BB Healthcare Trust

Monthly News
March 2018

As at 03/31/2018	Value	1 Month (March)	YTD	Since Launch (ITD)
Share	106.50	-1.84%	-7.89%	9.85%
NAV	106.53	-2.10%	-3.55%	9.97%

Welcome to our March Factsheet. Typically, this is a welcome time of year; the weather starts to improve, the maelstrom of annual reporting winds down and management teams are once again readily accessible to investors, allowing our attention to re-focus once more on long-term fundamentals…

The Ides of March

During March, the Trust's ex-income net asset value (NAV) declined 2.1% to 106.53p on March 29 (the month's last day of trading here in the UK owing to the Easter holidays), outperforming our benchmark.

It has been a volatile month, with macro-political machinations whipsawing both sterling (+1.6% vs. the dollar this month on perceived Brexit progress and dollar woes around US trade policy, hurting our performance) and a sell-off across global equity markets, particularly in the United States. The technology sector finally fell from grace amid the Facebook user data scandal (the relevance of which to BBH is discussed further below).

There appears no short-term end to this uncertainty, as President Trump re-shuffles his cabinet (again), adopts a generally more hawkish foreign policy tone and gears up for the mid-term election campaign, where playing to the baying crowd on the evils of the drug industry and health insurance companies seldom backfires.

In keeping with this theme, Trump promised at a mid-march rally that consumers would be "seeing drug prices falling very substantially in the not so distant future". This rhetoric was a key plank of the multitudinous campaign promises and as with many others, it has thus far come to naught.

However, the President knows well how the topic resonates with his base and the appointment of Alex Azar to HHS with a clear public mandate to work on this issue makes it very real in the eyes of the market. On his part, Mr Azar has promised he will reveal a "whole slate" of proposals to decrease the price of drugs and give consumers the discounts that currently flow to "middlemen".

Any interpretation of these comments is of course highly subjective, but it is interesting to see that it has been taken as a negative for the physical supply chain (pharmacy and wholesale). We would think that legislation is far more likely to affect the Pharmacy Benefit Managers who create and administer the rebates than those involved in the physical provision of the drugs themselves. It is not as if the pharmacists or wholesalers are over-earning on the services that they provide.

That said, the FDA Commissioner recently suggested that wholesalers might be a contributory factor to high prices in certain generic categories despite all the recent FDA approvals of new generic products to try and tackle categories bedevilled with supply issues. Whatever the reality, it will probably be several weeks before the outlook is clearer. We see no reason for reflexive action at this stage and are maintaining our holdings in AmerisourceBergen and Walgreens Boots. Since they jointly control the largest drug-purchasing group, one could argue they are at the forefront of efforts to drive down prices for consumers.

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.

Moving beyond the supply chain, mawkish sentiment toward technology is potentially a theme that will also run for some time as governments around the globe pledge to tackle the issues raised by the Facebook revelations around the application of user data.

Furthermore, it feels like the President perceives the trade imbalance as a debt that must now be settled in some way (he has a point, but let's not forget all those T-Bills the Chinese own). In Roman times, the Ides were often the agreed date for paying one's debts. Hopefully, we have not bought front row seats for the fall of a modern-day Empire.

Otherwise well?

Absent policy, overall economic indicators remain benign and the wider picture as we move in the Q1 corporate reporting cycle should be one of strong underlying earnings growth (helped by the tax reform tailwind versus 2017), which until recently had supported the momentum in equities. That impetus has been quite something: since February 2016, the MSCI Global Index (USD) ran up 52% to its late January peak and the subsequent 8.2% correction must be viewed in that context.

Nonetheless, the factors described above conspired to make it another painful month for equity investors in general. In sterling terms, the MSCI Healthcare benchmark declined 4.0% over the period, pacing the broader market's sell-off (the MSCI World Index similarly declined 4.1% over the period). In local currency, Healthcare declined 2.4%.

