

As at 02/28/2019	Value	1 Month (February)	YTD	Since Launch (ITD)
Share	142.50	6.64%	20.92%	51.29%
NAV	137.41	5.73%	17.95%	46.07%

Sources: Bloomberg & Bellevue Asset Management AG, 28.02.2019, NAV return is adjusted for dividends paid during period (but not assuming reinvestment)

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

Welcome to our February missive. With soaring temperatures at home and slushy snow in the Alps bedevilling half-term holidays, it hardly feels like winter. Indeed, one could be forgiven for thinking it is already Easter (chocolate eggs having been on the shelves for some weeks now). Investor fears also seem to be melting away, with markets headed back to October levels and one US Bank CEO notably proclaiming that recessionary risks are receding. With a possible US/China trade deal around the corner, should investors 'back up the truck', or 'get off the road'?

## Jeremiah or Hananiah?

By their very nature, investment updates risk repetition. When the October to February Index charts resemble a near perfect 'V', avoiding limpid or comely commentary about recovering sentiment becomes rather challenging. One should never complain when market conditions are propitious. Nonetheless, one should also never stop questioning. As they say, the trend is your friend until it comes to its end...

The MSCI World Index rose 2.8% in dollars during February, as equities continued their recovery. The continuing rehabilitation of the Pound, as the most egregious iterations of Brexit seem to fall by the wayside, reduced this to 1.7% in sterling terms. Perhaps unsurprisingly, the traditionally defensive healthcare sector lagged the wider market as growth 'roared' back into fashion. The MSCI World Healthcare Index rose 1.8% in dollars (and 0.7% in sterling).

The Trust fared materially better than the market again in February, with the dividend-adjusted ex-income Net Asset Value rising 5.5% to 139.41p (as of 28 February, the shares are trading ex the 2.00p final 2018 distribution that will be paid in March).

Our investment portfolio is intrinsically more growth oriented than the wider sector, whose performance by sub-category is outlined below. The table is notable in our minds for its lack of any obvious over-arching theme (much to the chagrin of the investment banks, who seem to have an exotic-sounding ETF basket to push for any emerging theme or factor of market whim), but we can make one or two observations:

## BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Biotech	10.2%	-1.0%	-2.1%
Conglomerate	11.8%	3.9%	2.8%
Dental	0.5%	5.1%	3.9%
Diagnostics	1.8%	8.2%	7.0%
Distributors	3.3%	-5.3%	-6.3%
Facilities	1.2%	2.3%	1.2%
Generics	0.7%	-13.7%	-14.7%
Healthcare IT	0.7%	6.5%	5.3%
Healthcare Tech.	0.2%	-1.2%	-2.3%
Managed Care	9.9%	-8.7%	-9.7%
Med-Tech	13.9%	3.3%	2.2%
Other Healthcare	0.8%	9.4%	8.2%
Pharma	34.7%	4.1%	3.0%
Services	1.5%	5.8%	4.6%
Specialty Pharma	3.6%	-1.6%	-2.7%
Tools	5.1%	7.5%	6.4%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 31-01-19. Performance to 28-02-19.

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

## 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.

Firstly, Managed Care. The insurers seem to be caught in a perfect storm of political noise and already high ownership, which seems to have resulted in a 'buyer's strike'. We have covered the topic of Democratic proposals around 'Medicare for all' in previous Factsheets. Whilst the strongest flavours imply quasi-nationalisation of the health system, greatly limiting the role for Managed Care providers, these are unaffordable, politically contentious and, most importantly, fly in the face of objective evidence showing privately administered schemes like Medicare Advantage and Medicaid MCOs do a better job than State and Federally-run programmes at managing cost trends etc.

Secondly, we would highlight that, whilst Biotechnology and Specialty Pharma were laggards this month, these are broad churches. In general, we would not expect our returns in these sub-groups to correlate with the benchmark's sub-sector returns as these are amongst the areas where our active share is highest (i.e. no overlap with the Index). February was anticipated to be a strong month for our holdings in these categories in terms of data readouts or other strategic catalysts. In general, these went positively and we judiciously locked in some profits at the tail end of the portfolio, to maintain the overall shape of the book.

## Beware Babylonians

It would be fair to say this has not been a popular rally amongst investment professionals, being unexpected in both its timing and ferocity. Fund flows and other data from the larger banks suggest that many fund managers have been wrongly positioned (i.e. too defensive or under-exposed to equities) and many more too sceptical that fundamentals are actually okay (or that the Orange One can land a trade deal with China, or even keep the US government functioning).

