Bellevue
Healthcare Trust

OCTOBER 2023

Factsheet

Marketing document

Investment focus

Bellevue Healthcare Trust intends to invest in a concentrated portfolio of listed or quoted equities in the global healthcare industry. The investable universe for the fund 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 are no restrictions on the constituents of the funds portfolio by index benchmark, geography, market capitalisation or healthcare industry sub-sector. Bellevue Healthcare Trust will not seek to replicate the bench-mark index in constructing its portfolio. The fund takes ESG factors into consideration while implementing the aforementioned investment objectives.

Fund facts

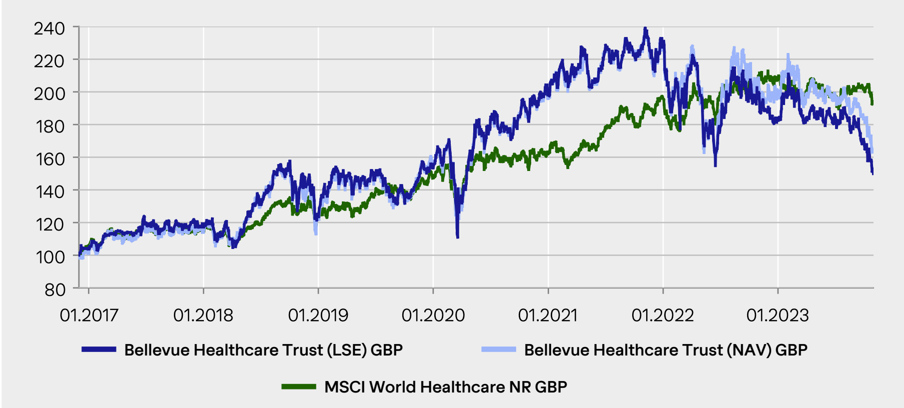
Share price	120.80
Net Asset Value (NAV)	132.74
Market capitalisation	GBP 652.95 mn
Investment manager	Bellevue Asset Management (UK) Ltd.
Administrator	Apex Listed Companies Services (UK) Ltd.
Launch date	01.12.2016
Fiscal year end	Nov 30
Benchmark (BM)	MSCI World Healthcare NR
ISIN code	GB00BZCNLL95
Bloomberg	BBH LN Equity
Number of ordinary shares	540,524,063
Management fee	0.95%
Performance fee	none
Min. investment	n.a.
Legal entity	UK Investment Trust (plc)
EU SFDR 2019/2088	Article 8

Key figures

Beta	1.37
Correlation	0.67
Volatility	28.0%
Tracking Error	21.27
Active Share	89.68
Sharpe Ratio	-0.01
Information Ratio	-0.36
Jensen's Alpha	-11.48

Source: Bellevue Asset Management, 31.10.2023;
Calculation based on the Net Asset Value (NAV) over the last 3 years to 31 October 2023.

Indexed performance since launch



Cumulative & annualised performance

Cumulative

	1M	YTD	1Y	3Y	5Y	10Y	ITD
Share	-12.3%	-17.9%	-25.0%	-17.6%	11.0%	n.a.	49.9%
NAV	-10.3%	-18.0%	-21.1%	-10.0%	21.9%	n.a.	64.5%
BM	-3.7%	-6.4%	-7.4%	27.4%	51.6%	n.a.	94.2%

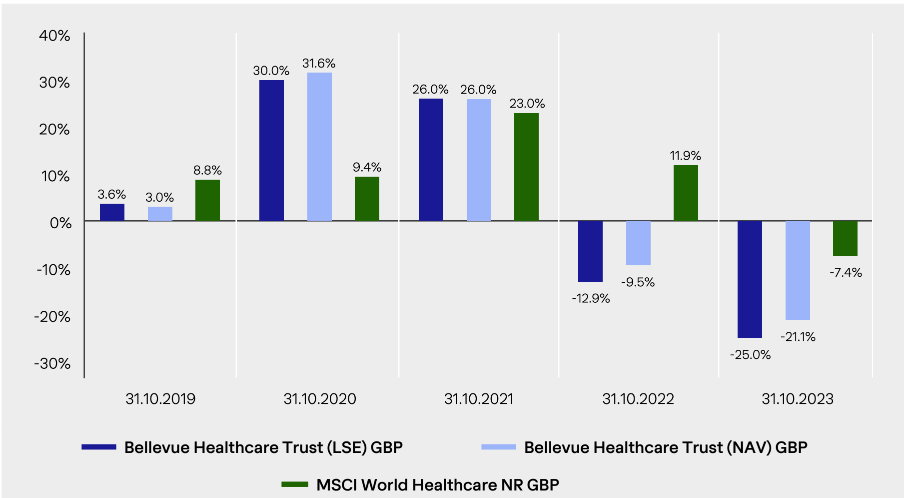
Annualised

	1Y	3Y	5Y	10Y	ITD
Share	-25.0%	-6.3%	2.1%	n.a.	6.0%
NAV	-21.1%	-3.5%	4.0%	n.a.	7.5%
BM	-7.4%	8.4%	8.7%	n.a.	10.1%

