

As at 02/29/2020	Value	1 Month (February)	YTD	Since Launch (ITD)
Share	136.50	-5.2%	-3.9%	46.4%
NAV	136.02	-2.2%	-5.3%	48.9%

Sources: Bloomberg & Bellevue Asset Management AG, 29.02.2020, 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 February update. Looking back, last month's badinage has proven ominously prescient. Bernie Sanders and the Covid-19 virus have roiled healthcare equities and valuation, making safe havens hard to find. Nonetheless, the portfolio is making positive progress and we remain of the view that the viral panic will prove relatively short-lived. Clear pockets of value/dislocation have emerged and, as and when things settle down, we will take advantage to add to positions.

Walk the line

When describing events in China last month, we tried to walk that fine line of reasoned positioning, whilst simultaneously not trivialising something that had already taken the lives of hundreds of people. Our central postulation was that the virus is neither more deadly, nor more virulent than seasonal flu and should be regarded with the same level of respectful, but measured, consideration.

We also noted "China has adopted containment strategies that are both alarming and impressive in equal measure and, whilst they will have helped stem the spread, they have probably contributed to the wider fear index and economic disruption resulting from the outbreak" and it is the latter point that now roils markets more than the former. We shall revisit this topic again in the coming pages, but first let us turn to the performance of the Trust and the wider healthcare sector.

Home of the Blues

Notwithstanding the violent market sell off in the second half of the month that saw the MSCI World Index decline almost 12% in dollar terms, February was an interesting month for healthcare from a fundamental perspective. As one might expect, the sector exhibited defensive characteristics and outperformed the wider market during this downdraft by around 150bp, resulting in a positive relative performance for the month as a whole.

Prior to this reckoning, the market continued its grind higher, again making record highs. As a consequence, the MSCI World Healthcare Index only declined 3.8% in sterling terms over the month and the wider market only 5.5%, including a period that encompasses what is widely considered to be the most violent market correction since September 11 2001. The numbers look less forgiving in dollars (-7.0% and -8.6% respectively), since sterling weakened 3.7% versus the dollar over the month.

BB Healthcare outperformed the benchmark by 1.6% during the month, with the NAV declining 2.2% to 136.30p. This leaves us 78bp behind the benchmark for the calendar year-to-date. Figure one below summarises the sub-sector performances and we provide some commentary on the more noteworthy moves below:

- Biotech (+6.0%):** we would note that Biogen's favourable patent ruling (+15% over the month) and Gilead's association with trials for Coronavirus "Cures" (+10% over the month) drove much of Biotech's strong performance. Together, these two stocks account for more than a quarter of the sub-sector weighting. Regeneron (+31%) benefitted from a concern over a recently launched competitor drug to its main franchise (Eylea).

With regard to Gilead (and other companies outside the index like VIR (+94%) that have risen on the hope of profiting from this event, we would urge caution. Whilst efforts to find drugs to mitigate this infection are admirable, we think the nature of the emergency makes it highly likely that any such medicines would be provided on a compassionate use basis. As such, we subscribe to the view that non-vaccine treatments will not yield returns for investors.

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).

- Healthcare technology (+12.5%):** there is seemingly no stopping the diabetes CGM/Pump juggernaut, with Dexcom and Insulet (which are the two companies in this sub-sector) powering on. We continue to admire these companies but cannot justify their current valuations and are impressed at how they have held up through the market correction.
- Generics (-1.0%):** the sub-sector performance is due to the 11% rise in the share price of Teva on the back of an improving financial performance as management has stabilised sales volumes whilst cutting costs.
- Managed Care (-3.1%):** as discussed many times in recent months, the abstruse rehabilitation of sentiment toward managed care. It is not that the re-rating is not deserved, it is more the question of why people fretted in the first place. Sanders continues to glide toward the Democratic nomination, but 'Medicare for All' remains unpopular amongst Congress and voters and he still has to beat Trump, who's approval ratings have risen since the impeachment process concluded. Sentiment-wise, the election is itself being trumped by the potential impact of Covid-19. It is clearly not positive for insurers if hospitals end up full of people with acute respiratory infections and elective healthcare procedures are postponed. Someone ends up footing the bill for their care.
- Specialty Pharma (-1.3%):** the outperformance of this sub-sector was driven mainly by Allergan (29% weighting), which rose >7% before the market correction on a decent Q4 result and growing confidence in its acquisition by Abbvie closing in the coming weeks.

