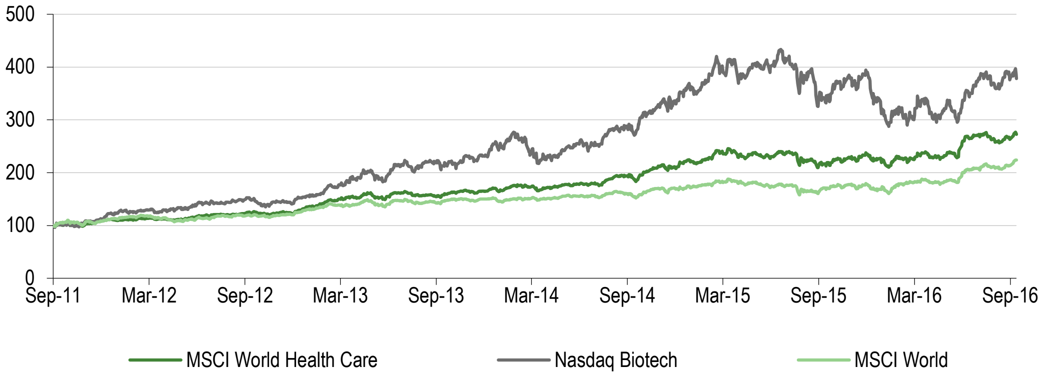
Proposed capital structure, fees and other items

- The trust intends to make a placing and offer of shares targeting an issue size of £200m. The proposed capital structure is a conventional UK-incorporated investment trust with a single share class, admitted to trading on the Main Market of the London Stock Exchange. Further shares may be issued in the future as either ordinary shares or C shares that would convert into ordinary shares at a later date.
- The annual management fee will be 0.95% of market capitalisation, with no performance fee. Linking the management fee to market cap rather than net asset value will arguably incentivise the board and management to minimise any discount to NAV.
- UK-based directors will be remunerated with shares in the trust, seeking to ensure their interests are aligned with those of investors.
- After issue costs the opening NAV is expected to be 98.5p compared with an issue price of 100p.
- The trust will have the ability to gear up to 20% of net assets. Based on the target issue proceeds of £200m and the target opening NAV of 98.5p, this suggests a gearing facility of c £39.5m.
- The life of the trust will be indefinite and no continuation vote is planned.
- An annual redemption opportunity will be offered, allowing investors to exit some or all of their investment at approximately NAV. The intention is that this will reduce the likelihood of the shares trading at a substantial discount to NAV.
- The trust intends to put in place a buyback facility under which up to 14.99% of shares could be repurchased annually.

Background to global healthcare investment

As shown in Exhibit 2, global healthcare stocks (as measured by the MSCI World Health Care index) have outperformed developed world equity markets (as measured by the MSCI World index) by a wide margin over the past five years. US-listed biotechnology stocks (as measured by the NASDAQ Biotech index) have outperformed by even more, although they have been more volatile and have seen significant sell-offs over the past 12 months, followed by recovery.

Exhibit 2: Biotech and healthcare stocks vs world equity market



Source: Thomson Datastream. Note: Total returns in sterling over five years to 30 September 2016.

Factors underpinning the performance of healthcare stocks include rising demand as a result of ageing populations globally, rising affluence in emerging economies leading to an increase in access to healthcare, and initiatives such as the Affordable Care Act (ObamaCare) in the US, which has extended health insurance cover to those who previously lacked it. Rising GDP leads to higher healthcare spending, and as people age they cost progressively more to treat because they tend to have a greater range of health issues. Recent years have also seen major advances in the understanding of the human genome and disease processes, leading to innovations such as the hepatitis C treatment Sovaldi/Harvoni (which effectively cures what was once a chronic and often fatal condition) and immuno-oncology, which offers the prospect of revolutionising cancer treatment.

