

As at 03/31/2019	Value	1 Month (March)	YTD	Since Launch (ITD)
Share	137.00	-4.86%	16.25%	45.45%
NAV	138.53	-1.58%	18.92%	47.26%

Sources: Bloomberg & Bellevue Asset Management AG, 31.03.2019, NAV return is adjusted for dividends paid during 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 March update. As the metaphorical pen hits the paper, the sun is shining and the peculiarly British malady of weather optimism is all around us. We may regain our senses in early July, when rain inevitably drenches everyone at the Tennis. Meanwhile, the Sun's hopeful rays are a welcome distraction from market torpor and that, which apparently passes for political discourse in our once-admired nation.

Where did the mo-mo go go?

We must confess to feeling a little remorseful. Our previous prognostications on the possibility of the equity recovery running out of steam seemed all too prophetic at the beginning of the month. March was a volatile period, which saw broad equity gauges fall almost 2% in the first week, only to rise nearly 4% from the lows, finally closing in positive territory. Despite our comments, the early reversal caught us by surprise in the sense that the areas of weakness within healthcare were not where we might have anticipated, but more of that anon.

Once again it was broader economic issues at the fore; the macro monster overtaking stock-specific issues, with various global economic indicators flashing red in recent weeks. Although bond yields have fallen back, this is probably not supportive for broader equities at this point in the cycle or at these valuation levels.

It does feel that we need an external push such as a US-China trade deal to give markets renewed and sustained impetus to push on past the previous highs. Consequently, the MSCI World Index rose only 1.1% in dollars during March (equating to 3.2% in sterling terms) The Index now sits ~4% off the recent highs of September 2018.

The Pound gained 1.7% versus the dollar and against other major currencies as well, as the markets' took the view that egregious Brexit scenarios were becoming less likely, although doubtless many readers will be sceptical of such a conclusion at this stage.

Healthcare is not an economically sensitive sector. Thus, one could reasonably argue that, all other factors being equal, weakening conditions in the broader economy should still allow for continued revenue and profit growth. However, that caveat of equality is seemingly the critical question and healthcare actually underperformed in this period.

The MSCI World Healthcare Index rose 2.7% in sterling (only 0.5% in dollars). The Trust's NAV underperformed the wider sector, rising only 0.8% to 138.53p (an underperformance of 1.9%). Although we have given up some ground this month, the Trust has outperformed the Index on both a fiscal and calendar year-to-date basis.

We think the predominant factor driving this underperformance has been US political concerns outweighing any thoughts of potentially defensive growth being desirable if the global economy is indeed slowing. Overall positioning might also be a consideration: after an unexpected rally, investors might be overweight defensive sectors like healthcare and simply looking to trim overall equity exposure because the market has recovered so quickly.

The table below summarises the performance by sub-sector and there are several points of interest. Firstly, the decline in Biotech can be attributed entirely to Biogen, which fell almost 28% on the back of yet another Alzheimer's failure. Absent this, the sector would have posted a positive return. Likewise Healthcare Technology, where heavyweight Dexcom has come under pressure as the market contemplates the impact of "Libre 2.0" from Abbot on the iCGM market opportunity. The other significant underperformers were Distributors, Managed Care and Facilities, all of which can arguably be attributed to the aforementioned US political factors.

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.

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Biotech	9.9%	-2.7%	-0.7%
Conglomerate	12.0%	-0.1%	2.0%
Dental	0.5%	8.3%	10.5%
Diagnostics	1.9%	1.3%	3.4%
Distributors	3.0%	-6.1%	-4.1%
Facilities	1.2%	-5.0%	-3.0%
Generics	0.6%	-0.4%	1.7%
Healthcare IT	0.7%	4.0%	6.2%
Healthcare Tech.	0.2%	-14.5%	-12.7%
Managed Care	8.9%	-2.0%	0.1%
Med-Tech	14.1%	0.2%	2.3%
Other Healthcare	0.9%	6.8%	9.1%
Pharma	35.5%	1.0%	3.1%
Services	1.6%	4.0%	6.1%
Specialty Pharma	3.5%	2.2%	4.3%
Tools	5.3%	4.7%	6.9%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 28-02-19. Performance to 31-03-19.

*Note: DexCom is no longer in the benchmark, effectively removing the Health Tech sub-sector

"Nothing to fear, but fear itself"

There is a delicious irony linking worrisome economic conditions and political factors to Roosevelt's inauguration speech. He had a point about fear; economic concerns have a self-fulfilling quality in a consumerist age. His speech also covered the moral dimension in rebuilding society after the great depression – a better way for capitalism if you will. Is it not that very spirit which is driving healthcare-related policy decisions on both sides of Congress right now?

On the one hand, the Trump administration remains set on a path toward lowering the 'sticker' price of drugs for the US consumer by effectively eliminating rebate capture. It seems not to matter that real savings for the average consumer will be negligible, as the benefits will accrue to a small minority of people at a cost to the many. Trump needs a win before the 2020 election and the focus groups say this one will do the trick.