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Biotech	8.3%	2.5%	6.0%
Conglomerate	11.6%	-10.2%	-7.1%
Dental	0.5%	-10.9%	-7.8%
Diagnostics	2.0%	-6.3%	-3.1%
Distributors	2.9%	-8.8%	-5.7%
Facilities	1.1%	-10.7%	-7.6%
Generics	0.4%	-4.2%	-1.0%
Healthcare IT	1.0%	-5.7%	-2.5%
Healthcare Tech.	0.6%	8.8%	12.5%
Managed Care	8.4%	-6.3%	-3.1%
Med-tech	15.7%	-7.4%	-4.2%
Animal Health / Other	1.3%	-2.4%	0.9%
Pharma	34.7%	-8.1%	-4.9%
Services	1.9%	-5.8%	-2.6%
Specialty Pharma	3.8%	-4.5%	-1.3%
Tools	6.0%	-7.8%	-4.6%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 31-01-20. Performance to 29-02-20.

Guess things happen that way

In some ways, the waxing and waning sentiment to Managed Care in response to the perception of an existential threat ('Medicare for All') is a proxy for the evolving Coronavirus situation. We were surprised that there was not more focus on supply chain disruption in the latter weeks of January: China's actions to contain the spread of the virus through unprecedented curtailment of personal freedoms was bound to impact the economy and people have been scared by all of this, which makes them less likely to behave rationally in the aftermath. The situation is doubly compounded in any country where the government and the media is viewed with suspicion by the populous.

Turning to share prices, the market has form for choosing to ignore things until there is a tipping point (usually undefinable in advance) where it then over-reacts to the downside. It should not have been so: even in a society that seeks to control internet content, there were many images available from social media showing the empty streets in areas outside of the quarantine zones and a travel ban coinciding with a major holiday that displaced many citizens was obviously going to cause issues. On top of this, we have had comments from many businesses about reduced discretionary consumer activity. Even in healthcare, it was apparent that elective hospital procedures were being cancelled and non-essential activities like dentistry being shut down by decree. This is a perfectly reasonable policy response: reduce high risk exposure situations and conserve medical supplies like gloves and masks.

With such a highly connected global economy where "just in time" lean manufacturing has been adopted with near religious zeal and in which China accounts for ~17% of global GDP and an even bigger slice of manufacturing output (~28%), supply chain disruption was going to be a problem at some point.

We thus took the decision to pre-emptively re-position the portfolio from the latter part of January through February. There were four key threads to our approach: grossing down; lowering the systematic volatility, improving overall liquidity and diversifying exposure through a flattening off of the book.

Save for Align (more on that anon), we would note that intentionally reducing specific exposure to China was not a factor because (i) our direct consumer exposure is low and (ii) supply chains are very complex. One cannot simply look at sales by geography and assume company X or Y is more or less exposed to the risk of supply chain disruption.

Many large companies have thousands of suppliers who in turn have thousands more, in a daisy chain of unimaginable complexity that many managers will (reluctantly) admit they do not fully understand. If the mantra of the past few decades of B-School supply chain orthodoxy has been "lean six sigma", we wonder if the next big idea will be "supply chain resilience".

Looking at the portfolio now versus the end of January, the top 10 has reduced from 55.2% to 51.5% (the aforementioned flattening off). Align technology has reduced from 6.7% to 5.3%: we cannot see why the Chinese government will be in a hurry to encourage people back to the orthodontist and, as a premium consumer discretionary purchase, middle-class customers may choose to hold off starting treatment until the impact of all of this on their own economic situation is clear. As such, we felt it prudent to reduce exposure and then add back selectively on any weakness.

The leverage ratio has declined from 1.0% to -4.2%: we are holding cash on hand. This is an intentionally cautious approach to reduce our gross exposure to the market and also prepares us for the forthcoming dividend payment (which will be equivalent to ~1.7% of the gross assets). It remains our intention to be fully invested the majority of the time.