Annual performance

	2018	2019	2020	2021	2022	YTD
Share	4.9%	22.7%	29.1%	16.6%	-21.0%	-17.9%
NAV	8.6%	25.9%	25.7%	15.2%	-11.1%	-18.0%
BM	8.8%	18.4%	10.3%	20.8%	5.8%	-6.4%

Rolling 12-month-performance



Source: Bellevue Asset Management, 31.10.2023; all figures in GBP %, total return / BVI-methodology

Past performance is not a reliable indicator of future results and can be misleading. Changes in the rate of exchange may have an adverse effect on prices and incomes. All performance figures reflect the reinvestment of dividends and do not take into account the commissions and costs incurred on the issue and redemption of shares, if any. The reference benchmark is used for performance comparison purposes only (dividend reinvested). No benchmark is directly identical to the fund, thus the performance of a benchmark is not a reliable indicator of future performance of the Bellevue Healthcare Trust to which it is compared. There can be no assurance that a return will be achieved or that a substantial loss of capital will not be incurred.

Welcome to our Halloween update, which contains more than enough horrors for anyone. These are very challenging and highly dislocated markets.

While investors remain spookily preoccupied with GLP-1 drugs and their potential impact, real cobwebs are forming over many neglected areas of healthcare. We have been busy dusting off our models and sweeping up the detritus, managing to snaffle a few bargains along the way. More are likely to follow.

At some point, the decorations come down, the sweets are all gone and we go back to normal. Quite frankly, this cannot come fast enough, and we can only hope this slasher flick does not have an appalling sequel in the works.

Monthly review

The wider market

During October, the market continued to retreat in the face of growing macroeconomic and geopolitical concerns, with the MSCI World Index delivering a total monthly return of -3.3% in dollars (-2.9% in sterling). At month end, the index stood 10% below its 31 July high, but still >6% above where the year began.

When one considers that the prevailing, and generally negative, themes of the year have been 'higher rates for longer', worries over consumer sentiment and the risk of recession, slowing-to-negative corporate estimates momentum and pestilential human conflicts in multiple regions, the year-to-date positive outcome appears remarkable.

However, as we and countless others have noted, this return is largely attributable to a handful of mega-cap technology-oriented companies in what must be the narrowest breadth of market leadership anyone can remember.

The impact of both technology's outperformance and size factor (i.e. mega-caps outperforming the rest of the market) is amply illustrated by the table below, comparing various US indices and their performance during this year:

Index	Description	YTD total return (to 31-10-23)
S&P500 Technology Index	Sub-Index of 74 Technology companies within the S&P500	+34.7%
S&P500 Index	The 500 leading companies in the United States, covering ~80% total market value	+10.7%
Dow Jones Index	A mega-cap index of the 40 largest companies in the United States	+1.4%
S&P Mid-Cap 400	Cap-weighted index of 400 companies below the S&P 500	-1.3%
S&P Small-Cap 600	Cap-weighted index of 600 companies below the S&P 400	-5.0%

Source: Bloomberg

When viewed in a broader context, the market has been challenging, which befits the wider market narrative. As we have noted in the healthcare specific sections of the factsheet on many occasions, small and mid-cap indices tend to outperform larger ones over the longer-term, albeit with higher volatility.

By way of illustration: in the 25 years to the end of 2019 (i.e. before the distortion of the pandemic), the annualised returns of the S&P500, Dow, M400 and S600 series were 10.2%, 10.8%, 12.1% and 11.2% respectively. This period covers the 'tech crash' in 2000 and the 'global financial crisis' in 2008/9, but still small/mid-cap outperforms overall. Hopefully these data points illustrate how unusual the market's high level behaviour is at the moment. As an aside, the S&P500 Technology Index managed annualised returns of 12.7% and the S&P500 Healthcare 12.3%, both superior to the wider S&P500 index's 10.2%.

The MSCI World sector performances are summarised in Figure 2. Despite what is unarguably a clear macro-level narrative, we think the relative performances seem less obvious when viewed at the sector level. The notable weakness in Automotive was driven by the three battery EV players, Tesla, Rivian and Lucid, who saw outsized downside amid seemingly weakening demand for premium electric vehicles, compounded by the lofty valuations from which this decline began. The rest of the Automotive sector delivered a mid-single digit negative return.

Sector	Monthly perf
Software & Services	+2.3%
Insurance	+1.3%
Telecommunication Services	+0.8%
Utilities	+0.6%
Consumer Discretionary Distributors	+0.0%
Consumer Durables & Apparel	+0.0%
Household & Personal Products	-0.3%
Consumer Staples Distribution	-0.6%
Technology Hardware & Equipment	-1.2%
Health Care Equipment & Services	-1.6%
Media & Entertainment	-2.7%
Food, Beverage & Tobacco	-3.0%
Equity Real Estate Investment	-3.0%
Commercial & Professional Services	-3.1%
Materials	-3.2%
Consumer Services	-3.3%
Capital Goods	-3.8%
Energy	-4.3%
Financial Services	-4.3%
Real Estate Management & Development	-5.1%
Banks	-5.2%
Semiconductors & Semiconductor Equipment	-5.3%
Pharmaceuticals, Biotechnology	-5.5%
Transportation	-5.8%
Automobiles & Components	-14.3%

Source: Bellevue Asset Management, 31.10.2023

Healthcare

Given the aforementioned macro-level themes across the market, one might have expected healthcare to outperform, since it has historically been viewed as a classically defensive sector, and thus a safe haven during periods of rising uncertainty on the economic outlook. At first glance, this does not seem to have played out during October. The dollar total return of the MSCI World Healthcare Index was -4.1% (-3.7% in sterling).

