BB Healthcare Trust

Monthly News
June 2020

Marketing document

As at 06/30/2020	Value	1 Month (June)	YTD	Since Launch (ITD)
Share	162.00	1.3%	15.8%	74.4%
NAV	164.10	3.0%	15.7%	79.6%

Sources: Bloomberg & Bellevue Asset Management (UK) Ltd., 30.06.2020, NAV and share price returns are adjusted for dividends paid during the period (but not assuming re-investment). Full performance data is on page 4.

Note: Past performance is not a guide to future performance. The value of an investment and the income from it may fall as well as rise and is not guaranteed.

Welcome to our June update. So much has happened, yet so little has changed. We are closer to something stable enough to call normality, but it is far from clear what the new normal will be like. The market's insouciance to the public health and economic catastrophe all around us continues, and consumers outside the UK seem inured to the fear of a second wave. It is a paroxysm of ambivalence. "Let's go." "We can't." "Why not?" "We're waiting for Godot."

Estragon or Vladimir?

In last month's introspective look back, your managers mused on the seeming irrationality of markets and the lack of a coherent (and compelling) narrative leaving us uncomfortably astride the proverbial fence that divides caution and opportunity. Some four weeks later, little has changed. We can report the predictable fence-induced soreness but still have no desire to climb down from our precipitous perch. This meandering dynamic may persist for some time to come.

During June, the MSCI World Index appreciated 2.0% in sterling terms, as investors continued to focus on the positive economic data around re-opening over sporadic but more frequent reports of snowballing infection rates and secondary outbreaks of COVID-19 across the globe. Even before the pubs have re-opened, everyone else's glasses seem half full. It was unsurprisingly a volatile ride, with the monthly performance being up more than 3% and down more than 2% (i.e. a 5% move) in the space of a week, but the bulls won out in the end.

The MSCI World Healthcare Index underperformed the wider market over the month, declining 1.9% when measured in sterling (-1.4% in dollars). Who needs boring defensives in a consumer-led growth boom, fleeting or otherwise? Whilst partially true, this fatuous comment belies a more complex dynamic, with the rising coronavirus cases casting a spectre over the ongoing recovery in elective surgical procedures, which is precisely what we have been fearing (cf. Facilities and Med-Tech in the sub-sector performance table below):

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Dental	0.5%	10.0%	8.6%
Healthcare Tech.	0.8%	6.1%	3.9%
Healthcare IT	1.4%	3.5%	2.8%
Tools	6.4%	2.3%	1.2%
Services	2.3%	1.6%	0.7%
Focused Therapeutics	9.9%	1.5%	0.4%
Diversified Therapeutics	36.4%	-0.9%	-1.8%
Diagnostics	2.2%	-1.2%	-2.1%
Distributors	1.3%	-1.3%	-2.5%
Other HC	1.2%	-1.5%	-3.0%
Conglomerate	12.4%	-2.8%	-4.3%
Med-Tech	14.9%	-3.3%	-4.4%
Generics	0.5%	-4.9%	-5.9%
Managed Care	9.0%	-4.8%	-6.5%
Facilities	0.9%	-6.4%	-7.3%
Index perf.		**-1.4%**	**-1.9%**

Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of 31-05-20. Performance to 30-06-20.

Summary

BB Healthcare Trust Ltd 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 (UK) Ltd.

The previously discussed re-positioning of our portfolio away from elective volume exposures consequently helped us during the month and this was further assisted by our pivot being toward focused therapeutics (which we previously categorised as biotechnology and specialty pharma), which are more 'defensive' from a revenue perspective; these days, receiving one's prescription can be as simple as opening a jiffy bag couriered to your door.

We did not expect Managed Care to fare so poorly in this phase of market sentiment, but the to-and-fro on the "virus versus economy" has ceded some ground as the prevailing narrative to the 2020 Presidential election campaign and this has undoubtedly contributed to worsening sentiment to the healthcare sector in the wider sense.