Nothing irks more than the missed opportunity to make money. In our case, being a sector-focused public equity fund with a commitment to being low turnover and fully invested, makes such discussions about gross exposure to equities largely moot. With that noted, our decisions to take on more leverage and 'double down' on what we saw as erroneous relative declines in some of our holdings during the November/December period (which readers hopefully recall we telegraphed ahead of time in an 'ad hoc' Factsheet) has worked out well for overall performance.

With the delightful certainty that only hindsight can bring, we would like to have concluded our due diligence processes on a couple of additional investments during those turbulent months. Multitudinous opportunities abounded in respect of companies on our watch list, but we are not prepared to cut corners on our investment process and the strength of the market rebound has meant these opportunities were compelling for far less than our intended 3-5 year holding period. Indeed, one does not have to look very far to find SMID healthcare companies that are already up >50% from their Q4 lows.

## The Prophet weeps

Perhaps because of the points above, the ever-hubristic hullabaloo as to what will happen next feels more polarised than usual. A broken clock (and even Albert Edwards) will inevitably be correct at a certain point of time, but is that reckoning imminent?

Moreover, will the rise before the fall negate the fall itself, as the past few months have effectively demonstrated in reverse? Simply put, those who remained fully invested in healthcare through December were made whole by mid-February (and, if you were a BBH shareholder, even sooner given our outperformance during this period).

If there is one forward-looking view that unites the many professional proselytisers, it is that a cessation of trade hostilities between China and the USA will be good for everyone. Nonetheless, Mr Edwards is correct in his ever-present warning that complacency is an investment risk in itself and it is thus always useful to have commentators considering the downside risks.

## The Seven Bowls of God's wrath

Our own thoughts on the wider macro-political situation (don't worry – we'll skip Brexit) is that we think that China cannot afford protracted dispute with the US. Whilst the media carps on about the county's inexorable rise as an economic force and desired world hegemony challenging the US-led system that has dominated the post war era, less attention is paid to its worrisome demographics.

These predict a rapidly rising elderly dependency ratio for the next 30 years (from ~17% today to ~45% by 2050). For reference, Europe and the USA have been hovering around the 50% level for the past few decades and the Western ratios are expected to peak in the high 60s around the same time that China does (2070). This naturally presumes such forecasts are reliable; in recent years, the ratio has grown faster than anticipated, as the termination of the one child policy in 2015 has failed to alter the trajectory of the falling birth rate.

What impact might these factors have on a rapidly growing economy? There is a country that has gone through a very rapid rise in its dependency ratio over a short period of time (from the low 40s in the 1990s to ~70% today) - Japan. Inevitably, people save more as they age and thus the proportion of the population deemed to be active consumers falls as the dependency ratio rises. You don't need an economics degree to appreciate the negative impact of such a trend.

We have seen the gradual fiscal drag effect of rising dependency in the West for a long time, with small improvements in real disposable income as pension costs and healthcare eat up GDP growth. In contrast, Japan's economic slowdown since the halcyon 70's has been profound. Its situation was not helped by its lack of natural resources that made it a net importer of raw materials and energy, thus forcing it to balance this through export-driven growth. Does any of this sound familiar and thus applicable to its neighbour only 500km away? China remains the world's biggest importer of Oil, Iron Ore and Soy and is a net importer of food.

Make no mistake; a globalised world dictates that our fates (i.e. East and West) are intertwined inexorably. However, we would agree with those who argue that the Chinese economy has not yet developed (in terms of productivity and the balance between goods and services) to the extent that it can support such a high dependency ratio. As such, it must remain open to the world and, whether China likes it or not, the most important market in any context is still the United States. Finally, let us also remember that Trump is not really in the driving seat of these negotiations (which must be a good thing) and he needs some 'wins' ahead of the 2020 election cycle.

## I will heal my people

As we noted at the beginning, repetition is an ever-present risk for regular investment updates. The Chinese authorities in the end want the same thing as democratically elected politicians: a contented population who feel their leaders are doing a good job. Healthcare and living standards lie at the centre of this for us all and, as the population ages everywhere, so the journey toward a more efficient and effective healthcare system must continue. China's economy may well be struggling and this may continue even with a trade agreement. Nonetheless, the expansion of its healthcare system is a commitment its government cannot role back on, nor can it alter the healthcare consumption tailwind that the aforementioned demographic patterns will continue to provide.

As such, we find ourselves very much back to where we were in September: the equity market has been strong and we are not far off of highs at a time when wider economic data is mixed. Instead of hubris, we could try some heuristics: if there is something to take away from the Trust's strong performance during the market's recent recovery phase, it is that fundamentals do indeed win out in the long term and we remain highly confident in the durable growth prospects of the portfolio.

