BB Healthcare Trust

Monthly News
May 2019

As at 05/31/2019	Value	1 Month (May)	YTD	Since Launch (ITD)
Share	134.50	-2.9%	14.1%	42.8%
NAV	132.29	-1.9%	13.6%	42.3%

Sources: Bloomberg & Bellevue Asset Management AG, 31.05.2019, NAV and share price returns are adjusted for dividends paid during the 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 May factsheet. Those seeking refuge from unrelenting and perplexing macro-dominated commentary should move on. We too are tired of acting as amanuenses to the gods of Twitter, whose unpredictable malevolence would not seem out of place in a Greek fable: today's markets may be treacherous and tomorrow's may be worse. Nonetheless, this is our journey and the quest for alpha must continue...

Sisyphus

Before we opine on our own performance over the month, it is worth spending a moment on the wider sector's futile meandering and eventual submission into the vortex of fear that is gripping markets. When measured in US dollars (it is arguably pointless to talk about sterling numbers, given Brexit-induced currency volatility), the MSCI World Healthcare Index generated a total return of -2.6% during May and -4.1% over the past three months. This is in marked contrast to its +7.2% rise in the first two months of 2019 (making a meagre +2.8% for the year to date).

It's parent, the MSCI World Index, typifies the market's current bipolar tendencies when it comes to risk. Its total return was +11.0% for the first two months of the year, as risk appetite returned strongly following the December 2018 panic. It fell 5.8% during May as macro risk again came to dominate sentiment and has done very little when measured over the past three months (-1.2% since February, making a still respectable-sounding +9.8% for the year to date, although this must be viewed in the context of the violent sell-off in December).

In summary, the overall market has essentially trodden water for three months. Despite the narrative being overwhelmingly macro-political in nature and tending toward risk avoidance, the nominally 'defensive' healthcare sector has meaningfully underperformed (by ~4%), principally because of its central position in the US election rhetoric that is firmly underway. Within this, healthcare has seen significant volatility, mainly to the downside. The past three months have seen the Index down -5.3% (April) and +1.8% (March).

Amidst the rebarbative rhetoric, stock correlations have remained high and it has been challenging for fundamental differences at the company level to shine forth. Moreover, the risk-off mindset tends to hurt higher beta and small/mid-cap companies, which is unhelpful for our investment approach that eschews the sort of mega-cap or conglomerate structures that tend to fare well in such conditions. This is not meant as a pre-emptive excuse for underpeformance, but rather as context around current conditions.

The sub-sector performance of the benchmark during the month is outlined in the table below. We would highlight the continued woes of the Generics sector and the solid recovery of the Managed Care and related Healthcare IT stocks. The negative performance for the conglomerate group is also notable in light of the previous comments. This group includes Bayer, J&J and Fresenius. All three have had stock-specific travails in the past month. Large-cap pharma also largely reversed the sell-off from April.

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Biotech	9.4%	-5.5%	-2.4%
Conglomerate	12.4%	-7.1%	-4.1%
Dental	0.7%	-8.8%	-5.8%
Diagnostics	1.9%	1.6%	4.8%
Distributors	2.9%	-2.6%	0.5%
Facilities	1.2%	-5.2%	-2.1%
Generics	0.6%	-40.5%	-38.6%
Healthcare IT	0.9%	6.4%	10.9%
Healthcare Tech.	0.2%	0.2%	3.5%
Managed Care	8.5%	2.4%	5.8%
Med-Tech	14.9%	-1.0%	2.2%
Other Healthcare	1.2%	-0.8%	2.5%
Pharma	34.2%	-1.0%	2.1%
Services	1.7%	-5.5%	-2.4%
Specialty Pharma	3.7%	-8.4%	-5.4%
Tools	5.7%	-2.7%	0.4%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 30-04-19. Performance to 31-05-19.

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.

Bellerophon

So, with all of the above duly noted, let us consider our own voyage through these inauspicious waters, dealing first with the propitious pecuniary trade winds. Sterling has been on its own heroic quest for meaning and relevance, against a backdrop of political ineptitude that will ultimately lie somewhere between tragedy and farce in the literary canon.

Many great stories are considered so because the hero triumphs against the odds. Presumably, we enjoy such stories because real life is rarely so kind; the fates are often the cruellest of mistresses. There is also much to commend in the cautionary tale and none more so than the hero above, whose early triumphs led him to conclude fatally that he was, in fact, divine.

