Bellevue
Healthcare Trust

JANUARY 2024

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 benchmark index in constructing its portfolio. The fund takes ESG factors into consideration while implementing the aforementioned investment objectives.

Fund facts

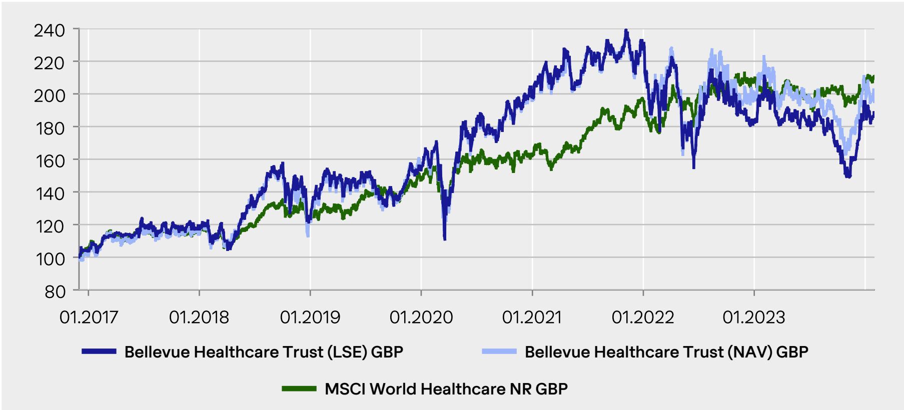
Share price	151.00
Net Asset Value (NAV)	157.49
Market capitalisation	GBP 698.51 mn
Investment manager	Bellevue Asset Management (UK) Ltd.
Administrator	Apex Listed Companies Services (UK) Ltd.
Launch date	01.12.2016
Fiscal year end	Nov 30
Benchmark (BM)	MSCI World Healthcare NR
ISIN code	GB00BZCNLL95
Bloomberg	BBH LN Equity
Number of ordinary shares	462,588,550
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	1.17
Correlation	0.52
Volatility	28.5%
Tracking Error	24.36
Active Share	91.58
Sharpe Ratio	0.07
Information Ratio	-0.23
Jensen's Alpha	-7.52

Source: Bellevue Asset Management, 31.01.2024;
Calculation based on the Net Asset Value (NAV) over the last 3 years to 31 January 2024.

Indexed performance since launch



Cumulative & annualised performance

Cumulative

	1M	YTD	1Y	3Y	5Y	10Y	ITD
Share	-4.1%	-4.1%	-5.4%	-7.6%	35.0%	n.a.	87.3%
NAV	-5.0%	-5.0%	-8.7%	-2.9%	41.0%	n.a.	95.2%
BM	3.0%	3.0%	3.9%	28.7%	65.7%	n.a.	110.4%

