Bellevue Healthcare Trust

OCTOBER 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, 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 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

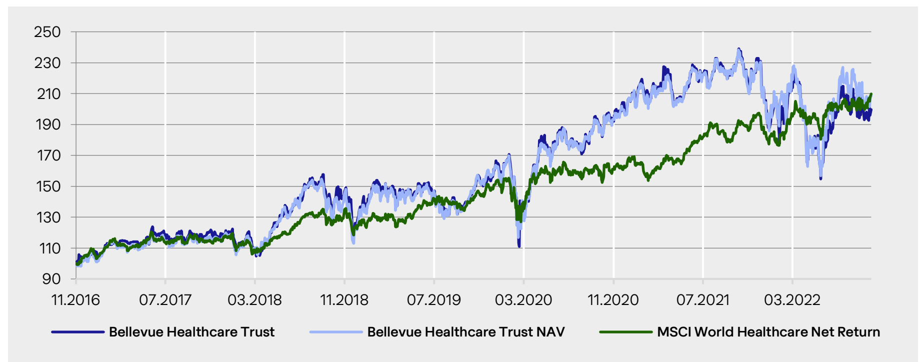
Share price	GBp 167.60
Net Asset Value (NAV)	GBp 174.80
Market Capitalisation	GBp 983.5 mn
Investment manager	Bellevue Asset Management (UK) Ltd.
Administrator	Sanne Fund Services (UK) Ltd.
Launch date	01.12.2016
Fiscal year end	Nov 30
Benchmark	MSCI World Healthcare Net Return
ISIN code	GB00BZCNLL95
Bloomberg	BBH LN Equity
Number of ordinary shares	586,783,083
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	1.29
Correlation	0.76
Volatility	30.6%
Tracking Error	20.52
Active Share	92.62
Sharpe Ratio	0.71
Information Ratio	0.21
Jensen's Alpha	0.32

Source: Bellevue Asset Management, 31.10.2022;
Calculation based on the Net Asset Value (NAV) over the last 3 years.

Indexed performance since launch



Cumulated & annualized performance

Cummulated

	1 M	1 Y	2 Y	3 Y	4 Y	5 Y	ITD
Share	-0.8%	-12.9%	9.7%	42.7%	47.9%	71.1%	99.7%
NAV	0.4%	-9.5%	14.0%	50.1%	54.5%	82.1%	108.6%
BM	5.2%	11.9%	37.6%	50.6%	63.8%	84.2%	109.8%

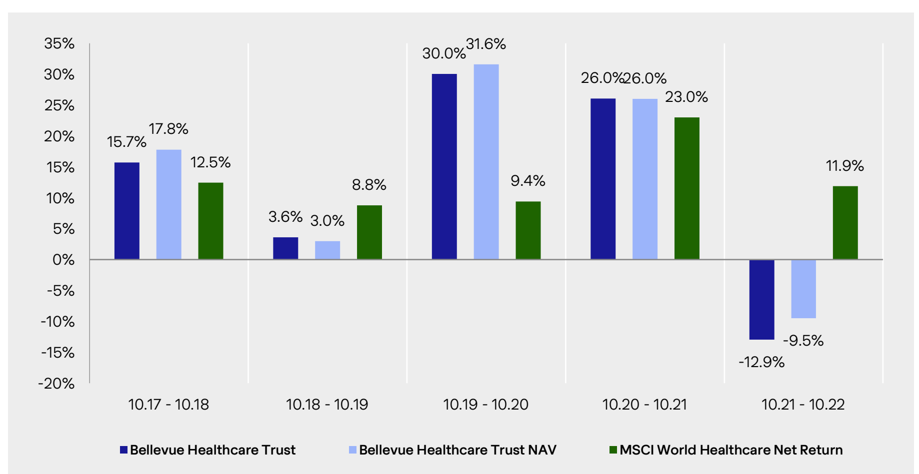
Annualized

1 Y	3 Y	5 Y	ITD
-12.9%	12.6%	11.3%	12.4%
-9.5%	14.5%	12.7%	13.2%
11.9%	14.6%	13.0%	13.3%

Annual performance

	2017	2018	2019	2020	2021	YTD
Share	14.8%	4.9%	22.7%	29.1%	16.6%	-13.5%
NAV	12.7%	8.6%	25.9%	25.7%	15.2%	-7.6%
BM	9.4%	8.8%	18.4%	10.3%	20.8%	7.0%