The imminent US presidential election has caused some political pressure on the sector, beginning in September 2015 when Hillary Clinton posted a tweet criticising unquoted US specialty pharma company Turing Pharmaceuticals for a 5,000% price rise on a 60-year-old antifungal drug Daraprim, used in the treatment of AIDS and malaria. The suggestion that, if elected, Clinton would crack down on high-priced medicines sparked a broad-based sell-off of healthcare stocks, particularly biotech, in spite of a later tweet clarifying that she was not targeting truly innovative companies, but only those engaging in 'price gouging'. At the other end of the political spectrum, Donald Trump has indicated that if elected he would immediately repeal ObamaCare, which would cause uncertainty across several US healthcare subsectors that are exposed to the risk of under- or uninsured patients, although some kind of replacement scheme would be likely.

This perceived pressure on the sector (the US is the largest consumer of healthcare, spending \$2.9tn or 17.5% of the federal budget on it each year) could be seen as a source of opportunity given that the fundamental factors underpinning healthcare demand (see above) are unchanged. In the short term the 'fear factor' has led to considerable divergence in the performance of healthcare subsectors, with biotech, healthcare services and specialty pharma still deep in negative territory over the 12 months to 30 June 2016, while tools (which are boosted by higher academic budgets) and medtech are up more than 20%.

Although there has been great progress in recent decades in the treatment of diseases, less than 4% of the 13,000 identified human diseases are currently defined as 'curable', and many still lack diagnostic tests. Further innovation in diagnosis and treatment is both possible and likely given the ongoing advances in medical understanding. In addition, an increased focus on resource allocation and cutting waste is a supportive factor for those companies developing new technologies, more efficient ways of working and techniques for earlier diagnosis, which can dramatically cut the cost of treatment.

While much of the debate around healthcare centres on the development, availability and cost of drugs – and indeed, companies developing and making drugs make up more than half of the MSCI World Health Care index – the drugs themselves are a relatively small part of the overall healthcare picture: in the US, for example, only 10% of federal healthcare spending (excluding pharmacy benefit manager fees, administration, hospital, doctor charges etc) goes on prescription drugs directly, meaning $2.7tn a year is spent in other areas. Taking a broader approach to healthcare investment than simply investing in pharma and biotech could allow investors to benefit from the opportunities available across the wider market.

BB Healthcare Trust: New fund from established team

Investment team

BB Healthcare Trust will be managed by Bellevue Asset Management, a specialist healthcare asset manager headquartered in Switzerland but with offices in the US and UK. Bellevue Asset Management will receive investment advice from its UK subsidiary, Bellevue Advisors Limited. Bellevue's investment team is led by Dr Daniel Koller, who is based in Zurich, and includes qualified doctors with various specialisms, as well as biochemists, molecular biologists and economists.

The investment team responsible for the new trust will be Daniel Koller and Paul Major. Both have backgrounds in biochemistry as well as extensive investment experience. Koller has worked at Bellevue since 2004 and has been head of portfolio management for BB Biotech since 2010. Paul Major joined Bellevue this year after 18 years as a sell-side healthcare analyst , most recently at independent research firm Redburn. Major also has previous experience in healthcare on the corporate finance side.

Koller and Major will be supported by a research team of four biotech and healthcare specialists, with three based in New York and one in Zurich.

Investment process

Like its established stablemate BB Biotech, BB Healthcare Trust will follow a four-stage investment process to arrive at its concentrated portfolio (maximum 35 stocks). The global healthcare universe contains c 3,000 companies (compared with c 800 in the global biotech universe), and the team will begin with a macro/thematic overlay, assessing risks and opportunities arising from factors including the political and regulatory environment (and the effects these have on demand and supply) and the level of merger and acquisition activity. Qualititative screens will be applied to assess clarity around each company's strategy and financials (the team is clear about not investing in anything it does not understand), the accessibility of management and the level of sell-side analyst coverage. Given the life science focus of the investment team, considerable time will be spent assessing the clinical background to investments, particularly in the areas of therapeutic and technological development. Liquidity screens will be employed to assess both whether the trust's minimum position size of 1.0% is achievable and whether a position could be exited quickly (within five trading days) and in an orderly fashion without disrupting the price. The manager sees the strategy as highly scalable and thus liquidity will be an important consideration given the concentrated nature of the portfolio. Together these screens filter the theoretical universe to a pragmatic universe of c 500 companies.

