Bellevue Healthcare Trust

AUGUST 2022

Factsheet

London Stock Exchange (LSE)

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, bio-technology, 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 is no restrictions on the constituents of the fund's portfolio by index benchmark, geography, market capitalisation or healthcare industry sub-sector. Bellevue Healthcare will not seek to replicate the benchmark index in constructing its portfolio. The Fund takes ESG factors into consideration while implementing the afore-mentioned investment objectives.

Fund facts

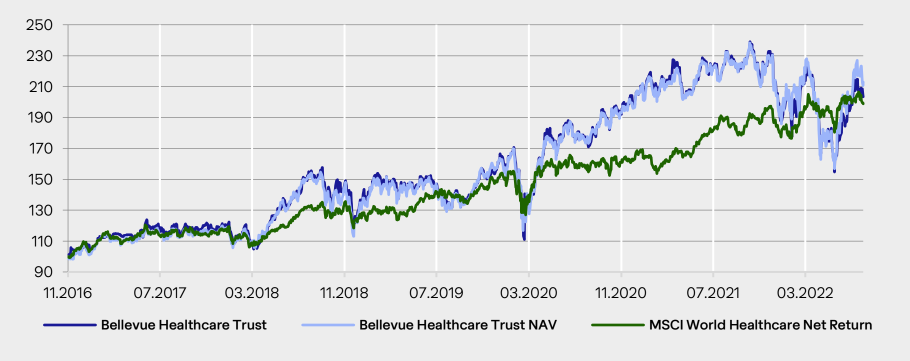
Share price	GBp 170.60
Net Asset Value (NAV)	GBp 178.50
Market Capitalisation	GBp 1'000.7 mn
Investment manager	Bellevue Asset Management (UK) Ltd.
Administrator	Sanne Fund Services (UK) Ltd.
Launch date	01.12.2016
Fiscal year end	Nov 30
Benchmark	MSCI World Healthcare Net Return
ISIN code	GB00BZCNLL95
Bloomberg	BBH LN Equity
Number of ordinary shares	586'624'189
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	0.56
Correlation	0.32
Volatility	30.8%
Tracking Error	20.1
Active Share	92
Sharpe Ratio	0.63
Information Ratio	0.16
Jensen's Alpha	11.75

Source: Bellevue Asset Management, 31.08.2022;
Calculation over 3 years.

Indexed performance since launch



Cumulated & annualized performance

Cummulated

	1 M	1 Y	2 Y	3 Y	4 Y	5 Y	ITD
Share	2.5%	-10.7%	15.6%	50.5%	33.4%	71.2%	103.3%
NAV	5.0%	-6.5%	21.0%	59.1%	39.0%	80.9%	113.0%
BM	-1.6%	5.3%	26.4%	40.7%	50.3%	69.6%	98.7%

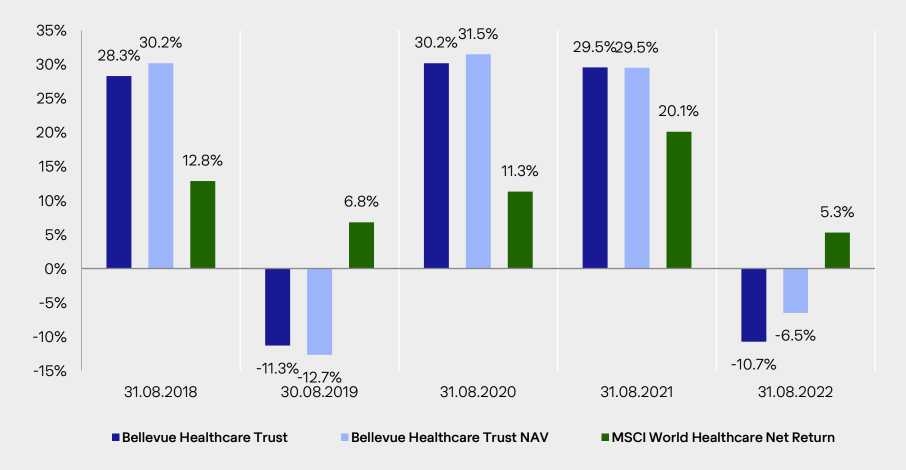
Annualized

	1 Y	3 Y	5 Y	ITD
Share	-10.7%	14.6%	11.3%	13.1%
NAV	-6.5%	16.7%	12.6%	14.0%
BM	5.3%	12.0%	11.1%	12.7%

Annual performance

	2017	2018	2019	2020	2021	YTD
Share	14.8%	4.9%	22.7%	29.1%	16.6%	-12.0%
NAV	12.7%	8.6%	25.9%	25.7%	15.2%	-5.7%
BM	9.4%	8.8%	18.4%	10.3%	20.8%	1.3%

Rolling 12-month-performance



Source: Bellevue Asset Management, 31.08.2022; 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.

