

As at 09/30/2019	Value	1 Month (September)	YTD	Since Launch (ITD)
Share	126.50	1.2%	10.6%	38.2%
NAV	125.88	1.8%	10.0%	36.4%

Sources: Bloomberg & Bellevue Asset Management AG, 30.09.2019, NAV and share price returns are adjusted for dividends paid during the period (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.

Welcome to our September Factsheet. Autumn is officially upon us and, quite literally, everything is turning brown. This month, we have 'adroitly' circumnavigated a seemingly endless horizon of icebergs, and one can at least enjoy the band's jaunty music for a while longer. Reaching the calmer waters of macro-political stability has become quite the odyssey. Rest assured, we harbour no delusions of exceptional strength and are fully aware that much lies below the surface. We remain thusly focused on avoiding the obstacles ahead, be they white or brown.

### A reversal of misfortune

Human nature being what it is, investors and commentators tend to focus much more on the negative than the positive. Thus, outperformance tends not to illicit anything like as much debate as underperformance. One time this seems not to be true is when outperformance follows underperformance, after which managers are lauded for "turning things around".

We have been the recipients of such plaudits in earlier last month (at one point in September, we were >6% ahead of the benchmark) but we harbour a guilty secret that we can no longer bear. Cathartically then, we can unburden ourselves by revealing the secret of this short-term success – we didn't do anything. Odysseus would call it divine provenance; the less mathematically minded might cite good fortune. The epithet matters not, since the outcome is merely adventitious: the other side of the volatility coin that hurt us in August. One cannot really make any sound judgements on a strategy over a timeframe of mere weeks, especially when volatility is so high. Indeed, much of that outperformance faded away as the month progressed.

To allege we did nothing is not to say we stayed at home and watched endless reruns of Grand Designs; more that we continued to focus on long-term developments for the healthcare sector and made very few changes to our portfolio. September versus August simply reflects a change in perception for the overall market, hence the quotation marks in the introduction. One cannot justly claim to be more skilled during one period of time than another, if the strategy remains the same.

### Call me Ishmael...

During September, the Trust's net asset value rose 1.8% to 125.88p. In contrast, the MSCI World Healthcare Index declined 1.2% in sterling terms (and declined 0.2% in dollars). Healthcare again materially underperformed the wider market, which rose meaningfully (for reasons that escape us) and is again approaching all-time highs: the MSCI World Index climbed 1.9% in dollar terms (0.9% in sterling). Value has lately roared back into fashion and it seems that investors are rotating away from growth into perceived relative value as the market reaches its apogee.

Doubtless, readers will be stunned by the declamation that follows, once more attributing the carnage in healthcare to the macro-political monster that haunts us like Ahab's white whale. Like Ishmael, it is difficult not to conclude those purporting to steer us through these turbulent times (i.e. politicians) are manifestly not up to the job. Nor is it obvious who should succeed them in the event of a mutiny. It could always be worse; at least the environment and global economy aren't combusting...

### ...or should it be Captain Edward Smith?

The volatility levels within the sector that featured in last month's missive declined somewhat during September, but remain high relative to historical norms. Pharma has been perceived as a safe-have again. Paradoxically, the impeachment move in the US probably helped shorter-term sentiment

### 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.

around drug pricing, as investors reasonably assumed that the White House will be focused elsewhere in the coming weeks. Trump was due to make a "big" speech on the topic and his pricing index plan in late September.

This has not died completely and now rumoured to be coming in early October. The bulls will argue he is 0 for 3 in effective policy initiatives in this area and repeated delays do not inspire confidence in the robustness of a policy (cf. Brexit). Time will tell...

With everything that is going on across the globe and the strong demographic underpinning of the healthcare demand story, it is rather difficult to understand why the sector has become such an outcast on a relative basis, especially as there are "relative value" plays to be found as well. There is no analogy to 'peak oil' to be found here for instance, nor does anyone seem to care much for the carbon footprint or ESG scores of companies saving human lives. What's not to like?

