

As at 12/31/2018	Value	1 Month (December)	YTD	Since Launch (ITD)
Share	119.50	-14.64%	4.90%	25.11%
NAV	118.19	-14.79%	8.60%	23.83%

Sources: Bloomberg & Bellevue Asset Management AG, 31.12.2018, NAV return is adjusted for dividends paid during period (but not assuming reinvestment)

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

Welcome to our December update. If you are suffering from the January blues, then we shall endeavour to alleviate them (unless you are undertaking 'veganuary' or 'dry January', in which case you have only yourself to blame and there is surely further misery ahead). We shall avoid the temptation to construct a tome of lubricious lucubrations on the irrationality of markets, nor shall we succumb to the temptation of belittling carotenemic world leaders and their periwigs. Instead, we shall cast our eyes toward the horizon and indulge ourselves in some speculation regarding the coming year.

'Tis the season we see vol(i)...

The investment team all rather enjoyed the holiday festivities. This, however, was in spite of rather than because of work. After the insanity of October, November brought a degree of calm that proved all too ephemeral. As many readers will be aware, December is typically a good month for equities (the so-called 'Santa rally' effect). Instead, we witnessed the worst December performance for US equities since 1931. Granted, there are economic issues, but it feels to us that we are far from the circumstances prevailing at that time.

Befitting the recent trend of overwhelming volatility, December also included the greatest ever one-day gain for the Dow Jones Index. Once again, the four horsemen stalking sentiment were interest rates, trade wars, poor political leadership and economic uncertainty. Globally, the MSCI World Index declined 7.7% in dollar terms during the month.

Despite its arguably more defensive characteristics that should inure against the evil equerries described above, healthcare modestly underperformed the market. The MSCI Healthcare Index declined 8.1% in both dollar and sterling terms.

Since our strategy is typically higher beta and more growth oriented, the volatility weighed heavily on our performance and the Trust's NAV declined by 14.8% to 118.19p, an underperformance of 672bp. Every single holding in the trust declined in value, but two of our top 10 holdings, Teladoc and Lonza, were the outsize detractors during the period. The former saw some newsflow (albeit immaterial) around the departure of the CFO following some personal issues that intruded into work, but the latter's fall is bewildering (like many other things these days) given the long-term contract nature of its business in a structurally growing marketplace.

The performance of the wider sector offered little cheer. As the table below illustrates, Large-cap Pharma was again the relative place to hide in a storm:

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	Performance (USD)	Performance (GBP)
Biotech	9.7%	-7.6%	-8.9%
Conglomerate	12.0%	-9.3%	-9.2%
Dental	0.5%	-5.9%	-5.7%
Diagnostics	1.8%	-10.0%	-9.8%
Distributors	3.6%	-15.9%	-15.8%
Facilities	1.3%	-12.2%	-12.1%
Generics	0.7%	-24.2%	-24.1%
Healthcare IT	0.7%	-10.2%	-10.1%
Managed Care	9.0%	-12.2%	-12.1%
Med-Tech	13.8%	-6.2%	-6.1%
Other HC	0.9%	-8.9%	-8.8%
Pharma	35.4%	-5.2%	-5.0%
Services	2.7%	-12.9%	-12.6%
Specialty Pharma	3.4%	-11.1%	-11.0%
Tools	4.7%	-8.2%	-8.1%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 30-11-18. Performance to 31-12-18.

*Note: DexCom is no longer in the benchmark, effectively removing the Health Tech sub-sector

To be where little cable cars climb halfway to the stars

As we go to press, the annual JP Morgan Healthcare conference will be underway. This has become the marquee event for companies to lay out their stall on the year ahead and for management teams to offer some insights on their thoughts about the industry. Speculating on these management prognostications has become an industry in itself, as last year illustrates all too well.