Top 10 positions

Jazz Pharmaceuticals	6.9%
Sarepta Therapeutics	6.7%
Axonics	6.6%
Option Care Health	6.3%
Insmed	6.1%
UnitedHealth Group	5.4%
Amedisys	4.7%
Apellis Pharmaceuticals	4.4%
CareDx	3.9%
Charles River Labs	3.9%
Total top 10 positions	54.9%

Sector breakdown

Focused Therapeutics	25.8%
Med-Tech	18.1%
Services	14.9%
Diagnostics	10.9%
Managed Care	9.2%
Diversified Therapeutics	6.9%
Healthcare IT	5.4%
Tools	4.7%
Health Tech	3.3%
Dental	0.9%

Geographic breakdown

United States	94.8%
China	2.7%
Canada	1.6%
Switzerland	0.9%

Market cap breakdown

Mega-Cap	14.6%
Large-Cap	8.2%
Mid-Cap	57.2%
Small-Cap	20.0%

Due to rounding, figures may not add up to 100.00%

Welcome to our August arrogations. The more positive, stock-driven dynamic of recent weeks continued well into August; with wider sentiment buoyed by a 'better than feared' outcome from Q2 22 reporting and rare flashes of common sense briefly uttered by the Fed.

Grandiloquently, this was much as expected. We have been humbled by the unpredictability of the wider market's behaviour many times in the past ten months. However, the summer weeks offered a rare period of clarity (inevitability?), underpinned by relative estimates momentum. The Trust fared well in this period as a consequence, but our attention quickly moved on to what might happen next.

The wider macro-economic picture remains worrisome; doubly so in Europe and triply so in the UK where inflation, economic stagnation and a lack of coherent governance combine to confidently predict that the worst is yet to come. Thank goodness our investment focus lies elsewhere. The Fed duly did its best to remind everyone that no bullets would be left unfired, even if they cannot hit a barn door. Macro rules the roost once more…

Amidst this unceasing turmoil, Healthcare (and dollar assets) should remain a brighter spot, but relative outperformance is no guarantee of absolute returns and investor lassitude may yet prompt a flight back to the illusory safety of mega-cap pharma, despite recent reminders of its fallibility. Traversing the second half of the year will, like H1, be hard yards.

Monthly review

The wider market

As noted in our previous factsheet, the MSCI World Index rose strongly in July (+7.9% in USD) and rose a further 3.9% by mid-August, in spite of continued grim economic news from much of the globe and yet more geo-political woes (Taiwan). Fund flow data suggests much of this upward grind was driven by tactical repositioning and short covering rather than a widespread tilt back in favour of equities as an asset class, as it became increasingly apparent that a feared earnings armageddon and bonfire of guidance would not be forthcoming.

The passage of Biden's 'Inflation Reduction Act', which imposes a tax on buybacks and led to a flurry of accelerated repurchases in the US ahead of the law coming into effect, probably helped at the margin as well.

Crisis, what crisis? Even as newspaper headlines increasingly recalled the mid-1970s, a quantitative analyst could be forgiven for wondering what all the fuss was about. When viewed top down and in constant currency, the Q2 22 earnings season looked much like any other over the past 20 years, with a tendency for earnings to surprise positively rather than come in below consensus expectations and for guidance to be raised. Corporate profit margins are at post-war (WW2 that is) highs.

As usual, sell-side analysts cut Q2 22 expectations going into reporting, but they always do (having started the year too bullishly, it was ever thus). When looking at US company earnings, much of the downgrading was FX-driven. Despite the out-sized currency move year-to-date, the overall pace of negative revisions going into earnings season was nonetheless low relative to historical trends. Moreover, US consumer sentiment looks to have bottomed in June, recovering somewhat in July and again in August. There are signs of changing behaviour, but it feels very measured. Corporate America then, seemed in rude health.

However, that does not mean it will stay that way. Forbearance is not forestalling and, as any ardent Asterix fan recognises, the sky can always fall on your head tomorrow. Predictably, investors could not ignore the wider headlines forever and the fear of impending economic shocks reasserted itself as the broader narrative in the second half of August and accelerated into the annual Jackson Hole Fed update in late August. The market reversed its progress from the early weeks into another violent downswing, to leave the MSCI World Index down 4.3% in dollars for the month; quite the reversal and not unpopular with many market commentators who struggled with June/July's (transient) recovery.

This negative outcome nonetheless amounted to a 0.1% gain in sterling, which increasingly behaves like an emerging market currency in terms of its volatility and sensitivity to political news, rather than the sovereign money of the sixth-largest economy on the planet. How far we have fallen, and one cannot argue that it is either unwarranted or that it will not continue; further FX pain for UK Plc seems inevitable…

We list the sector performances in Figure 1 below and, save for healthcare doing badly and media doing well, is broadly in keeping with a theme of re-positioning away from discretionary consumer spending. Energy led; fair enough – that reflects the ongoing geo-political impact on wholesale prices and will continue to be very volatile and there will eventually be some curtailment of demand that softens prices as the economy inevitably slows.

Insurers, Banks and other rising interest rate beneficiaries responded positively to the notion that the tightening cycle could go on for longer than previously anticipated, but diversified lenders, which includes asset managers and some other companies more sensitive to consumer credit risk fared less well, which aligns with the more bearish sentiment regarding consumer behaviour.