This month, the Managed Care (insurance), Distribution, Services and Dental sub-sectors led the lurch down. Insurers may face a more complex operating environment if drug rebates become more visible, since these are currently a de-facto form of insurance subsidy. Consumer sentiment might well be cheered by seemingly falling drug prices, but that won't last long if it is replaced with significant insurance premium hikes. This is beginning to feel like an unwelcome game of 'pass the hand grenade'.

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BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Performance (USD)	Performance (GBP)
Biotech	10.9%	-3.0%	-4.7%
Conglomerate	12.5%	-2.0%	-3.7%
Dental	0.6%	-5.1%	-6.7%
Diagnostics	1.9%	0.7%	-1.0%
Distributors	1.9%	-5.7%	-7.3%
Facilities	1.1%	-0.8%	-2.5%
Generics	0.7%	-3.1%	-4.7%
Healthcare IT	1.2%	-1.3%	-2.9%
Managed Care	9.3%	-5.6%	-7.2%
Med-Tech	13.3%	-1.2%	-2.8%
Other HC	0.8%	3.3%	1.6%
Pharma	35.6%	-2.5%	-4.1%
Services	2.7%	-6.0%	-7.5%
Specialty Pharma	3.4%	1.5%	-0.2%
Tools	4.0%	-1.7%	-3.3%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 28-02-18. Performance to 31-03-18.
*Note: DexCom is no longer in the benchmark, effectively removing the Health Tech sub-sector

Educated, but complicated style

One must of course follow the ever-evolving macro-political situation and consider its consequences but, first and foremost, our approach is bottom-up and fundamentally driven. With our mind on a 3-5 year investment horizon, entry points into stocks are driven more by thesis considerations than market sentiment, and the levels at which we are happy to open or add to a position develop both gradually and independently of market volatility.

As noted previously, March is really the first opportunity for us to sit down with management teams when they are unbound by quiet periods to talk about the longer-term outlook and we have not been idle. The three of us have had 50-odd company meetings this month, split fairly evenly around existing holdings and either key competitors to those holdings or potential new candidates for future investment.

The political pressure around drug pricing and ever-present discussion about the evolution of the supply chain (payor consolidation, vertical data streams, buying groups, Amazon, etc. etc.) has been a feature of conversations and there is undoubtedly a feeling that something may spark a renewed wave of consolidation amongst large-cap pharma and biotech.

Our feeling remains that such moves would be defensive rather than driven by genuine synergy and that is rarely a recipe for shareholder value creation. As such, we continue to have very limited exposure to these sub-sectors, eschewing M&A speculation and instead looking for businesses that will continue to work in their current form.

You get lost in the source and thrown off course

The above having been said, therapeutics is not without interest; innovation continues apace and we see a bright future for many companies in the SMID biotech/specialty pharma arena. We remain of the view that society will always pay for effective therapies that address unmet medical needs. In aggregate though, humanity's greater ailment is the cost of caring for the ageing population with a litany of complex chronic conditions – the flip-side of our longer life expectancy. Drug costs are only a small part of this problem and thus a small part of the solution.

Put simply, we need better resource allocation. A transition that utilises the following models seems to us to be the logical route: fee for outcomes (don't pay for things that don't work well), alternative physician access (minimise expensive physician-patient interactions), home healthcare (stay away from expensive hospitals) and population health (address your pre-emptive chronic care resources to those most likely to suffer expensive acute exacerbations). These are predominantly IT/digital health solutions rather than physical products and services and the evidence that they deliver cost effective care is mounting, driving increasing uptake.

As we highlighted last month, we expect our portfolio to continue to increase its exposure to these themes. However, many of the companies that we hold are also included in tech-heavy indices like the NASDAQ or in some cases even in Technology sub-indices. This is despite the fact that their revenues emanate from the provision of health-related services to either consumers, payers or providers.

None are generating revenues from targeted advertising, although all are utilising user data to enhance their service offering. Consequently, our portfolio has suffered from the defenestration of the Tech sector. Frustrating as this is, we are taking a long-term view and are happy to use these periods of share price volatility to add to our core holdings. Hopefully, at the end, we'll be paid in full.