A closer examination does attest to the sector being favoured for defensive qualities; the most classically defensive areas within it are Managed Care, Distributors and large-cap pharma (within Diversified Therapeutics and Conglomerates in our classification) and these were the best performing areas.

On the other hand, Dental, which is one of the few consumer discretionary areas within healthcare, was by far the worst performer (Figure 3 overleaf). Excluding the meltdown of Dental, the overall sector performance would have been ~20bp better, although this is not enough to bridge the deficit to the wider market.

The vexatious 'GLP-1 carry trade' continued through October, with GLP-1 'winners' Novo Nordisk and Eli Lilly notable outperformers and supposed 'losers' such as Healthcare Technology names (insulin pumps and glucose monitors) and the dialysis-linked stocks within Medical Technology and Services were notable losers. Sleep apnoea and vascular surgery plays also showed further weakness. If there was one bright spot amongst this, it was the increasing volume of commentary around how it had all gone way too far.

	Weighting	Perf (USD)	Perf (GBP)
Managed Care	11.1%	5.7%	6.2%
Distributors	1.8%	2.7%	3.2%
Diversified Therapeutics	39.8%	-3.5%	-3.1%
Conglomerate	10.2%	-4.3%	-3.8%
Focused Therapeutics	8.3%	-4.6%	-3.9%
Med-Tech	13.2%	-5.1%	-4.7%
Diagnostics	1.3%	-6.4%	-5.9%
Healthcare IT	0.5%	-7.6%	-7.1%
Healthcare Technology	0.7%	-7.6%	-7.2%
Facilities	0.9%	-8.4%	-7.9%
Other HC	1.3%	-8.6%	-8.1%
Generics	0.4%	-12.2%	-11.8%
Tools	7.9%	-12.9%	-12.1%
Services	2.1%	-16.0%	-15.6%
Dental	0.5%	-27.3%	-26.9%
Index perf		**-4.1%**	**-3.7%**

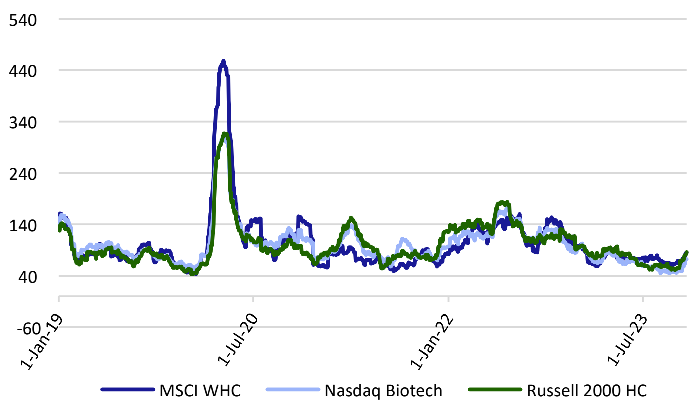
Source: Bloomberg/MSCI and Bellevue Asset Management, Weightings as of 30.09.2023, Performance to 31.10.2023

We would make one other observation. We saw some outsized negative moves from some of the heavyweight 'big pharma' names, notably Sanofi, Takeda and Pfizer. In each case, the reason for the move is explicable, even if the size of is noteworthy. The Sanofi sell-off in particular drew much commentary, along the lines of "I don't own big, boring pharma companies to get blown up like this".

There is a paradox here though, and one that was not lost on us. Healthcare has been smashed. Valuations are in the bin. If you are one of the few stocks not to have been decimated this year then you look expensive on a healthcare-relative basis. Surely everyone knew Pfizer's sales and profits were resting on a COVID carry trade that was coming to an end (the share prices of BioNTech and Moderna were a clue).

As for Sanofi, the company has long been berated for poor R&D productivity and has been looking to fix this. Any longer-term guidance will inevitably imply a degree of pipeline attrition from current projects and productivity leading to new ones being included in the budget. So, if productivity improves as investors want, there is less attrition, more new stuff and R&D spending inevitably rises. This may well be what happened regarding the 2025 outlook, so why does everyone seem upset? You cannot have it both ways.

Finally, these moves led to another general perception that volatility within the sector has become elevated. While we would concur with this perception at an emotional level, the data does not bear it out. Figure 4 below shows rolling 30-day volatility for the MSCI World Healthcare, Nasdaq Biotech and small-cap focused Russell 2000 Healthcare Index and does not suggest that volatility is elevated for this time of year, even if it feels like it.