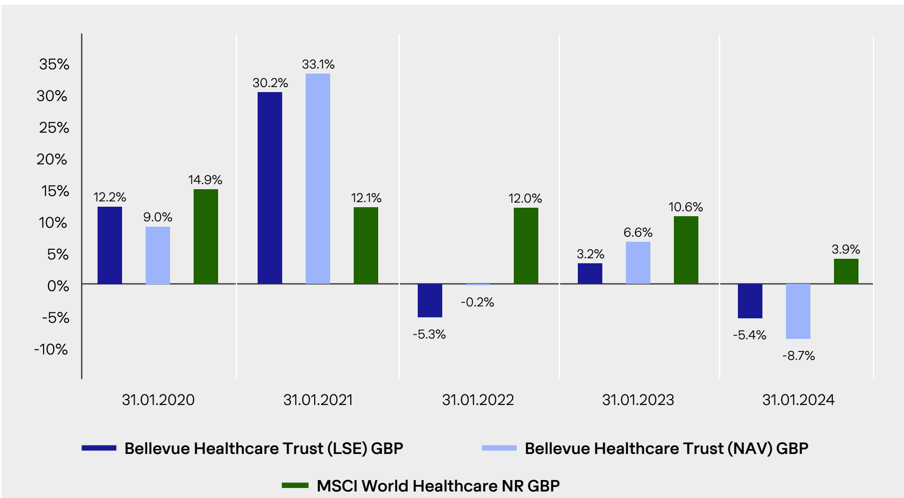
Annualised

	1Y	3Y	5Y	10Y	ITD
Share	-5.4%	-2.6%	6.2%	n.a.	9.1%
NAV	-8.7%	-1.0%	7.1%	n.a.	9.8%
BM	3.9%	8.8%	10.6%	n.a.	10.9%

Annual performance

	2019	2020	2021	2022	2023	YTD
Share	22.7%	29.1%	16.6%	-21.0%	7.0%	-4.1%
NAV	25.9%	25.7%	15.2%	-11.1%	2.4%	-5.0%
BM	18.4%	10.3%	20.8%	5.8%	-1.6%	3.0%

Rolling 12-month-performance



Source: Bellevue Asset Management, 31.01.2024; 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 first update of 2024. Sadly, macro remains in the driving seat to a greater extent than we would all like and market leadership remains narrow. Nonetheless, there are signs of a more constructive and broader narrative emerging.

Commentary around the JP Morgan healthcare conference was generally constructive and supportive of a 'back to normal' narrative around patient behaviour and procedure volumes in a post-pandemic world.

Market machinations aside, the key take-away for us is that the long-term, demographically driven secular growth trend that is healthcare utilisation remains intact and as compelling as it ever was. In a world that feels increasingly uncertain, amidst a wider market that appears expensive and highly concentrated, it is good to be able to have confidence in something tangible.

Monthly review

The wider market

To some extent, the animal spirits that took hold in November and December of 2023 continued into the new year. The MSCI World Total Return Index rose 0.7% in dollars (+1.6% in sterling) and the index made a new all-time high, as did the US S&P 500 index. The European Stoxx 600 has not quite surpassed its highs from early 2022 and the UK FTSE All-Share index made its recent high in late December 2023.

The US economy continues to show resilience in terms of consumer spending and job creation/unemployment claims. We are now well into the Q4 23 reporting season and it has also generally skewed positively relative to expectations, especially for the Technology mega-caps that drove so much of the total return in 2023, along with energy and healthcare. These three sectors have led on beats versus consensus thus far.

Despite some disappointment during recent weeks regarding the pace of AI impact for these Technology companies (as we have noted many times, the future generally takes longer to arrive than people expect and comes in a form that is different from that initially envisaged), the purveyors of internet enablement across software, technology hardware and the related microchip supply chain have been the bright spots and fund flows suggest that investors continue to seek higher exposure to them.

Although technology remains en vogue, one cannot turn to last year's simplistic breakdown of "The Magnificent Seven" vs. "S&P 493", for Tesla has finally collided with the reality of falling electric vehicle prices and market share. Tesla declined 24% in dollar terms during January (Lucid fell 20%, Rivian fell 35% and Volvo took a 19% hit on its decision to stop supporting electric sub-brand Polestar).

The impact of this EV selloff can be seen in the Automotive sector's position at the bottom of Figure 1, which summarises the sector-level performance for the MSCI World Index.

This also meant that the total return of the "Magnificent Seven" was 'only' +1.8% during the month, despite the stellar performances of NVIDIA (+24%), Meta (+10%), and Netflix (+15%).