On the other side of the provider equation, the mood music still harks to a repeal of 'Obamacare' (probably because it isn't called 'Trumpcare'). As we have noted many times, the Affordable Care Act has its shortcomings, but the idea that a substantial minority of Americans who would otherwise lack affordable insurance should not be catered to is a difficult one for a European (are we still allowed to claim that word?) to grasp.

Functional shortcomings aside (and, let's be honest, one could fix these with additional legislation if desired), the ideological issue here is the individual mandate, which effectively forces Americans to buy insurance. In

the minds of some, this is precisely the sort of government over-reach that the founding fathers had in mind when framing the constitution. Who knew that tyranny would come not in the colours of a British Military uniform, but rather in the crackly polyester of the insurance salesman's cheap suit?

Across the aisle, the Democrats find little common ground with Trump, instead turning their attention to what could, or should, replace Obamacare. Given how difficult the process of healthcare reform has proven to be, the easier route is of course to expand a popular and uncontested programme (Medicare) to cover everyone. The extent of the proposed changes is of course unclear and much will depend on who secures the Democratic Presidential nomination.

As was the case with pharma in the run-up to the 2016 race (recall that Hilary and Donald tried to out-tweet one another on who would be toughest for the hated drug industry), the spectre of political attention seems to be enough to spook investors away from potentially affected sectors: Drug Distributors, Hospitals and Managed Care companies. This has been painful for us given our holdings in two of these areas. Anthem and Humana (Managed Care) both held investor days during the month that were widely viewed as incrementally positive. Unfortunately, the market does not seem to care for fundamentals right now.

Teladoc, our second-largest holding, has also been under pressure from the triple winds of: i) being dependent on Managed Care for its future growth and thus a derivative on the fear described above; ii) a Washington Post article highlighting Congressional obstacles to expansion of Telehealth in Medicare and Medicaid and iii) what we consider was a rather low quality article on the company's financial position in Forbes magazine.

"The money changers have fled from their high seats"

Without wishing to do ourselves down, fund management is a relatively simple task: we assimilate the available data into a coherent position that supports a strategy with regard to the likely future development of asset prices. In the case of equities, we are imputing future medium to long-term growth and ascribing a value to it. Cheap growth is attractive, expensive growth is much less so and we seek to maximise exposure to the former whilst also taking account of various risk factors.

Volatile, self-serving politicians are undoubtedly a known, but unquantifiable risk (or seemingly a certainty if you live in the UK). We must deal in facts, and we have determined the facts relating to the US political discussion described above are thus:

- Medicare Advantage is the fastest growing class of insurance product in the US (not surprising, given demography) and we have long focused our positioning in Managed Care around this trend.
- The worst flavours of 'Medicare for all' (i.e. those that call for effective nationalisation of various elements of the provider or supply chain) are unaffordable and financially unviable for the United States. The Congressional Budget Office, which must score all legislative proposals, will surely quantify these costs and point out that privately-managed risk pools outperform those managed by Government agencies and are thus cheaper and more efficient. Attitude surveys also suggest this is also probably not the 'swing vote' winner that some on the left imagine it to be.
- Any effort to repeal the ACA or move people out of potentially more generous private insurance schemes into Medicare (because Medicare pays the providers at considerably lower rates) will be disastrous for elective procedure volumes. Therefore, we remain of the view that exposure to physical provision assets in the US (hospitals etc.) is to be avoided for now.

- Drug pricing reform is probably inevitable, but the impact of point of sale rebates on the supply chain is limited, as the vast majority of contracts for wholesalers are on a 'fee for service' business. The proposed changes are, in effect, a transfer of subsidy from the non-drug provision to the drug provision and will do nothing to change the overall healthcare cost trend.
- The aforementioned cost trend remains unaffordable and it is everyone's priority across the globe to improve efficiency and lower this trend. We have a shortage of qualified staff that is probably insurmountable. With these twin realities, Telemedicine, Electronic Triage, Case Management and Population Health-based targeting are widely recognised as the four most important opportunities to improve efficiency and lower cost trend. Teladoc is the leader in three of the four areas.

"Only a foolish optimist can deny the dark realities of the moment"

What does this mean for us in terms of action points? We are, of course, as frustrated as anyone else at the market's periodic descent into low quality, reflexive reactions that do not stand up to any reasonable fact-based analysis. It was ever thus. These are painful moments, but also periods of great opportunity for those who can be patient and, to a lesser extent, brave. We have been adding to our holdings in Humana and Teladoc during the month and will continue to do so if these valuation levels persist. Such a strategy has paid off handsomely for our shareholders with Align in recent months for example.

Meanwhile, we patiently watch those other companies whose underlying characteristics we admire, but whose recent share price trajectories seem to have more in common with a rocket launch than an objective consideration of their fundamental progress. It is a truism that a flame which burns twice as bright burns half as long. One of our watch list companies has already reversed course and given up its meteoric year-to-date gains. This is the way we have managed the fund since inception and we see no reason to yield to fickle fashion now.