Food & Staples retailers were mid table, as were branded Household & Personal Products manufacturers; trading down is well underway and suppliers and retailers are adjusting their offer accordingly. Telecoms did not fare so well, despite being a classical defensive sector. Medical Equipment and Biopharma also did less well than one might expect (more on that below). Bigger ticket consumer items (white goods, cars, houses) struggled as did business-related capex plays.

Sector	Monthly perf (USD)
Energy	1.2%
Insurance	-1.1%
Media & Entertainment	-1.3%
Utilities	-2.0%
Consumer Services	-2.3%
Food, Beverage & Tobacco	-2.5%
Banks	-2.6%
Transportation	-2.7%
Food & Staples Retailing	-2.7%
Household & Personal Products	-3.4%
Technology Hardware & Equipment	-3.6%
Materials	-3.6%
Healthcare Equipment & Services	-3.6%
Diversified Financials	-4.2%
Capital Goods	-4.5%
Retailing	-4.5%
Telecommunications Serivces	-4.6%
Automobiles & Components	-4.9%
Software & Services	-5.5%
Commercial & Professional Services	-5.7%
Real Estate	-6.1%
Consumer Durables & Apparel	-6.9%
Pharmaceuticals, Biotechnology	-7.1%
Semiconductors & Semiconductor Equipment	-11.0%

Source: Bellevue Asset Management, 31.08.2022

Healthcare

As noted previously, the dynamic during the first half of the month reflected a reversal of previously cautious positioning. As a reminder, healthcare came very much back into favour as a sector overweight for generalist fund managers during Q2 22, as they sought refuge in its defensive qualities and we exited Q2 with the sector seeing its highest popularity as an overweight in almost a decade, with Mega-Cap pharma and Managed Care the preferred places to hide, with Distributors a smaller but popular option as well. As such, one might expect healthcare to lag the wider marketplace during this reversal of 'risk-off'.

As we moved into the latter part of the month and 'risk-off' once again became preferred, one might equally have expected healthcare to outperform. Technically, this is true: in dollar terms, the MSCI World Healthcare under-performed the MSCI World by 280 basis points in the first half of August. However, it only outperformed by 70 basis points in the second half, leaving it a net underperformer for the month, declining 6.1% in dollars (-1.7% in sterling).

The broader macro narrative partly explains the sub-sector performances: Distributors fared well and Managed Care is up there too. However, the typically higher beta sub-sectors of Healthcare Technology and Focused Therapeutics seem to have fared better than one might have expected (much of this can be attributed to stock-specific newsflow over Q2 reporting) and Mega-Cap pharma (Diversified Therapeutics and Conglomerates) a little worse.

The sector was led down by some of the 'growthier' areas (Healthcare IT, Tools, Services, Diagnostics), those with a higher consumer discretionary element susceptible to down-trading (Dental, Other Healthcare – which is mostly pet care) and procedure volume proxy names (Diagnostics, Med-Tech).

	Weighting	Perf (USD)	Perf (GBP)
Distributors	1.4%	0.0%	11.1%
Healthcare Technology	0.7%	1.2%	5.9%
Focused Therapeutics	7.4%	-0.9%	3.7%
Managed Care	11.9%	-2.2%	2.4%
Conglomerate	12.1%	-5.8%	-1.3%
Generics	0.4%	-6.0%	-1.6%
Med-Tech	12.7%	-6.0%	-1.6%
Facilities	1.0%	-6.6%	-2.2%
Diversified Therapeutics	36.5%	-7.4%	-3.0%
Tools	9.0%	-9.1%	-4.8%
Healthcare IT	0.7%	-9.9%	-5.7%
Diagnostics	1.6%	-10.5%	-6.3%
Services	2.5%	-12.2%	-8.2%
Other HC	1.5%	-13.7%	-9.7%
Dental	0.5%	-15.1%	-11.1%
Index perf		**-6.1%**	**-1.7%**

Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of 31.07.2022. Performance to 31.08.2022.

Mega-Cap pharma did not have a great Q2 reporting season and this was a key driver of the less positive than expected relative performance of healthcare in the second half of the month. Beyond this, there were also some disappointing pipeline updates and the Zantac litigation panic ensnared various companies at different times.

In contrast, the Managed Care sector delivered a better-than-expected Q2 and a tediously reassuring outlook over the second half of 2022 and into the 2023 selling season. If you want a safe port in a storm, you cannot go far wrong with Managed Care and it would seem that risk aversion is still the primary driver of incremental flows.

In last month's missive, we commented on the difficulties in parsing out procedure volume trends by triangulating the views of facilities operators (i.e. hospitals), Managed Care (i.e. the insurers paying the bills) and procedure-sensitive Med-Tech companies (those supplying the kit used in a procedure or implanted into a patient) from the early part of the reporting season.