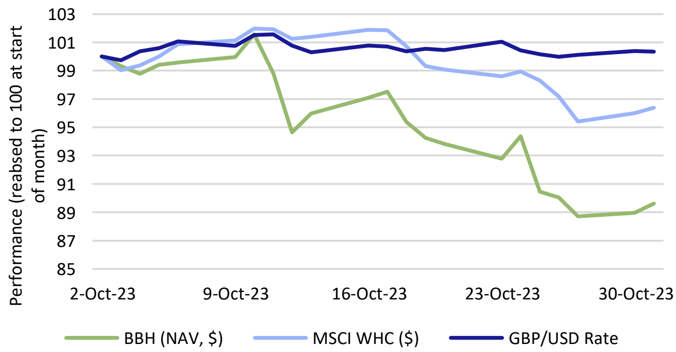


Source: Bloomberg. Volatility expressed as a ratio of the average since 1-1-19 but excluding data for Q1 2020, owing to the extreme volatility induced by the global pandemic.

The Trust

During October, the Trust's net asset value (NAV) declined a further 10.3% in sterling (10.8% in dollars) to 132.74p. This occurred despite a positive month in terms of Q3 reporting (13 companies reported or pre-announced during the month, 85% of which beat expectations or raised guidance for the year, versus only two that cut guidance or missed forecasts). As we have noted before, fundamentals have taken a back seat to thematics and positioning in this market dynamic; nine portfolio stocks declined more than 20% during the month.

In an almost word-for-word repetition of last month's commentary, it is difficult to attribute a material proportion of the NAV decline to changes to the fundamental outlook and many of these companies already began the month trading at multi-year absolute valuation lows. The evolution of the NAV over the course of the month is illustrated in Figure 5 below:



Source: Bellevue Asset Management, 31.10.2023

Managed Care was the only positive contributor this month, with Medical Technology by far the worst performer. The evolution of the sub-sector weightings is summarised in Figure 6 below and we would make the following comments:

	Subsectors end Sep 23	Subsectors end Oct 23	Change
Diagnostics	10.5%	10.5%	Unchanged
Diversified Therapeutics	0.6%	0.7%	Increased
Focused Therapeutics	25.1%	24.5%	Decreased
Healthcare IT	10.2%	9.3%	Decreased
Healthcare Technology	3.5%	4.5%	Increased
Managed Care	10.3%	12.2%	Increased
Med-Tech	18.9%	18.0%	Decreased
Services	12.1%	12.0%	Decreased
Tools	8.8%	7.9%	Decreased
Diagnostics	10.5%	10.5%	Unchanged
	100.0%	**100.0%**	

Source: Bellevue Asset Management, 31.10.2023

We added to our holdings in Healthcare Technology, Tools and Healthcare IT and reduced overall holdings in Focused Therapeutics. The bulk of the remaining weighting changes were driven by relative performance.

We added two new positions to the portfolio during the month; one in Healthcare Technology and one in Medical Technology. Both companies were in areas where valuations have been significantly adversely impacted by the "GLP-1 losers" narrative. Both brought additional exposures into the portfolio that we did not previously have. One of these was a re-entry of a previously held stock that we exited on valuation grounds, and the other takes us into an area that we have long followed, but historically felt was too richly valued. Over the month, the leverage ratio decreased from 3.5% at the end of September, to 2.4% at the end of October.

The average discount to NAV widened during October to 8.0%, compared with 7.3% in September. 5.0 million shares were repurchased during the month. The tender for the annual redemption closed on 2 November. Applications were received representing 77.4m shares (14.3% of the outstanding share capital). Using the NAV of month end, this represents an outflow of approximately £107m and your managers are highly confident this can be managed in the ordinary course of business, so there will not be a redemption pool.

The negative return from the portfolio, alongside dividend payments and share buybacks mean that the redemption is likely to consume the bulk of the currently available distributable reserves. Whilst this is more of a legal point than a material one, the board has arranged for a special resolution to cancel the share premium account and a circular to shareholders calling for a general meeting was published on 3 November in relation to this.

We would emphasise this is a not uncommon procedure for investment companies, and will boost distributable reserves. It should not be interpreted as having anything to do with the practicalities of realising the cash to meet the redemption, which we see as a very straightforward matter due to the inherent liquidity of the underlying investment portfolio.

Managers' musings

"The path to my fixed purpose is laid with iron rails, whereon my soul is grooved to run"

These are the most trying of times. The market has become like a monster, twisted and unforgiving. Nebulous fear is influencing behaviour and causing all to question reason itself. We have spent a significant amount of time with our investors over recent weeks, and many want for an explanation for the prolonged underperformance of our strategy, in spite of all manner of supportive data points that suggest it should be delivering.

How could we disagree? October saw us annualising two years of underperformance versus the comparator MSCI World Healthcare Index, over which we have delivered a dollar NAV total return of -28.2%. It was not supposed to be like this.

At this juncture, some are want to question our whole approach. Seldom have we been asked why we do not own a particular stock (or rather two – Novo Nordisk and Eli Lilly) and never before have people asked for us to utterly change our approach: *"just buy them"*.