Rolling 12-month-performance 31.10.2022



Source: Bellevue Asset Management, 31.10.2022; 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

Position	Weight
Jazz Pharmaceuticals	6.7%
Axonics	6.4%
Sarepta Therapeutics	6.3%
Option Care Health	5.8%
UnitedHealth Group	5.3%
Tandem Diabetes Care	5.0%
Apellis Pharmaceuticals	4.8%
Charles River Labs	4.7%
CareDx	4.6%
Insmed	4.4%
Total top 10 positions	53.9%

Sector breakdown

Sector	Weight
Focused Therapeutics	23.3%
Med-Tech	18.4%
Services	14.6%
Diagnostics	11.6%
Managed Care	9.1%
Diversified Therapeutics	6.7%
Healthcare IT	5.4%
Health Tech	5.0%
Tools	4.9%
Dental	1.0%

Geographic breakdown

Country	Weight
United States	95.3%
China	1.9%
Canada	1.8%
Switzerland	1.0%

Market cap breakdown

Market cap	Weight
Mega-Cap	15.6%
Large-Cap	8.6%
Mid-Cap	49.3%
Small-Cap	26.5%

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

Source: Bellevue Asset Management, 31.10.2022;
For illustrative purposes only. Holdings and allocations are subject to change. Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. Where the subfund is denominated in a currency other than an investor's base currency, changes in the rate of exchange may have an adverse effect on price and income.

Welcome to our autumnal update. Markets continue to vacillate on macro updates and there seems no end in sight to the negative economic and geopolitical updates. These are dog days indeed, but there cannot be much more left to learn at this point.

Those hoping for hope, or a kernel of wisdom may not wish to read on. We see little reason for short-term optimism. However, that has little to do with the longer-term outlook, which remains a positive one for the global healthcare sector.

Timing this sort of market is close to impossible. One week is the opposite of another, one month the opposite of the previous one. The only way to navigate this is to take a long-term view and then be patient. We think those brave enough to do so will be handsomely rewarded in the fullness of time and your managers are continuing to buy shares in the Trust.

Monthly review

The UK market

Another month of tumult behoves us once more to comment on the truly special circumstances of our sceptred isle. We have seen more botched U-turns than Maureen Rees and again we have a "new" government and completely different policy agenda to that of merely 50 days ago.

Whether or not the new agenda looks like the "old, old" one of BoJo times (back in the days when we were one of those quaint democracies using elections to pick leaders) remains to be seen. Is anyone really paying attention anymore? We try, but have yet to see anything that looks like a move toward an honest debate about the state of our nation, or any kernel of a policy that might begin to address its structural failings.

A business trip abroad in late October proved embarrassing, as person after person looked quizzically to us to explain recent events back in Blighty. The only appropriate (i.e. expletive-free) reply has to be "Don't ask me, I just live there". When French and Italian people are laughing at your politics, things have become dire indeed. One could devote pages to the misdeeds of our ruling "elite", but what would be the point? We, like everyone else, would prefer to move on.

Before we do though, there is one issue that we cannot let lie. Rather like sell-side research and the business of government, journalistic standards in so-called opinion/editorial pieces seem to have been in free fall for some time. Why do so many left-leaning publications continue to let their writers make out that our government "appeasing" the "City" is in some way conspiratorial, and contrary to the interests of the wider public?

If finance is evil, then it is surely a necessary evil. Bildeberg, Bond villain-like hedge fund managers and the World Economic Forum are not behind all this, the reality is tediously simple. The United Kingdom has a long-standing primary budget deficit: we need to borrow north of £3bn every month to keep the lights on. Literally.

This primary deficit excludes the cost of the interest on the money we owe (about £2.4trn, or 99% of GDP and rising every day, unlike our GDP). The more it costs us to borrow, the higher the amount we need to borrow due to the compounding of interest expenses. A vicious circle indeed.

Another simplistic way to look at all this is that one pound in three that we spend on our rapidly declining public services is borrowed, despite the country having the largest peacetime tax yield (the percentage of GDP taken as tax) in recorded history. We will muse upon this latter point later on.

As anyone who has ever borrowed money from a bank or building society understands, these institutions want to be sure that we can repay what we ask them to lend us. If you cast doubt on your fiscal responsibility (e.g. via a poor credit rating) they will either decline to lend to you at all, or demand higher interest commensurate with the perceived risk.