Frustratingly, this did not get much easier as we wended our way through the second half of Q2 reporting but it does at least seem clear that, behind the volatility induced by COVID waves, the background trend is an ongoing recovery toward pre-pandemic norms of patient and physician behaviour, which bodes well for the longer-term sector outlook.

The Trust

Despite the vaporous market sentiment, August was another constructive month for the portfolio and we again outperformed the MSCI World Healthcare Index. The Trust's net asset value rose 5.0% in sterling to 178.50p (it rose only 0.3% when measured in dollars, with the continued weakening of sterling adding c.4.4% to the overall performance.

The positive relative performance was primarily driven by constructive quarterly updates from our holdings in the early part of the month, driving a reversal of the material underperformance that we experienced from the end of March to mid-June. This return to a more normal market dynamic from mid-June to mid-July felt both overdue and inevitable. We remain positive on the broader relative and absolute opportunity over the remainder of the year, and will return to this topic in the musing's section.

July and August are generally quiet months on the client interaction side; most of our shareholders are enjoying a well-earned break. However, there is always a background level of calls and meetings and there has been some commonality to incoming enquiries, which can be summarised into two linked queries: i) why did the Trust underperform materially in April and May? and ii) what did you do differently to turn things around in recent months? Let us take some time to address these points for the record and for all of our investors:

- **Why did we under-perform so much in Q2?** We are always grateful for the positive comments we receive regarding our factsheets. Perceived wit and sagacity is all well and good, but honesty is equally important and we have always been candid. It thus behoves us to repeat that we have no clear explanation as to why mid-cap healthcare fell apart so spectacularly from Q4 2021 and, based on our conversations with strategists and other people who are supposed to know these things, neither does anyone else.

  We have noted many times how unusual this period of relative de-rating has been, in terms of speed and ferocity. It is almost without precedent. People have talked about investors rotating away from growth as the economy falters, and the inevitable impact of higher discount rates and so on. If this were the simple answer to an empirically-driven phenomenon, then there should have been no recovery in recent weeks: the economic situation has continued to worsen and risk free rates have continued to rise.

  One is thus left wanting for a satisfactory technical explanation, unless the move down was irrational and disorderly, in which case it would naturally correct over time. Hmm, there's a thought…

- **What did we change?** For us, this is the most important question. The answer is simple and it applies equally to both the period where we significantly under-performed and the recent period of recovery/out-performance: <u>nothing changed; our investment philosophy and approach is the same.</u>

  We have always used financial leverage to try to enhance returns, having more of it when markets look very cheap and less when they look expensive or we see a lack of clarity on directionality. We increased gearing at the market lows and it has since reduced back to more typical levels, but that's not a new approach.

  The portfolio evolved, but it always does. The pace of change was not different to recent history; one can track this via the factsheets, but we have summarised it in Figure 3 opposite. Our trading activity (portfolio turnover) is higher when compared to periods of benign macro stability such as 2017 (low volatility markets – what a wistful memory), but is lower than during the height of the pandemic, when the outlook for healthcare utilisation was much less clear.

  We think that providing turnover data in monetary or percentage terms is meaningless without context and that makes for a lengthy discussion. For succinctness, we can state that the weighted average duration of the portfolio (i.e. how long a stock has been in there) was 856 days at month-end. The total number of holdings we have owned during any calendar year has remained fairly constant since inception and is toward the lower end of that range in 2022 (M&A activity plays a role here and is currently subdued).

SUB-SECTOR BREAKDOWN	JUN '20	SEP '20	DEC '20	MAR '21	JUN'21	SEP '21	DEC '21	MAR '22	JUN'22	AUG'22
FOCUSED THERAPEUTICS	35.5%	33.3%	36.4%	28.2%	27.4%	27.8%	27.9%	25.9%	26.4%	25.8%
DIAGNOSTICS	11.5%	11.8%	8.4%	3.2%	5.9%	6.0%	10.8%	13.1%	10.7%	10.9%
MANAGED CARE	14.2%	16.0%	12.9%	14.1%	12.3%	13.3%	13.7%	8.3%	9.5%	9.2%
DIVERSIFIED THERAPEUTICS	14.8%	15.9%	16.4%	15.9%	13.7%	11.9%	11.2%	10.0%	8.1%	6.9%
MEDICAL TECHNOLOGY	8.6%	9.1%	13.8%	18.6%	17.4%	16.2%	9.9%	14.2%	16.2%	18.1%
HEALTHCARE IT	4.3%	2.8%	2.4%	6.1%	7.0%	8.3%	8.5%	6.7%	4.7%	5.4%
DENTAL	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	0.9%
SERVICES	6.2%	6.8%	6.1%	9.1%	9.5%	10.3%	12.0%	13.3%	14.7%	14.9%
TOOLS	4.0%	4.4%	3.5%	4.4%	3.8%	2.3%	1.9%	4.5%	5.2%	4.7%
HEALTHCARE TECHNOLOGY	0.0%	0.0%	0.0%	0.4%	3.1%	3.9%	4.0%	4.1%	3.6%	3.3%