We have no intention of taking up either of these suggestions. This is not because we are as stubborn as Ahab and seeking to rebel against convention, nor are we on a mad quest. We have an approach that relies on a methodological approach – one that combines desired thematic exposures with a GARP-like valuation framework. That same framework has lead us to own Lilly in the past, and equally made continuing to hold the stock impossible, even as far back as Q4 2021, when this period of underperformance began.

The current situation is not without precedent. Many of you demanded (quite fairly) to explain why we declined to own Moderna and BioNTech in 2021, at the height of the pandemic. Both stocks did very well, peaking at $484 and $447 per share, respectively. At the end of October, they respectively stood at $76 and $94, precisely for the reasons we articulated back in 2021. Perhaps we could have bought them and then sold them quickly, but the strategy we committed to is a low turnover, fundamental, long-term holding approach. In all likelihood, this would not have worked out as well as hindsight suggests.

Neither are we so unpragmatic as to fail to recognise the situation for what it is. Anytime you underperform for a protracted period of time, you are "wrong" in the eyes of investors for that period. This is an indisputable and objective fact: had your investors chosen to invest elsewhere or not invest at all when the market's absolute return is a negative one, they would have been better off.

Of course, such things are only knowable in hindsight and such backward-looking considerations are simplistic; one didn't know, and in most cases, one couldn't possibly know what one knows now. However, this does not stop people from making emotional and reflexive rear-view mirror judgments.

As challenging as this period has been, we could at least console ourselves to the middle of this year that investors had nonetheless still been better off in this product than one of the alternatives or a benchmark ETF. At that point, we were still modestly outperforming our benchmark year-to-date, and were optimistic that the likely zenith of the rate tightening cycle was just around the corner. However, the Q3 'GLP-1 meltdown' since August has wiped all of this out.

We are not hiding from any of these challenges, but at the same time it is worth noting that none of our peers' returns are ahead of the MSCI World Healthcare Index since our inception date, nor are any of the UK's Biotech Trust peers returns ahead of the Nasdaq Biotech Index over the same period. Active managers do not generally outperform idiosyncratic markets; not because we are all stupid, but because these types of markets are not rational, and so rational decision-making is not helpful.

"Human madness is oftentimes a cunning and most feline thing"

It bears repeating that we do question ourselves over performance and approach on a regular basis and must also satisfy the management of Bellevue and the Board of the Trust that we are following an approach that is grounded in robust data. For those of you who would like to know more, ask the Trust's Board for a meeting or come to our AGM, where our format opens the floor to any and all questions around the investment strategy. We do not hide from our investors, in good times or bad.

Moreover, we do actually appreciate and value the robust approach taken by both parties: one should never be satisfied in this industry and there is always something new to learn.

Why then do we continue to stick with our approach, despite the present outcome it is generating? Based on our own thoughts and the feedback from our investors, many of whom are understandably concerned by current events, there are only really three obvious causes, when one tries to disaggregate how we got to be where we were at the end of October:

1. **Fundamentals.** Something really fundamental has happened, which has changed the way that the healthcare ecosystem works, imperilling the types of investments that we make.
2. **Funding.** Indubitably, the long-term financing environment is different now to two years ago and could remain so for some considerable time to come, potentially justifying a wholesale change in valuation approach.
3. **Fashion.** In the oft-repeated words of Benjamin Graham, the market can be a voting machine as much as a weighing machine. Before this, Keynes noted that irrationality can persist for long periods of time. It may well be that nothing, per se, is wrong and the approach we have taken and the stocks that emerge from that as our portfolio are simply out of favour (i.e., the idiosyncratic market).

Let us consider these three points in more detail.

"The fundamentals"

Whilst everyone is entitled to their opinion, and some have offered suggestions around this notion, our conclusion is simple: we cannot find substantive evidence to support the idea of any fundamental change over this two-year period since the latter days of 2021 that would have a lasting bearing on either the revenue potential of the end markets that we seek to gain exposure to, or the probability of regulatory or commercial success for products, technologies or services looking to address these market segments. If anyone does have any evidence supporting such a conclusion, please send it along, and we will gratefully consider it.

It bears repeating that healthcare is a complex and highly regulated marketplace, with long and expensive development timelines and high barriers to entry. The evidence-driven nature of medicine requires new approaches to prove their metal via studies reported in peer-reviewed journals that consider their cost, efficacy or safety benefits to patients and to the system as a whole and, in most cases, they must also satisfy a regulator such as the FDA that they have a positive impact versus the status quo.

Thereafter, new products (drugs or devices), technologies and services must navigate some sort of procurement or tender process that will dictate the pace of market uptake. Simply put, nothing happens quickly in healthcare unless the rules are suspended, as they were during the pandemic. In this context, two years is the blink of an eye.

As for the GLP-1 "impact" currently ailing the sector; it is, quite simply, nonsense, and we challenge anyone to prove otherwise (whilst appreciating the forward-looking nature of such an impact makes this challenging, just as it is impossible to disprove the negative scenario that underpins the whole GLP-1 disruption thesis – we must all rely on judgement and the totality, or total lack of, available evidence).

