BB Healthcare Trust

Monthly News
October 2019

As at 10/31/2019	Value	1 Month (October)	YTD	Since Launch (ITD)
Share	129.50	2.4%	11.9%	39.4%
NAV	128.34	2.0%	12.2%	40.8%

Sources: Bloomberg & Bellevue Asset Management AG, 31.10.2019, NAV and share price returns are adjusted for dividends paid during the period (but not assuming reinvestment)

Note: Past performance is not a guide to future performance. The value of an investment and the income from it may fall as well as rise and is not guaranteed.

Welcome to our October update. Autumn is fully upon us and the clocks have turned back in an anachronistic effort to restore order – apparently, we do not need to save daylight in the winter. The dark afternoons sap one's joie de vivre even more than Question Time, but all is not lost: healthcare has managed to outperform the wider market over the month and the UK government accomplished Brexit before Hallows Eve, just as it promised...

"Fortune vomits on my eiderdown once more"

Despite healthcare's diaphanous qualities being in stark contrast to an opaque economic outlook, its rehabilitation in the minds of generalist investors is proving a long and arduous process. Nonetheless, glimmers of renewed interest are visible and, when measured in dollars, the MSCI World Healthcare Index rose 4.9%. The wider MSCI World index climbed 2.5% to new all-time highs as animal spirits returned amidst renewed hopes of a breakthrough on trade hostilities.

Fundamentally, very little has changed in recent weeks. However, we sense a level of fatigue has been reached regarding the Damoclean US political overhang and thus finally the sector is beginning to respond to positive underlying developments at the company level. This has come just in time for the Q3 reporting season, which has thus far generally met or exceeded expectations for the sector bellwethers, especially with respect to managed care (see figure 1), even as other more cyclical bellwethers report mixed trading conditions.

For the Trust's NAV evolution, these germinating positives were somewhat overshadowed by the dilatory discussions around Brexit. Some hope the sorry saga would reach its denouement led the pound to rise 5.5% versus the dollar during the month, although Parliament again conspired to embarrass itself with more of the internecine squabbling and self-serving malfeasance that spans the political spectrum in a wholly depressing manner, and we are still in Brexit no-man's land!

"I offer my most enthusiastic contrafibularities"

In the face of such impressive progress toward a resolution, it is little wonder that the wider public has grown tired of the whole mess. Worse, we now must endure weeks of grandstanding in the run up to a general election that could have significant consequences for the country, including tropes about how the NHS will be "put up for sale". There is more maturity on display in a Haribo advert...

Moving away from politics, currency movements meant that the respective sterling performances MSCI World Healthcare Index and MSCI World Index were -0.3% and -2.7% respectively. The FX environment weighed heavily on our portfolio of predominantly US dollar denominated investments (~97%). Nonetheless, the Trust's net asset value appreciated 2.0% to 128.34p, beating the healthcare benchmark by 2.3% over the month. Approximately three quarters of the positive performance during October can be attributed to the stocks disclosed in the September top 10.

The various drivers of this performance are discussed further below. Reduced volatility was certainly helpful. As regular readers will be aware, volatility levels in the healthcare sector were significantly elevated over the summer months versus comparable prior periods (i.e. non-election years) but October saw a return to more normalised levels for the Q3 reporting period.

Summary

BB Healthcare Trust is a high conviction, unconstrained, long-only vehicle invested in global healthcare equities with a max of 35 stocks. The target annual dividend is 3.5% of NAV and the fund offers an annual redemption option. BB Healthcare is managed by the healthcare investment trust team at Bellevue Asset Management, which also manages BB Biotech.