It is a lazy truism that Democrats are bad for business and that you never own Managed Care into an election campaign. Biden has surfaced from his bunker, face mask dangling precipitously from one or other lobulus. His own self-isolation seems to have re-invigorated his energy levels and the opportunity to caucus with a youth willingly re-engaging with politics around the "Black Lives Matter" movement could not have worked better for him. At this point, anyone looks reasonable compared to Trump; Biden is hitting all the right notes and the polls have turned in his favour.

Leaving aside the usual nonsense around drug pricing and drug re-importation cited by every Presidential hopeful since Bush/Gore that will never go anywhere, the Republican attack dogs have tried to posit that Biden's (very modest) healthcare proposals amount to "Medicare for All by the back door". We think this is utter nonsense.

It may seem counter-intuitive, but we stand by our previously expressed view that Biden winning is a good outcome for BBH. What matters for healthcare is the number of Americans adequately insured. If your health insurance is the human equivalent of 'third party only' car cover here in the UK, then plainly you are never willingly going to the doctor. Since it is elective procedure volumes that drive dollars, more insured = good, less = bad.

In this stark but simplistic world view, the divide between Trump and Biden is clear. The former seeks to defenestrate the Affordable Care Act and the latter to enhance it. The former opposes expansion of Medicare, the latter does not. In a recessionary world where it seems tragically unavoidable that fewer Americans will be employed in the sort of jobs that offer decent healthcare, it is hardly rocket science to conclude what outcome is best for the industry in the medium-term.

"Let us do something, while we have the chance!"

So where does this leave us? Our inner Vladimir espouses intellectual ruminations and the wider consequences of events, which tend toward continued waiting. The market's Estragon is more bewildered by events and looking for leadership. As we go to press, it is the early vaccine narrative that seems to be the latest straw to grasp. In some senses, it does not matter; both involve sitting around waiting for something and neither perspective is really sure what this 'something' is or why we are still waiting for it.

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The meaning in Beckett's play is much debated, but some say the message is that anything is better than being alone. Like the protagonists, we can at least agree that no-one really has a clue how all of this will ultimately unfold, so we are all facing this interminable interregnum together. From a portfolio management perspective, we must be nimble on our feet, hold no sacred views and prepare for every scenario as best we can, but we continue to view the portfolio as much through a prism of risk management as through positioning to exploit maximum upside potential (since we see the overall market risk more to the downside than the upside).

This approach served us well during June. Despite the sector's gentle downward decline, the Trust's ex-income Net Asset Value rose 3.0% to 164.10p, outperforming the MSCI World Healthcare by 4.9% over the month. As noted previously, the majority of the performance was driven by our Therapeutics holdings, which now account for slightly more than half of our investments. Managed Care was the main detractor, accounting for around a third of the losses realised during the month.

As discussed in the previous factsheet, the sub-sector breakdown table includes last month's holdings as well under our new classification system to allow investors to better understand the evolution of the portfolio over the month. We include the table below, rather than in its usual position at the back of the report:

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

	Subsector end May	Subsector end June	Change
Dental	0.9%	0.9%	Unchanged
Diagnostics	12.4%	11.5%	Decreased
Diversified Therapeutics	14.0%	14.8%	Increased
Focused Therapeutics	34.1%	35.5%	Increased
Healthcare IT	5.5%	4.3%	Decreased
Managed Care	15.2%	14.2%	Decreased
Med-Tech	9.2%	8.6%	Decreased
Services	4.9%	6.2%	Increased
Tools	3.8%	4.0%	Increased
	100.0%	100.0%	

Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of 31-05-20. Performance to 30-06-20.

The table illustrates several trends: the underperformance of Managed Care, our continued pivot away from Med-Tech/elective procedure volumes and toward Services, Tools and Therapeutics and the ongoing positive re-rating of the Dental sector as part of the "re-opening" trade. With respect to Diagnostics, we have been trimming our holdings at the edges of what we define as an acceptable valuation envelope, hence our allocation is declining. A wide range of Diagnostics stocks continue to benefit from a perceived COVID-19 tailwind that we are not really convinced is appropriate anymore; much is already assumed in current valuations. We feel similarly about Dental and are happy to re-allocate any gains on our holdings to other areas where the longer-term outlook feels more analysable.