For those who choose not to believe us (*"there must be something to it, otherwise the market would not be reacting like this"*), how about some sage words from the CEO of GLP-1 winner Novo Nordisk, in a recent Barrons article unambiguously titled 'Selloffs on Weight Loss Drug Fears Are an overreaction, Novo CEO Says':

> *"I've seen companies doing, say, dialysis services, sleep apnoea, with massive share price reactions," he says. "These are progressive diseases. And even if you start reducing people with obesity, there are many who have a progressed state of disease"... GLP-1 drugs, he says, are not a cure-all, and patients will still need other treatments. "It's not that if you lose weight, then suddenly you don't have kidney disease"*

For us at least, that says it all. It is also what we have been saying to you for the past few months. That this current situation will unwind feels undoubted to us, the question is over what timeframe a more considered viewpoint will emerge. We hope that the publication of the detailed results from Novo's much-vaunted SELECT study on CV outcomes with Wegovy over the weekend of 11/12 November will begin this process, but nothing is certain.

"Funding"

The cost of money has risen. Unarguably, this will disfavour those who need external finance more than those who do not. As noted previously, healthcare development timelines are long and expensive. Ergo, pre-commercial companies now carry elevated risk due to re-financing needs, unless they are already funded beyond post-commercialisation, to cashflow breakeven.

This is clearly going to impact small and mid-sized companies versus their larger, generally cashflow positive, brethren. It will further impact companies that are less diversified in terms of their product pipeline, since any setback has a more material impact if the proposed product cashflows account for a large proportion of the enterprise's overall cashflow forecasts.

One could point to the relative performance of the Healthcare sub-groups of the S&P500, S&P400 and S&P600 indices over this period (total returns of -3.8%, -29.6% and -41.5% respectively) as evidence to support this. Put another way, 'size factor' is simply a proxy for maturity and near-term cashflow.

The perception has become the reality regardless. We are now asked regularly about the proportion of the gross exposure that is to companies with negative near-term operating free cashflow and how many of our investments will need to access the capital markets again before we expect them to become self-sustaining. We have also been asked if we consider such things in our investment approach (of course we do, and always have done). Investors have asked these questions before, but rarely. Moreover, our perception was that no-one seemed to be asking from a 'risk management' perspective, but more out of curiosity.

Pre-commercial healthcare companies are likely to continue to remain reliant on equity funding over bank facilities. The intangible nature of the value creation (i.e., the bulk of the net present value lies in the creation of intellectual property and the obtaining of marketing authorisations, not in tangible assets like factories and offices that offer safe collateral for loans) and the risks and timelines associated with commercialisation remain both significant and uncertain.

Even big companies cannot rush these things. In 2015, healthcare behemoth Johnson & Johnson formed a JV called Verb Surgical with those product development slouches at Google (via their Verily healthcare subsidiary) to enter the surgical robotics space. The platform they began to develop, now called Ottava is expected to reach the US commercial marketplace in 2027 (many years later than originally envisioned). Dozens of other surgical robotics platforms flounder along in no-man's land. Meanwhile, first-mover (and portfolio holding) Intuitive Surgical goes from strength to strength.

Is it fair to generalise and assume that everyone will struggle to raise additional funds? We do not think so. There have been dozens of successful, high-profile equity raises in the healthcare space since Q4 2021. The Trust has seen two portfolio companies successfully close follow-ons during 2023 and, in both cases, there was no short-term share price impact from these financings. On the other hand, poor companies will struggle to find support. This is how capitalism works: through natural selection.

At the moment, we believe there are more "zombie" companies in the public equity realm than usual, because many took advantage of the pandemic's raised level of interest in healthcare, allied to lots of first time retail investors trading at home during lockdown and the thankfully diminished "SPAC" craze of the period. Many of these companies would not have managed a successful public debut in more normal times.

As ARM and Birkenstock amply demonstrate, the IPO market remains tricky and many currently private healthcare start-ups will need to remain so for longer than they hoped. This is not a problem for those already listed though, and the travails of the Venture Capital industry are, if anything, an opportunity for public companies: If you cannot exit your investment via IPO, then a trade sale (at keen prices right now) to an incumbent is your next best option. There will be many bargains to be had in the coming months.

Coming back to the quality end of the listed space. As we have noted in previous factsheets, the only way to back-solve for the de-rating that we have seen across our portfolio would be to apply double-digit discount rates to everything, with some companies well into the teens. Yields on 30-year US Treasuries have risen ~300bp over the past two years (from ~200bp to ~500bp at the end of October), which is simply not enough to explain the de-rating we have seen.

Indeed, this must imply a very material increase in the 'equity risk premium' for healthcare stocks. Investors need to decide for themselves whether or not a material increase in the ERP is justified. If it isn't, and if you agree with the first point that the fundamentals of healthcare have not changed, then the patient investor should be piling into these de-rated small and mid-cap healthcare companies.

One might counter that we have been in a multi-year de-rating cycle that may reflect a permanent re-assessment of valuation due to discount rates. Even if this is true, these companies will still grow faster than the market overall, driving a significant further de-rating. In other words, one does not need to presume a re-rating to drive target returns, only that the current multiples hold fast over the coming years and that future growth is rewarded.