Quantitative screens will be used to rank stocks on various long-term value and growth measures, which leads to a 'top 100' list for the trust. The team will then use a reverse discounted cash flow analysis to understand what the market is pricing in for the stock over the next five years. This is fundamental to understanding the scale of the opportunity, as a stock that is 'priced for perfection' will offer insufficient upside potential to compensate for the risk of investment. The output of this analysis is an 'ideas pool' of the team's best ideas from the top 100 stocks. These companies will be modelled in depth, with a thesis mapped out for each stock in terms of key events and a band of valuations.

The portfolio will be constructed based on the team's highest-conviction ideas, with position size based on an assessment of the balance of risks and reward potential, as well as overall subsector exposures. While it will be a concentrated list of holdings, the manager will aim for a spread of business areas, although there are certain parts of the healthcare market that it is happy to avoid (see 'Indicative portfolio positioning', below). In constructing the portfolio, the manager will take no account of the construction of the MSCI World Health Care index (used as a performance benchmark only), which contains the 130 biggest global healthcare companies and is heavily biased towards pharma and biotech. Like its stablemate BB Biotech, BB Healthcare Trust will aim to own companies from across the market capitalisation spectrum. Positions will be taken at a minimum of 1.0%, with a limit of 10% at the time of investment.

Once in the portfolio, holdings will be monitored constantly, with the use of risk management tools. If a holding reaches the upper valuation band identified at the modelling stage, the investment case will be reconsidered to assess whether there is further upside. Any factors affecting the original investment thesis will also be monitored carefully and could lead to a reassessment of the holding.

The manager expects portfolio turnover to be low, in line with that of BB Biotech (c 25% a year), although it notes that given there will be a bias to smaller and mid-cap companies, the level of turnover could be affected by M&A activity.

Indicative portfolio positioning[2]

The BB Healthcare Trust team has been running a model portfolio since May 2016, which at the time of writing contained 33 'best ideas' identified using the investment process outlined above. The manager's aim is to invest in stocks that are not highly correlated with each other, and the 10 largest positions at 30 September are drawn from seven subsectors of the healthcare market (three in biotech, two in managed care and one each in distributors, mega-cap pharma, medical devices, generics and medtech). Illustrating the high-conviction approach, the top 10 stocks make up c 45% of the portfolio, with the top 20 accounting for 76% of the total.

As shown in Exhibit 3, sector weightings diverge widely from the MSCI World Health Care index. As a market cap-weighted index the benchmark is understably dominated by mega-cap pharma. Although biotech accounts for nearly a quarter of the model portfolio, the manager points out that it is not simply borrowing ideas from stablemate BB Biotech; only six stocks are common to both portfolios, and the largest illustrative portfolio position in the biotechnology sector – Amgen (6.1% of the model portfolio) – is not in the BB Biotech portfolio at all. There are four sectors to which the model portfolio has no exposure; these are absent for structural rather than stock-specific reasons. There is no exposure to conglomerates because the team prefers focused companies. Healthcare services are perceived to be at risk from the uninsured/underinsured population in the US; addressing some of the flaws in the ObamaCare system could decrease this pressure, but is likely to take time. Healthcare IT (which includes pharmacy benefit managers, third-party administrators that deal with drugs prescribed through insurance plans) suffers from a lack of business model

[2] Indicative portfolio is illustrative only. The trust's portfolio and the returns derived from such portfolio may differ. Indicative weightings are examples only of the type of investments that may be considered by the trust and are provided for illustrative purposes only.

transparency and an over-reliance on drug pricing. The manager feels that the tools sub-sector (excluding clinical diagnostics) is currently unattractive because it is trading at valuations that require sustained levels of high growth to justify.