Sector	Monthly perf
Semiconductors & Semiconductor Equipment	+9.0%
Software & Services	+5.2%
Media & Entertainment	+4.1%
Telecommunication Services	+3.6%
Pharmaceuticals, Biotechnology	+3.3%
Insurance	+3.1%
Household & Personal Products	+2.4%
Consumer Discretionary Distributors	+1.5%
Consumer Staples Distribution	+1.4%
Commercial & Professional Services	+1.3%
Financial Services	+1.3%
Banks	+0.7%
Consumer Services	+0.7%
Health Care Equipment & Services	+0.6%
Consumer Durables & Apparel	+0.0%
Capital Goods	-0.5%
Transportation	-0.9%
Energy	-1.1%
Food, Beverage & Tobacco	-1.1%
Technology Hardware & Equipment	-2.6%
Utilities	-3.3%
Real Estate Management & Development	-3.8%
Equity Real Estate Investment	-4.7%
Materials	-4.9%
Automobiles & Components	-9.9%

Source: Bellevue Asset Management, 31.01.2024

Healthcare

As with the broader market, January saw a continuation of the positive sentiment that began in late 2023. The MSCI World Healthcare Total Return Index rose 2.7% in dollars (+3.0% in sterling), outperforming the wider market. As noted previously, healthcare has been one of the better-performing sectors on an 'earnings performance vs. expectations' basis during the Q4 reporting season thus far.

In addition, the sector has this quirk of many of the larger companies pre-announcing Q4 results at or ahead of the JP Morgan Healthcare conference that takes place each year during the second week of January, bringing forward much of the Q4 update newsflow (including guidance for 2024) into the first month of the year, which probably helped bolster the sector's relative performance versus the wider market.

We would only note two interesting trends from the reporting season and commentary at the JP Morgan conference, both of which relate to procedure volumes. Broadly speaking, Q4 23 saw a strong return to normalised seasonal trends. This was not just in regard to the usual incidences of increased ER visits and respiratory illness amongst the old and the very young, but reports of further positive momentum in elective procedural volumes.

As a consequence, hospital operators (Facilities) performed strongly and we saw continued weakness in the Managed Care (health insurance) names due not only to higher than expected medical costs in Q4 but also caution over this spilling into 2024.

On the latter, it was interesting to see Medicare Advantage (premium insurance for 65+ retirees) as the primary area of weakness. Different companies called out different factors as being responsible for the overspend during Q4, and the response to the potentially higher trends through 2025 was also interesting. We consider this topic further in the musings section. The sub-sector performance breakdown is summarised in Figure 2 overleaf.

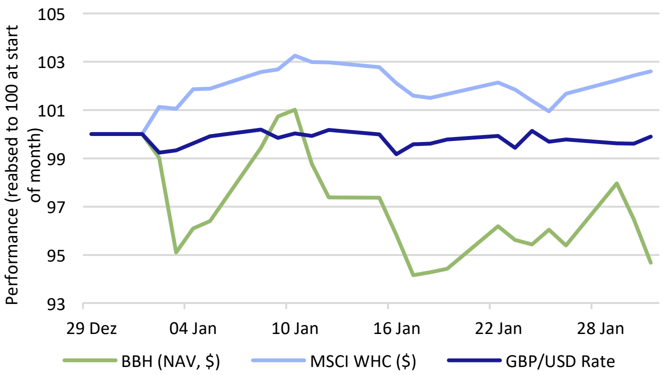
	Weighting	Perf (USD)	Perf (GBP)
Generics	0.6%	10.2%	9.5%
Facilities	1.0%	8.6%	9.1%
Distributors	1.9%	7.6%	8.3%
Healthcare IT	0.5%	5.6%	6.0%
Diversified Therapeutics	38.8%	5.2%	5.6%
Med-Tech	13.8%	4.2%	4.5%
Services	2.1%	1.0%	1.3%
Focused Therapeutics	7.9%	0.4%	0.7%
Tools	7.9%	0.3%	0.6%
Conglomerate	10.1%	0.0%	0.4%
Managed Care	11.0%	-2.2%	-1.8%
Diagnostics	1.3%	-2.9%	-2.6%
Dental	0.5%	-3.5%	-3.2%
Other HC	1.4%	-4.0%	-3.8%
Healthcare Technology	0.9%	-4.6%	-4.2%
Index perf		**2.7%**	**3.0%**

Source: Bloomberg/MSCI and Bellevue Asset Management, Weightings as of 31.12.2023, Performance to 31.01.2024

Beyond positive procedure trends, the overall messaging from the conference was reassuringly benign. An improving demand outlook, alongside stable regulatory environment and predictable pricing trends should leave little risk for sector-level negative surprises. Healthcare macro trends are supposed to be slow-moving and predictable, and the sector probably needs a quiet year or two for generalist investors to begin to appreciate its qualities once more.

