

As at 10/31/2018	Value	1 Month (October)	YTD	Since Launch (ITD)
Share	129.00	-13.42%	13.24%	35.06%
NAV	128.81	-12.80%	18.36%	34.96%

Sources: Bloomberg & Bellevue Asset Management AG, 31.10.2018, 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 an intentionally belated October update. The lack of constraints around our investment guidelines also extends to our communication procedures. Having put out an 'Ad Hoc' update on 30th October given market conditions, we thought it worth waiting until after the mid-term election results to publish our next factsheet and focus on a forward-looking basis because we continue to see healthcare as a strong secular growth opportunity.

In mense autem obliviscaris

We are sure readers are as keen to forget about markets during October as we are. Paraphrasing Robert Frost's monthly ode: 'stocks have ripened to a fall; tomorrow's wind, if it be wild, could yet waste them all'. Nevertheless, before we look forward, the sobering headline statistics of the prior period must be committed to print.

During October, the Trust's ex-income net asset value (NAV) declined 12.8% to 128.81p, materially underperforming the MSCI World Healthcare Index, which declined 4.5% in sterling terms (and 6.6% in dollars) over the same period. We estimate that fluctuations in sterling positively influenced the NAV evolution by 1.6% during the period in review (we would note that all references in this update that refer to current values use the NAV and portfolio data as of 8th November 2018).

Clearly, 8.3% is a significant level of underperformance, and that was what prompted us to issue the 'ad hoc' update referenced above (for those of you who have not seen it, the document is on the website and can be accessed via this [link](#)). As the update notes, the market sell-off has been attributed to multitudinous macro factors that have little to do with the outlook for the healthcare sector.

Overwhelmingly, though, and befitting a more 'risk-off' mind-set, the response to the sell-off has been to move into less cyclical, more value-orientated stocks and up the market capitalisation/liquidity curve, which is unhelpful to our more mid-cap and growth oriented focus. This trend is illustrated clearly in the strong sub-sector performance of the large and boringly predictable companies that make up Managed Care, Conglomerates and Pharma:

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Performance (USD)	Performance (GBP)
Biotech	10.1%	-10.5%	-10.4%
Conglomerate	11.6%	-2.9%	-0.7%
Dental	0.7%	-36.5%	-35.1%
Diagnostics	2.1%	-13.1%	-11.1%
Distributors	3.0%	-6.0%	-3.9%
Facilities	1.3%	-4.3%	-2.1%
Generics	0.7%	-10.7%	-8.7%
Healthcare IT	0.8%	-16.8%	-14.9%
Managed Care	9.6%	-1.9%	0.4%
Medtech	13.9%	-10.4%	-8.4%
Other HC	0.8%	-1.5%	0.7%
Pharma	33.9%	-4.1%	-2.0%
Services	2.7%	-6.6%	-4.5%
Specialty Pharma	3.8%	-12.9%	-10.9%
Tools	4.6%	-7.2%	-5.1%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 28-09-18. Performance to 31-10-18.

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.

That said, the lack of correlation between our portfolio and the benchmark of course works in both directions; it drove significant outperformance in the year to end September (+31.3% versus +17.4% for the benchmark) and indeed has seen us recover some outperformance in the subsequent days. This could arguably be attributed to a somewhat renewed appetite for 'riskier' assets (not the word we would use, but relevant in this context nonetheless) and has helped us recover to a NAV of 136.33p by 8 November (+5.84% since the end of September, versus +1.75% for the MSCI World Healthcare Index). In other words, we have already recovered half of October's relative underperformance so far this month.

The stars mis-Align

If we had to pick one standout example of how febrile and frankly reactionary recent market conditions have been, Align Technology would be the one to choose. On the back of a seemingly disappointing Q3 update, the stock touched a low of ~\$218 in late October, 44% below where the shares were at the end of September.

We say 'seemingly' because one can objectively argue that Q3 was a great quarter for the company, with record volume growth and a number of metrics that point to future growth (dentists trained on the system, scanners shipped, new products launched, loyalty programmes etc. etc.). We could devote reams of paper to the reasons why the results were fine, but our position on the event can be summarised thus: is this still the market leader in a hugely underpenetrated segment with visible multi-year growth and high barriers to entry? Yes; nothing has changed.