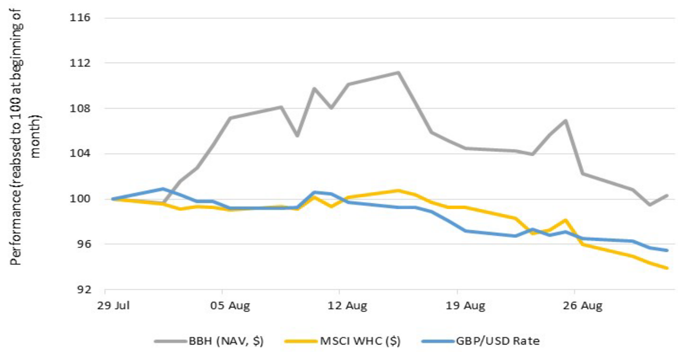
Source: Bellevue Asset Management, 31.08.2022

Answering these questions openly and frankly matters to us for two reasons. The first is one of professional integrity. We have always set out clearly the objectives and philosophy of the Trust and we understand fully that the money invested into it is not ours and is there on faith: you gave us your capital because you understand what we plan to do with it. We take that responsibility very seriously.

The second is philosophical. We are investors, not traders. We ask you to judge us on rolling three-year performance because that is the minimum time period over which we plan to hold investments (cf. the portfolio duration cited previously). To paraphrase Benjamin Graham, markets are imperfect and are sometimes both arbitrary and capricious. In these periods, all you have to rely on is your analytical work and your judgement.

There will be times when things are difficult and there will be investment cases that go awry or you get wrong. However, the market doing what markets do and behaving irrationally over a relatively short period is neither of these things; it is a temporal aberration that requires patience, conviction and fortitude. We believe in our approach, we have data to back up the contention that it delivers alpha over the longer-term and so we have not changed anything, nor do we plan to.

Back to the numbers. The evolution of the NAV during August is illustrated in Figure 4 and highlights the very strong relative performance in the early part of the month:



Source: Bellevue Asset Management, 31.08.2022

The Focused Therapeutics sector was the overwhelming driver of the positive return during the period; four of the five largest contributors to the evolution of the NAV came from this sub-sector. Tools was the other material positive contributor, with Diagnostics, Healthcare IT and Services the largest detractors.

The investment portfolio remains unchanged, with the same 29 holdings. There was no issuance during August because the shares remained at a discount to NAV that averaged 4.0% across the month. The leverage ratio again decreased from 9.6% at the end of July to 4.9% at the end of August (inclusive of the recent cash outflow in respect of the dividend that will be paid to shareholders on 2 September 2022).

Given that the NAV is higher than at the end of July, one might think that the reduction in the leverage ratio was driven predominantly by positive performance of the holdings. However, the picture is more complex; we made a conscious decision to further reduce gearing into the update from the US Federal Reserve annual economic symposium at Jackson Hole, with profit taking in the first half of the month used to reduce leverage, top-slicing relative outperformers from the reporting season, in order to maintain the shape of the book. The gross value of the holdings is 1.3% lower than it was at the end of July.

Why did we make this decision? It seemed inevitable that there would be a doubling-down of the "tightening rates to combat inflation" mantra and some recognition this could go too far, hurting the economy and raising unemployment. Moreover, the message was that rates would stay elevated for some time. Did anyone really expect anything different? Central bankers are impotent in this current crisis but are want to prove they are relevant by using the only weapon at their disposal, even if it won't work. Stupid is as stupid does.

The evolution of the portfolio is summarised in Figure 5 below and we would make the following comments: our holdings in Managed Care and Dental were unchanged. We have added to our Diagnostics holdings during the month, on the back of share price weakness and expect to continue to do so through September.

We modestly reduced our holdings in Diversified Therapeutics, but this was offset by positive relative performance. The same was true in Healthcare IT and Focused Therapeutics. In the former, the performance more than offset the reductions in holdings and in the latter, we made quite material reductions in our holdings on the back of very strong share price performance through the reporting season, resulting in an unchanged sub-sector exposure.

We added slightly to our holdings in Services and Healthcare Technology on the back of weaker relative performance. The increased weighting in Med-Tech is overwhelmingly due to stronger relative performance and we materially reduced our exposure to Tools on the back of strong performance in the early part of the month.

	Subsectors end July 22	Subsectors end Aug 22	Change
Dental	0.9%	0.9%	Unchanged
Diagnostics	11.1%	10.9%	Decreased
Diversified Therapeutics	6.9%	6.9%	Unchanged
Focused Therapeutics	25.8%	25.8%	Unchanged
Healthcare IT	4.9%	5.4%	Increased
Healthcare Technology	4.1%	3.3%	Decreased
Managed Care	8.8%	9.2%	Increased
Med-Tech	16.8%	18.1%	Increased
Services	15.4%	14.9%	Decreased
Tools	5.2%	4.7%	Decreased
	100.0%	**100.0%**	

Source: Bellevue Asset Management, 31.08.2022

Manager's Musings

"Events dear boy, events"

What a year 2022 has been. We are all exhausted after almost three years of being buffeted by external events that were previously unimagined by all but the most lugubrious of minds. Worse, this calamitous concatenation of geo-politics and supply side shocks is far from over, especially here in the UK.