### Becalmed

If we had to characterise the current malaise, we would argue that the vagaries of what is to come policy-wise and the sense that some courses of action, no matter how unlikely, point to impending disaster (e.g. Medicare for All) have left people paralysed with indecision, despite their collective years of experience in navigating such issues.

What is it that investors fear most? Since nearly everything went down in a rising market, casting one's eye over the sub-sector performance below offers some clues, but no clear picture:

### BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Distributors	3.0%	2.7%	1.7%
Pharma	33.4%	1.7%	0.7%
Tools	5.9%	1.5%	0.5%
Facilities	1.1%	1.2%	0.2%
Dental	0.4%	0.9%	-0.2%
Generics	0.3%	0.8%	-0.2%
Diagnostics	2.1%	0.4%	-0.6%
Healthcare IT	1.0%	0.1%	-0.9%
Specialty Pharma	3.5%	0.1%	-0.9%
Med-tech	16.5%	-0.1%	-1.1%
Conglomerate	11.6%	-0.6%	-1.6%
Other HC	1.4%	-1.0%	-2.0%
Services	1.7%	-2.7%	-3.7%
Biotech	9.6%	-2.8%	-3.7%
Managed Care	8.2%	-6.7%	-7.6%
Healthcare Tech.	0.3%	-13.0%	-13.9%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 31-08-19. Performance to 30-09-19.

The comment-worthy sub-sectors from the table are Healthcare Technology, Managed Care, Biotech, Pharma and distributors and we expand on these in the following bullets:

- Our Healthcare Technology classification applies only to a single stock within the MSCI World Healthcare Index (the other such companies are still too small for inclusion). That stock is Dexcom and its fall during the month is largely attributable to some of the company's commentary at the recent Morgan Stanley HC conference. Much as we like the company, the stock does seem priced for perfection.
- The Managed Care (US health insurance) sub-sector is the political football of 2019, caught in the Democratic rush to win first a nomination and then an election. Sentiment to these stocks seems to be tracking Joe Biden's polling numbers, with "anyone but Biden" being seen as bad news. Elizabeth Warren has taken over as the pollster's favourite in recent weeks, crimping managed care sentiment.

Warren has not formulated a policy herself, rather favouring some flavour of 'Medicare for All'. Whilst vagueness is good for carping politicians, it is anathema to markets. At least she has articulated some sort of tax plan toward the cost, which is more than Bernie has managed. We stand by the unarguable logic that the bills make no fiscal sense and thus will not survive Congressional scrutiny. This is all about winning power, and then will come the great row-back. It was ever thus...

- The biotechnology sector has been something of a conundrum since the launch of BBH. The cutting edge of science is a tough place, Schumpeterian creative destruction is rife and there is always a sub-set of bad science or crazy hype. Nonetheless, a top-down view on scientific progress over this period is unquestionably positive. We have seen cell therapy, bi-specific antibodies, gene silencing and gene therapies approved and launched. The number of FDA approvals for novel therapies continues to rise, as does the proportion of these that are biologic agents and that originate outside of classical pharma.

What is this, if not the definition of success? Nevertheless, both US biotech indices (NYSE and NASDAQ) lag the total return of wider healthcare since the inception of BBH. Moreover, fund flow data suggests an accelerating flight from biotech ETFs as investors 'give up' on the sector (secular growth opportunity notwithstanding). It has become a proxy for market risk in wider healthcare and biotech's relative performance this month is surely another example of this perception.