This is a perfect metaphor for the UK situation and explains why crazy, uncosted taxation and spending plans ("Trussonomics") are not popular with lenders (i.e. those who buy sovereign debt). Her plans did nothing to address how and why we came to have a primary deficit in the first place and pushed out the point where we might begin to reverse that situation.

Make no mistake, we need these "City" types to like us enough to continue to buy our bonds. To quote Margaret Thatcher, "there is no alternative". Those wags on the loony left fringe will of course counter that none of this matters; we are a sovereign issuer and the government can print as much money as it wants. Technically this is

true, as the COVID response demonstrated, but we also run a current account deficit – we import more than we export.

Thus, to keep things ticking over, we need foreigners to want to own sterling assets as payment for the goods that they sell us. What are these goods? Food and energy for starters, the important stuff that is getting more expensive as the pound has fallen.

If we make sterling seem more risky as a store of value, the exchange rate goes against us and we import inflation. Moreover, the currency risk makes investors ask for even higher debt interest rates to hold sterling bonds, so we spend yet more money on interest costs. This is yet another vicious circle. Anyone who thinks these “international finance games” don’t matter should go and ask the citizens of a socialist paradise like Venezuela how that is all working out, or even Argentina or Zimbabwe.

It must surely also be apparent that you do not need to have been a hedge fund “master of the universe” or privy to inside information to have been short sterling and UK government bonds over the course of 2022: rising yields and a falling currency felt almost inevitable. Contrary to the fantasies of some left-leaning politicians and journalists, hedge funds did not make this happen; they free-rode on the manifest incompetence of decades of political decision-makers (including the left’s beloved Gordon Brown).

Whilst it is also true that the balance of tax and spending is ultimately a political/ideological choice, balancing the books is not. Fiscal responsibility matters and, after the debacles of the last few years, it is no bad thing that we have someone from the world of finance in charge. The last time we had a journalist at the helm didn’t go so well.

As and when the new fiscal plan is revealed, the hole that needs to be plugged has already shrunk by several billion pounds from the Truss peak, due to sterling’s recovery and forward interest rates coming back down from their highs, which tells its own truth: you don’t have to like or respect Rishi Sunak to be better off, only to have confidence that he won’t do anything stupid in the next two years.

Thereafter, we are staring into the unknown. If there is anything positive to take away from the thankfully brief flirtation with Trussonomics, it is that no politician will be so easily tempted to unveil unsustainable and uncosted tax and spending plans. Those politicians who peddle false hope based on utopian scenarios that cannot be delivered are surely the worst charlatans of all and it is gratifying to see one of them unmasked and unceremoniously defenestrated.

However, this raises another risk. As we have said many times on these pages, difficult times are inevitably ahead for the UK (because of the primary deficit) and we need to have honest conversations about what is actually possible, instead of politicians telling everyone that the sunny uplands are around the corner, in order to get elected. In the same vein, saying nothing and hoping to get elected by default is no less intellectually dishonest.

Opinion polls currently suggest we face the seemingly inevitable election of a blancmange who has never articulated any clear policies beyond the vapid statement “Labour has a plan”. Is someone who says nothing of discernible substance and seems to bend like a straw in the wind what salvation looks like? Perhaps you can find some comforting amusement in the fact that ‘Kier’ is the name of an empty vessel of yore used in the process of removing colour from fabric. Nominative determinism is alive and well it seems.

The current popularity of this iteration of the Labour party tells us that, unlike GDP growth, the market for hope is eternal. However, that should not be your conclusion from all of the comments above. The simple deduction is this: you cannot take on the bond market, it always wins in the end.

The wider market

October was a positive month for the wider market; the MSCI World Index rose 7.0% in dollar terms (+4.0% in sterling). This was not quite a complete reversal of September’s 9.5% dollar decline, but close to it. The overall positive performance may seem all the more surprising when one considers the headline-grabbing declines of some technology bellwethers: Tesla (-14%), Meta (-31%), Amazon (-9%). In truth though, October was an overall positive month for technology stocks and the tech-heavy NASDAQ Index also finished in positive territory for the month (+3.9% in dollars, +0.8% in sterling).

For what has again been a macro-led market narrative, the positive outcome also seems in contrast to overall tone of newsflow. The Q3 reporting season did not start well with some household names disappointing already lowered expectations.