In geographical terms, the model portfolio has greater exposure to the US than the MSCI World Health Care index, but is underweight Switzerland, the UK and Japan. The North American bias is as a result of greater availability of venture capital finance in the US, meaning that many innovative companies choose to base themselves there.

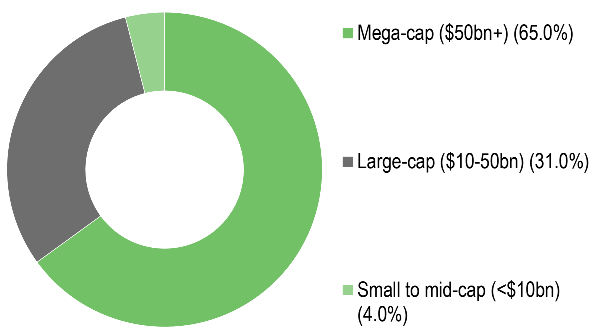
Exhibit 3: Model portfolio sector exposure vs MSCI World Health Care index

Sector	Indicative portfolio weight	Index weight	Active weight vs index	Indicative weight/ index weight
Other pharma	25.0	13.9	11.1	1.8
Biotech	23.9	12.5	11.4	1.9
Medtech	15.8	12.5	3.3	1.3
Mega-cap pharma	9.4	31.7	-22.3	0.3
Managed care	8.9	5.5	3.4	1.6
Other healthcare	5.8	0.8	5.0	7.3
Diagnostics	5.3	1.9	3.4	2.8
Distributors	3.9	1.9	2.0	2.1
Facilities	1.9	1.1	0.8	1.7
Conglomerates	0.0	12.5	-12.5	0.0
Services	0.0	1.9	-1.9	0.0
Tools	0.0	2.5	-2.5	0.0
Healthcare IT	0.0	1.1	-1.1	0.0

Source: Bellevue Asset Management, MSCI

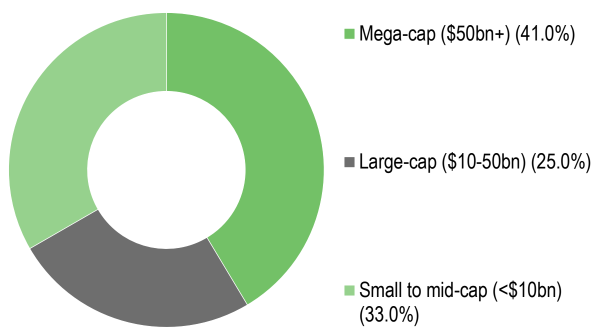
As shown in Exhibits 4 and 5 below, the model portfolio is broadly spread by company size, an obvious contrast to the MSCI World Health Care index, which includes only the largest 130 healthcare companies listed on developed market stock exchanges. The manager believes that size can be the enemy of growth for healthcare companies, and as such has a far greater proportion in sub-$10bn companies, which it sees as the potential large-caps of tomorrow.

Exhibit 4: Index market cap breakdown



Source: Bellevue Asset Management, MSCI

Exhibit 5: Model portfolio market cap breakdown



Source: Bellevue Asset Management

Risks and sensitivities

- Any investment in equities carries the risk of capital loss. Investing in a single market sector may increase this risk as there may be times when the whole sector is out of favour.
- The operating and share price performance of some healthcare companies, particularly those involved in developing new drugs, may be heavily dependent on binary outcomes from clinical trials. This may be particularly true of smaller companies with fewer product lines.
- A concentrated portfolio may be more affected by poor performance from a single stock than would be the case for a more diversified portfolio.

- For UK investors, investing in other countries incurs currency risk. While the weakness of sterling at present is boosting returns from overseas assets, this may reverse in the future.
- Investment trusts are traded on the stock market and as such their share prices are subject to supply and demand and may diverge from the value of underlying assets. While the trust will have measures in place designed to manage any discount to net asset value (offering an above-market target yield and an annual redemption opportunity at approximately NAV), there is no guarantee that the share price will not move to a discount, particularly if the healthcare sector is out of favour with investors.
- Paying dividends out of capital is only sustainable over the long term if capital performance is positive.

