

As at 09/30/2018	Value	1 Month (September)	YTD	Since Launch (ITD)
Share	149.00	2.41%	30.80%	56.00%
NAV	147.72	0.99%	35.74%	54.77%

Sources: Bloomberg & Bellevue Asset Management AG, 30.09.2018, 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 September update. With the children all back to school and a chill in the morning air, there are signs everywhere that the dog days are finally over. The summer months ending seems to make people more reflective than optimistic, and the tone feels more cautious than hopeful as investors discuss the 'setup' for the all-important final quarter of the year and try to hang on to their cumulative performance year-to-date...**

## Plus ca change...

Over the month, the Trust's ex-income net asset value (NAV) rose 1.0% to 147.72p, modestly underperforming the MSCI World Healthcare Index, which rose 1.3% in sterling terms and 1.9% in dollars over the same period. In line with the index, we estimate that FX was a headwind of c0.5% to the evolution of the NAV over the month.

Amidst a generally nervous discourse, healthcare was once again viewed as a safe haven and outperformed the wider market: the MSCI World Index declined 0.3% in sterling terms during September (it rose 0.4% in dollars). Fund flow data continues to suggest that large mutual funds are still increasing their exposure to healthcare, making this the longest streak of positive inflows since 2015. Furthermore, healthcare-focused strategies (including our own) also continue to see incremental inflows.

The sub-sector performance is summarised in Figure one below. The gradual 'melt up' of Large-Cap pharma and Conglomerates continues. Notable also was the rebound in the distributors. We think both reflect the asset allocation theme (all that money has to go somewhere and big-cap pharma is roughly half the benchmark), but also a greatly reduced fear of the Trump Whitehouse enacting adverse legislation with respect to drug pricing. This theme barely arises anymore in our conversations with investors (along with the now forgotten bogeyman of Jeff Bezos).

Another factor might be growing confidence in a Democratic swing during the mid-terms. As we noted in last month's factsheet, a change in control of the House foreshadows legislative gridlock and thus a benign and stable operating environment for USA Inc.

## BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Performance (USD)	Performance (GBP)
Biotech	10.3%	0.6%	0.0%
Conglomerate	11.5%	2.5%	1.9%
Dental	0.7%	-0.2%	-0.8%
Diagnostics	2.1%	1.0%	0.4%
Distributors	3.0%	4.4%	3.8%
Facilities	1.3%	0.1%	-0.5%
Generics	0.8%	-6.2%	-6.8%
Healthcare IT	0.8%	1.5%	0.8%
Managed Care	9.7%	1.2%	0.5%
Medtech	14.0%	3.6%	2.8%
Other HC	0.8%	1.1%	0.4%
Pharma	33.8%	2.6%	1.9%
Services	2.6%	4.6%	3.9%
Specialty Pharma	4.0%	-4.1%	-4.7%
Tools	4.6%	2.6%	1.9%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 31-08-18. Performance to 30-09-18.

## 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.

## Reading the waves

One must not be complacent though, there is a mid-term election yet to be won and healthcare remains every politicians' favourite whipping boy. It is a common refrain that popularity is to be avoided at all costs. Whilst a rising tide will lift us all, sentiment is fickle and attractiveness evanescent. It can be fun to ride a wave, but only if you can tell how it will break and also be confident another surfer won't take you out.

If someone asks us whether healthcare is fundamentally more or less attractive than a year ago, we would likely reply that little has changed; perhaps it is just a case of its myriad attractions becoming more apparent to a wider audience. Nonetheless, we continue to feel that we are paddling in less crowded waters and thus the Trust should not be tightly correlated to any wider sentiment swings.

It is not just market sentiment that one must keep an eye on; it is also the danger of irrational exuberance at the company level. Stockbroking is a business; one that relies upon volatility and churn to create revenue – you can't surf a millpond. In much the same way that sensationalist headlines draw us to newspapers, polarised views on stocks give us pause for thought. Both industries are fighting for mind share amongst a distracted and time poor audience confronted by an illimitable onslaught of collective drudgery. No-one wants to speak to, never mind meet with, the embodiment of the consensus median. Being an outlier gets you noticed and it is sad that such tactics also seem to work in politics. So much for the internet democratising knowledge and power.

