BB Healthcare Trust

Monthly News
July 2020

Marketing document

As at 07/31/2020	Value	1 Month (July)	YTD	Since Launch (ITD)
Share	157.00	-1.5%	14.0%	71.9%
NAV	155.35	-3.8%	11.3%	73.3%

Sources: Bloomberg & Bellevue Asset Management (UK) Ltd., 31.07.2020, NAV and share price returns are adjusted for dividends paid during the period (but not assuming re-investment). Full performance data is on page 5.

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 July update. Summer is here and vacations on the Costa del Quarantine beckon. Apparently, the worst is now behind us: we should go back to the office and eat out as much as possible, whilst trying to reduce obesity levels before autumn. Our new reality is weirder than Einstein could have imagined: interactions with masked actors are both spooky and distanced; Schrodinger would relate to risible guidance that requires simultaneous wearing and not wearing of face coverings. His eponymous cat probably feels safe in the box, now that we know they too can contract SARS-CoV-2.

"If you are not completely confused then you don't understand it"

Wheeler's quote about quantum theory feels apposite. If a man suitably sagacious to pioneer nuclear power and coin the phrase "black hole" was also confident enough to admit that he didn't understand certain things but was happy to accept them nonetheless, then who are we to contest the psychedelic pseudo-reality that we have entered? The conniptions would be easier to avoid if we could remember the white rabbit and the medicine taken, lest an antidote be available. As the Hatter said: "we are all mad here".

Before we talk about the Trust's performance and wider healthcare sentiment during July, we will recap on COVID-19 related updates and general market observations:

The Virus

Elucidating an over-arching narrative to investor sentiment is proving increasingly difficult, but "the vaccines are coming" again seemed to be the leading factor during most of July. Indubitably, we have seen more positive antibody and some limited T-cell (aka "CD8" cells) generation data from phase 1 trials. We have also seen positive animal "re-challenge" data (showing the vaccines do create protective immunity), but the human data continues to be from shorter-term studies in young and healthy people. The question of immune persistence remains the elephant in the room. In our view, a vaccine that only protects you for a few months is as good as useless.

Concurrently, several studies looking at the durability of neutralising antibodies in those infected with SARS-CoV-2 paint a worrisome picture. Recall the mixed data around antibody duration from the related SARS virus (cf. April factsheet). We were initially hopeful that 'natural' herd immunity could be a realistic prospect, but now consider this notion to be all but dead since the studies confirm that the majority of people see significant fade in antibody levels within 3-4 months and decline more precipitously than expected within five weeks in those who have mild disease.

The latter point is not that surprising as the escalating nature of the immune response means that it takes a protracted symptomatic infection to generate the right sort of "special forces" IgG antibodies that could be neutralising to such a virus. Nonetheless, we hoped for a more positive picture. Linked to this, the proportion of the population testing positive for antibodies in London has halved since the peak of outbreak (from around 10% to ~5%).

This does not mean these individuals are not protected in any way. We do not yet have the same level of data for T-cell responses and memory cell activity may mean they can still turn on such a response more rapidly if re-infected, which may limit severity in a second wave (although more than half of American investors apparently believe there will not be such a wave – go figure).

What it probably means is that, absent a vaccine, SARS-CoV-2 will become another one of those respiratory diseases that recurs every winter time, just like its coronavirus brethren that cause the common cold. It is also important to point

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.

out that vaccines can generate more persistent immunological responses than natural infections, so these findings merely raise the bar for a vaccine to provide a durable response, rather than negating it as a possibility.

This is not necessarily a bad thing for vaccine suppliers either, as it argues in favour of annual injections and thus a more durable market. Early discussions around the pricing of these putative shots have unsurprisingly proven to be quite reasonable, but we have yet to see the more bullish (ridiculous?) analyst expectations out there come back down to earth. Some were assuming $200 shots. Really? When the US government has paid for your R&D and manufacturing costs? Come on people; this is the real world.

On a more positive note, treatments to reduce the risk of progressing to ventilation in severe cases have shown further progress (with likely attendant positive impact on the case fatality ratio for subsequent waves) and some prognostic factors for severity around disease presentation: early respiratory symptoms good; early muscular, neurological and GI symptoms a warning sign for elevated risks that warrant more intense monitoring and earlier interventions.

Again, this makes a lot of sense – such symptoms reflect systemic versus localised infection and many of the fatal complications of SARS-CoV-2 infection relate to organ failure and blood clotting rather than just oxygen insufficiency. A number of these developments have come from research here in the UK – a bright spot in the otherwise darkening global view of our nation during this pandemic.