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Biotech	9.4%	10.4%	4.8%
Conglomerate	11.5%	2.8%	-2.3%
Dental	0.4%	27.9%	21.5%
Diagnostics	2.1%	-3.4%	-8.2%
Distributors	3.1%	3.1%	-2.1%
Facilities	1.1%	4.5%	-0.7%
Generics	0.3%	6.0%	0.7%
Healthcare IT	1.0%	-3.3%	-8.1%
Healthcare Tech.	0.3%	3.4%	-1.8%
Managed Care	7.6%	15.9%	10.1%
Med-tech	16.5%	0.8%	-4.3%
Other HC	1.3%	2.5%	-2.6%
Pharma	34.0%	5.3%	0.1%
Services	1.6%	3.4%	-1.8%
Specialty Pharma	3.5%	5.9%	0.6%
Tools	6.0%	0.3%	-4.7%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 30-09-19. Performance to 31-10-19.

Managed care aside, the other notable positive sub-sector performances were Dental, Biotech, Distributors, Generics and Specialty Pharma. On the negative side, Diagnostics, Tools and Healthcare IT notably lagged the wider sector.

- The strong performance of the Dental sub-sector can be largely attributed to Align, which appreciated 39% during the month, in what we would describe as a delayed recovery from the over-reaction to its Q2 results back in July and this has been the most significant contributor to our positive performance during the month. We think the market has taken such a long time to re-appraise the stock because of all the noise created by the not unsurprising car crash that was the IPO of Smile Direct Club (down 49% since its October debut).

- With regard to Biotech, it is worth noting that Biogen accounts for 9.4% of the Biotechnology sector's weighting in the MSCI World Healthcare Index and appreciated 28% during October on some specious-looking data dredging. This accounted for almost a third of the Biotech sector's positive performance during the month, which was driven by positive data readouts and drug approvals across a swathe of companies. Whilst Biotech sentiment has seen a welcome and long-awaited improvement, the trend is slightly less positive than it might first appear.

- The distributors, generics and specialty pharma sub-sectors have benefitted from the progress toward a settlement with State and Federal prosecutors regarding their role in the opioid crisis. The positive performance reflects as much the lifting of a longstanding overhang as any positive view on the settlement amount being positive or negative versus expectations. The reality is that a number of stocks are perceived to have "analysable" fundamentals once more.

- As with Biogen, it would be intuitive to attribute the negative performance in Diagnostics to Illumina (42% weighting in the sub-sector), given its 8% fall on the back of its Q3 results. In fact, the stock is only down 3% over the month and the sub-sector performance reflects more of a general malaise.

- The weakness in the Tools sub-sector is primarily due to weaker than hoped for outlooks from some higher-weighted stocks (Agilent, Danaher, Waters) and there have been some comments regarding R&D spending in China slowing. Healthcare IT is three stock sub-group and was impacted by company-specific issues at Veeva Systems.

"I have a cunning plan"

We have spent quite a few days on the road over the past few weeks, seeing shareholders and generally taking the temperature on market sentiment. We think it important to give regular updates to our investors and felt it especially important in the light of recent volatility and performance. BBH aside, it is always interesting to leave the healthcare bubble in which we sit and gain some insights into what is driving investor thinking.

For most of the year, these conversations have followed an unsurprising direction, with the overwhelming focus being macro-political. Global markets have veered from one factor driving performance to another (value, growth, momentum etc.), with investors variously told the market is cheap or expensive, and that recession is both imminent and unlikely. Amidst such tremulous sentiment, there is much to cogitate upon and this undoubtedly remains a key theme.

It is perhaps surprising then that some conversations went in a very different direction, turning instead to a debate around ESG investment criteria (Environmental, Sustainability and Governance, these can also be referred to as CSR or SRI criteria). It was also notable that October saw us receive two incoming ESG-related requests from investors (previously zero since inception), and this elevated level of interest in the subject has continued.

"Am I jumping the gun, Baldrick?"

It seems clear to us that publicity around the climate crisis debate is prompting underlying investor questions about the constituents of portfolios. Our conversations with wealth managers also suggest that there is an increased focus around inter-generational wealth transfers regarding portfolio makeup from an ESG perspective, with the ESG impact of newly acquired wealth being much more important than before. Concerns around portfolio construction seem especially acute amongst income-sensitive investors, when some 30% of the FTSE All Share's yield comes from extractives (metals, mining, energy) and >7% from Tobacco.