It is not surprising that investors and thus markets have become hypersensitive, over-reacting to perceived positive and negative news; this febrile tendency is unlikely to change in the near-term. With this in mind, and thinking ahead to the remainder of the year, how does one plot a course through such a febrile morass? The starting point must be to think about equities broadly as an asset class and compile a list of what we currently know:

- The economic outlook will continue to worsen, owing to an invidious combination of COVID, China, Russia/Ukraine, ongoing supply side shortages and unhelpfully volatile weather patterns (with the attendant impact on soft commodities).
- A deteriorating economic outlook for Europe, the US and China is a consensus view, although the pace of decline in various regions remains much debated, with the US looking in the best shape by far and the UK looking very weak.
- For now at least, central bankers will continue to deploy the blunt instrument of fiscal tightening, which will exacerbate the negative outlook and do little to address the structural supply-side shocks impacting energy expenditures and raw material/supply chain costs. These are arising from external geo-political events.
- Whilst energy price increases are self-limiting in the sense that users will cut back, it seems unlikely these challenges will resolve in the next year and thus more Western countries are likely to adopt energy price capping policies like those in France (the bouclier tarifaire, which was actually put in place as a COVID impact measure, pre-dating Russia's war against Ukraine. It was bolstered and extended because Macron wanted to win the election). How such measures will be paid for could, in and of itself, have significant economic ramifications for those countries.

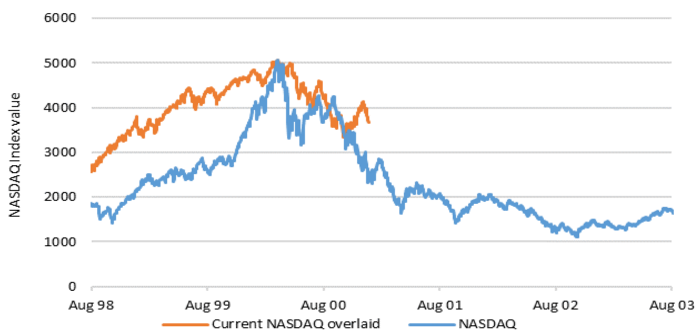
"Too many people live too much in the past"

There is nothing insightful or new in the list above and some might say one should be able to conclude that all of these things are already in the price (if one believes in the efficient market hypothesis). In dollar terms, the MSCI World Index has declined 19% year-to-date, but is almost 6% above the lows seen in June 2022 (but also nearly 8% below the recent August highs). Does this mean we have tested the lows and now it's a sideways-to-upward grind from here?

Things are rarely so clear cut. As the mini-rally through to mid-August and post-Jackson Hole sell-off, amply demonstrates, the market has a tendency to oscillate around a medium trend-line; the more uncertain the trend direction, the more volatile it tends to be. "Value", for want of a better word, only becomes apparent over a longer time period.

Sometimes, those periods can be very long and the road a challenging one to traverse. We are old enough to remember the "Tech Crash" of March 2000. It was then a further 15 years before the NASDAQ surpassed its 2000 high. More importantly, the ultimate low did not come until eighteen months after the initial sell-off. There were plenty of mini-rallies on the way there, but the top-down view suggests it was hard to make money from growth stocks in the early 2000s.

Figure 6 illustrates the period running into the 2000 crash and the subsequent path to its low point and we have overlaid the most recent data for the same index such that the most recent high (in November 2021) so that it lines up with the March 2000 peak and the various twists and turns in the meantime.



Source: Bellevue Asset Management, 31.08.2022

We are not including this chart to try and convince anyone that the market is going to fall a further 50% from here as it did in 2000, because that is not our expectation. Nor are we trying to persuade you to sell everything and stay out of the market. This is not 2000; the world has moved on and there was undoubtedly a bubble in the valuations of certain types of technology stocks around the turn of the century. Indeed, analysts had to invent preposterous new ways to try to justify those lofty valuations such as 'EV/click-through' or 'EV/eyeball'. Heady days indeed.

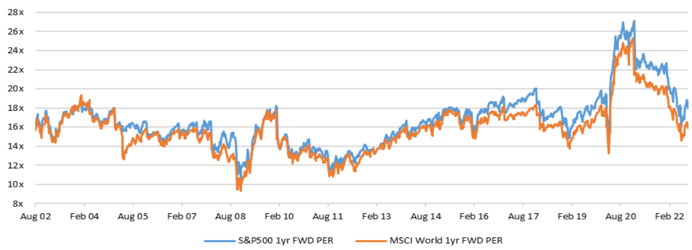
Our point is more that markets can be unpredictable over short periods. Whilst one could tritely state that anyone buying the first dip in March 2000 was clearly wrong, that depends on what you bought and how long you held it for. The market rallied back 50% before it fell sharply again from September 2000. That's an annualised return of 100% in the meantime. Some people performed very well buying tech stocks during this period.