The Trust

We cautioned last month that the strong finish to 2023 might result in something of a pullback in the early days of 2024, but this was more pronounced than we expected. During January, the Trust's Net Asset Value declined 5.3% in dollar terms (-5.0% in sterling) to 157.49p. The evolution of the NAV over the course of the month is illustrated in Figure 3 below:



Source: Bellevue Asset Management, 31.01.2024

All sub-sectors except for Medical Technology and Managed Care made a negative contribution to the NAV evolution during the month. Diagnostics and Tools were the main detractors, followed by Healthcare Technology. The evolution of the sub-sector weightings is summarised in Figure 4 opposite, and we would make the following comments:

Holdings in Diagnostics and Healthcare Technology were unchanged. We actively reduced our holdings in Managed Care, Healthcare IT, Focused Therapeutics and Services. We added to our holdings in Tools and Medical Technology, but Tools was adversely impacted by relative performance. We exited one position in the Medical Technology sub-sector. The portfolio consisted of 27 holdings as of the month-end.

	Subsectors end Dec 23	Subsectors end Jan 24	Change
Diagnostics	13.2%	12.6%	Decreased
Focused Therapeutics	22.2%	20.6%	Decreased
Healthcare IT	11.2%	10.8%	Decreased
Healthcare Technology	6.9%	6.7%	Decreased
Managed Care	6.7%	6.3%	Decreased
Med-Tech	18.8%	22.8%	Increased
Services	11.4%	11.3%	Decreased
Tools	9.6%	9.0%	Decreased
Diagnostics	13.2%	12.6%	Decreased
	100.0%	**100.0%**	

Source: Bellevue Asset Management, 31.01.2024

The average discount to NAV narrowed slightly again during January to 6.3%, compared with 8.1% in December 2023. No shares were repurchased during the month. The leverage ratio increased slightly, from 2.4% at the end of December to 2.9% at the end of January.

Managers' musings

Back, to the future

As noted in last month's missive, the portfolio's strong performance into the final weeks of 2023 was driven by a combination of more constructive macro (interest rates believed to have peaked and increased optimism around a soft landing) and the ongoing unwinding of negative sentiment during the summer months, regarding the likely impact of increased usage of GLP-1 drugs on other 'obesity-linked' areas within healthcare.

Finally, the sell-side and investors (yes, we are generalising; not everyone fell into this) seem to be willing to re-engage with a broader debate about the positive outlook for procedural volumes in an era of an ageing population, as opposed to a monomaniacal focus on a doom-loop of increased GLP-1 usage negating morbidity and decrepitude, in spite of the modest impact on secondary factors versus inexorable demographic trends.

Lest we forget – every day, 10,000 people in the US turn 65. Across Europe, it is about 3,500/day (Europe is already older on average). Across the OECD, there are ~240m people aged over 65, around 64m aged over 80 and generally speaking, they desire a more active lifestyle than previous aged cohorts, who seemed willing to accept a degree of functional loss and discomfort with age.

The next generation (i.e., the current over 50s) is generally sicker and less healthy on average than the previous one. This is due to a combination of lifestyle factors (sedentary behaviour, ultra-processed foods, long COVID, etc.). Our view remains that, whilst losing some weight will be a positive for this population, it is no panacea, and in all likelihood the resultant increase in lifespan (as opposed to healthspan, since much of the damage will have been done) will make them more likely to fall into the net of procedures later in life.