- We have touched on the ever-changing perception of drug pricing legislation risk previously. We are reminded of the children's story "the boy who cried wolf". Material negative consequences may yet come to pass, but the complacency is notable. Meanwhile, this is a large, liquid sector that offers somewhere to hide versus expensive, momentum-driven med-tech and pariah managed care. The unwind from any change to this perception could be very painful indeed for those heavily exposed to the sector.
- Finally, we come to the distributors. In recent years, (negative) sentiment has been about the twin evils of Amazon and Opiates. The perception of financial risk from both seems to have faded somewhat and the sector is finding some sort of stability. Readers may recall that we argued something similar for a long time. Alas, it did not help us make money in this space and so we moved on. Drug pricing legislation will not help sentiment here, although most volume is carried on a 'fee for service' basis and so we would argue that the exposure is less than might first appear.

What then is the over-arching theme of healthcare investing currently? We echo our comments from last month. It seems to be fear. The market knows there are unknowns and dislikes them accordingly, but equally seems guilty of being over cautious in some areas (Managed Care) and complacent in others (Drug pricing). Meanwhile, steady operational progress is being largely ignored and stocks are left to the mercy of top-down driven volatility. The longer this goes on, the worse it becomes, as the prophetic feedback loop is strengthened. All we can do is focus on the short-term management of risk and continue to focus on the long-term opportunity that undeniably exists.

## Developments within the Trust

There have been some changes to the portfolio. Following on from the cautious comments in last month's factsheet, we have fully exited our position in Lonza during September. We have also re-opened a position in a previous holding in the diagnostics area at what we believe is a very good entry point. This leaves us with 28 positions.

~40% of the absolute total return generated in the month came from the previously disclosed top 10. The remainder can be largely attributed to Alder, which received a cash + CVR offer worth \$20 per share from Lundbeck. We have been longstanding Alder shareholders and have seen the shares trade around the \$20 level in both 2018 and 2017. As such, we are hardly thrilled by the takeover premium and feel that Lundbeck has obtained a misunderstood late-stage asset at a very good price (not to mention an intriguing earlier-stage candidate). We will likely hold onto the shares through to the tender offer to secure the CVR, which is a straight \$2 payment on EU approval.

Our leverage ratio has declined further from last month's 1.4% to 0.6%, due mainly to the rise in the portfolio's gross value. We remain cautious about utilising additional gearing when the market lacks conviction on direction and geopolitical risks remain elevated.

We issued an additional 7.2m shares via the tapping programme. If we continue to issue shares at the current rate, the issuance authority that we have from the 2019 AGM will be exhausted well before the end of the year. We thus published a shareholder circular on 20th September seeking authority from shareholders to issue a further 85m shares (an additional 20%). This will be voted on at a general meeting on 14th October, to be held at the offices of Peel Hunt (Moor House, 120 London Wall, EC2Y 5ET).

As we have noted before; the strategy that we follow is highly liquid: we could easily deploy the full amount requested in a matter of days into our existing portfolio, were we to be in the fortunate position of seeing immediate demand for all these shares. Scrip issuance aside, the additional capital can only be issued at a premium to NAV. This should improve liquidity in BBH shares and lower the total expense ratio, all of which benefit existing holders.

We always appreciate the opportunity to interact with our investors directly. We would remind readers that they can submit questions regarding the Trust at any time via: [shareholder\\_questions@bbhealthcaretrust.co.uk](mailto:shareholder_questions@bbhealthcaretrust.co.uk)

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

**Paul Major and Brett Darke**

## Standardised discrete performance (%)

12-month total return	Sep 18 - Sep 19	Dec 16 - Sep 19*
NAV return (inc. dividends)	-11.8%	38.2%
Share price	-13.9%	26.5%
Share price (inc. dividends)	-10.9%	36.4%
MSCI WHC Total Return Index	4.2%	39.7%

Sources: Bloomberg & Bellevue Asset Management AG, 30.09.2019

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

\*Trust inception on 2 December 2016. Therefore 12 months of performance data does not exist for the calendar year.