Whatever leadership one might show on diversity and governance, these are surely 'sin stocks' to the sustainable investor. As an aside, it does rather make one wonder how a reasonable yield will be achieved from a sustainable investment portfolio, unless of course one is sufficiently confident in the longer-term growth outlook to be prepared to pay dividends out of capital (as we are). Perhaps this will become an increasingly common approach in the future?

Is this the beginning of a significant shift in the importance of this topic, or a mere blip in attitudes? It is probably too early to tell. However, one cannot easily dismiss the multitudinous surveys that show ethical considerations are critically important to millennials, in terms of brand they wish to be associated with. It is inevitable that they will carry this forward into their employment decisions and investment desires. As Coca-Cola wisely told us in its saccharine 1980s TV ads: "children are the future of the world and they have a message for us". The beloved beverage behemoth (which has an ESG score above that of the MSCI Healthcare Benchmark) surely cannot be wrong, even if they allegedly produce the equivalent of 110 billion (yes, billion) 500ml single use plastic bottles per year.

"Here, in my mortal hand, a nugget of purest Green"

In the following paragraphs, we have sought to provide an overview of our thoughts on the Environmental, Social and Governance characteristics of our portfolio, how these topics feed into our investment process currently and how this could evolve moving forward.

This subject is not a simple one to grasp. Intuitively, healthcare should score well. Save for the odd unfortunate furry animal, the industry's goal is the alleviation of suffering (note: animal testing for toxicity remains a regulatory requirement for human pharmaceuticals, since alternative models are not yet good enough to replace them). That said, access to medicines and services is not equal across the world, even between developed countries, which rightly raises issues in the 'Social' bucket.

For example, the average UK citizen's knowledge of the US Biotechnology company Vertex is probably more informed by the Daily Mail headline "The boss of a firm behind a cystic fibrosis drug which is too expensive for the NHS was paid £14.4 million last year". This is not obviously ticking the 'S' & 'G' boxes of the aforementioned scoring system (as its relatively low score versus its peers illustrates), although we note that the company has recently agreed a deal with the NHS for all their cystic fibrosis drugs (the terms of which have yet to be made public).

On the other hand, an American would likely see the situation very differently, and laud the company for the innovations that have allowed it to double revenues over the past seven years and revolutionise the treatment of a devastating paediatric disease. Perspective, as always, is everything.

Talking of geographical context, one must ponder how to make reasonable comparisons between these many and diverse companies, not least because reporting and governance standards vary across the globe (for instance, related-party transactions are common in more paternalistic cultures such as China and the Middle East). This observation though says nothing about the benefits of the products or services such a structure might offer to customers and stakeholders.

The obvious solution is to outsource the problem and use one of the scoring systems provided by third parties, of which there appear to be many! By no means have we conducted an exhaustive audit of these products. To our minds, the business model around such ratings is in creating indices (e.g. MSCI) and, as such, it is not really in the providers' interest to disclose too much about the detailed methodological aspects of their review, raising issues of commensurability between different scales. In addition, investors are likely to consider the E, S & G components to be of varying importance and thus an aggregated score may raise comparability issues versus sub-scores for each component. This latter point is one that we feel strongly about.

If one is going to rely upon such data and use it to make relative judgements, then making the right decision about how to incorporate such an evaluation framework is critical, especially when it comes to comparing disparate business models. The aforementioned Coca-Cola Company has improved its overall ESG score over the past two years, with upward social and governance scores offsetting a worsening of its environmental score. Which of these metrics matters most will vary from one investor to another, so sub-scores are important.