Dividend policy

The dividend yield on the MSCI World Health Care index was 2.0% at the end of September 2016, masking a wide divergence in yields between different areas of the market (few biotechnology companies pay a dividend, for example). This is somewhat lower than the 2.6% dividend yield on the MSCI World index. However, given the persistence of low interest rates globally and the resulting attraction of income to equity investors, many healthcare funds (see below) have a distribution policy that aims to provide a minimum level of yield to investors, which may be derived from portfolio income or from capital returns.

BB Healthcare Trust will target an annual dividend set at 3.5% of the previous year-end NAV, to be paid in two equal instalments. This is broadly equal to the dividend yield on the UK stockmarket (as at 30 September 2016). For the first financial period of operation the yield will be based on the 100p share price at listing (rather than the predicted 98.5p NAV after listing costs), meaning a dividend of 3.5p per share is targeted. This is very unlikely to be covered by the portfolio's natural yield and will be paid mostly out of capital. Dividend yield will not be used as a criterion for selecting investments.

Existing funds investing in healthcare

The Association of Investment Companies' Sector Specialist: Biotech & Healthcare sector contains four London-listed, closed-end funds, two specialising in biotechnology and two with a broader healthcare focus, which will be joined by BB Healthcare Trust once it is launched. The table in Exhibit 6 also includes two closed-end funds listed in Switzerland but available to UK investors – BB Healthcare Trust's stablemate BB Biotech, and HBM Healthcare Investments. All figures are shown in sterling.

All the existing funds are slightly different from one another and also from BB Healthcare Trust. BB Biotech and Biotech Growth Trust both invest in a focused portfolio of biotechnology stocks, but BB Biotech has more of a mid-market focus and also pays out a capital distribution of c 5% a year. International Biotechnology Trust (IBT) and HBM Healthcare Investments (HBM) both blend public and private companies and also pay out capital distributions (4% for IBT and 5% for HBM), but the former concentrates on biotechnology while the latter has a broader healthcare focus.

Polar Capital Global Healthcare (Polar Capital) and Worldwide Healthcare Trust (WWH) are perhaps the most similar, both to each other and to BB Healthcare Trust, as all three are UK investment trusts that may invest across the global healthcare spectrum. However, the two established trusts have 70-80 positions compared with BB Healthcare Trust's maximum of 35, and both are less heavily invested in the US (62.1% for WWH and 46.2% for Polar Capital) than BB Healthcare's indicative c 80% US exposure (although this is indicative only and is subject to change). WWH and Polar Capital pay dividends based on portfolio income (1.9% for Polar Capital and 0.8% for WWH), whereas BB Healthcare will join BB Biotech, HBM and IBT in targeting a higher level of distributions (3.5% for BB Healthcare Trust) that are likely to be mostly funded out of capital.

As shown in Exhibit 6, longer-term returns from biotech in particular have been very strong, with all of the peer group at least doubling and in some cases quadrupling investors' money on a total return basis over five years. The past 12 months have been a more challenging environment for the global healthcare sector, with risk-adjusted performance for the three biotech specialists in particular (as measured by the Sharpe ratio) in flat to negative territory.

In terms of BB Healthcare Trust's position in the sector, its charging structure (an all-in fee of 0.95% with no performance fee) is competitive with peers, while its target 3.5% distributions would translate to a higher yield than either of the London-listed healthcare generalists. However, as most of the distribution is likely to be paid out of capital, this does not necessarily indicate a higher total return.

With the exception of HBM, all of the peers currently trade at a discount to net asset value of less than 10%. BB Healthcare's distribution policy and annual redemption option are designed to underpin demand and give shareholders the comfort of knowing they can exit some or all of their investment at approximately NAV, which may (although there is no guarantee of this) help to ensure that the shares do not move to a wide discount. All of the peers are either ungeared or have current gearing well below BB Healthcare's maximum permitted gearing level of 20%. BB Healthcare Trust's manager intends to take a flexible approach to the use of leverage, but it is expected that over the long term gearing will average between 5% and 10% of NAV.