"ESTRAGON: "I can't go on like this". VLADIMIR: "That's what you think."

Not for the first time during this pandemic, we are confused by the market's movements. Whilst paranoia is unhealthy, that nagging feeling that someone else may know or have seen something that you have missed should be an investment manager's normal state of mind. You cannot ever be too well informed.

At this juncture, it feels like the key skill we require is not surmising the pros and cons of one potential investment versus another, but divining the anthropological whimsies of Joe Average. This is not an existential question, but the key to "what happens next". It is not just about the UK or the US, but rather trying to come to a view for each global region:

- Will Joe/Jane support local lockdowns or moderate their behaviour when told the localised R_E is above 1.0? This feels more likely in Asia than in western democracies.
- Are most people inured to the risks and keen to get back to normal as soon as possible? This is not yet a majority view, but it is certainly a growing minority who are simply fed up with not being allowed to "get back to normal".
- What are their expectations about the availability of a vaccine and will they take one if offered? This is especially relevant for those who are not in a high risk category themselves. What if the vaccine has been approved on limited data?
- How realistic are people's expectations about the coming recession and their own financial situation? Are current spending rates (which are already frighteningly low) sustainable? Jobs are roaring back in developed economies as people are "un-furloughed", but unemployment will nonetheless to rise relative to pre-pandemic levels. This dynamic will have medium-term consequences.
- Will you send your children back to school? This is a highly emotive issue for which no scientific data seems to be able to help. Surely everyone appreciates by now the risk to school-age children is almost immeasurably small? Potentially, they could bring it back to the family, but most parents need not worry about that either. If kids are at home, so are parents and home schooling requires parental input that will inevitably harm productivity for those who can work from home. For those that cannot, the choices are very stark.

We are not even going to try to pretend we have any sort of edge on these issues, but we are voraciously devouring any data on these sorts of topics that we can find and applying common sense conclusions to it. Generally speaking, the picture is a confusing one, but we see more restrictions and more outbreaks as inevitable, even if the economic consequences of all of this are very difficult to bear. The "new normal" feels neither very normal, nor very near…

As we have noted before, the decisions at a governmental and societal level come down to the uncomfortable but unavoidable question of what level of ongoing excess mortality any given country is willing to tolerate. This is currently unclear, but the broad answer across the world seems to be a level below which the economy can function without governmental assistance. This puts us all in uncharted waters.

From a healthcare standpoint, the issue becomes one of available hospital capacity. Once acute care beds are full, elective procedures must be curtailed. Building additional acute care bed capacity as many countries have done (including the UK with the Nightingale facilities) is one way to keep going, but creating the staff with the experience to deal with acute patients is not so easy. The relevant doctors and nurses will be taken from elsewhere and this is going to have secondary effects. Our government may have found a magic money tree, but the magic nurse tree remains elusive.

With all of the uncertainties that we face, and notwithstanding multitudinous governmental money pumping schemes, it is difficult to reconcile where markets currently stand in terms of overall earnings expectations and forward indicators of valuation. At some point, we must all get off of the fence. The market's collective desire seems to be a jump down onto the positive side, and we continue to struggle with this view, because it runs contrary to the totality of data. We are nothing, if not rational.

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"The light gleams an instant, then it is night once more"

When casting for opinions beyond the echo chamber of fellow healthcare analysts and investors, there remains considerable optimism around the notion of a vaccine against this pathogen emerging sooner rather than later. It is undoubtedly true that progress has been made in small-scale, limited studies, which show antibody formation. The ripples that any positive news on this front seem to be able to create across the wider market is quite remarkable.

As positive as these early signals are, more information is needed; around T-cell activation and the persistence of the effect, their ability to induce responses in the elderly and immunocompromised and of course around safety. Inducing the wrong sort of partial immune response could make things worse rather than better. These are questions for any vaccine in development.