The previous GLP-1 hysteria seems all but forgotten in recent weeks, amidst encouraging comments around procedure volumes. Although the overall commentary has been constructive, and a focus back towards the positive fundamentals of healthcare is welcome, there are some interesting divergences in views on the drivers of this acceleration in growth, and thus questions to be asked over its likely duration. This is an important topic and we have highlighted some of the more interesting commentary from recent reporting and conference presentations in the following pages.

COVID backlog and other COVID effects

It is undeniable that we had at least two years of serious disruption to the smooth running of hospitals from COVID. Measures to reduce the spread of the SARS-CoV-2 virus limited the ability of patients in many markets to access "non-essential" healthcare procedures (we recognise the definition of non-essential is a very de-personalised one and sadly did include cancer and cardiovascular care for some patients in some markets, resulting in loss of life), and reduced surgical capacity at the same time, resulting in huge backlogs, especially here in the UK.

These post pandemic backlogs were further compounded by labour shortages as many burnt out medical staff elected to leave the profession for other (often better paid) vocations. Typically, the most frequent users of healthcare services were the elderly and they were also the most at risk from contracting the virus.

Consequently, there was a reluctance to re-engage with the regular face-to-face interactions with primary care doctors that drove procedural volumes. That fear does look to have subsided, and we are, to a large extent, back to 'business as usual'.

With insurance providers and hospitals to some extent seemingly caught unaware by the Q4 demand surge (causing them to respectively miss and beat guidance expectations), it behoves us to consider if this elevated demand is somewhat transitory (i.e., backlog-related) or a 'new' normal.

Med-Tech behemoth J&J, whose activities span general surgery, orthopaedics and cardiovascular commented that COVID disruption was receding but was still being felt in terms of labour shortages and higher costs. They attributed the strong procedural growth in 2023 to the backlog effect and expected this to continue to play out in 2024, but did not suggest its expectations on the structural outlook for key markets (in terms of pre-COVID positive volume growth rate and negative annual price erosion) had changed. In other words, it would be reasonable to assume that trends slow over 2024 and look more typical (i.e., comparable to 2018/19) in 2025+.

In contrast, ortho-focused peers Zimmer Biomet and Stryker were less inclined to attribute the strong patient volumes to the backlog; Zimmer went as far as to say it did not feel that a COVID-driven backlog made a significant contribution in 2023.

Instead, both cited more secular trends from the growing population of elderly patients (many of whom want and expect to be more active at any given level of age than the previous generation were and so are more amenable to surgery), and increasing use of robotically assisted placements and surgical planning tools that can augment physician capacity.

These comments are more in line with our own base case view. Hospital operator HCA also indicated that it did not attribute higher procedure volumes to COVID backlog effects but rather to higher utilisation and capacity.

Patients are coming in younger and earlier, unwilling to wait for issues to become serious or life-limiting before seeking surgery. Moreover, doctors can now cope with the resultant higher workload, having adopted various new tools. This overall picture is supportive of enhanced short-to-medium term procedure growth, and a more demanding patient cohort will absorb that growing capacity, with an expectation of maintaining a more active lifestyle.

At some point though, this higher capacity and demand will reach an equilibrium, and growth will slow down from its currently elevated level. Whether or not it returns to pre-pandemic norms or settles a little higher remains to be seen. There are certainly persuasive arguments as to why the long-term growth rate may remain higher, at least while the overall size of the higher acuity (i.e. over 65) population continues to grow in absolute terms.

What about future seasonal COVID disruptions? Although there is forever a new 'variant of interest' popping up to supersede the last one as the prevalent strain in circulation (principally monitored these days from waste-water testing, which gives localised population-level data), few of these become 'variants of concern' and hospitalisation data is not worrisome.

UnitedHealth did note that initial 2024 'per case' costs for COVID hospitalisations were running a little higher than expected, but that it was not a material impact and none of the quoted payors really called out COVID as a contributory factor to the elevated Medicare Advantage medical cost trend widely seen in Q4 23, nor did hospital operators cite it as a driver of higher patient intake over that same period. Continuing to presume that COVID is no longer a material factor on overall patient behaviour and admission patterns seems a reasonable assumption.