There have also been positive developments around immune-compliment related genetic markers. Many escalations of the initial infection have come in the later phase of the immune response and have triggered a "cytokine storm". Some of these have been found to be linked to genes on the X chromosome and this may offer part of the explanation as to why mortality has been significantly higher in men versus women (who have two X chromosomes, whereas men have one X and one Y).

Men have half the compliment of such genes and are thus more likely to see an inferior sequence being expressed. We initially thought the gender differential in mortality was due to smoking (there is a very stark difference in smoking rates between older men and women in China), but this has not yet been demonstrated in population studies of the disease. This is not the same thing as concluding smoking is not a risk factor or a prognostic factor for worse outcomes, but the science has yet to provide a clear answer one way or the other.

As we have noted before, the single most important modifiable risk factor for adverse outcomes is obesity. Although it has become unfashionable to say so, we all know that being overweight is bad for you in general (increased risk of diabetes, cancer, heart disease etc.), but it is potentially fatal in the case of this disease. Per Public Health England, your risk of death is 40% higher if your BMI is over 35 (a shocking 29% of the UK adult population has a BMI over 30; the medical threshold for obesity). One study showed that the proportion of people in ICU for COVID-19 with a BMI over 40 was >3x higher than the proportion of people with a BMI >40 in the general population.

This inconvenient truth is probably a significant factor in the UK's higher death rate versus other advanced economies. It seems very unlikely that the UK population is healthier and skinnier post lockdown, with so much time enforced indoors and so many leisure facilities still closed. So, to prepare us for the likely second wave, the UK government has cut VAT on junk food and is encouraging us all to eat out more with subsidised meals. What could possibly go wrong?

Whilst we are retrospectively reconsidering our previous comments on SARS-CoV-2, we should touch upon the much discussed "denominator problem". Based on feedback, perhaps our most tendentious assertion was the initial severity of the disease had been greatly overstated by the lack of testing and high numbers of asymptomatic patients. Testing is now more widely available and the number of confirmed global cases continues to climb, as one would expect during a pandemic.

It is notable though that the hospitalisation rates in countries like the US have not risen at the same pace. This is because the prevalence data is now capturing more of these mild and asymptomatic cases that were missed previously. Treatment has also improved. If we look at the US, the case fatality ratio ("CFR" = deaths per confirmed cases) has declined from 7.2% in early March 2020 to 3.5% today. We expect this to continue to decline significantly as testing ramps up further.

COVID-19 is not quite like 'flu. It does seem to cause additional systemic complications that are not seen with typical respiratory infections that principally compromise lung function. However, the data overwhelmingly supports the key position that the disease is of limited risk to the vast majority of healthy people under the age of 50 and is not much more virulent (if at all) than the majority of similar respiratory infections. We will return to this key point later on.

Markets and the economy

If the only information available to you were stock market indices, then you would be forgiven for imagining the pandemic had long passed its zenith. As the pandemic continued to gather momentum through July, the MSCI World Index rose 4.7% when measured in dollars and is now only 5.2% below its March 2020 all-time high. We've almost never had it so good.

Bullishness abounds; it is not just the perceived proximity of a vaccine that excites, it's the wall of cheap money in search of yield. With the global economy stalled at best, rates are likely to stay low for some time and governments must keep the printing presses rolling – the tax base is too eroded to fund the required public spending and social support measures. Compared to paying the government to borrow money, equities are both cheap and exciting!

As the Q2 earnings season gathers pace, some will argue the lugubrious worry warts (i.e. your managers) have got it all wrong; positive earnings surprises relative to consensus are coming through at record levels. Many will observe that a given sector/sub-sector is not expensive relative to the wider market in a historical context and can rightly produce reams of charts to illustrate the point, albeit ignoring the inconvenient fact this is another version of the denominator problem: cheap relative to an expensive market means what exactly?

Moreover, those valuations are generally on relative P/E ratios. Has the "E" ever been less certain? Beats relative to consensus are all well and good, but are they really so surprising when there was no guidance? If things are indeed on the way back to normal, surely companies would be happy to say so and return to providing forward-looking guidance? The majority have declined to do so.

Here is how we see things: the US has seen a flattening of consumer activity indicators for around five weeks now and although the overall COVID-19 case reports in the US are also inflecting sideways, they are barely falling (and why should they without any sort of lockdown?). Further economic re-opening has slowed or stalled in many states. We are now seeing increasing cases in mainland Europe and, in as much as contact tracing can tell you where they are coming from, this is not really helping in terms of stopping them, which now seems a rather forlorn task. It's akin to knowing the calibre of the bullet that you were shot with in the midst of a fire-fight.