Developments within the Trust

We have not made any changes to the portfolio's breadth; we still hold the same 28 stocks as at end January. It is neither a pendulous process, nor a poverty of opportunity that has driven inaction: we have assessed many interesting companies over the past 4-5 months and see several that we think would fit synergistically with our existing holdings.

It is rather the opportunity for poverty that we wish to avoid. As we have highlighted previously, the snap back in valuations over the past three months has been rapid and many of the stocks on our watch list long ago shot past their 2018 highs. We believe better entry points will come if we are patient.

We continued to see demand for additional shares through the tapping programme, with 8.4m additional shares issued during the month. The leverage ratio has declined modestly. It now stands at 9.6%, versus 9.8% at the end of February.

We held our Annual General Meeting on March 19th. We would like to thank those shareholders that attended the meeting for their support and some insightful questions and all of our shareholders for their continued support. All of the AGM resolutions were passed.

We do enjoy the opportunity to interact with our investors and would remind readers that they 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

Standardised discrete performance (%)

12-month total return	Mar 18 - Mar 19	Dec 16 - Mar 19*
NAV return (inc. dividends)	35.4%	48.7%
Share price	30.5%	37.0%
MSCI WHC Total Return Index	21.2%	31.8%

Sources: Bloomberg & Bellevue Asset Management AG, 31.03.2019

NAV return is adjusted for dividends paid during period (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

Biotech	14.4%
Diagnostics	13.7%
Med-Tech	11.3%
Healthcare IT	11.0%
Specialty Pharma	10.6%
Managed Care	10.6%
Dental	10.6%
Services	6.0%
Pharma	4.5%
Distributors	2.7%
Health Tech	2.6%
Other Healthcare	2.0%

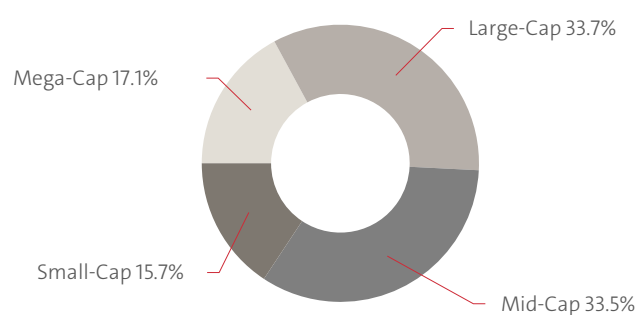
Source: Bellevue Asset Management, 31.03.2019

TOP 10 HOLDINGS

Align Technology	10.6%
Teladoc	9.0%
Illumina	7.6%
Anthem	6.9%
Lonza	6.0%
Bristol Myers Squibb	4.5%
Intuitive Surgical	3.7%
Humana	3.7%
Ionis	3.1%
Alnylam	3.1%

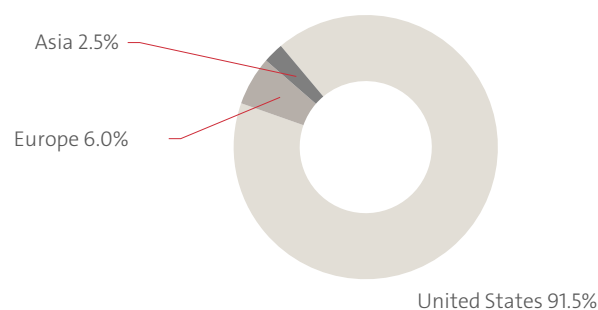
Source: Bellevue Asset Management, 31.03.2019

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.03.2019

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.03.2019

"four companies representing ~12% of the portfolio have a non-US legal domicile (primarily for tax reasons) but operate out of the United States and their primary stock market listing (in terms of volume traded) is in the United States".

INVESTMENT FOCUS

- The BB Healthcare Trust invests in a concentrated portfolio of listed equities in the global healthcare industry (maximum of 35 holdings)
- Managed by Bellevue Asset Management AG ("Bellevue"), who manage BB Biotech AG (ticker: BION SW), Europe's leading biotech investment trust
- The overall objective for the BB Healthcare Trust is to provide shareholders with capital growth and income over the long term
- The investable universe for BB Healthcare is the global healthcare industry including companies within industries such as pharmaceuticals, biotechnology, medical devices and equipment, healthcare insurers and facility operators, information technology (where the product or service supports, supplies or services the delivery of healthcare), drug retail, consumer healthcare and distribution
- There will be no restrictions on the constituents of BB Healthcare's portfolio by index benchmark, geography, market capitalisation or healthcare industry sub-sector. BB Healthcare will not seek to replicate the benchmark index in constructing its portfolio

FIVE GOOD REASONS

- Healthcare has a strong, fundamental demographic-driven growth outlook
- The Fund has a global and unconstrained investment remit
- It is a concentrated high conviction portfolio
- The Trust offers a combination of high quality healthcare exposure and 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 509.2 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	371 640 819
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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