We have already commented on the chaos ongoing in the UK. To this, one could add various negative macroeconomic and geopolitical events during the month: the crowning of Xi with a reiteration of the commitment to the ruinous Covid-zero policy; US moves against Chinese technology companies, continued nuclear sabre-rattling from Russia and North Korea and apparent acts of terrorism against transport, communication and energy infrastructure in various countries including the UK.

No-one is saying it officially, but Russia is widely believed to be behind this in an escalation of its offensive against Ukraine now extending to those countries who support it. Finally, as if we need any more depressing headlines, one could point to all manner of consumer-centric datapoints showing that the cumulative impact of rising costs for food, energy and housing are now beginning to bite across the developed world.

The sector performance for the MSCI World Index is included in Figure 1 below. We could devote pages to the various sub-sector performances and a bottom-up analysis of why things played out as they did. We think this was again primarily a macro-led outcome, with the markets beginning to feel that the consumer-level data cited previously is enough to begin to temper the Federal Reserve’s cadence of further interest rate rises, along with the inversion of the yield curve (a signal favoured by the current Fed Chair and one that is now flashing a recession warning).

Nonetheless, early October’s FOMC meeting again offered investors little reason for cheer: the Fed may be going slower, but it is still going higher. As we noted in the previous section, we are all at the mercy of the bond markets.

Sector	Monthly perf (USD)
Energy	20.0%
Capital Goods	12.5%
Technology Hardware & Equipment	10.5%
Consumer Services	10.1%
Banks	9.5%
Healthcare Equipment & Services	9.2%
Insurance	8.9%
Diversified Financials	8.4%
Pharmaceuticals, Biotechnology	8.1%
Food & Staples Retailing	7.4%
Food, Beverage & Tobacco	6.3%
Software & Services	6.2%
Transportation	6.2%
Semiconductors & Semiconductor Equipment	6.1%
Commerical & Professional Services	5.9%
Conusmer Durables & Apparel	5.8%
Materials	5.6%
Telecommunication Services	4.2%
Household & Personal Products	3.2%
Utilities	2.7%
Real Estate	1.1%
Retailing	-0.1%
Media & Entertainment	-0.9%
Automobiles & Components	-2.7%

Source: Bellevue Asset Management, 31.10.2022

One final thought as we move into the second innings of the earnings season. The US S&P 500 Index is now trading at a forward P/E ratio in line with its long-term (10-year) average, having spent most of 2020 and 2021 at highly extended levels (driven mainly by rich multiples for tech-oriented "stay at home" beneficiaries).

The average risk free rate (taking US 10 year bond yields as a proxy) was 2.5% over that period and it currently stands at 4.0%, so one might argue that the forward multiple needs to be a bit lower before one can make a like-for-like comparison and one must think there are still downside risks to cyclical stocks in the US as the Fed continues to tighten the screw.

As the population ages, we are living in a lower growth world. Thus, in all probability, interest rates will not stay at these levels for more than a few years and there is already some expectation of further earnings cuts built into current sentiment. It is probably too early to argue that equities are a screaming buy as an asset class, especially given all of the geo-political risks and commensurate impact on energy costs, but it does feel that the worst of the market rout is behind us.

Healthcare

If one knew nothing else than the performance of the wider market in September and October and the macro drivers thereof, the logical conclusion would be to posit that healthcare under-performed during October as negativity around more consumer/cyclical exposures reversed somewhat. This was not the outcome though. The MSCI World Healthcare Index rose 8.3% in dollars (+5.1% in sterling).

As we highlighted in our September missive, we expected healthcare to shine to some extent on relative estimates momentum; it seemed reasonable to expect a lower degree of constant currency earnings downgrades for our sector than for the wider market and this has broadly been the case. That undoubtedly helped on the relative performance front, but we were not expecting such a positive overall return from the wider market.

The sub-sector performance data is summarised in Figure 2. It is no surprise to see the most consumer discretionary area (Dental) as the main laggard but the wider pattern is much less clear. The highly defensive Distributor sector did well (again), as did the hospital sector despite what we consider to be very mixed reporting on both the cost and the revenue outlook. We still consider that sub-sector to be un-investable due to a lack of margin visibility/confidence.