If you do agree with the second point (i.e., the funding environment has changed, but not so much as to justify the level of de-rating that we have seen in small and mid-cap companies), but disagree with the first point (i.e., healthcare specifically has suffered a material change in operating environment), then you might want to consider buying ETFs on the impacted indices to take advantage of a likely re-pricing of these sorts of companies. If you disagree with both conjectures, then maybe it is best to stick with the familiar, blue chip names.

"Fashion"

The stock market is faddish. Things go in and out of fashion for non-fundamental reasons. SPACs for example. Were these ever a good idea? Having looked at many, we have as yet only invested in one company that listed via a SPAC; we generally consider it a huge red flag. Our reasoning is simple: if you cannot convince the commitment committee of an investment bank that your company is ready for the public markets, then it probably isn't.

Academic research on the dilutive impact of SPACs versus traditional crossover funding followed by an IPO does not support the contention that it is a cheaper way for companies to go public, only that it is a faster way for the target company to obtain a listing. And yet, 2021 saw the launch of 107 SPACs that listed parts of the healthcare industry as their intended target, according to S&P Global Market Intelligence.

The returns from these deals have generally been poor. It is not straightforward to support this statement quantitatively, in part because there are many arguments about what to compare SPAC returns to: should it be healthcare IPOs of the same vintage (as noted previously, this is a poor vintage in all respects), or healthcare in general? (returns have been poor relative to history across the space, especially in smaller-cap, which is usually where SPAC companies would be classified).

We will spare our readers any words on market bubbles, for there are countless tomes in any good bookshop about this bizarrely repetitive occurrence. Keynes famous point about market irrationality is axiomatic. If there are bubbles, it surely follows that there can be "anti-bubbles", the other side of the 'price deviation from fundamental value' argument.

The fact that we cannot recall a catchy name for this phenomenon is telling. The investment approach based around it is, of course, well-known: value investing, as espoused by Benjamin Graham. If you search for recent articles on value investing, you are far more likely to find one proclaiming its demise than extolling its virtues.

Growth has outperformed value for decades because we have been in a societal transition from the old to the new economy. Get online and move up the value chain or die. Basic manufacturing is no longer the forte of advanced economies, who will be undercut by their emerging market peers (cf. China, Vietnam, India etc.). As a consequence, money has moved away from value approaches toward passive index products, which unintentionally favour growth companies.

We work, live, and spend differently today versus five, ten and twenty years ago and the value of certain sorts of legacy infrastructure is thus diminished (fixed line telecoms, some fossil fuel processing, some transport and leisure assets). This is nothing new either; there will never be a renaissance in demand for buggy whips or coal scuttles, no matter how cheap the cost of manufacture.

None of this precludes or diminishes the question of fundamental value. Even if you seek growth assets as we do, one should always be asking these questions: what are you paying for a unit of growth, and what is your level of conviction that growth will be achieved? Relative value remains as real today as it ever was, and would rule out the allure of seemingly cheap buggy whip makers, since the growth on offer would be zero, which compares unfavourably to almost anything else.

"It is not down on any map; true places never are"

We are not hunting a white whale, nor do we believe that we are on a mission ordained by some higher calling. We seek the same goals as we ever did, and are far more likely to be found searching for southern right whales, on the grounds they are easy to catch, than pursuing some flight of fancy.

Ahab was good at his job and a successful, if embittered man. Unfortunately, he lost sight of what that job was, and became diverted by something else entirely. We have not forgotten what the mission is, nor have we turned back, even if the sailing is very rough.

Readers can decide for themselves which of three factors outlined above is most likely to be at play in the current market conditions, or the extent to which all three have some role to play. We think that fickle market fashion is the predominant issue, along with some over-interpretation of the financing backdrop.

The latter should revert over time, as the failure of the secondary funding marketplace does not arise. The former should also revert to normal, but the timing of that is much harder to predict; it could unwind as rapidly as it appeared, like a squall. Sometimes, you just have to trust in the process.

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@bellevuehealthcaretrust.com

As ever, we will endeavour to respond in a timely fashion and we thank you for your continued support during these volatile months.

Paul Major and Brett Darke

Bellevue Healthcare Trust

Top 10 positions

Axonics	8.0%
Insmed	7.7%
Option Care Health	7.2%
Evolent Health	6.5%
Exact Sciences	6.1%
UnitedHealth Group	5.5%
Intuitive Surgical	4.9%
Elevance Health	4.6%
Axsome Therapeutics	4.4%
Apellis Pharmaceuticals	4.3%
Total top 10 positions	59.1%
Total positions	30

Sector breakdown

Focused Therapeutics	24.4%
Med-Tech	18.5%
Managed Care	12.2%
Services	12.0%
Diagnostics	10.5%
Healthcare IT	9.3%
Tools	7.9%
Health Tech	4.5%
Diversified Therapeutics	0.7%

Geographic breakdown

United States	95.9%
China	4.1%

Market cap breakdown

Mega-Cap	16.5%
Large-Cap	9.5%
Mid-Cap	53.6%
Small-Cap	20.3%

Source: Bellevue Asset Management, 31.10.2023;
Due to rounding, figures may not add up to 100.0%. Figures are shown as a percentage of gross assets.
For illustrative purposes only. Holdings and allocations are subject to change. Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. Where the fund is denominated in a currency other than an investor's base currency, changes in the rate of exchange may have an adverse effect on price and income.
Market Cap Breakdown defined as: Mega Cap >$50bn, Large Cap >$10bn, Mid-Cap $2-10bn, Small-Cap $2bn. Geographical breakdown is on the basis of operational HQ location.