The broader category of community-acquired respiratory infections is worth mentioning. This is the second winter season after the pandemic ended and people fully embraced typical holiday season behaviours. As a consequence, there was another notable spike in those background infections that typically impact paediatric and elderly populations (e.g., RSV, flu, rhinovirus, enterovirus, strep A). This was largely anticipated and factored into the guidance scenarios of both payors and providers.

There was a higher-than-anticipated uptake of RSV vaccinations, which was widely cited by several payors as driving additional costs latter in the quarter, but this should be a longer-term positive for them as higher vaccination rates should translate into lower background hospital admissions over the following two seasons.

Site-of-care shift

Long-term holders will be aware that the so-called 'site-of-care shift' has long been one of our key themes for the development of healthcare. The idea here is that facilities operators segment care, physically separating procedures into low acuity elective day cases carried out in walk-in hospitals (Ambulatory Surgical Centres or ASCs) and siting these in population dense regions, offering truly convenient care.

Because they are not managing complex, high risk cases, these centres require much lower levels of equipment and staffing and can consequently be run at lower cost and profitably charge lower prices. In high population densities, care can even be segmented into disciplines, e.g. a centre specialising in ortho or gastrointestinal (GI).

The other side of the ASC coin is that removing day cases from fully functioning hospitals reduces bed blocking, which allows them to deal with more trauma cases and complex surgical admissions. These are more profitable for the hospital operators, so it is something of a win-win for those networks that can segment their business in this manner.

Perhaps there is something for the NHS to learn from this approach; we are not aware of any plans to move NHS provision in a similar direction, beyond continuing to contract out some procedures to private providers to reduce the current backlog.

Stryker specifically called out the ASC trend as being a positive for their business: convenience is breaking down the barriers to uptake. US hospital group Tenet Healthcare has been at the forefront of the ASC trend. It reported teens growth in both orthopaedic and gastrointestinal procedure volumes during 2023, and continues to add additional ASC capacity at a substantial rate, in the expectation that patient demand for safe and convenient surgical care options will continue for many years to come.

GLP-1 impact?

What about GLP-1? According to the most ebullient sell-siders during the summer sell-off, the impact of increased usage of these drugs would be both profound in its reach and imminent in its arrival. We have already noted comments from companies supposedly directly impacted (e.g., dialysis, sleep apnoea, type 1 diabetes management) noting their much more modest expectations.

J&J noted that weight is generally not a factor in osteoarthritis, even if it might compound joint pain in those afflicted by it. The company said it continues to see an increased volume of procedures in orthopaedics and does not see any change in any of the segments in which it competes. Zimmer has been more direct, stating that GLP-1 was "not going to kill this market".

In response to questions from analysts, Intuitive Surgical noted on its Q3 call that it had seen some slowdown (i.e. a deceleration in growth, not a decline) in bariatric procedures on its DaVinci surgical robotics platform that it was attributing to GLP-1 usage.

Tenet stated that it has been growing and expanding its bariatrics capability in the ASC setting and usage has been "reasonably stable, despite the GLP hoopla". Its overall GI surgical volumes grew 15% year-on-year and the company expects growth to remain robust. HCA didn't call out GLP-1 at all in Q4, but did say at Q3 that "we think it's way too early for any of that to have an impact on demand in the near term or even the intermediate term".

Labour shortages

For facilities operators, the road back to normal post-pandemic was complicated by severe labour shortages. Like airlines, hospitals are one of those businesses where you simply cannot run short-staffed due to safety risks, so capacity must be curtailed to match staffing levels. Many people left the healthcare industry out of exhaustion and frustration in the aftermath of the pandemic. Some left because they could earn more money elsewhere.