	Weighting	Perf (USD)	Perf (GBP)
Healthcare Technology	0.7%	37.5%	33.5%
Facilities	0.9%	17.7%	14.2%
Distributors	1.5%	13.8%	10.5%
Generics	0.3%	12.6%	9.3%
Managed Care	12.4%	12.4%	9.1%
Diagnostics	1.5%	12.3%	9.0%
Focused Therapeutics	8.1%	10.0%	6.7%
Diversified Therapeutics	36.7%	8.9%	5.7%
Med-Tech	12.2%	7.0%	3.8%
Healthcare IT	0.6%	5.0%	1.9%
Conglomerate	12.5%	4.7%	1.6%
Services	2.2%	4.2%	1.2%
Tools	8.5%	2.4%	-0.6%
Other HC	1.4%	2.5%	-0.7%
Dental	0.4%	-2.9%	-5.7%
Index perf		**8.3%**	**5.1%**

Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of 30.09.2022. Performance to 31.10.2022.

Each reporting season is an opportunity to divine the cadence of the normalisation in elective procedure volumes as we continue to see COVID fading from view. As ever, the signals were mixed. Some Med-Tech companies reported strong volumes. Hospital earnings were mixed, suggesting continued recovery but lots of margin pressures due to labour and acuity. Managed Care (insurers) posted strong earnings which continue to suggest that the pace of normalisation is slower than expected.

There is much debate over the potential impact of the 'flu season on winter trends, having seen an above average severity of 'flu cases in the southern hemisphere during our summer. Thus far though, we have not seen this translate into a comparably severe season here in the northern hemisphere. It is above the 10-year average, but not worryingly so in our opinion, albeit we are at a very early stage and helped by milder-than-expected weather patterns.

What of COVID? We try to mention this condition as little as possible, for the simple reason that we do not think it is an important driver of markets or healthcare behaviour anymore. As we noted many times, our view is that we are through the worst of it and cumulative immunological memory through ongoing community transmission and booster vaccinations for the small number of clinically vulnerable or elderly will maintain this status quo moving forward.

For those of you who are curious though, trends in Europe and the US in terms of symptomatic cases, hospitalisations, ventilator occupancy and death are well below this point last year. We have no firm idea on case numbers, since we are no longer mandating mass testing, but that is a good thing. China aside, we are living with COVID now, and that is going along as one would expect.

As time moves on, historians will have the opportunity to debate if the economic, societal and health impact of lockdowns has been worse than the disease itself. Everyone will have a view on this, but it is clearly a much less simplistic question than one would hope.

The Trust

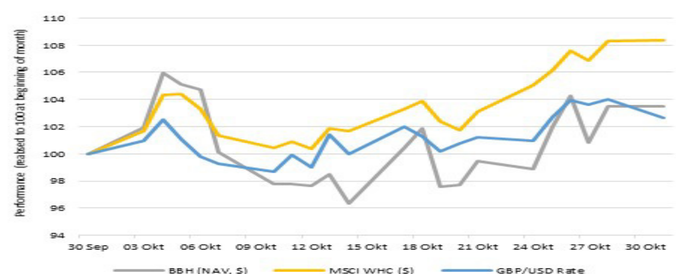
October has been a tricky month. In some ways, it has felt like the most challenging month of the year so far. Valuations are supportive, there are fewer "unknown unknowns" and portfolio reporting has, on balance, been okay; albeit our reporting season is a bit later than usual this time around and only half our holdings had reported by month end.

However, the macro gods are both arbitrary and capricious and we failed to keep up with the benchmark during October. The Trust's net asset value rose 0.4% to 174.80p, under-performing the MSCI World Healthcare Index by 482bps. November has also gotten off to a challenging start.

Before the Truss omnishambles fell apart, we contemplated blaming October's underperformance on the "anti-growth coalition" but we can only find Jamie Oliver suggested as a member. Whilst we too find the cheeky culinarian's proselytising rather irritating, it feels unfair to blame him for everything.

We shall therefore limit our protest to not buying his inevitable next instalment of temporally-challenging recipe ideas. Does he realise most people don't have a prep team in their kitchen at home, which rather limits their ability to whip up something 'pukka' from scratch inside 15 minutes?

Back to the Trust. Unhelpfully, size factor reared its ugly head again this month, with Mega-Caps notably outperforming Mid-Cap across the sub-sectors. We estimate that the recovery of sterling reduced the NAV by 267bp, which is slightly better than our estimate for the FX headwind for the MSCI World Healthcare Index (-319bp). The evolution of the NAV is illustrated in Figure 3 below and illustrates that the majority of the underperformance arose in the early part of the month:



Source: Bellevue Asset Management, 31.10.2022

Medical Technology, Managed Care and Diagnostics were the largest positive contributors during the month, with Focused Therapeutics and Healthcare IT being the only sectors that did not deliver a positive overall return.