Meanwhile, we are some two weeks into the wearing of masks in shops here in the UK. We assume you have all had the opportunity to experience the weekly shop under this latest iteration of normality. Your managers' observations are that any semblance of physical distancing appears to have fallen by the wayside; masks = confident shoppers.

As it is our view that the virus poses little danger to the majority, we are fine with this, but it does illustrate the unintended consequences of measures taken to contain the virus and encourage normalisation of the economy. Spain required facemasks in public spaces (both indoors and out) from early May, whenever distancing was not possible, and yet it is now in the grip of a resurging epidemic in several regions. Are these two factors linked (cf. the Peltzman effect)?

Masks will reduce spread in comparison to no masks where all other factors are equal, but they are far from a hermetically sealed device. If you cough or sneeze, that pressure wave is going to find a way out. It won't go as far to be sure, but if people are up close and personal (i.e. no longer observing physical distancing of 1m+), then it does not have to do so. It will be interesting to see how the number of new cases evolves over the coming weeks and how this impacts public confidence. This brings us back to infectivity. If you had a symptomatic respiratory disease resulting in a cough or sneezing, you would try hard to stay away from others. If you are largely asymptomatic with SARS-CoV-2 and all masked up, maybe you won't feel such a compulsion. Many a road was paved with good intentions.

The mask bounce (if there is one) may prove short-lived. Our own post-lockdown experiences of travelling into London to visit Bellevue Towers feel eerily quiet; unpleasantly so. Empty streets and public transport; barely stocked eateries. It reminds us of the scene in the film "28 Days Later" when Jim walks out of St Thomas' hospital to find the streets deserted. This cannot be a good thing for the economy. Finally, let us not forget that other initiatives like subsidised dining have launched concurrently to the rolling back of the furlough. Eating out will be far from the top of your list if you are worried about losing your job.

Concerns over the veracity of the forward-looking "E" created by situations like those described previously notwithstanding, the Shiller PE remains around the 30 level that we find rather discomforting (cf. May factsheet). The market's relentless grind upward continues to be led by a narrow group of tech behemoths and, as such, the S&P500's concentration (i.e. the percentage of value accounted for by the five largest companies) and tech dependency is higher than in March 2000, and we all know what happened next. The EU and now Congress continue to eye these companies' market dominance with growing suspicion.

In summary then, we know what the economic and pandemic data is telling us (i.e. nothing good) and yet the market's glass is resolutely half full. Like those physicists and their particles that are waves, we do not pretend to understand how all of these things can be true at the same time. Substantial leaps of faith are required to get comfortable with the state of the universe implied by all the findings, but it is what it is. This brings us neatly back to healthcare...

"A conflict between reality and your feeling of what reality ought to be"

Feynman's definition of a paradox also seems appropriate. We do not like this situation one little bit. It makes us uncomfortable. Like physics' most famous feline, two states of being can exist simultaneously. One: we are missing something and it really is all going to be fine. The cat is very much alive and the smart market is foretelling this happy outcome. Two: the cat has shuffled off this mortal coil, but this event has yet to be realised as the box is closed. We (i.e. investors as a collective) are living in a state of blissful ignorance.

At some point, our inner Pandora will get the better of us and the box will be opened; we will all be sad if the cat does turn out to be dead. Terry Pratchett amusingly pointed out that such binary outcomes were unlikely:

if the cat were indeed alive at the end of Schrodinger's thought experiment, it would also likely be "bloody furious" and its wrath would be felt by the unfortunate lid remover.

As the wider market rose, healthcare lagged. The MSCI World Healthcare Index rose 4.0% in dollar terms; lagging the wider market slightly but nonetheless making new all-time highs in the third week of the month. In sterling terms, the Index fell, principally as the exchange rate moved 5.7% over the month. The reasons for such a large move are not really clear to us; currency strategists argue it is driven by non-domestic macro factors rather than any renewed positivity on UK Plc or the outcome of the ongoing UK-EU trade negotiations.

The sub-sector performance is summarised in the table below. The data in the table does not illustrate the extent of the "vaccine trade". Nearly a quarter of the Index' total positive return (in dollars) came from five COVID vaccine-linked stocks (Pfizer, Moderna, AstraZeneca, Johnson & Johnson and Lonza). They accounted for ~12.6% of the Index by weighting and roughly outperformed the wider universe by a factor of two.