Annual General Meeting and Cancer Presentation

In addition to a number of meetings with companies, March also saw our inaugural AGM take place. The investment team provided an update on the portfolio, performance and the outlook for the balance of the year and this presentation can be viewed on our website (or via tinyurl.com/yaqy7qzv).

Last month we also sponsored a presentation by our oncologist board members, Professor Justin Stebbing and Professor Siddhartha Mukherjee, on the future of cancer treatment. We are very privileged to have access to such eminent physicians on a day-by-day basis and the non-executives play an active role as a sounding board for our views on the ever-evolving healthcare industry. A video of the presentation will be available for viewing on our website shortly.

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Developments within the Trust

We have issued a further 2.3 mn shares during March through the block listing facility. We paid our final dividend of 1.75p for the 2017 financial year on 29 March. Given where valuations are following the recent market pullback, we elected to increase our leverage to cover the dividend payment, rather than reducing our gross exposure and we have continued to take advantage of price action where favourable pricing has arisen in this period of volatility.

The portfolio remains at 30 holdings; we have exited our position in Horizon Pharma (Specialty Pharma) on the back of a period of strong performance following upgrades to long-term sales guidance for key products. At this point, we feel that market expectations have been re-based and it has moved to being an execution story and have added another small-cap biotechnology stock in its stead.

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

Paul Major, Daniel Koller and Brett Darke

SUB SECTOR BREAKDOWN

Med-Tech	20.5%
Biotech	17.3%
Managed Care	9.6%
Specialty Pharma	8.5%
Dental	7.8%
Health Tech	7.8%
Diagnostics	6.8%
Pharma	5.7%
Healthcare IT	4.3%
Distributors	4.2%
Other HC	3.9%
Services	3.4%

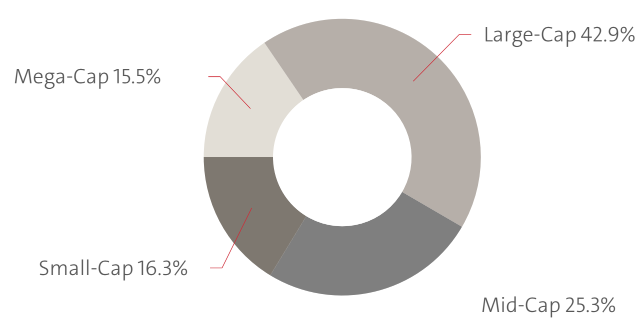
Source: Bellevue Asset Management, 31.03.2018

TOP 10 HOLIDINGS

Align Technology	7.8%
Anthem	6.5%
Shire	5.7%
Illumina	5.3%
Dexcom	5.2%
Celgene	5.0%
Teladoc	4.3%
Intuitive Surgical	4.3%
Amerisourcebergen	4.2%
Walgreens Boots	3.9%

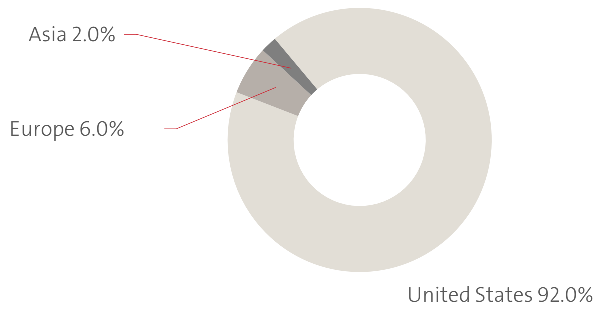
Source: Bellevue Asset Management, 31.03.2018

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.03.2018

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.03.2018

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

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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 a 3.5% dividend yield
- 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, Offical List) UK Incorporated Investement Trust
Launch	December 2, 2016
Market capitalization	GBP 285.4 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	267 949 768
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 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 Company's Portfolio Manager and no reliance should be given on such views. Any research in this document has been procured and may not have been acted upon by Bellevue Asset Management AG for its own purposes. The results are being made available to you only incidentally. The views expressed herein do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the view of Bellevue Asset Management AG and no assurances are made as to their accuracy. Bellevue Advisors Limited is an Appointed Representative of Mirabella Advisers LLP, which is authorised and regulated by the FCA (RFN: 606792).

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