Benefits

- 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 fund offers a combination of high quality healthcare exposure and a targeted 3.5% dividend yield.
- Bellevue Healthcare Trust has a strong board of directors and relies on the experienced management team of Bellevue Asset Management (UK) Ltd

Inherent risks

- The fund invests in equities. Equities are subject to strong price fluctuations and so are also exposed to the risk of price losses.
- Healthcare equities can be subject to sudden substantial price movements owning to market, sector or company factors.
- The fund invests in foreign currencies, which means a corresponding degree of currency risk against the reference currency.
- The price investors pay or receive, like other listed shares, is determined by supply and demand and may be at a discount or premium to the underlying net asset value of the Company.
- The fund may take a leverage, which may lead to even higher price movements compared to the underlying market.

You can find a detailed presentation of the risks faced by this fund in the "Risk factors" section of the sales prospectus.

Management Team

Paul Major
Co-Portfolio Manager

Brett Darke
Co-Portfolio Manager

Sustainability Profile – ESG

EU SFDR 2019/2088 product category: Article 8

Exclusions:		ESG Risk Analysis:		Stewardship:	
Compliance UNGC, HR, ILO	✓	ESG-Integration	✓	Engagement	✓
Norms-based exclusions	✓			Proxy Voting	✓
Controversial weapons	✓				

Key Figures:

CO_2-intensity (t CO_2/mn USD sales):	23.6 (Low)	Coverage:	95%
MSCI ESG Rating (AAA - CCC):	BBB	Coverage:	95%

Based on portfolio data as per 31.10.2023; – ESG data base on MSCI ESG Research and are for information purposes only; compliance with global norms according to the principles of UN Global Compact (UNGC), UN Guiding Principles for Business and Human Rights (HR) and standards of International Labor Organisation (ILO); no involvement in controversial weapons; norms-based exclusions based on annual revenue thresholds; ESG Integration: Sustainability risks are considered while performing stock research and portfolio construction; Stewardship: Engagement in an active and constructive dialogue with company representatives on ESG aspects as well as exercising voting rights at general meetings of shareholders.MSCI ESG Rating ranges from "leaders" (AAA-AA), "average" (A, BBB, BB) to "laggards" (B, CCC). The CO_2-intensity expresses MSCI ESG Research's estimate of GHG emissions measured in tons of CO_2 per USD 1 million sales; for further information c.f. www.bellevue.ch/sustainability-at-portfolio-level.

Objective

The fund's investment objective is to achieve capital growth of at least 10% p.a., net of fees, over a rolling three-year period. Capital is at risk and there is no guarantee that the positive return will be achieved over that specific, or any, time period.

Risk Return Profile acc. to SRI

This product should form part of an investor's overall portfolio. It will be managed with a view to the holding period being not less than three years given the volatility and investment returns that are not correlated to the wider healthcare sector and so may not be suitable for investors unwilling to tolerate higher levels of volatility or uncorrelated returns.

low risk ⟷ high risk

1	2	3	4	**5**	6	7

We have classified this product as risk class 5 on a scale of 1 to 7, where 5 corresponds to a medium-high risk class. The risk of potential losses from future performance is classified as medium-high. In the event of very adverse market conditions, it is likely that the ability to execute your redemption request will be impaired. The calculation of the risk and earnings profile is based on simulated/ historical data, which cannot be used as a reliable indication of the future risk profile. The classification of the fund may change in future and does not constitute a guarantee. Even a fund classed in category 1 does not constitute a completely risk-free investment. There can be no guarantee that a return will be achieved or that a substantial loss of capital will not be incurred. The overall risk exposure may have a strong impact on any return achieved by the fund or subfund. For further information please refer to the fund prospectus or PRIIP-KID.

Liquidity risk
The fund may invest some of its assets in financial instruments that may in certain circumstances reach a relatively low level of liquidity, which can have an impact on the fund's liquidity.

Risk arising from the use of derivatives
The fund may conclude derivatives transactions. This increases opportunities, but also involves an increased risk of loss.

Currency risks
The fund may invest in assets denominated in a foreign currency. Changes in the rate of exchange may have an adverse effect on prices and incomes.

Operational risks and custody risks
The fund is subject to risks due to operational or human errors, which can arise at the investment company, the custodian bank, a custodian or other third parties.

Target market

The fund is available for retail and professional investors in the UK who understand and accept its Risk Return Profile.

Important information

This document is only made available to professional clients and eligible counterparties as defined by the Financial Conduct Authority. The rules made under the Financial Services and Markets Act 2000 for the protection of retail clients may not apply and they are advised to speak with their independent financial advisers. The Financial Services Compensation Scheme is unlikely to be available.

Bellevue 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 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.

The most important terms are explained in the glossary at www.bellevue.ch/en/glossary.

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