## Developments within the Trust

With the reporting season in full swing, it was a relatively quiet month in terms of portfolio evolution; we hold the same 28 stocks as at end January. We continued to see demand for additional shares through the tapping programme, with 2.4m new shares issued during the month. The capital growth of the portfolio resulted in a further decline in the leverage ratio, which finished the month at 9.8%.

We will host our Annual General Meeting at 11am on 19th March, at the offices of our legal advisors, Stephenson Harwood – 1 Finsbury Circus, London, EC2M 7SH (the nearest tube station is Moorgate). The investment team will provide a brief update on recent performance and take questions. In addition to the usual slate of resolutions, the Board is proposing to introduce a scrip dividend option, allowing investors to receive new shares instead of a cash distribution.

Please do feel free to submit any questions raised by the discussion in the factsheet to: [shareholder\\_questions@bbhealthcaretrust.co.uk](mailto: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	Feb 18 - Feb 19	Dec 16 - Feb 19*
NAV return (inc. dividends)	31.6%	47.5%
Share price	31.3%	42.5%
MSCI WHC Total Return Index	13.2%	28.0%

Sources: Bloomberg & Bellevue Asset Management AG, 28.02.2019

NAV return is adjusted for dividends paid during period (but not assuming reinvestment)

\*Trust inception on 2 December 2016. Therefore 12 months of performance data does not exist for the calendar year.

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

## SUB SECTOR BREAKDOWN

Diagnostics	14.7%
Biotech	14.3%
Healthcare IT	11.0%
Med-Tech	11.0%
Specialty Pharma	10.9%
Managed Care	10.4%
Dental	9.7%
Services	5.4%
Pharma	4.9%
Distributors	2.9%
Health Tech	2.7%
Other Healthcare	2.2%

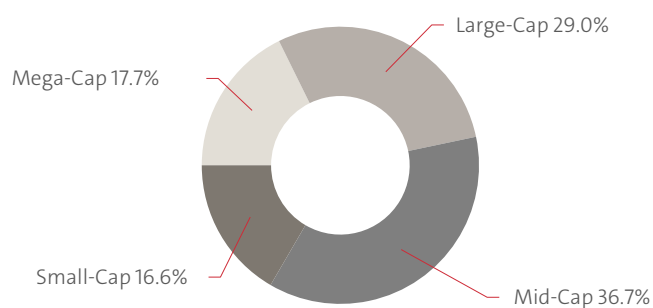
Source: Bellevue Asset Management, 28.02.2019

## TOP 10 HOLDINGS

Align Technology	9.7%
Teladoc	9.2%
Illumina	7.7%
Anthem	7.1%
Lonza	5.4%
Bristol Myers Squibb	4.9%
Intuitive Surgical	3.5%
Humana	3.3%
Insmid	3.1%
Esperion	3.0%

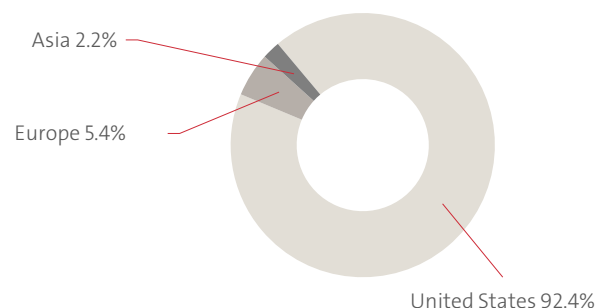
Source: Bellevue Asset Management, 28.02.2019

## MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 28.02.2019

## GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 28.02.2019

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



## INVESTMENT FOCUS

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

## FIVE GOOD REASONS

- Healthcare has a strong, fundamental demographic-driven growth outlook
- The Fund has a global and unconstrained investment remit
- It is a concentrated high conviction portfolio
- The Trust offers a combination of high quality healthcare exposure and targets a dividend payout equal to 3.5% of the prior financial year-end NAV
- BB Healthcare has an experienced management team and strong board of directors

## MANAGEMENT TEAM



Paul Major



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 518.0 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	363 210 819
Number of holdings	Max. 35 ideas
Gearing policy	Max. 20% of NAV
Dividend policy	Target annual dividend set at 3.5% of preceding year end NAV, to be paid in two equal instalments
Fee structure	0.95% flat fee on market cap (no performance fee)
Discount management	Annual redemption option at/close to NAV

## DISCLAIMER

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 Financial Conduct Authority (RFN: 606792).

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