Our investment process is detailed and very much grounded in the formation of an internal viewpoint. We build up our own models and try very hard not to look at any sell-side data until we are a fairly long way through our due diligence on a company or industry sub-sector. There comes a point, though, where 'situational awareness' is key. It does not really matter if we think a company can double its revenues over three years say, if everyone else already thinks they will triple. We make money when the market changes its mind about something, not because we will it to be so.

Many a time have we decided not to proceed because of consensus forecasts that we feel are overly optimistic in the short or medium-term. The former can be quite useful actually, since there is often a reckoning and a market-over-reaction on the downside to numbers being re-based. Bayer has been an interesting example of this in recent months (although the Trust would only invest in such a conglomerate if the valuation were in extremis). Indeed, one of the companies that we have added to the portfolio this month was followed closely for over a year before we finally took a position. During this time, the share price halved, although the longer-term outlook remained broadly unchanged.

Another frustration comes from the valuation metrics applied to some stocks by analysts. It is not uncommon for us to have similar views on the medium-term outlook for revenues and profits, but a very different view on the fair value of the shares. This most commonly arises when market sentiment coalesces around an arbitrary determinant of value (e.g. a

“normalised” multiple of revenues or profits attributed to a single year where there is great uncertainty about execution) or where models are simply too short-term to capture competitive or market risks.

We regularly open sell-side models that have no balance sheet or cashflow forecasts (not many balance sheets actually balance for that matter), or P&Ls that don't go out very far. Sometimes, we also experience the opposite challenge, where the market is fixated on spurious accuracy, looking way too far into the future (gene therapy/gene editing for example). Inasmuch as we like to trumpet our long-term focus, we are not going to try to pretend we can know what any company's EPS will be in 2035!

The above may well come across as a cathartic exorcism of the business we are in. We do not intend it to be so. Were these factors not to exist, our ability to make money from analytical inefficiency would be diminished. After all, we have no more information than anyone else; it's really the contextual framework for interpretation that sets investment performance. Instead, the above is merely an observation of the practicalities involved in investing and a recognition of the reality that we are not a lone market participant.

## Surf's up...

If politics is (finally) not going to be the main driver of sentiment for US healthcare in 2019, then what draws our attention? We would probably call out the Biotechnology sector as one of the most interesting opportunities for next year. Biotech has struggled somewhat in the face of myriad external factors; not least, the indices are dominated by a few large companies that have more in common with large pharma than the ideal of cutting edge innovation.

To illustrate this point, the distribution of Biotech returns year-to-date in the Nasdaq Biotech Index has been +1.5% from the 51% of the Index made up of less than a dozen companies with a market value of >\$10bn and +25% for the 170-odd companies making up the remainder of the Index.

We have seen a negative ratchet effect in our own biotech holdings, whereby any 'risk off' selling of the wider market seems to hurt them disproportionately and they are loath to recover. Our five worst NAV contributors year-to-date are all members of this sub-sector. Simply put, Biotech has been the fall guy for healthcare this year.

When we look at those holdings, there are stock-specific factors to which we can attribute some of the poor performance, but nowhere near all of it. We have been progressively adding to these holdings on weakness, believing as we do that the medium-term fundamentals remain solid.

Diagnostics is another area where we see a supportive convergence of technological innovation with payor benefits that should support an increasingly attractive multi-year growth cycle. We would expect these sub-sectors to be the ones where our sector allocations show significant increases over the coming months.