Those 'statesmen' on this Sceptred Isle similarly inclined to over-estimate their own prowess would do well to acknowledge there is no such thing as a simple Brexit and the fall to earth will be painful. As some small consolation, sterling's 3.3% fall during the month is positive for the evolution of the Trust's NAV.

Odysseus

When measured in sterling, the benchmark rose 0.6% during May. The Trust's NAV underperformed the wider sector, declining 1.9% to 132.29p (an underperformance of 2.5%). Whilst this is frustrating, we do not think the fruits of our labours should be measured over such a short period of time; the road is long and winding, with many challenges ahead. It feels like we are in for an arduous journey through the long, hot months of summer, with little respite from the macro-political backdrop, but we continue to believe that the right portfolio of companies has the potential to grind out continued outperformance even in the face of such languid sentiment.

That having been said, one must be alert to the potential implications of all the macro-political noise to ensure that the portfolio remains optimised to an ever-evolving environment. In this regards, we feel that our unconstrained investment approach and agnosticism to any benchmark is an advantage.

Given the dispersion in sub-sector performance described previously, one might have expected the Trust to have fared better. However, the MSCI Index is market cap weighted and the performance of several sub-sectors (e.g. biotechnology and specialty pharma) has seen bifurcation, with larger capitalisation stocks outperforming their small and mid-cap (SMID) compatriots. As noted previously, the Trust's portfolio is biased toward the SMID stocks.

Many of the great mythical stories centre around lengthy quests, the benefits of which to history can only be viewed in hindsight. Often, there is no happy ending for the hero of the tale; it is their descendants who reap the rewards. This of course begs the question, why bother?

Stretching things somewhat, one could adroitly twist this into an allegory for the current state of the fund management industry (note – other, more heroic or nobler professions are available). Here, the forces of good (active) are waged against the harpies of passivity; surely a force for evil and a 'Trojan Horse' (see what we did there?) for the impeding malevolence of AI-driven strategies. What if we didn't bother doing very much and sat back to let fate take its course?

Oneiros

The Trust's inception portfolio represented what we believed were the best ideas available to us at the time of its creation (mid 2016) and this group of companies were monitored, back-tested and refined into a 32 stock, £147m portfolio that was fully invested within a couple of days post listing. A few months later, the portfolio was expanded through the addition of a leverage facility to increase its gross exposure.

Where would we be today if that portfolio had never been touched? We have modelled this scenario on a total return basis, adding nothing but leverage (7.2% of gross assets, in line with the Trust's average since inception), the management fee of 0.95% per annum and the cost of the debt facility at the same interest rate (an average of 3.3% per annum). This is somewhat generous, as the Trust has various (largely fixed) costs of being a listed entity, but this is not intended to more than a simple illustration. Where companies have been acquired (three stocks, representing 6% of the launch portfolio have been acquired), we have assumed that the money is kept as cash, as a reinvestment model would have been far too time consuming an endeavour for some factsheet japery.

On this simplistic basis, the starting NAV of the Trust was 98.23p and today, that would be 122.6p, representing a total return of +24.8%. By way of comparison, the total return of the MSCI World Healthcare Index since the inception of the Trust has been +28.9%. Assuming no dividends had ever been paid out, the NAV of a vehicle mirroring the Index would be 126.7p (recall the NAV started below 100p due to launch costs).

One could rightly argue this would not be a fair comparison since, like all benchmarks, the MSCI Index evolves over time, with a progressive re-weighting toward successful companies. If we used a static version of the Index constituents, frozen at 1 December 2016 and again assumed that acquired companies are treated as cash positions (there have been seven takeovers, representing 5.2% of the Index), then that benchmark would have returned around 200bp less.

What can we conclude from this simplistic analysis? Healthcare is a complex and data-driven sector, where one needs to re-calibrate expectations regularly as the delivery paradigm and politico-regulatory environment evolves. The best of decisions made at one point may not prove to be the correct ones to move forward with at a later point in time.

Over the past year-and-a-half, BB Healthcare has generated a net total return (i.e. after costs and fees) of ~42% against ~29% for the MSCI World Healthcare Index, which we would have to attribute to the decisions made regarding the evolution of the portfolio over time.

We believe strongly that an active and unconstrained approach works and is the most appropriate way to approach this complex sector. When macro conditions are so volatile, we will have painful periods of under-performance. After all, we are not attempting to mirror or correlate with the Healthcare benchmarks in any way. However, the Trust's history suggests these are short-lived and the higher beta, higher growth attributes tend to favour faster recovery when sentiment is less feverish.