In a perverse circularity, the providers fall back on contract labour to bridge critical shortages and these same agencies were offering premium rates to those same staff leaving direct employment. This caused significant short-term margin pressure. Over time, this has ameliorated since procedural reimbursement rates reflect labour force cost inflation. The acceptance of higher wages has also allowed operators to hire new employees directly.

Although higher wages represent a like-for-like cost increase, it is a cost saving versus using contract labour and the combination of a falling total wage bill and rising procedure rates has allowed for robust margin expansion during 2023, driven by a combination of lower unit wage cost and higher capacity utilisation, owing to a reduced capacity impact from labour shortages (although it is important to point out that labour shortages are still widely cited as a constraint for facilities operators).

We do not expect this margin expansion to continue at pace, but operators seem confident they can maintain current margins while investing in additional capacity.

All major operators cited reduced usage of contract labour as a significant profit driver in 2022 vs 2023. Does this increased capacity utilisation count as "COVID catch-up/backlog effects"? One could see how it might be considered part of this and thus why J&J might have taken a slightly different view on what drove the market in 2023 versus some of its peers.

Another factor to consider is what the industry refers to as 'patient activation'. You may well have a non-urgent medical issue that is in some way life-limiting, and it may well be that your insurance coverage would allow you to seek authorisation for an elective procedure to address this. Sometimes though, for whatever reason, patients do not follow up with doctors despite having a diagnosis.

Medical device companies within our portfolio, especially in the cardiology, sleep apnoea and incontinence categories have been investing heavily in patient outreach and support to drive this patient funnel toward treatment, and this is increasing the market penetration of some product categories. It is not so much that any of this is new, but rather expanded use of social media channels and smart phones is making it easier to reach these people in a targeted fashion and drive them toward physicians who undertake that company's intervention.

Why is Medicare Advantage causing so many issues for payors?

One of the notable things about the managed care providers generally disappointing Q4 23 results and FY24 outlook is that the incremental problems were mainly attributed to a single business line – Medicare Advantage. However, the reality is that cost trend accelerated across all categories during 2023, for all the reasons outlined in the previous comments.

As a reminder, American retirees (the over 65s) are entitled to government-funded care through the Medicare programme. This $900bn/year scheme consists of three parts: A, B & D. Part A (hospital insurance) helps to cover inpatient care in hospitals, skilled nursing facilities, hospices and some home health care services.

Part B (medical insurance) helps to cover outpatient care including physician appointments, durable medical equipment that patients might need (such as wheelchairs, walkers, breathing apparatus) and some other types of home health care services not covered under Part A.

Part D helps cover the cost of prescription drugs and vaccines. Parts A&B are standard elements and Part D is an additional paid-for option. Part A is free for everyone who is eligible. Part B incurs a monthly cost, but is not mandatory. However, there are premium penalties if you choose to join the B scheme at a later age than 65.

Since the programme will not cover everything and has out-of-pocket co-payment elements, you can also buy separate "Medigap" insurance to cover these costs. Government data suggests that the traditional A&B scheme typically covers around half the total costs for seniors healthcare.

Medicare Part C is an alternative scheme that allows patients to choose their own plans offered by third party providers with different benefit structures. It provides the same services as Parts A and B, but almost always with additional benefits (such as vision, dental or physio). Part C is also known as Medicare Advantage (MA) and approved plans always include an annual out-of-pocket expense limit in an amount between $1,500 and $8,000 of the beneficiary's choosing (the lower the limit, the higher the premium).

Because of this catastrophic coverage cap, around 50% of eligible seniors elect to enrol into a Part C plan. However, it is interesting to note that many wealthier seniors opt for the 'A&B + Medigap' route as opposed to the Part C route. Typically, wealthier means healthier, so there may be some adverse selection in the MA marketplace.

Many companies offer support for Part C or D plans as a component of their employees' retirement packages. Part C has been the fastest-growing insurance market for many years now and has been dominated by UnitedHealth and Humana. Other companies have sought to gain market share by offering competitive pricing and, from time to time, this has backfired in terms of financial results, since operating margins in this market are already thin.