How does this all relate to H2 2022? We cannot know for sure what future twists and turns await us on the geo-political or weather front. Both Xi and Putin have near absolute power and at least one of them seems to be insane; neither seem apt to listen to advice or to admit when something is wrong and should be reversed.

Neither agree with the Western liberal consensus that has dominated world affairs since Roosevelt paved the way for the creation of the United Nations. The world is always in some sort of transition, but this one involves a lot more moving parts than usual. When considering how to navigate through it, we reiterate that all one has to rely on is their analytical work and judgement. What does that work suggest?

"To be alive at all involves some risk"

Firstly, it does not suggest the market is very expensive, as was the case in March 2000, and as could have been argued to be the case in late 2020. Figure 7 illustrates the current forward PE Ratios for the US S&P 500 and Global MSCI World Indices:



Source: Bellevue Asset Management, 31.08.2022

One of the challenges of using Index-level data for any value analysis is that the nature of the market constituents evolves. There is a lot more technology involved in corporate profit generation these days, and it's margins and capital intensity are very different to that of physical machinery or human resources.

Whilst corporate margins may be at post-war highs, how relevant is the past margin data to the current situation; perhaps the higher margins are simply an inevitable consequence of technological productivity improvement and thus represent long-term structural change?

We have sought to address this in Figure 8, which expresses August 2022's month-end PE Ratio as a percentage of the average and the low point over five, ten and twenty year periods. Compared to recent history (5-year averages), the valuation levels appear attractive. It could test new lows once more, suggesting a fall of a further 30% but, on the other hand, a return to merely an average rating suggests double-digit upside from here. Whilst the market has been cheaper in the recent past, it has not been much cheaper.

	S&P 500	MSCI World
20 yr Avg	107.2%	100.2%
10 yr Avg	98.2%	92.9%
5 yr Avg	90.2%	87.2%
Min 5yr	126.3%	119.8%
Min 10yr	137.0%	123.4%
Min 20yr	169.3%	170.3%

To our minds, the bigger question for investors is not so much the question of further compression in the P/E ratio as much as having confidence in the "E" component. Energy and supply chain costs have risen for businesses and consumers. Employees are demanding wage increases to pay for higher food and energy costs. Corporates are investing into supply chain resilience and redundancy to overcome manufacturing bottlenecks, crimping future margin evolution and swelling working capital.

At best then, consumer discretionary spending power stays at the same level and corporate profits (ex. Energy extractors or producers) fall as consumer spending does not grow and the costs of providing what goods and services they do wish to purchase end up rising. At worst, revenues and margins both decline.

If governments do intercede to cushion the energy impact, the monies for funding energy subsidies must come from somewhere, probably via taxation. Will the blow fall more on corporates than hard pressed voters? We will leave readers to decide for themselves, but companies don't vote and are making "record" profits, so this feels like the soft underbelly to us.

Higher taxes of course mean lower profits and a further lowering of the "E". In all probability then, "E" is not going to grow at a similar pace in the coming years, and this is what consensus forecasts assume, at least for 2023, as reflected in below-trend growth for both the S&P500 and the MSCI World Index.

"I read a great number of press reports and find comfort in the fact that they are nearly always conflicting."

All of the above is nebulous opinion; one will find bulls and bears in equal measure across the spectrum of commentators and some within that who think the current moment is either the opportunity of a lifetime or that we stand on the precipice of a market calamity. At least 50% of these people are wrong, as always.

The fortunate thing about being a healthcare investor is that the demand picture is de-coupled from the economic cycle. It is true there has been a long-standing correlation between the proportion of people well insured in the US and growth in the world's most important marketplace. Many of those people receive their care via a commercial plan provided by their employer. Ergo, unemployment risk does impact healthcare sentiment, albeit in a lagging fashion.

However, this correlation now looks rather weak to us. Most of the growth in US healthcare utilisation is coming from the over-65s and the vast majority of their care is paid for by the Government through Medicare.

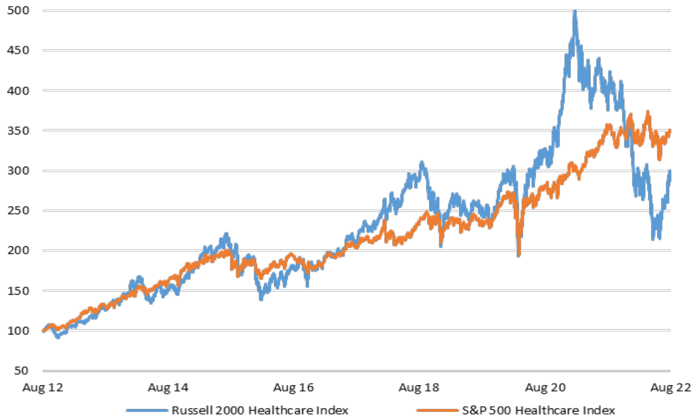
Background utilisation trends are still on a recovery trend from COVID-19, which disrupted routine medical care for many at risk groups. We have a lot of catching up to do in terms of diagnosing chronic illnesses via routine examinations. Waiting lists need to be cleared (or an attempt must be made if you are in the UK).