Our preferred internal measure of liquidity (the average number of days to liquidate the portfolio) has fallen slightly (~7%) compared to the end of January. Similarly, our preferred internal measure of volatility (based on call

volatility) has fallen ~4% over the month on a like-for-like basis (although of course it has risen in absolute terms as the market correction has raised volatility levels to record highs).

Although we cannot quantify the impact of these actions directly, we hope these measures in aggregate have contributed to the positive overall development of the NAV during February. We will have forgone some performance in the early part of the month but preserved capital in the latter period.

What is Truth?

All of the above focused on practical measures that we could take in the face of "challenging macro conditions" (a phrase readers will have become tediously familiar with and whose vituperative connotations are intentional; it has become a pejorative term here at Bellevue Towers). What about the Covid-19 outbreak itself? We spent a couple of days on the road updating investors during the sell-off. Understandably, a significant amount of time was spent discussing Covid-19.

The overwhelming issue investors (including ourselves) seem to be wrestling with is determining how long the economic disruption may last and thus when one can judge that a 'worst reasonable case' is effectively priced in. The secondary but non-trivial debate has been around the severity of this disease and thus its longer-term impact at a personal and societal level.

We outlined our initial thoughts in last month's factsheet. Our thoughts continue to evolve as additional epidemiological data comes to light. If nothing else, this outbreak again highlights the incredible power of combined human intellect as a global team of experts have worked in collaboration to understand something that was unknown to science a few weeks previously, even if some of the data out there seems unreliable or patchy. Everything that follows is the management team's opinion, based on reading the available literature.

One obvious question has been the extent to which there are specific factors that might make the severity of this outbreak more intense in certain geographic regions. It has been postulated that the ACE2 receptor is the route of cellular entry for the virus (as it was for SARS). This is a receptor that has been suggested to show differential expression in Asian and Caucasian smokers (current and former), but not in the wider population. Smoking rates are elevated in China versus the global average, particularly amongst elder men and over-expression may be more persistent in former smokers of Asian heritage than in Caucasians.

Current or former smokers of any ethnicity are of course more likely to have pre-existing health conditions and, thanks to cumulative lung damage, be less likely to cope well with a bout of pneumonia. This might explain the relative severity of the outbreak in China versus other countries, since it is now clear that the virus is circulating more widely than confirmed case numbers across the globe would otherwise suggest.

At the time of going to press, the absence of clear connections to the Chinese epicentre in the Iranian and Italian outbreaks suggests strongly that there are very mild/asymptomatic carriers out there. At this time of year, there is no reason to suspect a mild chesty cough would be anything other than usual winter illness.

As regards the severity of the infection, we held the view that the virus would either attenuate in terms of lethality as it spread (most viruses do – natural selection does not favour a virus that kills faster than it can spread), or that prevalence numbers would rise rapidly with more testing. The latter would mean lethality would be found to be much lower in reality than the ~3% figure that appears to have remained stubbornly persistent for the Chinese outbreak. However, this picture changes somewhat if we dig a little deeper...

There are inevitably going to be reporting biases on the front-line of an outbreak where resources are being stretched to breaking point. We know

this is the case in Wuhan; otherwise they would not be building additional hospital facilities. There are articles/blogs on social media describing patients who were isolated at home with mild symptoms and a confirmed diagnosis who then infected those they lived with.

These cases (mostly also mild) resolved but their family members were seemingly not tested. Are these included or excluded in the case reports? Perhaps as a consequence of under-testing in the most stretched region, the Case Fatality Ratio (CFR) as of end February was 5.8% in Wuhan but only 0.7% in other provinces, making an average of 3.8% across the country. This is difficult to explain away. In Singapore, the CFR is still zero.

Another common question is how widespread will this become? As we noted last month, the last truly global pandemic (Swine Flu in 2009) is estimated to have infected 30-40% of the global population, with the majority of cases being very mild. Covid-19 has already spread to 50 countries and has been confirmed on every continent bar Antarctica. With several documented cases of community spread and a number of clusters without an identified "patient zero" at the epicentre, this is already a pandemic in all but name.