## Developments within the Trust

In keeping with the comments above, we have added two new companies to the portfolio this month, both of which are in the diagnostics arena. We have now exited our position in Shire, leaving us with 29 companies in the portfolio (+1 vs. August). Whilst we have no objection in principle to waiting out the completion of the Shire-Takeda transaction for the seemingly low-risk return of the spread on the deal terms further closing up (we calculate that the spread stood at 9% at month's end), the investment case has to have more substance than that for inclusion in the Trust. Moreover, we see better opportunities from which we can generate higher risk adjusted returns over the period.

We have undertaken a lot of work on the pro-forma entity, seen management and have concluded this not something we want to be exposed to. Again, echoing a theme mentioned previously, we perceive there to be considerable risk around where emerging consensus expectations for the enlarged Takeda lie over the longer-term and do not wish to be caught by the risk of backwash from earnings downgrades once the deal has completed (cf. Bayer).

The Trust traded at an average premium to NAV of 1.1% during the month and this enabled us to continue to meet investor demand for shares via the tapping programme. The Trust issued 12.6m shares during the month, the largest monthly amount outside of a formal capital raise since the Trust's inception.

The combination of our exit from Shire and new issuance has temporarily left us holding a sizeable cash position that offsets our bank borrowings to a large extent. Our leverage ratio was thus only 1.3% at month's end (vs 3.5% at end August). We expect this to return to mid-single digit levels over the early days of October as we deploy the cash on hand, finding no shortage of interesting opportunities to do so.

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	Sept 17 - Sept 18	Dec 16 - Sept 17*
NAV return (inc. dividends)	30.2%	55.9%
Share price	31.4%	56.0%
MSCI WHC Total Return Index	14.4%	34.1%

Sources: Bloomberg & Bellevue Asset Management AG, 30.09.2018

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

Biotech	18.0%
Medtech	16.5%
Diagnostics	12.9%
Managed Care	11.1%
Specialty Pharma	9.7%
Healthcare IT	7.4%
Dental	6.9%
Services	4.7%
Distributors	3.9%
Pharma	3.7%
Other Healthcare	2.9%
Health Tech	2.4%

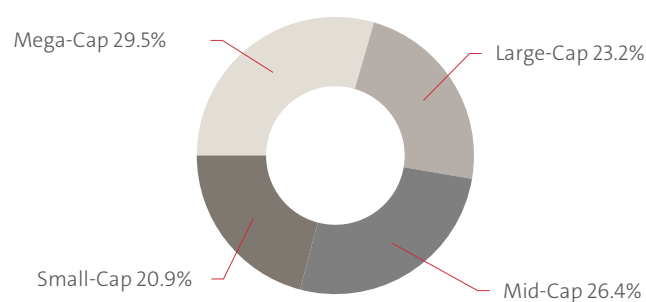
Source: Bellevue Asset Management, 30.09.2018

## TOP 10 HOLDINGS

Anthem	7.7%
Teladoc	7.4%
Illumina	7.0%
Align Technology	6.9%
Celgene	5.1%
Lonza	4.7%
Amerisourcebergen	3.9%
Bristol Myers Squibb	3.7%
Humana	3.4%
Wright Medical	3.2%

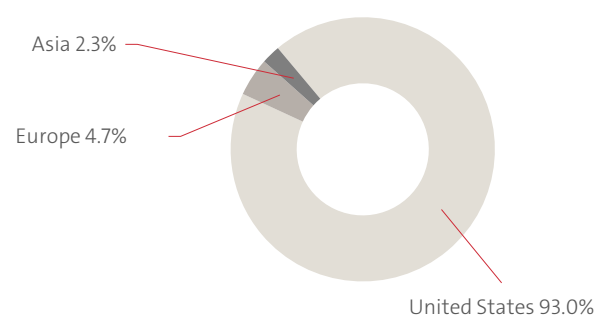
Source: Bellevue Asset Management, 30.09.2018

## MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 30.09.2018

## GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 30.09.2018

"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".

## 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, Official List) UK Incorporated Investment Trust)
Launch	December 2, 2016
Market capitalization	GBP 436.3 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	292 808 394
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

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