The evolution of the portfolio is summarised in Figure 4 below and we would make the following comments: Diagnostics Diversified Therapeutics and Healthcare Technology increased due to a combination of active allocation as well as performance. The decline in Focused Therapeutics was largely driven by negative performance and in Healthcare IT this was entirely the case; we actually added to our holdings during the month. We materially reduced our Managed Care holdings to offset the positive relative performance and we actively added to our holdings across Med-Tech, Services and Tools.

	Subsectors end Sep 22	Subsectors end Oct 22	Change
Dental	1.0%	1.0%	Unchanged
Diagnostics	10.4%	11.6%	Increased
Diversified Therapeutics	6.3%	6.7%	Increased
Focused Therapeutics	25.4%	23.3%	Decreased
Healthcare IT	5.9%	5.4%	Decreased
Healthcare Technology	4.0%	5.0%	Increased
Managed Care	9.1%	9.1%	Unchanged
Med-Tech	18.1%	18.4%	Increased
Services	15.1%	14.6%	Decreased
Tools	4.8%	4.9%	Increased
	100.0%	**100.0%**	

Source: Bellevue Asset Management, 30.09.2022

The investment portfolio remains unchanged, with the same 29 holdings. There was no share issuance during Ocotber because the Trust's shares remained at a discount to NAV that averaged 3.8% across the month, compared to a discount of 5.5% during September. The net effect of the changes to our holdings described above was neutral and the stable NAV led to the month-end leverage ratio remaining at 6.2%.

October sees the opening of the Trusts annual redemption window. This closed on 2nd November 2022. We have offered this ungated facility, which allows investors to redeem shares at a valuation close to NAV, since inception. In previous years, the take-up has been de-minimis and we have been able to place the redeemed shares in the market rather than cancel them or hold them in treasury.

This year has seen a much higher take up for redemptions than in prior periods, with some 30.6 million shares tendered (5.2% of the outstanding capital). We have received some feedback from several larger wealth managers that they are centrally reducing exposure to investment trust products more broadly in order to have improved daily liquidity and this may have played a role in the larger redemption amount.

We would remind our readers that there is an open-ended UCITS version of the strategy (the WS Bellevue Healthcare Fund) if you are needing to reduce investment trust holdings but still want to retain exposure to the same underlying investments. Unlike the Trust, the Fund does not pay a dividend. Depending on each reader's situation, there may be other suitability factors that need to be taken into account and it may be necessary to take independent financial advice.

It is very unlikely that such a sizeable redemption amount can be placed into the market and so these shares will in effect be bought in. However, the liquidity of the underlying portfolio is such that we can easily manage to realise the cash without the need to create a redemption pool.

Your managers remain convinced of the long-term opportunity for the portfolio and, as has been the case throughout the year, continuing to add to their personal holdings in the Trust.

Manager's Musings

Things they do look awful cold

Investor interactions afford us the opportunity to gain some insight into the psychology and thought processes of our investors at any given time. Moreover, our willingness to engage in broader discussions of the stock market and the wider economy (as demonstrated in these very pages) often leads to conversations that cover topics beyond the investment remit of the trust. We enjoy markets and the business of analysis, so are more than happy to engage in these discussions.

What is fascinating about this dimension of our job is how expectations evolve with market sentiment. When the good times are rolling along, our opinion is but one of many and people seem happy enough to take away whatever they want from an interaction. As long as we remain confident in the longer-term outlook for the healthcare component, all is well it seems. If we express concerns or dissenting views that run contrary to received wisdom then people are more than happy to agree to disagree.

The current environment is a challenge for us all. The travails of daily life amidst inflationary pressures and Damoclean geopolitical overhangs are keenly felt. COVID may not pose the existential risk to life that many people felt in the spring of 2020, but its long shadow still casts a pall over many aspects of daily life, which still feels rather far from the norms of 2019. Very few investors have seen a positive return from their portfolios this year and many have also seen the income yield decline and of course inflation is eating away at the purchasing power of the income that remains.