Nonetheless, its overall score on the system that we used is lower than the tobacco company Philip Morris and the oil major Exxon. Many would surely argue that soft drinks are less bad for the planet and humanity than fossil fuels or tobacco? In these examples, it surely becomes obvious very quickly that the reduction of a portfolio to a single number for comparison to say a benchmark or another investment product is fraught with danger. A 'human in the loop' to put data into context is vital.

If this rush toward ESG as an evaluation criteria becomes a stampede, there will doubtless be a widespread attempt to greenwash everything, with companies and some investment houses wishing to be seen to be either good or at worst trying to improve. We have spoken with companies who have said they are making various changes to "maximise" their scores, which is not the same as saying they are actively looking to improve their impact on the environment and society as a whole. As such, we see these assessments as offering useful additional data for us to consider, but neither a quantitative input into a framework or a guide of an in themselves.

"You've really worked out your banter, haven't you?"

We have analysed the current BBH portfolio using one of these frameworks and evaluated the healthcare sector in a wider sense. There are a couple of general observations to make from the sectoral data: larger companies score better than smaller ones, presumably by having the capacity to invest more into governance-related matters and also larger departments around things like HR and training.

Moving to our portfolio: of the 29 investments in our portfolio currently, 28 have a total ESG score available. However, only 15 have discreet ratings for 'E', 'S' & 'G'. It is not yet clear to us the extent to which we can rely upon these seemingly less detailed analyses to form any robust conclusions.
With these caveats having been made, we can make some qualitative observations. The mean score for our holdings declines consistently as we move down the market cap scale, with the small-cap companies scoring 33% lower than the mega-cap ones.

It is also interesting to note that the innovative biotech sector and the companies providing technology solutions to the healthcare marketplace score relatively poorly, as do the hospital operators who actually save people's lives! Across the portfolio, our weighted average score is about 15% below that of the MSCI World Healthcare Index and 25% below that of the MSCI World Index (so healthcare overall scores lower than the parent Index). BBH scores lower than the oil services company Halliburton or the Aerospace and Defence company Airbus.

You can make what you wish of the data. Our own conclusion is that these ESG frameworks would benefit from further development and are currently of limited use beyond being another due diligence tool for portfolio managers. As such, we think this data should be used in a qualitative manner to aid due diligence, rather than as a quantitative input and the sub-scores are to our mind more important than the aggregate score.

As noted previously: reducing any portfolio or strategy to a point estimate, so that it might be compared to another strategy or sector is riven with issues and probably unrepresentative. These challenges are further compounded if one tries to compare ESG data from one provider with another.

These frameworks will no doubt improve in usefulness over time. In the meantime, our structure unarguably offers a high level of yield for a fund that is focused on an ethical and noble pursuit (human wellbeing). We hope to be able to provide quantitative data on ESG scores for the portfolio on request in the near future, but we will not be taking any sort of position on the worthiness of this information as an aggregate for our portfolio. Bellevue Asset Management takes the broad issue of sustainable investing very seriously and is a signatory of UNPRI.

Developments within the Trust

As of end October, the portfolio comprised 28 equity investments plus the contingent value right (CVR) that we received alongside the cash consideration for our holding in Alder, which was acquired by Lundbeck on 22nd October. The CVR is a non-fungible instrument that will pay out $2 per CVR held if Alder's principle pipeline asset (the anti-CGRP migraine drug eptinezumab) is approved in the EU before 2024 (which we think is highly likely).

We received $18 per share in cash and, at the time of completion, Alder shares were trading at $18.92. Thus, the market was ascribing a value of $0.92 per CVR. We will continue to value the CVR at $0.92 in our reported NAV until the drug is approved or until the Trust's opinion on its ultimate approval is diminished in some way. It is important to note that our entire holding of 863,258 CVRs amounts to £0.6m at current exchange rates, or 0.1% of the Trust's gross invested assets. Our decision to hold this instrument has a de-minimis impact on our overall liquidity position and only arose as a consequence of an M&A transaction (i.e. we did not actively purchase it for the Trust).