On the back of the US tax cuts passed at the end of 2017, there was fevered speculation that large cap pharma and biotech companies would deploy this recurring improvement in net operating free cashflow into M&A. This prompted an 11% rise in the NASDAQ Biotech Index over the first three weeks of January, even as the CEOs of said companies cautioned that asset prices were rather high. And so it proved to be; the vaunted M&A boom failed to materialise, with accelerated share repurchase schemes seemingly the wheeze of the moment (cynicism aside, we actually rather commend those in such circumstances).

What might this year's jamboree offer up? The "setup", as our American cousins like to say, is rather different because asset prices can no longer be argued to be high (especially in a relative sense, given that large cap pharma and biotech has held up much better than small/mid-cap through the recent turmoil) and also we have that treasured slide for any banker's pitch book: the precedent transaction...

Bristol-Myers is buying Celgene in a \$74bn cash and share deal that will create a company with a pro-forma enterprise value of >\$130bn and a very broad oncology and inflammatory disease portfolio. We have written many times on the compelling valuation of Celgene from a free cashflow perspective and the IRR on this deal looks very attractive to us; a veritable steal. We like Bristol anyway, but have increased our exposure to it on the back of this proposed purchase.

Our combined years in Corporate Finance (dark days indeed) have taught us that 'FOMO' is a tragically effective strategic motivator and there will doubtless be a number of discussions now as to what the optimal size for a focused biotechnology company should be. This deal also comes on the heels of sleepy GSK moving for troubled Tesaro; not a transaction anyone expected, but one that will have focused the minds of those owning or managing "challenged" assets.

Given this, we would not be surprised to see Biotechnology touted as the place to be for 2019, given the poor performance in 2018 and the ongoing (perpetual?) need for inorganic growth to keep the Big Pharma train on the tracks. The illusion of progress is often sufficient to trump actual progress in the eye of the beholder. We prefer the small/mid-cap end of the spectrum and have a number of holdings across the Biotechnology and Specialty Pharma categories (many of which have not been disclosed, but amount to eight holdings outside the Top 10 positions that we do enumerate. In aggregate, these accounted for >16% of our total gross exposure).

M&A will not be the only discussion of interest. Politics is never far away and we expect much chatter around US drug pricing and the advancement of the "Medicare for all" agenda in the Democratically controlled House. The latter comes in many flavours and all of these are expensive, shifting costs from the employer to the taxpayer (yes, it's the same person, but it has terrible optics if you are a Republican with the wraith of Grover Norquist stalking you).

The veto pen is likely to make an appearance, but the Dems have to try. If nothing else, the coalescence of a Democratic position towards a private/public model along the lines of Medicare Advantage could be a huge boon to the larger Managed Care players (where we have significant exposure via Anthem and Humana). More likely to succeed is a House fix to rollback some of Trump's defenestration of the Affordable Care Act ('Obamacare'). In the meantime, the hospital sector continues to feel like something to avoid.

Drug pricing remains an ephemeral issue in the minds of investors. This is partly because the White House has cried wolf so many times already and we are yet to see any concrete action. This is also because price increases look to have moderated (many companies invoke increases from 1 January each year, but the number of such price increases announced for 2019 amongst the 100 best selling drugs in the US is half that of 2018). Lower activity notwithstanding, this behaviour continues to attract the ire of Washington and drug pricing certainly feels like an issue that could return to bite investors. That said, we feel that our exposure here is relatively limited.

Consumerism is increasingly in vogue as a concept. Empowering the consumer is good and we feel strongly this is the right way to move for healthcare, which is why we have such a significant position in Teladoc. Consumer sentiment can be fickle, and this is definitely an overhang for the likes of Align Technology. Although the company does not provide an update at the JPM event, it will release FY18 results at the end of January and this will be an opportunity to address the elasticity of demand and competitive issues that have weighed on the stock. We expect another strong quarter of volume growth. The same applies to Intuitive Surgical, which has also been haunted by the spectre of competition and will likely provide a reassuring outlook for 2019.

We will be watching developments closely, especially for the (not uncommon) downside over-reaction that could offer an interesting entry point into a stock that is on our watch list.