Q2 reporting has surprised to the upside in the Tools, Services and Facilities sectors. Teladoc helped to drive the Healthcare IT returns and the outlook comments from Align Technology were more positive than many had feared. Rotation into these areas came from Therapeutics. Despite very strong financial results, Managed Care's performance was lacklustre. The political overhang and common sense reluctance for companies to shout about how much more money they would make in H2 as the American consumer continues to suffer seemed to dampen enthusiasm, as did concerns over rising unemployment crimping future membership numbers.

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Focused Therapeutics	10.1%	-2.9%	-8.2%
Conglomerate	12.3%	2.9%	-2.7%
Dental	0.5%	9.2%	3.2%
Diagnostics	2.2%	7.6%	1.7%
Distributors	1.3%	1.6%	-4.0%
Facilities	0.9%	19.3%	12.7%
Generics	0.4%	-2.8%	-8.1%
Healthcare IT	1.4%	13.3%	7.0%
Healthcare Tech.	0.8%	6.8%	0.9%
Managed Care	8.7%	1.3%	-4.3%
Med-Tech	14.5%	8.0%	2.5%
Other HC	1.2%	10.6%	4.5%
Diversified Therapeutics	36.6%	1.1%	-4.5%
Services	2.3%	13.0%	6.8%
Tools	6.6%	15.6%	9.2%
Index perf.		**4.0%**	**-1.7%**

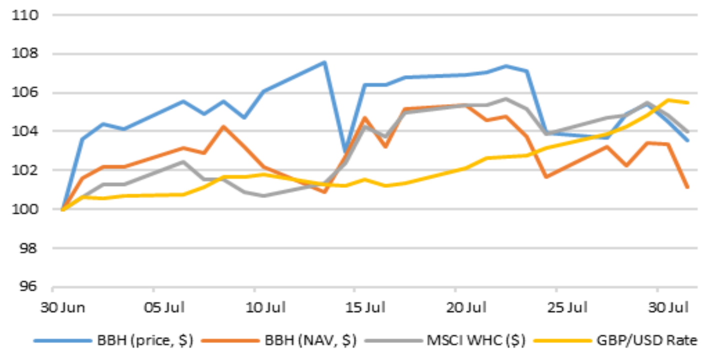
Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of 30-06-20. Performance to 31-07-20.

"The important thing is never to stop questioning"

And finally we come to quote from everyone's favourite patent clerk, and sometime amateur physicist in his youth. There is undoubtedly a lot of very weird stuff going on right now; politically, socially and economically. If this is the new normal, then it really isn't very normal. At least there is finally wider recognition that, whatever our current state is, it will persist for some time.

The stock market's function as an aggregator of all these disparate inputs into a prospective forward-looking value is by definition imperfect and apt for continuous questioning and reassessment. This process continued for us throughout the month as the market joggled upward and, quite honestly, the weirder it got, the more worrisome we found it.

We have illustrated the evolution of the Trust's Net Asset Value graphically below (rebased to 100 and adjusted for the shares going ex-dividend on 30th July). As the chart shows, we performed reasonably enough versus the benchmark in the first week of the month, but began to fall behind in week two as the "vaccine trade" got going. This narrative faded a little in week three (a classic case of the 'travel and arrive' scenario around clinical data) but the currency impact then took over as a major headwind (we estimate around 120bp in relative performance terms). The end of the month saw a more challenging and directionless healthcare sector in any event and our higher beta tendencies left us struggling to keep up with the more docile benchmark.



Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd.

In absolute terms, the dividend adjusted NAV performance was -3.8% in sterling terms, versus +1.7% for the MSCI World Healthcare Index.

We continued to take profits where we felt valuations were stretched and decided to hold more cash to take account of the forthcoming dividend and opportunities that might present themselves over the balance of the Q2 reporting season. Indeed, we were net buyers of shares in the last week of the month.

Our positioning remains skewed to Focused Therapeutics, although some profit taking and risk management into reporting has brought our holdings down. The increased exposure to Managed Care and Healthcare IT was driven by relative performance rather than active allocation and were net sellers in both categories.

We continue to re-evaluate our positioning and approach in these unusual and fast-changing times, but our conclusion is unchanged. This is not pertinacity; it is simply that we still prefer the defensive nature of drug sales and more predictable contract-driven revenue characteristics of Tools and Services to Med Tech's dependency on hospital capex trends and elective procedure volumes and we do not see compelling data emerging at this point to change tack.