We initiated a new position in a services company during the month, but the equity portfolio is otherwise unchanged. Our leverage ratio has declined further from last month's 0.6% to -3.3% (i.e. 3.4% of the net asset value is represented by a net cash position of £19.2m), due mainly to the tender proceeds from Alder coinciding with Q3 reporting and thus a cautious attitude to incremental capital deployment outlined in last month's update. We would not typically hold excess cash, having committed at the time of the IPO investors to remain fully invested and so expect the current situation to be short-lived.

Further issuance under the tap programme has been somewhat muted during October. The Trust issued a total of 3.4m new shares during the month and has secured shareholder support for further issuance capacity, giving us the potential (subject to demand) to issue a further c.83m shares ahead of the next AGM in 2020.

We always appreciate the opportunity to interact with our investors directly. We would remind readers that they can submit questions regarding the Trust at any time via:

shareholder_questions@bbhealthcaretrust.co.uk

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

Paul Major and Brett Darke

BB Healthcare Trust

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Standardised discrete performance (%)		
12-month total return	Oct 18 - Oct 19	Dec 16 - Oct 19*
NAV return (inc. dividends)	3.1%	40.8%
Share price	0.4%	29.5%
Share price (inc. dividends)	3.8%	39.4%
MSCI WHC Total Return Index	8.8%	39.3%

Sources: Bloomberg & Bellevue Asset Management AG, 31.10.2019

NAV return and share price returns are adjusted for dividends paid during period where started (but not assuming reinvestment)

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

Note: Past performance is not a guide to future performance. The value of an investment and the income from it may fall as well as rise and is not guaranteed

SUB SECTOR BREAKDOWN

Managed Care	16.9%
Diagnostics	16.1%
Med-tech	12.2%
Specialty Pharma	11.8%
Healthcare IT	10.2%
Biotech	9.6%
Dental	8.6%
Pharma	7.1%
Facilities	2.6%
Services	2.5%
Health Tech	2.4%

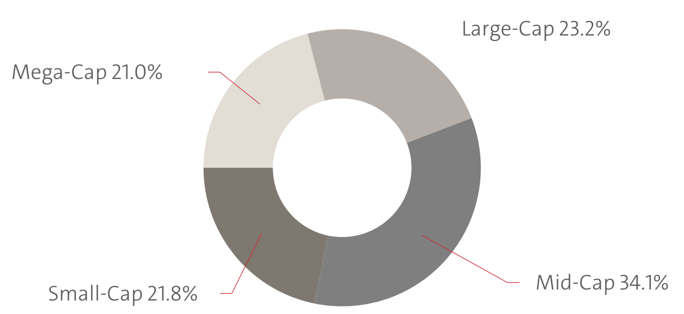
Source: Bellevue Asset Management, 31.10.2019

TOP 10 HOLIDINGS

Align Technology	8.6%
Anthem	8.2%
Illumina	7.5%
Teladoc	7.3%
Bristol Myers Squibb	7.1%
Humana	7.0%
Intuitive Surgical	4.0%
Insmed	3.3%
Esperion	3.2%
Jazz Pharmaceuticals	3.1%
Total	**59.4%**

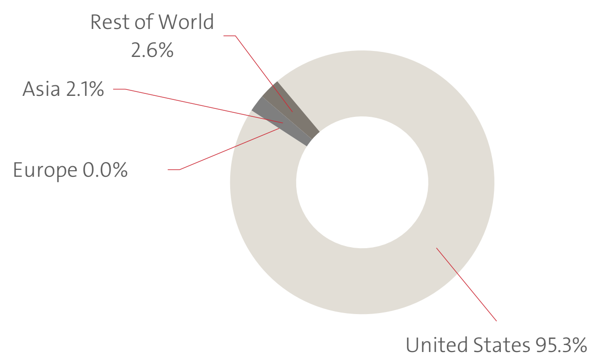
Source: Bellevue Asset Management, 31.10.2019

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.10.2019

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.10.2019

"two companies representing ~5% of the portfolio have a non-US legal domicile (primarily for tax reasons) but operate out of the United States and their primary stock market listing (in terms of volume traded) is in the United States".