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

## SUB SECTOR BREAKDOWN

Managed Care	16.2%
Diagnostics	15.2%
Biotech	14.9%
Med-tech	12.5%
Healthcare IT	11.7%
Specialty Pharma	11.2%
Dental	7.1%
Pharma	6.6%
Facilities	3.0%
Health Tech	1.5%

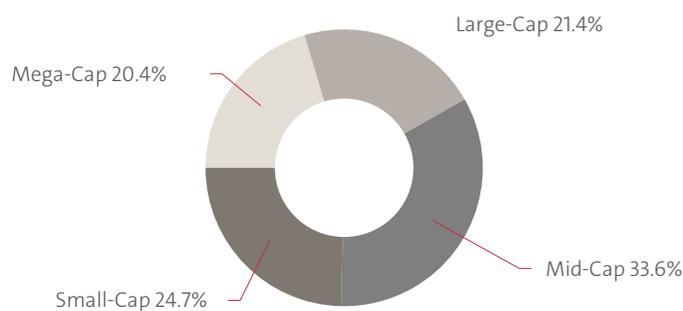
Source: Bellevue Asset Management, 30.09.2019

## TOP 10 HOLDINGS

Teladoc	8.9%
Illumina	7.9%
Anthem	7.8%
Align Technology	7.1%
Bristol Myers Squibb	6.6%
Humana	6.4%
Alder	4.9%
Intuitive Surgical	3.9%
Insmad	3.1%
Hill-Rom Holdings	3.1%
<b>Total</b>	<b>59.7%</b>

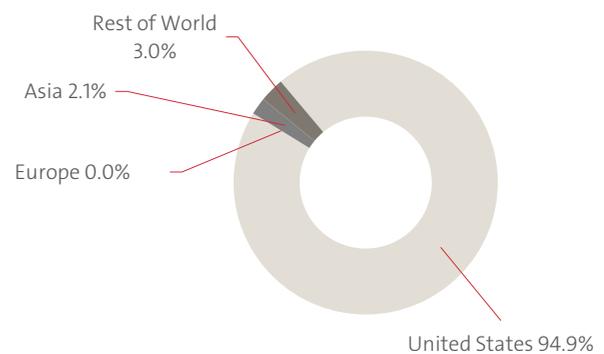
Source: Bellevue Asset Management, 30.09.2019

## MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 30.09.2019

## GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 30.09.2019

"two companies representing ~5% 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

## 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 an investment and the income from it may fall as well as rise and is not guaranteed. An investor may not get back the original amount invested.** Changes in the rates of exchange between currencies may cause the value of investment to fluctuate. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially over time. This document is for information purposes only and does not constitute an offer or invitation to purchase shares in the Company and has not been prepared in connection with any such offer or invitation. Investment trust share prices may not fully reflect underlying net asset values. There may be a difference between the prices at which you may purchase ("the offer price") or sell ("the bid price") a share on the stock market which is known as the "bid-offer" or "dealing" spread. This is set by the market markers 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. The net asset value is 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 views 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 assurances are made as to their accuracy.

## FIVE GOOD REASONS

- Healthcare has a strong, fundamental demographic-driven growth outlook
- The Fund has a global and unconstrained investment remit
- It is a concentrated high conviction portfolio
- The Trust offers a combination of high quality healthcare exposure and 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, Official List) UK Incorporated Investment Trust)
Launch	December 2, 2016
Market capitalization	GBP 544.7 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	430 563 073
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

## CONTACT

Claude Mikkelsen  
Phone +44 (0) 20 3326 2983  
Mobile: +44 (0) 7557 048 577  
Email: [cmi@bellevue.ch](mailto:cmi@bellevue.ch)

Mark Ghahramani  
Phone +44 (0) 20 3326 2981  
Mobile: +44 (0) 7554 887 682  
Email: [mgh@bellevue.ch](mailto:mgh@bellevue.ch)

24th Floor, The Shard  
32 London Bridge Street  
London, SE1 9SG  
[www.bbhealthcaretrust.com](http://www.bbhealthcaretrust.com)