At the beginning of July, the FDA issued updated guidance around SARS-CoV-2 vaccine development, making it clear that surrogate endpoints would not be acceptable for a broad approval. Phase 3 trials will require a large cohort of patients, who are then followed until sufficient events (confirmed infections) have been reported to allow a definitive effect versus the placebo arm to be detected. Simply put, it's all about how quickly the placebo patients fall ill.

The biotech firm Moderna, who are considered to be the leader in the race to develop a vaccine for the US market, already announced a phase III trial design in line with these recommendations, although the final dosing proposal may evolve as results from its ongoing phase 2 study read out; it targeted a July start for its 30,000 phase 3 pivotal trial.

Moderna has yet to show positive phase 1 data for its patient cohort over 55 years of age, as have Pfizer/BionTech (who are widely considered to be close behind Moderna in the US 'race'). To be fair to the companies, the FDA does require initial clinical studies to be done in patients without underlying medical conditions, and so that does tend to rule out the more elderly. These studies are underway as part of Phase 2.

In our view, the key to success will be recruiting a representative cohort of adults, including sufficient numbers of more elderly and ethnic minority participants who are considered to be at higher background risk for symptomatic/severe COVID-19 infection, but the timeline to completion remains uncertain.

Moderna's vaccine requires two doses to be administered 28 days apart. Its 600-patient phase 2 study began dosing in May and is currently estimated to provide initial results by August (so three months). Plainly, any larger study will take longer to recruit and thus longer to follow up and the rate of infection is an external variable. Clearly, areas where the background risk of infection is higher (say Arizona or some parts of Texas) could report results quickly, but other areas may struggle if the risk of infection is very low there and Moderna and peers will need to cast their nets widely to get a representative demographic sample of the country.

If the US does move back into a lockdown scenario (in their parlance, state-wide "shelter in place" orders), then this could paradoxically hamper vaccine development. If one ends up recruiting the more worried elderly, who might reasonably volunteer for such a programme, they might be the sort of people who get their shots and then spend their time in voluntary near-isolation. Regardless of risk, such people are unlikely to contract the virus, prolonging the trial.

Let us err on the side of optimism for a moment and imagine all goes well – the vaccines are safe and effective and the companies are able to recruit robustly and demonstrate efficacy within a matter of months. Longer-term safety will of course have to wait for extended follow-up, but the FDA may well feel happy to grant some sort of emergency use authorisation ("EUA") for higher risk populations before the end of 2020. Will this really help?

Viral suppression ultimately requires herd immunity to be established. For a virus with an R_0 of ~2, this needs something like 60-70% of the population to be covered. The young and healthy have been widely discussed as asymptomatic spreaders and the current outbreak in the south-western United States is seeing much lower median ages for serological positivity (due to more testing being available).

Even so, the fact remains that the vast majority of the under 55's have nothing to fear from SARS-CoV-2 so will hardly be queuing up around the corner for a shot. It would be highly unethical to compel people to get vaccinated ahead of long-term safety follow-up (your managers would both refuse, for example) and let's not even think about vaccinating children when no trials have yet been conducted.

In our eeyorish manner, let us reframe this complex debate into a simple question: Are we months or years away from the panacea of herd immunity, vaccine-induced or otherwise?

Each of you can form your own view on this but hopefully we can all agree that, until this is the reality, the disease will not abate: localised surges will recur, some people will continue to get poorly and some of these will tragically die. While this surge risk hangs over us like the sword of Damocles, the healthcare system cannot fully return to normal function; it must stand ready for the next potential wave of critical care pressure and this will be doubly hard to manage in the winter months.

Each of you can also decide if you think the current economic outlook (and thus stock market valuations) really does reflect us living with this disease for many, many more months to come, possibly years.

Developments within the Trust

As readers would hopefully expect, we continued to maintain a cautious stance, retaining a net cash position, which has remained broadly stable as a percentage of gross assets to 4.8%, versus 4.9% at the end of May.