In the longer-term, the sedentary and asocial aspects of the pandemic lockdown response have increased morbidity rates across all manner of conditions, both physical and mental and it is increasingly clear that working from home is for many a double-edged sword of less movement, worse posture and easy snacking. These unfortunate developments represent a future long-term tailwind.

Healthcare innovation continues apace and this will further drive demand. Cost mitigation is necessary. However, this remains an investment opportunity in and of itself and we are very pleased with the returns we have made from our holdings in the 'value-based care' marketplace, which is finally gaining momentum.

There are undoubtedly a great many things for investors to fret about, but the background utilisation trend for healthcare continues to point to the sunny uplands and neither a pandemic, recessions, geo-political tensions or an energy crisis are going to change that long-term growth trend.

Within healthcare, whilst the past few months have seen some degree of catch-up for SMID healthcare versus larger-cap, there is still significant potential for further relative re-rating (Figure 9):



Source: Bellevue Asset Management, 31.08.2022

"History is apt to judge harshly those who sacrifice tomorrow for today"

What does all this mean for us practically? We are ultimately here to take calculated risks on your behalf; that is what investing means. However, one cannot ignore the short-term realities and their consequences: volatility will remain elevated and market liquidity may ebb and flow more than usual.

We remain confident in the outlook for our holdings on four frontsa: i) our longer-term forecasts (the "E") are underpinned by positive non-cyclical external drivers of one sort or another. ii) we use a teens hurdle rate for returns and thus are confident that the portfolio will deliver satisfactory returns over the longer-term, even with some slippage around the "E". iii) the P/E to growth metrics that our stocks currently trade on is not elevated relative to historical norms for the sub-sectors in which they operate, suggesting valuations should be under-pinned to some degree. iv) per Figure 9, SMID healthcare remains attractive on an intra-sector relative basis.

Our approach is inherently uncorrelated with the Mega-Cap dominated indices commonly used to benchmark performance in our sector, so there will be periods of dispersion. These can be positive (June-August) and negative (April to May). We therefore urge you to look at returns over the longer-term.

If you compare BBH's total return since inception to one of these benchmarks or to our peers, then hopefully your concerns (if you have any) will be somwehat assuaged. Following our recent de-leveraging, we have significant borrowing capacity available and we will continue to deploy capital opportunistically to enhance returns, looking to add to positions during any further periods of weakness. If the market does show some stability, we will remain aligned with our mid-single digit longer-term leverage target.

The coming months will be hard work, just as H1 2022 has been. In the end though, we expect to look back at these markets as a good opportunity for long-term capital deployment.

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

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

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

The risk indicator assumes you keep the product for 5 years. The actual risk can vary significantly if you cash in at an early stage and you may get back less.

The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because the fund is not able to pay you.

This fund is classified as 6 out of 7, which is a medium-high risk class. This rates the potential losses from future performance at a medium-high level, and poor market conditions will likely impact the capacity to pay you.

The portfolio is likely to have exposure to stocks with their primary listing in the US, with significant exposure to the US dollar. The value of such assets may be affected favourably or unfavourably by fluctuations in currency rates.

This fund does not include any protection from future market performance so you could lose some or all of your investment.

If the fund is not able to pay you what is owed, you could lose your entire investment.

Target market

The fund is available for retail and professional investors in the UK who understand and accept its Risk Return Profile.

Chances

- 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 3.5% dividend yield.
- Bellevue Healthcare Trust has an experienced management team and strong board of directors.

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.

Management Team

Paul Major
Portfolio Manager
since inception of the fund

Brett Darke
Portfolio Manager
of the fund since 2017

Awards

Sustainability Profile – ESG

Exclusions:	☒ Compliance UNGC, HR, ILO	☒ Controversial weapons
	☒ Norms-based exclusions	
ESG Risk Analysis:	☒ ESG Integration	
Stewardship:	☒ Engagement	☒ Proxy Voting

CO2 intensity (t CO2/mn USD sales):	26.5 (low)	MSCI ESG coverage: 100%
MSCI ESG Rating (AAA - CCC):	A	MSCI ESG coverage: 100%

Based on portfolio data as per 30.06.2022 (quarterly updates) – 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; Best-in-class: systematic exclusion of "ESG laggards"; MSCI ESG Rating ranges from "leaders" (AAA-AA), "average" (A, BBB, BB) to "laggards" (B, CCC). Note: in certain cases the ESG rating methodology may lead to a systematic discrimination of companies or industries, the manager may have good reasons to invest in supposed "laggards". The CO2 intensity expresses MSCI ESG Research's estimate of GHG emissions measured in tons of CO2 per USD 1 million sales; for further information c.f. www.bellevue.ch/sustainability-at-portfolio-level

Important information

This document is only made available to professional clients and eligible counterparties as defined by the Financial Conduct Authority. The rules made under the Financial Services and Markets Act 2000 for the protection of retail clients may not apply and they are advised to speak with their independent financial advisers. The Financial Services Compensation Scheme is unlikely to be available.

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