We have long understood that pricing would decline over time; many new markets where sales are ramping up (e.g. LatAm, China) will inevitably be lower priced than the US and new markets such as those for treating pre-teens will also be lower cost. As such, there will be a mix effect that takes pricing down. In the medium-term, competitive factors will also come into play. These considerations have always been sensitivities in our modelling.

Moreover, if we look at fundamental valuation metrics over the medium-to-longer term and compare the implied price of profit growth at Align to other med-tech stocks, do we believe it to be (relatively speaking) cheap growth? The answer is again yes. The stock has recovered some 13% since the October lows and we have been adding to our holdings, which have increased by >70% since the end of September.

Mid-term malaise

In our view, the recent volatility is inextricably linked to the uncertainty over the mid-term elections, with many questions vexing investors in the weeks leading up to last Tuesday's election: would there be a 'Blue Wave'? How might Trump react to a loss of Congressional majority – a barrage of tweets no doubt, but saying what? Would he cross the aisle and work with the

Dems on popular issues such as drug pricing to notch up some further claims to success before seeking re-election in 2020? Alternatively, would an emboldened Trump, having hung on to both houses, be a good or a bad thing for global growth, especially at a critical juncture? Would that finally spell the end of the ACA ('Obamacare')?

Now of course, we at least know the lay of the land, albeit early days with respect to predicting the policy implications of the outcome. In contrast to 2016, this election offered few surprises and we have the forecast split Congress of a Democratic House and a Republican Senate. This argues for legislative gridlock and thus a generally benign 'status quo' environment.

Furthermore, since this was the most widely expected outcome, it seems reasonable to think that the wider market reaction should be positive but muted, with some greater enthusiasm for the aforementioned 'risk on' assets, which would be positive for our strategy. For this momentum to be sustained over the balance of the year, there probably needs to be some positive progress on the China-US trade spat (we think this is most likely to come around the G20 summit in Argentina at the end of November).

Longer-term, the slightly surprising outcome of the Republicans tightening their grip on the Senate may also be viewed positively, since it argues for lower odds of a Democratic clean sweep in 2020. Control of all three branches of the legislature is surely a pre-requisite to any advancement of the much-feared 'Medicare for All' agenda promoted by the left wing of the party (although we have noted before that we are less fearful of this proposal than many market commentators).

In terms of more specific policy initiatives, a number of key positions within the various House and Senate Committees that oversee healthcare regulation are likely to change although the Republicans will keep control of the Senate's Health, Education, Labor and Pensions Committee (HELP) and again these probably sap inertia from any Republican efforts to trim entitlement programmes and spending.

One thing to be mindful of is speaker-elect Nancy Pelosi has tried to out-bluster Trump on the drug pricing issue, suggesting the Democrats would bring "very strong legislative action" on drug pricing. As suggested above, it seems highly unlikely Trump would oppose legislative progress in an area he knows is popular and has tried to make his own. Maybe then, the risk of 'real' action on pricing has increased. On Wednesday (i.e. day one of post election trading), it was noteworthy that the Pharma sub-index of the MSCI World Healthcare rose only 1.4% in sterling terms, whereas the broader parent index increased 1.9% (recall Pharma accounts for more than one third of the parent index in weighting terms).

We have limited exposure to 'mass market' US pharmaceuticals and so are fairly relaxed about the emergence of an environment where price increases are no longer possible. Furthermore, the wider issue of a different approach to purchasing drugs for entitlement programmes like Medicare and Medicaid is complex. Democrats previously favoured letting Medicare directly negotiate prices with drug manufacturers. Trump also embraced this as a candidate, but moved away when he became President. The problem is the Congressional Budget Office does not think direct negotiation would save money unless the Administration is willing to deny seniors coverage for certain medications. This could be a politically risky measure to support, given the growing importance of seniors as a voter demographic.

In conclusion then, and leaving any personal political views aside, we feel that the outcome of the mid-term election is a positive one for healthcare overall in the medium-term and for our strategy within that, which is more suited to a 'risk on' environment and agnostic to the wider drug pricing debate. Most importantly, with this important overhang behind us, investors should hopefully return to focusing on longer-term fundamental factors.

Developments within the Trust

We have not sat idle as Rome seemingly burned. Portfolio changes have been rather limited; we still had 29 stocks in the portfolio at the end of October. The team has added one new biotech company and exited our position in the spine company K2M Holdings, which received a cash offer from Stryker in late August, after it became clear from regulatory filings that a competing bid was highly unlikely.

