

As at 10/31/2017	Value	1 Month (October)	YTD	Since Launch (ITD)
Share	115.00	0.00%	12.40%	16.76%
NAV	112.79	0.04%	13.27%	14.59%

Welcome to our October update. Reporting season dominates the month and, after the wild gyrations at Q2, we hoped for a more considered reaction to newsflow over the period, offering a chance for the better companies to shine. Thus far though, Q3 has brought another unwelcome dose of uncertainty and irrationality.

This is not the end...

The Trust's ex-income net asset value (NAV) was effectively flat at 112.79p. In sterling terms, the MSCI Healthcare benchmark declined 0.4% despite a partial reversal of last month's significant sterling strengthening. When measured in dollars, the benchmark fell 1.3% and performance was very divergent across the sub-sectors, as described below. We estimate the FX benefit on our portfolio was +1.1% for the month.

The month began much as July did ahead of the Q2 reporting season. We saw rotation into larger capitalisation, diversified companies, which adversely impacted our relative performance. We lost around 300bp of relative performance in the first weeks of the month; as such holdings are broadly antithetical to our strategy, as is trading in and out of stocks on a short-term basis. As the month progressed, our relative performance recovered, to leave us slightly ahead of the benchmark for the month.

We have again included a summary of the sub-sector performance in Figure 1 below. Navigating such a disparate landscape has doubtless been tricky for everyone, but the over-riding theme was away from drugs and toward medical devices and services and (once again) supply chain exposure was deemed risky – is there anything that Amazon is not seemingly about to dominate?

We opined on the Amazon concerns in last month's factsheet, but have been surprised this issue continues to gather momentum. The irony of Jeff Bezos (who also owns the Washington Post, the self-styled saviour of US democracy) replacing Donald Trump as the bogeyman of healthcare is simply delicious... who would have imagined those two would have something in common?

CHART SUB-SECTOR / CONTRIBUTION

Sub-Sector	Weighting	Performance
Biotech	12.4%	-10.2%
Conglomerate	13.2%	4.7%
Diagnostics	1.9%	5.2%
Distributors	2.0%	-5.8%
Facilities	1.0%	-2.7%
Healthcare IT	1.1%	1.9%
Managed Care	8.3%	7.7%
Med-Tech	13.4%	4.6%
Other HC	0.7%	1.0%
Pharma	36.2%	-2.8%
Services	1.8%	1.7%
Specialty Pharma	4.4%	-4.7%
Tools	3.7%	5.8%

Source: Bellevue Asset Management, 31.10.2017

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.

...it is not even the beginning of the end...

Should one even try to analyse these moves during the reporting season? It certainly seems that momentum trading rules the roost in these periods. Sell-side flow commentary seems more like a valet's handbook with the relentless carping about hedge funds "pressing shorts", or perhaps a gentlemen's guide to the Grand Tour, given the countless pages devoted to "mapping the Amazon [threat]". We seem to be in the age of the existential crisis – commentators love a superlative and the compression of complex discussions into 140 character soundbites. This is not supportive of longer-term investment theses predicated on detailed work and reasoned analysis.

A case in point would be the performance of Celgene over the month. The stock is down 31% this month on the back of three setbacks: a phase III pipeline failure for mongsersen, a drug where 2020 consensus only stood at \$600m (~3% of revenues in that year), a slowdown at Q3 in sales for Otezla, which was already flagged as facing pressures at Q2 and Celgene's 2020 guidance being reduced by ~\$1.5bn (in part due to the mongsersen failure), down toward a level that is not so different to where a sceptical consensus already sat. Given the stock was already cheap on any cashflow based metric, it is hard to rationalise a scenario where a \$36bn decline in market value is the right answer. More laughable still is the chorus of "only M&A can save them now". Despite near-term sentiment and with a longer timeframe in mind, we have increased our holdings.

One should not complain overmuch. Irrational price moves create useful openings for capital deployment into fundamental stories. Moreover, let none of us forget [in not more than 140 characters]: the positive demographic, economic and technological factors that make healthcare a uniquely visible long-term growth opportunity remain undiminished.

In terms of the NAV evolution, the three most significant positive contributors this month (and their local currency performance) were Align Technology (Dental/Med-Tech, +28%), Anthem (Managed Care, +10%) and Ionis (Biotech, +13%). This month's largest negative contributors were Celgene (Biotech, -31%), Walgreens Boots (Pharmacy, -14%) and Teva (Generics, -22%).

Developments within the Trust

We have issued a further 2.9m shares during October and have added three new companies to the portfolio. These are currently small positions that we expect to build over time. We have also exited two of our inception Biotechnology holdings – Abbvie and Alnylam, which means we now have 32 holdings within the Trust.

Abbvie has performed strongly (+45% year to end-September) and our re-rating thesis has played out. Although we would agree that the pipeline has some option value, we do not feel that the risk-reward is compelling above

the \$90/share level. Alnylam has been a stellar performer for us (+214% year to end-September). However, we have long struggled to see a fair value >\$90 and thus sold our holdings after it rose from \$75 to >\$100. We continue to believe that a robust selling discipline is important and we will not hold stocks that we cannot justify from a valuation or risk/reward perspective.