Other developments within the Trust

It has been a relatively busy month for us in terms of the portfolio. We have added two new holdings during May; the first is an additional Managed Care company (taking our total to three) and the other is an emerging markets facilities operator.

As detailed in last month's factsheet, we think current valuations in the Managed Care sector are very compelling and there is considerable potential for a material re-rating when the political storm clouds recede. The timing of this is uncertain (will it be before the 2020 elections?) but we feel the upside potential is such that we cannot risk being under-exposed to it.

We have already increased our exposures to our two existing MCO holdings (Anthem and Humana) With Anthem being ~10% of gross exposures and Humana having some near-term issues around contract wins and potential involvement in the pending CNC-WCG deal to consider, we felt it best to add an additional stock.

With regard to the facilities investment, we remain of the view that physical assets in the US acute care setting are to be avoided, but other markets will benefit from the long-standing correlation between GDP per capita growth and increasing healthcare expenditure. We have been monitoring various opportunities to buy into double-digit market volume growth and a compelling entry point arose during the month.

These additional holdings take us back to 29 stocks in the portfolio and the deployment of this additional capital alongside the decline in the absolute value of the portfolio has meant that our leverage ratio has increased to 11.2%. It was another strong month in terms of demand for additional shares through the tapping programme, with 14.0m additional shares issued during the month.

We appreciate the opportunity to interact with our investors directly and would remind readers that they can submit questions regarding the Trust at any time via: shareholder_questions@bbhealthcaretrust.co.uk

As ever, we will endeavour to respond in a timely fashion.

Paul Major and Brett Darke

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Standardised discrete performance (%)		
12-month total return	May 18 - May 19	Dec 16 - May 19*
NAV return (inc. dividends)	11.7%	42.3%
Share price	10.7%	34.5%
MSCI WHC Total Return Index	10.4%	28.6%

Sources: Bloomberg & Bellevue Asset Management AG, 31.05.2019

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

*Trust incepted on 2 December 2016. Therefore 12 months of perfromance data does not exist for the calendar year.

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SUB SECTOR BREAKDOWN

Managed Care	17.0%
Diagnostics	13.9%
Biotech	12.0%
Healthcare IT	11.5%
Med-tech	11.2%
Specialty Pharma	10.2%
Dental	8.7%
Services	6.0%
Pharma	4.8%
Health Tech	2.3%
Facilities	1.3%
Distributors	1.0%

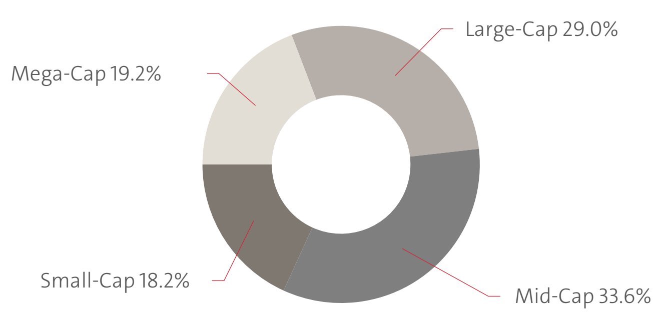
Source: Bellevue Asset Management, 31.05.2019

TOP 10 HOLDINGS

Anthem	10.3%
Teladoc	9.4%
Align Technology	8.7%
Illumina	7.6%
Lonza	6.0%
Humana	5.7%
Bristol Myers Squibb	4.8%
Esperion	3.5%
Intuitive Surgical	3.1%
Hill-Rom Holdings	3.1%

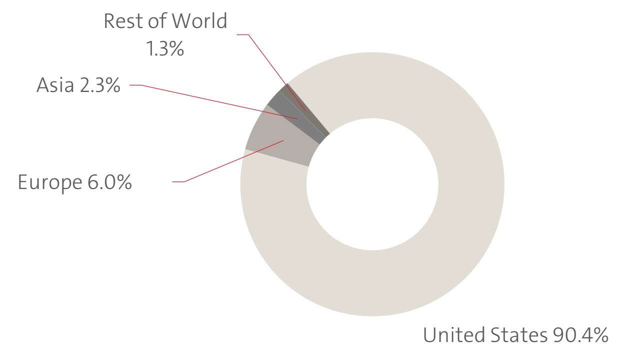
Source: Bellevue Asset Management, 31.05.2019

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.05.2019

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.05.2019

"two companies representing ~5% 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

DISCLAIMER

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

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 528.1 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	392 642 593
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

CONTACT

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