Since random testing/testing of the outwardly healthy has only just started in Europe and the US, we may soon know if the prevalence of the infection is wider than previously imagined, but one would logically think it is many, many fold higher than current data suggests. Part of the reason that it seems to have "spread so quickly" in South Korea is that they are testing so much – 66,600 tests as of the end of last month, versus 9,500 tests in Italy for instance. The positivity rates in each country are similar – 4.3% in Italy and 5.0% in South Korea. If other countries tested more, surely they would find more?

Another recurring question has been the comparison to seasonal influenza. This is not the 'flu, it seems to have a steeper age profile in terms of infection rates, but how serious is it? One way to make a comparison is to look at severe cases. If you end up in hospital, what is the likelihood that you do not survive? The technical name for this grim statistic is Hospital Fatality Ratio (HFR). Inevitably, it varies by geography and GDP/capita, since the latter correlates with the quality of the healthcare system.

For the 2009 Swine Flu epidemic, the HFR in North America has been estimated at 1.0% overall for adults and 1.8% for the over 65s. In China, the overall HFR from Covid-19 is still being quoted at 15% in media articles, but this figure is from a study early in the outbreak and based on a cohort of only 41 patients. We have struggled to find reliable HFR updates, but that is no reason to keep quoting something that does not appear to be accurate. Moreover, the Chinese CDC has reported that the mortality rate among those without a pre-existing medical conditions is only 0.9%.

The US Centers for Disease Controls estimates that the current seasonal influenza outbreak has already caused 32-45 million illnesses in America, 310-560,000 hospitalisations and 18-46,000 deaths. If we were to assume that all deaths occurred in hospital (which is clearly a huge leap), we could imply an HFR range of 3.2-14.8% (18,000/560,000 to 46,000/310,000). What can we conclude? This appears to be worse than the flu in the elderly, but we do not yet know how much worse.

Will containment work? The size of the outbreak in Hubei versus wider China does unsurprisingly suggest that an unprecedented curtailment of basic human rights is effective in delaying the spread of this virus. The counterpoint of it having reached every corner of the earth by now may argue such measures are hard to justify.

Our view is that, at best, it may be able to delay the onset of peak infection so that it does not coincide with the winter influenza season (which typically ends in the US and Europe around March/April). We would reiterate our view that the risk of severe symptoms appears limited in those who are not elderly or do not have pre-existing medical conditions.

The final question we have been repeatedly asked is: how far do you think we are from a vaccine? Vaccine development efforts are progressing along

several different routes using the recently published gene sequence for the virus, including synthetically expressed antigen (the peplomer or 'viral spike') + adjuvant and also synthetic RNA approaches where the vaccine encourages the production of a version of the peplomer by human cells directly. It is thus likely that we will have viable vaccine candidates by year end (it took about six months to provide commercial scale vaccines against the swine flu epidemic back in 2009; ultimately around 3 billion doses were produced across several large manufacturers).

Drive on

Where does this leave the healthcare investor, in terms of navigating this volatile market? In times of economic uncertainty, healthcare is often perceived to be a safe haven as it is non-cyclical. For instance, in the last major correction, Q4 2018, the MSCI World Healthcare Index outperformed its parent MSCI World Index by almost 400 basis points. However, when the economic and societal threat is a putative pandemic virus, this probably does not hold.

In the US, around 15% of healthcare expenditure is associated with acute emergencies (inpatient medical and outpatient emergency room visits). Thus, around 85% is associated with elective (i.e. planned) procedures and routine follow ups/chronic condition management. When the hospital system comes under strain, the first thing to give is elective procedures.

Anything that can be postponed will be. As Smith & Nephew noted on its FY19 results call, Chinese orthopaedic elective surgery volumes fell dramatically in late January through early February. It is not just government policy either; from a consumer perspective as well, one can understand the desire to avoid hospitals in these scenarios.

That having been said, patients do not generally agree to medical procedures whimsically, there is a reason and a desire for improved quality of life that will not go away just because of short-term concerns. Delay is not the same as cancellation. As such, there will be a catch up at a later point of time when the situation normalises once more.