It is very surprising to us to see the valuations of stocks that we do like fundamentally such as Teladoc, Intuitive Surgical and Align Technology being where they are versus the medium-term business outlook. We can only hope that an opportunity to reinvest at a more reasonable valuation avails itself over time. We continue to evaluate new opportunities across the range of sub-sectors.

EVOLUTION OF PORTFOLIO WEIGHTINGS

	Subsector end June	Subsector end July	Change
Dental	0.9%	0.2%	Decreased
Diagnostics	11.5%	11.4%	Unchanged
Diversified Therapeutics	14.8%	15.4%	Increased
Focused Therapeutics	35.5%	32.8%	Decreased
Healthcare IT	4.3%	5.2%	Increased
Managed Care	14.2%	15.1%	Increased
Med-Tech	8.6%	8.1%	Decreased
Services	6.2%	7.1%	Increased
Tools	4.0%	4.6%	Increased
	100.0%	**100.0%**	

Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of 30-06-20. Performance to 31-07-20.

Developments within the Trust

As noted previously, we continued to increase the scale of our net cash position, which now stands at 8.7% of gross assets, versus 4.8% at the end of June. In addition, we have a substantial undrawn bank credit facility available, should there be a market pullback that offers a compelling opportunity to dramatically increase our gross exposure.

We have added one new Focused Therapeutics holding to the Trust, taking the active portfolio to 31 stocks plus the Alder CVR.

We issued a further 6.0m shares through the tapping programme and the Board have agreed lower fees with a number of our service providers. Continued issuance and ongoing optimisation of running costs should benefit the evolution of the ongoing charges ratio over time.

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 Jul 19 - Jul 20	2 years Jul 18 - Jul 20	3 years Jul 17 - Jul 20	since inception
NAV return (inc. dividends)	19.5%	24.7%	49.2%	73.3%
Share price	15.9%	15.9%	32.2%	57.0%
Share price (inc. dividends)	19.5%	22.8%	44.7%	71.9%
MSCI WHC Total Net Return Index	11.8%	24.0%	38.6%	57.3%

Sources: Bloomberg & Bellevue Asset Management (UK) Ltd., 31.07.2020

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

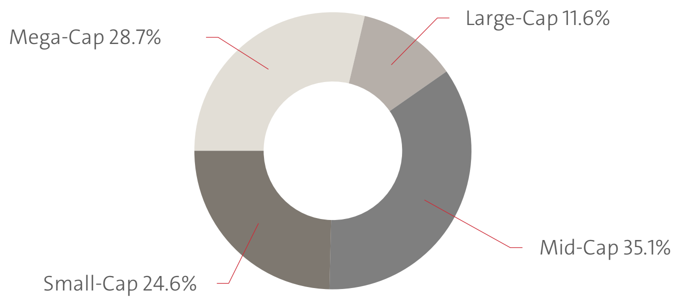
Note: Past performance is not a guide to future performance. The value of an investment and the income from it may fall as well as rise and is not guaranteed

TOP 10 HOLIDINGS

Bristol Myers Squibb	8.0%
Esperion	6.9%
Anthem	6.8%
GW Pharmaceuticals	5.3%
Charles River	5.2%
Hill-Rom Holdings	4.9%
Humana	4.8%
Bio-Rad Laboratories	4.6%
Evolent Health	4.4%
Alnylam Pharmaceuticals	4.3%
Total	**55.3%**

Source: Bellevue Asset Management, 31.07.2020

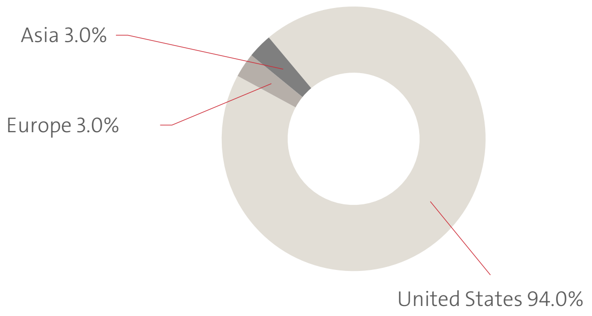
MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.07.2020

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

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.07.2020

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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

DISCLAIMER

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 732.6 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	466 625 000
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

CONTACT

Simon King
Phone +44 (0) 20 3871 2863
Mobile: +44 (0) 7507 777 569
Email: ski@bellevue.ch

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

Bellevue Asset Management (UK) Ltd.
24th Floor, The Shard
32 London Bridge Street
London, SE1 9SG
www.bbhealthcaretrust.com