We have added one new Services holding to the Trust, taking the active portfolio to 30 stocks plus the Alder CVR. We continue to see interesting opportunities but the bias of these currently remains toward Focused Therapeutics companies and we are cognisant of managing the overall risk profile of the Trust in terms of sub-sector exposures.

BB Healthcare Trust is now a member of the FTSE250 Index. This has attracted additional passive holders and the higher profile this brings should aid liquidity, which should benefit all our investors. We issued a further 10.6m shares through the tapping programme.

We always appreciate the opportunity to interact with our investors directly and you can submit questions regarding the Trust at any time via:
shareholder_questions@bbhealthcaretrust.co.uk

As ever, we will endeavour to respond in a timely fashion.

Paul Major and Brett Darke

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Standardised discrete performance (%)

12-month total return	1 year Jun 19 - Jun 20	2 years Jun 18 - Jun 20	3 years Jun 17 - Jun 20	since inception
NAV return (inc. dividends)	22.0%	37.9%	54.3%	79.6%
Share price	17.8%	25.6%	35.0%	62.0%
Share price (inc. dividends)	21.3%	32.4%	45.3%	74.4%
MSCI WHC Total Net Return Index	16.8%	34.5%	39.1%	59.9%

Sources: Bloomberg & Bellevue Asset Management (UK) Ltd., 30.06.2020

NAV return and share price returns are adjusted for dividends paid during period where started (but not assuming reinvestment)

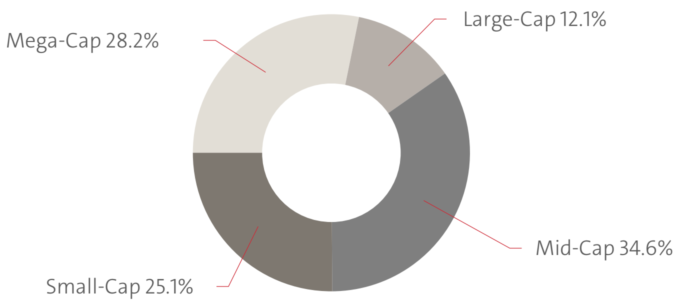
Note: Past performance is not a guide to future performance. The value of an investment and the income from it may fall as well as rise and is not guaranteed

TOP 10 HOLIDINGS

Esperion	8.7%
Bristol Myers Squibb	7.8%
Anthem	6.3%
Hill-Rom Holdings	5.2%
Cardex	4.6%
Humana	4.6%
Charles River	4.5%
GW Pharmaceuticals	4.5%
Insmed	4.5%
Alnylam Pharmaceuticals	4.4%
Total	**55.1%**

Source: Bellevue Asset Management, 30.06.2020

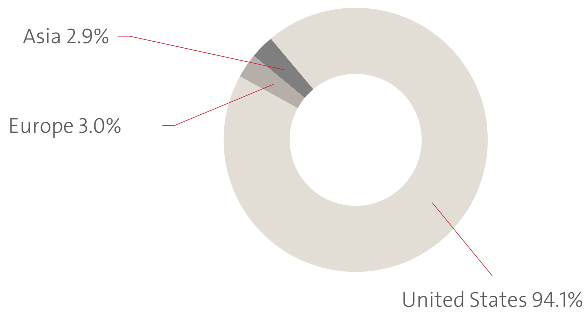
MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 30.06.2020

"Mega Cap >$50bn, Large Cap >$10bn, Mid-Cap $2-10bn, Small-Cap <$2bn."

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 30.06.2020

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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 group ("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 targets a dividend payout equal to 3.5% of the prior financial year-end NAV
- BB Healthcare has an experienced management team and strong board of directors

MANAGEMENT TEAM


Paul Major


Brett Darke

GENERAL INFORMATION

Issuer	BB Healthcare Trust (LSE main Market (Premium Segment, Offical List) UK Incorporated Investment Trust
Launch	December 2, 2016
Market capitalization	GBP 746.3 million
ISIN	GB00BZCNLL95
Investment Manager	Bellevue Asset Management (UK) Ltd.; 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	460 650 000
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

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