The Trust traded at an average premium to NAV of 2.3% during the month and this enabled us to continue to meet investor demand for shares via the tapping programme. Indeed, it was a busy period on the issuance front, with a monthly record of 22.1m shares issued during the period.

Readers will recall that we ended September with a high level of cash from exiting our Shire position, with a consequentially low leverage ratio of 1.3%. We have been adding selectively to our holdings during periods of material price declines (of which there have been several since the end of September!). Therefore, the leverage ratio is now back in line with our targeted high-single digit level. The ratio stood at 7.7% at the end of October, and is at a similar level today.

Even having made significant additional investments in recent weeks, we feel strongly that asset prices in many of our areas of interest in healthcare look very compelling following the recent market correction and we would like to be able to invest more capital into these attractive opportunities.

With this in mind, we announced on 5th November our second formal capital increase. Our brokers have opened the books and the offer for subscription and placing will close on 28th November, with the new shares trading from 3rd December.

We have not issued a target for this raise, but have always had in mind that BB Healthcare's strategy could be scaled materially from current levels without imperilling our current stock selection and liquidity criteria. As such, we believe that additional capital will allow us to broaden our investments at attractive valuations and lower our expense ratio whilst improving ongoing liquidity for existing shareholders.

Please do feel free to submit any questions raised by the discussion in the factsheet to: shareholder_questions@bbhealthcaretrust.co.uk and we will endeavour to respond in a timely fashion.

Paul Major, Daniel Koller and Brett Darke

Standardised discrete performance (%)

12-month total return	Oct 17 - Oct 18	Dec 16 - Oct 18*
NAV return (inc. dividends)	17.3%	33.6%
Share price	15.7%	29.0%
MSCI WHC Total Return Index	12.5%	28.1%

Sources: Bloomberg & Bellevue Asset Management AG, 31.10.2018

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.

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SUB SECTOR BREAKDOWN

Biotech	17.4%
Diagnostics	14.3%
Medtech	13.8%
Managed Care	11.6%
Specialty Pharma	10.2%
Healthcare IT	7.7%
Dental	6.1%
Services	5.0%
Distributors	3.9%
Pharma	3.9%
Other Healthcare	3.5%
Health Tech	2.5%

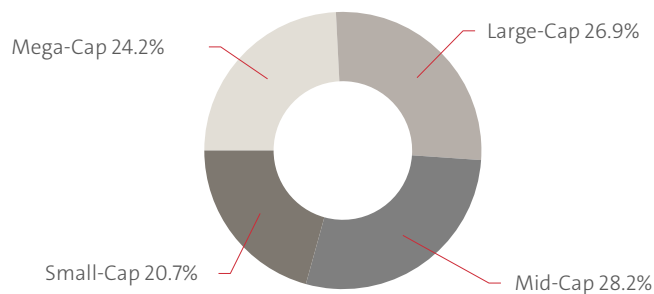
Source: Bellevue Asset Management, 31.10.2018

TOP 10 HOLDINGS

Anthem	8.0%
Teladoc	7.7%
Illumina	7.5%
Align Technology	6.1%
Lonza	5.0%
Celgene	4.6%
Intuitive Surgical	4.2%
Bristol Myers Squibb	3.9%
Amerisourcebergen	3.9%
Humana	3.6%

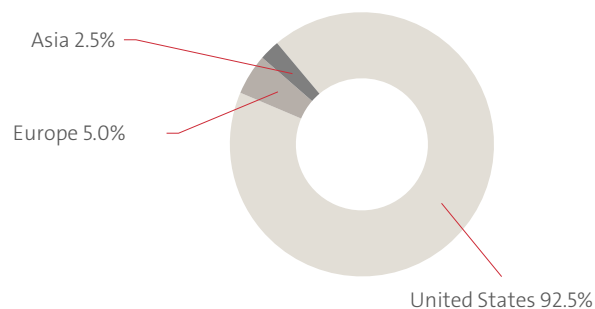
Source: Bellevue Asset Management, 31.10.2018

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.10.2018

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.10.2018

"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

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 makers 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. Bellevue Advisors Limited is an Appointed Representative of Mirabella Advisers LLP, which is authorised and regulated by the FCA (RFN: 606792).

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



Daniel Koller



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 458 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	319 107 794
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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