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INVESTMENT FOCUS

- The BB Healthcare Trust invests in a concentrated portfolio of listed equities in the global healthcare industry (maximum of 35 holdings)
- Managed by Bellevue Asset Management AG ("Bellevue"), who manage BB Biotech AG (ticker: BION SW), Europe's leading biotech investment trust
- The overall objective for the BB Healthcare Trust is to provide shareholders with capital growth and income over the long term
- The investable universe for BB Healthcare is the global healthcare industry including companies within industries such as pharmaceuticals, biotechnology, medical devices and equipment, healthcare insurers and facility operators, information technology (where the product or service supports, supplies or services the delivery of healthcare), drug retail, consumer healthcare and distribution
- There will be no restrictions on the constituents of BB Healthcare's portfolio by index benchmark, geography, market capitalisation or healthcare industry sub-sector. BB Healthcare will not seek to replicate the benchmark index in constructing its portfolio

FIVE GOOD REASONS

- Healthcare has a strong, fundamental demographic-driven growth outlook
- The Fund has a global and unconstrained investment remit
- It is a concentrated high conviction portfolio
- The Trust offers a combination of high quality healthcare exposure and targets a dividend payout equal to 3.5% of the prior financial year-end NAV
- BB Healthcare has an experienced management team and strong board of directors

MANAGEMENT TEAM


Paul Major


Brett Darke

GENERAL INFORMATION

Issuer	BB Healthcare Trust (LSE main Market (Premium Segment, Offical List) UK Incorporated Investement Trust
Launch	December 2, 2016
Market capitalization	GBP 562.0 million
ISIN	GB00BZCNLL95
Investment Manager	Bellevue Asset Management AG; external AIFM
Investment objective	Generate both capital growth and income by investing in a portfolio of global healthcare stocks
Benchmark	MSCI World Healthcare Index (in GBP) - BB Healthcare Trust will not follow any benchmark
Investment policy	Bottom up, multi-cap, best ideas approach (unconstrained w.r.t benchmark)
Number of ordinary shares	433 957 062
Number of holdings	Max. 35 ideas
Gearing policy	Max. 20% of NAV
Dividend policy	Target annual dividend set at 3.5% of preceding year end NAV, to be paid in two equal instalments
Fee structure	0.95% flat fee on market cap (no performance fee)
Discount management	Annual redemption option at/close to NAV

DISCLAIMER

BB Healthcare Trust PLC (the "Company") is a UK investment trust premium listed on the London Stock Exchange and is a member of the Association of Investment Companies. As this Company may implement a gearing policy investors should be aware that the share price movement may be more volatile than movements in the price of the underlying investments. **Past performance is not a guide to future performance. The value of an investment and the income from it may fall as well as rise and is not guaranteed. An investor may not get back the original amount invested.** Changes in the rates of exchange between currencies may cause the value of investment to fluctuate. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially over time.. This document is for information purposes only and does not constitute an offer or invitation to purchase shares in the Company and has not been prepared in connection with any such offer or invitation. Investment trust share prices may not fully reflect underlying net asset values. There may be a difference between the prices at which you may purchase ("the offer price") or sell ("the bid price") a share on the stock market which is known as the "bid-offer" or "dealing" spread. This is set by the market markers and varies from share to share. This net asset value per share is calculated in accordance with the guidelines of the Association of Investment Companies. The net asset value is stated inclusive of income received. Any opinions on individual stocks are those of the Company's Portfolio Manager and no reliance should be given on such views. Any research in this document has been procured and may not have been acted upon by Bellevue Asset Management AG for its own purposes. The results are being made available to you only incidentally. The views expressed herein do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the view of Bellevue Asset Management AG and no assurances are made as to their accuracy.

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