This challenging environment seems to result in less willingness to simply 'agree to disagree' and we have been acutely aware of an unspoken desire (desperation?) to hear "good news". As much as we are still very bullish on the longer-term outlook for the healthcare industry more widely, we are much less positive on the overall environment here in the UK and that is always a more challenging discussion point. We are not of the mindset to sugar-coat our views.

Paradoxically, it is the same demographic drivers that will support demand for healthcare services and the need for continued improvements in productivity within the healthcare industry that augur so unfavourably for the country as a whole and overall living standards. In the shorter-term, we feel the timepoint where this begins to unfold (as opposed to trying to kick the can yet further down the road) is fast approaching.

People try to put us down

Such has been the technological progress of the 21st century, it is almost axiomatic that each generation expects their children to enjoy a greater standard of living than their own. Lifespans have increased. Many medical ailments that previously ravaged the population are but a distant memory, especially infectious diseases.

Labour saving devices remove the drudgery from many tasks; one can spend their evenings arguing over the correct way to load the dishwasher, as opposed to "doing the dishes" for instance. 100 years ago, the idea of traversing the globe was an exciting adventure for the uber-rich of the gilded age. Today, globetrotting is an irritating hustle on budget airlines that occupies the gap years of middle-class students.

The first transatlantic telephone call took place only in 1927. Today, the latest iPhone has satellite communication backup, so you can send an SOS message from darkest Peru. In 1914, Goddard patented the design of the first solid fuel rocket engine. In 2014, the European Space Agency landed a probe called Rosetta on the Comet Churyumov–Gerasimenko as it hurtled through space at 34,000mph whilst it was 550m kilometres from Earth. In 100 years, we went from imagining putting an object into space to manoeuvring objects further away in space than one can imagine.

As the vaccine response to SARS-CoV-2 reminds us, history has shown time and again that betting against the collective wisdom of humanity is foolhardy. Even our imagination seems not to be a limit to what we can achieve over time.

Why then are we so worried about the future of our sceptred isle and fearful that the continued rise in living standards is, at best, going to pause and possibly going to reverse for a significant period of time? The simple answer is demography. We are getting old and that is an expensive business.

That ability to improve living standards relies on four pillars. The first is one of opportunity – there needs to be the chance to work in order to improve one's lot in life. This is dependent on two other variables – education: the ability to acquire skills that add value and provide you with those employment opportunities and the third is health: you need to be well enough to be able to work and, inter alia, to enjoy the fruits of your labours.

The fourth pillar is more complex but relates to the cost of living. All of the above is for nought if, at the end of a day's work, you do not have the means to acquire the things that you need and then the things that you want. Work must pay.

One way or the other, you are going to pay for the costs of the educational and healthcare services that are needed. This can be direct (private schools, private healthcare) and indirect (taxation) but all costs that must be met. Disposable income is what is left after food, shelter (including energy) and taxes (plus school fees and insurance premia for those fortunate to be able to bridge the public services gap) are paid.

Although UK exceptionalism and dreams of remaining a global soft and hard power linger on in political minds as echoes of our long-gone Empire, one has to accept that we now live in a global village. Whilst we will always need plumbers and painters to maintain the infrastructure of our lives, there is no obvious reason why the multinationals based here (e.g. GlaxoSmithKline or Unilever) need to hire a new marketing executive at their London HQ. People can work remotely from almost anywhere and even complex research teams nowadays are cross-border rather than all in the same laboratory. Many places have better weather too!

Production of the iconic Mini (the brand is owned by BMW, but the cars are often festooned with Union Jack motifs) is moving to China but we doubt anyone abroad thinking of buying a Mini will care where it was made. The only losers in this are the people currently working on the Mini production line and in its UK supply chain. We may well have a tight labour market today, but that is neither a guarantee this will continue, nor a positive for a prospective employer considering where to expand its operations to serve the global marketplace.

How then does the Government live up to Gordon Brown's 2007 cry of "British Jobs for British workers" (as opposed to an Albania-like brain drain as the young depart for pastures new)? The country must provide its citizens with a good education and also the infrastructure that makes the UK an ideal base to set up labs and factories and working spaces. All of this requires investment.

The challenges that Britain faces are not unique amongst our OECD peers; Japan has wrestled with these issues for the longest; our own travails are mirrored by the United States who are not so far behind us and even China faces existential demographic challenges on a thirty-year view.