Exhibit 6: Biotech and healthcare peer group as at 12 October 2016

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)	Sharpe 1y (NAV)	Sharpe 3y (NAV)
BB Biotech	2,977.3	1.5	88.5	349.4	1.1	No	(3.1)	102	6.0	(0.3)	0.6
Biotech Growth Trust	397.0	11.8	79.2	311.8	1.0	Yes	(7.2)	108	0.0	(0.1)	0.7
HBM Healthcare Investments	766.5	38.9	103.4	212.1	1.7	Yes	(27.6)	100	5.5	0.8	1.0
International Biotechnology Trust	208.8	15.2	94.5	264.5	1.5	Yes	(9.0)	100	4.1	0.0	0.8
Polar Capital Glbl Healthcare	238.8	23.1	58.4	129.1	1.0	Yes	(6.9)	100	1.9	0.1	0.8
Worldwide Healthcare Trust	1,003.6	27.0	98.1	226.1	0.9	Yes	(5.2)	110	0.8	0.4	1.1
Peer group simple average	**932.0**	**19.6**	**87.0**	**248.8**	**1.2**		**(9.8)**	**103**	**3.0**	**0.1**	**0.8**
Peer group weighted average		**13.3**	**90.5**	**293.2**	**1.2**		**(7.5)**	**103**	**4.7**	**0.0**	**0.8**

Source: Morningstar, Edison Investment Research. Note: TR = total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared). BB Biotech and HBM Healthcare Investments data have been translated from CHF to GBP.

Director biographies

Company directors

Professor Justin Stebbing (chairman), a leading cancer specialist based in the UK, is professor of cancer medicine and consultant oncologist at Imperial College and Imperial College Healthcare NHS Trust. Trained at Trinity College, Oxford and the Johns Hopkins Hospital in Baltimore, US, he is a fellow of the Royal College of Physicians, the American Board of Internal Medicine and the Royal College of Pathologists, and has published more than 500 peer-reviewed papers on cancer, in addition to having worked in investment management as a healthcare analyst.

Siddhartha Mukherjee is an assistant professor of medicine at Columbia University College of Physicians & Surgeons in New York. Also a leading cancer specialist with a particular interest in blood cancers, he has written several books and won the Pulitzer Prize for non-fiction in 2011 for *The Emperor of All Maladies*. Trained at Stanford University, the University of Oxford and Harvard

Medical School, he has been a visiting professor at the Mayo Clinic and the Johns Hopkins School of Medicine. Mukherjee is the only non-UK-based director.

Josephine Dixon is a chartered accountant and chair of the audit committee of BB Healthcare Trust. She has undertaken commercial roles in finance and governance for employers including Natwest, Serco and Newcastle United, and sits on a number of investment trust boards. She was a director (latterly senior independent director) of Worldwide Healthcare Trust from 2004 until September 2016.

Randeep Grewal is chair of the management engagement committee of BB Healthcare Trust. He is a London-based fund manager with more than 17 years' experience investing in healthcare, currently at hedge fund manager Trium Capital and previously at F&C Asset Management, Tudor Investment Corporation and ICAP Equities. After reading Medicine and Computer Science at the University of Cambridge, he trained as a vascular and general surgeon. He also sits on the board of London-listed regenerative medical technology specialist Tissue Regenix.

Paul Southgate is a London-based fund manager at Eisensat Capital Partners (ECAP), with 20 years' investment experience. Before joining ECAP, he managed European equity portfolios at Fortress Investment Group. Prior to that, he was a portfolio manager at Deephaven Capital Management. He began his investment career as an analyst and assistant portfolio manager with UBS Asset Management.

All of the UK-based directors will take their fees in the form of shares in BB Healthcare Trust, to seek to ensure alignment of their interests with those of the wider shareholder base.

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