Typically though, it is one player who has seen this adverse impact and it is rare to see such widespread reports of a negative outlook in this segment. UnitedHealth, CVS, Cigna, and notably Humana (who warned) called it out and CVS announced that they were exiting the business, despite being the 8th largest player by covered lives. Elevance reported an in-line outlook for Part C medical costs, but only because it has shrunken back its book of business and the uplift from exiting smaller, loss-making markets is offsetting the higher costs in core ones.

Broadly speaking, everyone priced for a worsening claims trend, but it looks like it will come in higher than those assumptions predicted (it's very early in the year and things may yet change, especially for Humana, who in our experience tend to guide less accurately on cost trend than some of the peers).

The one thing we can be certain of at this stage is that all of these operators will look for a significant plan changes in 2025 vs. where they priced in 2024. If everyone is disciplined, this should allow the marketplace to remain an attractive and profitable growth segment (albeit one where growth is slowing because we are coming to the end of the boomer retirement bolus).

Some of the operators indicated that the higher costs were not only in the core Part A and B categories but that supplemental offers such as dental and vision had seen higher uptakes in Q4 than anticipated. Perhaps it was a case of people who had reached their deductible limit for the year taking advantage of that before the plan rolls over to the next period and the deductible resets.

Conclusion

In our view, there was not anything special or one-off about Q4 2023, nor is the broad acceleration in procedure volume trend all that surprising when viewed against the "easy comps" of 2022, where people were still a little COVID wary and not behaving in line with pre-pandemic norms and hospitals were still constrained by significant labour shortages.

The hospital/provider market has continued to evolve into one that is better structured to serve the needs of an increasingly large and demanding cohort of over 65s. This should support trend growth that is above that seen in the pre-pandemic period, at least until capacity utilisation caps out and the demographic expansion of this cohort slows markedly.

These are the very factors that we have long discussed as being the positive secular growth drivers for the wider healthcare industry and, whilst this may not be a supportive environment to own Managed Care companies in the short-term (at least until they can talk more confidently about what the underlying trend is and price their future book of business appropriately), it serves to highlight why healthcare should be a core part of any growth equities portfolio. Life has few certainties, but ageing and increased consumption of healthcare as a consequence of age are definitely two of them.

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	7.5%
Insmed	6.3%
Axsome Therapeutics	6.2%
Option Care Health	6.0%
Evolent Health	6.0%
Exact Sciences	5.9%
Charles River Laboratories	5.3%
Bio-Rad Laboratories	5.2%
Inspire Medical Systems	5.2%
Tandem Diabetes Care	4.9%
Total top 10 positions	58.6%
Total positions	27

Sector breakdown

Med-Tech	22.9%
Focused Therapeutics	20.3%
Diagnostics	12.6%
Services	11.3%
Healthcare IT	10.8%
Tools	9.0%
Health Tech	6.7%
Managed Care	6.3%

Geographic breakdown

United States	98.3%
China	1.7%

Market cap breakdown

Mega-Cap	6.9%
Large-Cap	17.3%
Mid-Cap	45.9%
Small-Cap	30.0%

Source: Bellevue Asset Management, 31.01.2024;
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:

Compliance UNGC, HR, ILO	✓
Norms-based exclusions	✓
Controversial weapons	✓

ESG Risk Analysis:

ESG-Integration	✓

Stewardship:

Engagement	✓
Proxy Voting	✓

Key Figures:

CO_2-intensity (t CO_2/mn USD sales):	22.9 (Low)	Coverage:	98%
MSCI ESG Rating (AAA - CCC):	BBB	Coverage:	98%

Based on portfolio data as per 31.01.2024; – 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

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

Bellevue Asset Management (UK) Ltd. 24th Floor | 32 London Bridge | London SE1 9SG
www.bellevuehealthcaretrust.com | www.bellevue-am.uk