It is perhaps worth noting that Align Technology, our largest holding, has now surpassed the 10% level in terms of our gross investments. This has been largely down to performance, with our initial 6% holding having increased 147% in value since inception. Letting our winners run is a fundamental part of our philosophy, and the lack of cumulative concentration rules for a Trust versus a UCITS structure a key competitive advantage in our view.

Although there are no formal constraints on position size within our investment guidelines, our current opinion is that we will not add to any position above 10% of gross assets and would look to cap single stock exposures to 15%. The portfolio managers think the Align story has a lot more to offer and still looks compelling from a risk/reward basis. As such, we have no plans to reduce our holdings in the near term.

We have been saying for some months that we expected the leverage ratio to increase beyond the 5% level it stood at prior to the capital increase as we moved toward the end of the year, as we see a number of interesting opportunities. However, things are playing out slightly differently to how we anticipated. We chose to hold back on investing some of the proceeds from the position exits described previously going into the reporting season, to take advantage of any potential volatility and we are gradually investing this cash when we see mispricing opportunities. Because of this approach, our leverage ratio has actually fallen further to 3.2% at month's end, versus 4.0% at the end of September. It is still our intention to gradually increase the leverage within the Trust.

The end of the beginning

As we approach the end of our first year, we can reflect on our strategy and the Healthcare sector's overall performance. As Figure 2's summary of the Trust's performance versus the MSCI global benchmarks for healthcare ("World HC") and the wider market ("World") illustrates, the strong Q1 momentum (the 'no Hilary' relief rally?) soon began to fade and the sector has struggled to make sustained progress from these levels, which is unsurprising given the chaotic macro/political backdrop in the key US marketplace.

As we have noted many times (and doubtless related to the political situation), the broader 'risk off' theme and tendency to hide in the diversified, larger-cap names is not supportive for our strategy.

Total return analysis (GBP)



Source: Bellevue Asset Management, 31.10.2017

There are always lessons to be learned around risk management and due diligence and we continue to refine our internal processes regarding to stock selection and position management.

The NAV redemption option has thus far proven to be a highly effective discount control mechanism. Since inception, the Trust has traded at an average premium of 2.36% to the Net Asset Value. The NAV redemption window opened in early October and closed on 2 November. Given the sustained premium, it is no surprise that we have seen minimal redemptions (<0.08% of the outstanding share count).

Premium/discount to NAV since inception



Source: Bellevue Asset Management, 31.10.2017

Although healthcare has struggled to gain any momentum in recent months, this does not coincide with any change in the growth outlook from our perspective and we continue to be optimistic regarding the 3-5 year return opportunity.

Paul Major, Daniel Koller and Brett Darke

SUB SECTOR BREAKDOWN

Medtech	23.5%
Biotech	20.2%
Dental	10.9%
Specialty Pharma	10.3%
Pharma	9.7%
Diagnostics	7.1%
Managed Care	6.9%
Other HC	4.8%
Distributors	4.1%
Facilities	2.2%
Healthcare IT	0.3%

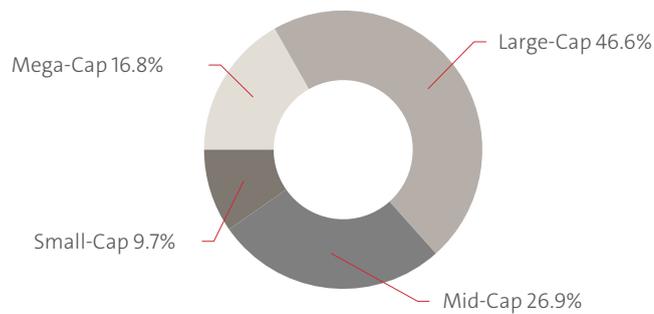
Source: Bellevue Asset Management, 31.10.2017

TOP 10 HOLDINGS

Align Technology	10.9%
Anthem	6.9%
Illumina	6.1%
Intuitive Surgical	5.5%
Celgene	5.1%
Walgreens Boots Alliance	4.8%
Eli Lilly	4.7%
Shire	4.3%
Amerisourcebergen	4.1%
Gilead Sciences	3.9%

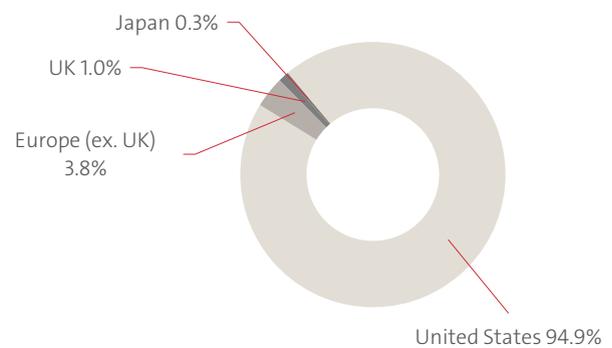
Source: Bellevue Asset Management, 31.10.2017

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.10.2017

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.10.2017

"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



Brett Darke

GENERAL INFORMATION

Issuer	BB Healthcare Trust (LSE main Market (Premium Segment, Official List) UK Incorporated Investment Trust)
Launch	December 2, 2016
Market capitalization	GBP 295 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	193 237 221
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) 203 326 29 83
 Mobile Phone: +44 (0) 755 704 85 77
 E-Mail: cmi@bellevue.ch
 32 London Bridge Street
 24th Floor
 GB-SE1 9SG London
www.bbhealthcaretrust.com