However, a paucity of natural resources and chronic under-investment in infrastructure arguably leave us less well equipped to cope with them than many of those peers; we have been under-investing for decades amidst the illusion that a combination of cheap money and low taxes will somehow keep the train on the tracks (or hide the crumbling of the edifice from view).

Investment is expensive and we have a corporate taxation system that does not encourage it. This is exacerbated by a governmental approach to regional infrastructure that almost prohibits local authorities from looking to raise revenues to maintain, never mind improve the attractiveness of certain parts of the country. Business rates cannot be cut materially in order to encourage regeneration for instance.

In addition to decentralisation, the answer to all of these problems is to spend more money: lots of it, everywhere. However, as we outlined in the first section of the factsheet, we already borrow too much of what we spend on public services that are deteriorating rapidly on both an absolute basis (roads, rail, healthcare etc.) and relative to international peers. The latter is very worrisome as it makes other countries look appear a more attractive place to build a factory or a lab or whatever.

If we cannot borrow much more, what do we do? There are only three options: cut spending, redistribute spending or increase taxes. The problem with any of these is that they will worsen quality of life in the short-term. Citizens will either be left with even worse public services or they will leave workers with less of their own "disposable" income to use as they want. There are no easy choices here.

I hope I die before I get old

Readers may be surprised to learn that the dependency ratio (a widely used measure of comparing the number of people aged 18-65 and thus of working age, with those over 65 and thus unlikely to be working) has not really changed in the UK over recent decades for a myriad of reasons. However, this is the calm before the storm. The dependency ratio is forecast to increase dramatically in the future. According to the UK Office of National Statistics, by 2050, one in four people in the UK will be over 65 and the vast majority of these will hope to be economically inactive.

This will have a significant (and positive, for BBH at least) impact on demand for health and social care related services. But many of those who are using these services are unlikely to be paying for them directly; they will be financed out of general taxation and the costs will thus be socialised to the working age population. However, that population will be much smaller and thus the burden of taxation will be spread more thinly.

In conclusion then, the future offers the certainty of higher taxation and not necessarily better public services. Already, the wealthier citizens of the UK are increasingly turning to private services to work around the gaps in public sector provision. Although the economic data does not capture it as such, this is a form of stealth taxation; who really wants to spend their retirement savings on services they imagined they had already paid for? Those that cannot "go private" are often falling out of the labour market through ill health (as the NHS backlog grows ever longer) or to care for a loved one who cannot get the social care that they need from the state. This is another vicious circle in the making.

Without those improvements in infrastructure, education and public services eibng realised, our diminished workforce and higher tax burden leads to a lower growth economy (cf. Japan). This, in turn, is not good for UK investors.

What is the solution to these problems? A bit of long-term thinking wouldn't go amiss. Taxes are going to have to rise and, if we are going to take the pain of that, then let's make sure it is done well. For instance, spending £100+ billion to cut the journey time from London to Manchester by 20 minutes whilst spending close to zero on helping people get around the North of England once they have arrived seems like a textbook example of how not to do an infrastructure project.

We do not envy Mr Sunak and would not want his in-tray on our desk. Post Truss though, he has the opportunity to start an honest political debate about all of this; a debate that is long overdue.

For the UK investor, the choices seem stark but a little more simple. Find something to buy that is geared into the global economy, decoupled from sterling as a currency and invests into an area where long-term growth is highly visible and not correlated to the economic cycle. If you have to buy a product listed on the UK market, then perhaps there is an investment trust that fits the bill…

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.

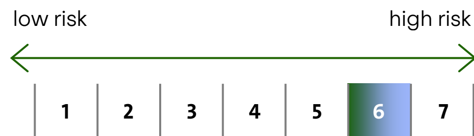
Paul Major and Brett Darke

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.



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

CO2 intensity (t CO2/mn USD sales):	25.8 t (low)	MSCI ESG coverage: 100%
MSCI ESG Rating (AAA - CCC):	AA	MSCI ESG coverage: 100%

Based on portfolio data as per 30.09.2022 (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.

Bellevue 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. This communication has been prepared by Bellevue Asset Management (UK) Ltd., which is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Any research in this document has been procured and may not have been acted upon by Bellevue Asset Management (UK) Ltd. 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 (UK) Ltd. and no assurances are made as to their accuracy. ©

© 2022 MSCI ESG Research LLC. Reproduced by permission. Although Bellevue Asset Management information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.