Developments within the Trust

Given volatility in markets and the recent deployment of additional capital from the offer for subscription that closed in late November, tap issuance was subdued. The Trust issued 1m shares during the month. The leverage ratio has remained around the 10% level and we added one additional holding to the portfolio during the month (a diagnostics company). We continue to evaluate a number of potential new holdings for the Trust and expect the portfolio to evolve further over the coming weeks, once we have digested the various commentary from the conference.

Please do feel free to submit any questions raised by the discussion in the factsheet to: shareholder_questions@bbhealthcaretrust.co.uk and we will endeavour to respond in a timely fashion.

Paul Major, Daniel Koller and Brett Darke

Standardised discrete performance (%)

12-month total return	Dec 17 - Dec 18	Dec 16 - Dec 18*
NAV return (inc. dividends)	8.6%	25.9%
Share price	2.6%	19.5%
MSCI WHC Total Return Index	8.8%	24.3%

Sources: Bloomberg & Bellevue Asset Management AG, 30.11.2018

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

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

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SUB SECTOR BREAKDOWN

Biotech	19.7%
Diagnostics	13.5%
Medtech	12.0%
Managed Care	10.4%
Specialty Pharma	9.8%
Dental	9.3%
Healthcare IT	8.1%
Services	4.4%
Pharma	4.3%
Distributors	3.1%
Health Tech	2.7%
Other Healthcare	2.6%

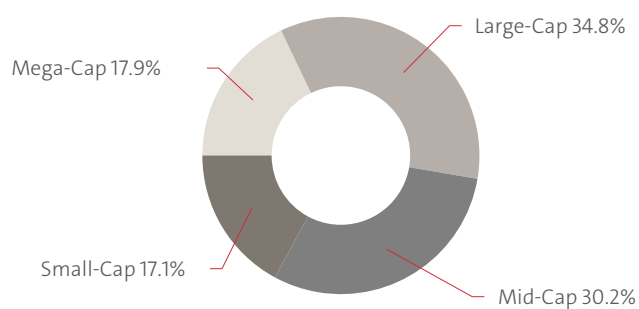
Source: Bellevue Asset Management, 31.12.2018

TOP 10 HOLDINGS

Align Technology	9.3%
Illumina	8.5%
Teladoc	8.1%
Anthem	7.2%
Celgene	6.3%
Lonza	4.5%
Bristol Myers Squibb	4.3%
Intuitive Surgical	3.8%
Esperion	3.4%
Ionis Pharmaceuticals	3.2%

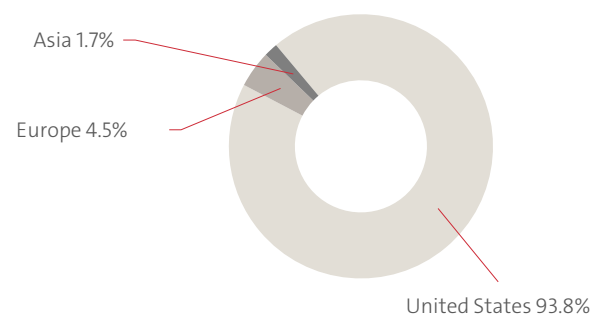
Source: Bellevue Asset Management, 31.12.2018

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 31.12.2018

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 31.12.2018

"four companies representing ~12% of the portfolio have a non-US legal domicile (primarily for tax reasons) but operate out of the United States and their primary stock market listing (in terms of volume traded) is in the United States".

INVESTMENT FOCUS

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

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. Bellevue Advisors Limited is an Appointed Representative of Mirabella Advisers LLP, which is authorised and regulated by the Financial Conduct Authority (RFN: 606792).

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



Daniel Koller



Brett Darke

GENERAL INFORMATION

Issuer	BB Healthcare Trust (LSE main Market (Premium Segment, Official List) UK Incorporated Investment Trust)
Launch	December 2, 2016
Market capitalization	GBP 423.2 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	354 160 819
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

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