From a valuation standpoint then, one needs to make a decision when 'enough is enough', judging that a worst reasonable case is now being priced in. We are beginning to see that in some of the companies that we own, but we do not see a need to rush back in. With more volatility likely ahead, we also think that additions will initially be skewed toward larger, more liquid names, keeping the overall beta and systemic volatility low until we perceive that the market has largely climbed the wall of worry.

Developments within the Trust

Aside from the changes described in detail above, the portfolio has declined from 30 equity positions (plus the Alder CVR) to 29 (plus the Alder CVR). We exited two positions in the Med-Tech sub-sector (one of which was an M&A take-out) and added another Biotechnology holding. We issued 1.75m additional shares via the tapping programme.

We will host our Annual General Meeting at 11am on 23rd March, at the offices of our legal advisors, Stephenson Harwood – 1 Finsbury Circus, London, EC2M 7SH (the nearest tube station is Moorgate). As usual, the investment team will provide a brief update on recent performance and take questions.

We appreciate that not everyone can make it to the AGM and we would encourage anyone who has questions of a general nature or specifically in regard to the recently published 2019 Annual Report (which can be downloaded from our website) to submit any questions to:

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	1 year	3 year	Since
	Feb 19 - Feb 20	Feb 17 - Feb 20	Inception
NAV return (inc. dividends)	2.4%	30.3%	48.9%
Share price	-4.2%	22.7%	36.5%
Share price (inc. dividends)	-1.1%	31.6%	46.4%
MSCI WHC Total Return Index	9.7%	25.1%	40.5%

Sources: Bloomberg & Bellevue Asset Management AG, 29.02.2020

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

SUB SECTOR BREAKDOWN

Specialty Pharma	20.4%
Diagnostics	14.9%
Managed Care	13.9%
Biotech	13.5%
Med-tech	8.7%
Healthcare IT	7.6%
Pharma	6.5%
Dental	5.3%
Services	3.5%
Tools	2.9%
Facilities	2.8%

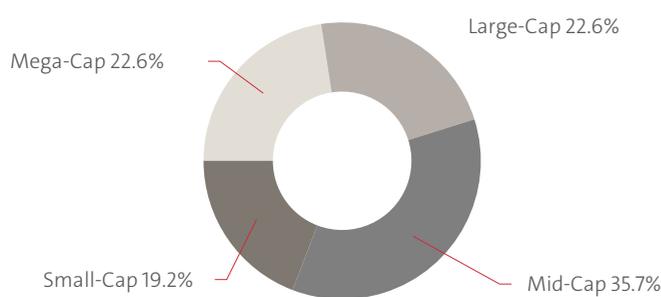
Source: Bellevue Asset Management, 29.02.2020

TOP 10 HOLDINGS

Bristol Myers Squibb	6.5%
Anthem	6.4%
Illumina	5.5%
Intuitive Surgical	5.3%
Align Technology	5.3%
Esperion	5.2%
Humana	4.8%
Insmed	4.5%
Alnylam Pharmaceuticals	4.0%
Evolut Health	3.8%
Total	51.5%

Source: Bellevue Asset Management, 29.02.2020

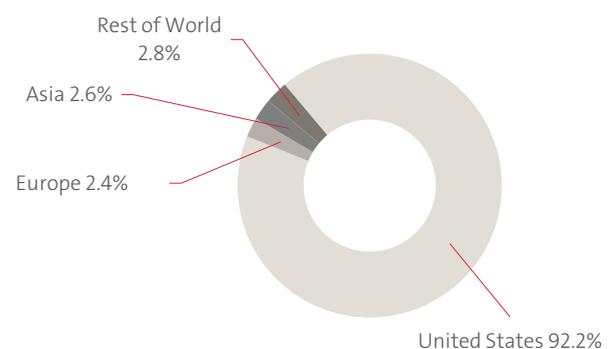
MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 29.02.2020

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

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 29.02.2020

"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. This communication has been prepared by Bellevue Asset Management (UK) Ltd, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Any research in this document has been procured and may not have been acted upon by Bellevue Asset Management (UK) Ltd 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 (UK) Ltd 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 596.6 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	437 057 062
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

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