BB Healthcare Trust

Monthly News
February 2022

As at 28/02/2022	Value	1 Month (February)	YTD	Since Launch (ITD)
Share	169.60	1.6%	-15.6%	94.9%
NAV	179.67	3.3%	-8.3%	107.0%

Sources: Bloomberg & Bellevue Asset Management (UK) Ltd., 28.02.2022, NAV and share price returns are adjusted for dividends paid during the period, assuming reinvestment in relevant security. Full performance data is on page 4.

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 February missive. Talking about investment performance seems rather inapposite as we face an escalating conflict on the near continent. A nuclear-armed madman's revanchist tendencies and revisionist worldview, and the backlash against it will be the primary driver of markets for some months to come, even if the conflict itself proves short-lived. Let us all pray the conflagration does not spread beyond Ukraine.

The world has changed (again), and 2022 was supposed to be about getting back to normal! If we can take any positives from all of this it must be the collective worldwide revulsion at Russia's actions and the willingness of businesses to withdraw voluntarily from the Russian market in protest. This aspect feels new and a potent example of people power. Maybe social media isn't completely evil after all...

Global events aside, we still have a job to do and we must try to remain focused on the fundamentals and plan for the longer term. If we ignore the wider picture, this was another positive month in terms of stock-level fundamentals for our portfolio.

Monthly review

The wider market

As a market crisis unfolds, one is generally well served by the axiom "sell what you can whilst you can and worry about the rest later". Russia's invasion of Ukraine has felt tragically inevitable for some weeks now and the predictable response of Western sanctions was also foreseeable well in advance.

Russia is now a pariah state; no-one wants their cash paying for this military action and so the complex process of disinvesting from primary and secondary country exposures has been underway for some days. Russia of course has implemented capital controls and has banned short selling and foreign divestments, but this will merely delay the inevitable. Where can an oligarch service their super-yacht or jet in such an environment?

The loss of fungibility for Russian assets argues for them to be written down and we have already seen margin calls being made against those who have borrowed money against Russian assets. This will spread contagion beyond the obvious. A broader reduction in risk appetite (markets abhor uncertainty) will compound this and few will be willing to pick up assets during periods of uncertainty, but popular shorts may benefit from de-grossing as hedge funds wind in overall levels of market exposure.

People will move toward safe havens and perceived beneficiaries (energy companies with low Russia exposure, defence contractors, consumer staples and other defensives) but liquidity will reduce, exacerbating broader market volatility. Predictably then, we saw this market narrative unfold during February.

During the month, the MSCI World Index declined 2.3% in sterling terms (-2.7% in dollars). As noted previously, this has all felt rather inevitable and this modest decline should be viewed in the context of the 4.7% fall in January (most of which came in the second half of the month), albeit coming off of an all-time high for this benchmark. A further decline during March feels likely as this conflict looks set to continue for some time. At the time of writing (3 March), the MSCI World Index had declined a further 0.8% (-1.2% in dollars).

We again include the full sub-sector US dollar performance breakdown for the MSCI World Index in Figure 1, since the market's overall macro behaviour is such an important determinant of sentiment.

Summary

BB Healthcare Trust Plc 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 (UK) Ltd.

As in January, Energy leads the market and again notable defensives like Healthcare, Telecoms, Food & Food retail are leading.

Banks and Insurers have dropped out of the top three as the perception of rising economic fallout from Russian war mongering dampen expectations for interest rate rises, despite the inflationary pressures of rising raw material and energy costs (Russia and Ukraine are major global sources for a number of minerals and also farm products, especially grains).

Higher rated sectors (the Technology complex and Commercial & Professional Services) have borne the brunt of the rush to safer haven items. Automotive weakness this month is broad based (Eastern Europe is a major centre for OEMs and component suppliers) and not solely driven by Tesla/Rivian sentiment. Broadly then, we would consider this to be a fairly orderly and logical market sell-off, driven by an understandable reduction in risk appetite.

Sector	Monthly perfromance
Energy	4.3%
Health Care Equipment & Service	1.5%
Materials	1.3%
Telecommunication Services	1.1%
Food, Beverage & Tobacco	-0.3%
Utilities	-0.6%
Food, Beverage & Tobacco	-0.6%
Semiconductors & Semiconductor	-0.8%
Transportation	-1.4%
Pharmaceuticals, Biotechnology	-1.7%
Capital Goods	-1.9%
Insurance	-2.1%
Consumer Services	-2.2%
Media & Entertainment	-2.6%
Household & Personal Products	-2.9%
Banks	-3.1%
Diversified Financials	-3.1%
Retailing	-3.6%
Real Estate	-3.9%
Commercial & Professional Service	-4.5%
Technology Hardware & Equipment	-5.2%
Consumer Durables & Apparel	-6.1%
Software & Services	-6.3%
Automobiles & Components	-6.8%

Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd.

One might reasonably expect European bourses would have fared much worse than say the United States during so far in 2022, given greater geographical risk and more exposure to countries where supply chains might be disrupted or sanctions might have an impact. This is broadly the case: at the time of writing, The S&P500 was down 8.5% in dollars, versus -13.0% for the Stoxx 600 Europe Index.

The outlier though is the UK Index. The FTSE All-Share is down only 5.8% in dollars and the FTSE 100 has declined only 3.4%. The FTSE 100 is quite an unusual beast though; 12% of it is Energy stocks and 12% is Materials. Financials have also done well this year and they are 17% of that Index. The UK stock market has also notably lagged its European peer group over the five years since the Brexit vote (June 2016), delivering a dollar total return of 27.3% compared to 46.4% for the Stoxx 600, so perhaps was due a catch-up in this much discussed 'growth to value' rotation.

Healthcare

As noted above, one would expect a classically defensive sector such as healthcare to do well in this febrile environment and so it proved to be: the MSCI World Healthcare Index rose 0.2% in sterling terms (it declined 0.4% in dollars), meaningfully outperforming the wider market and this also has continued into the early days of March.

The performance dispersion by sub-sector is illustrated in Figure 2. The performance of the Distributors has been helped by the confirmation of a nationwide settlement regarding the opioid abuse scandal, removing a significant overhang, which has seen the group recover beyond the highs that were reached in 2015, before the opioid overhang materialised.

The strong Facilities performance is essentially a reversal of the sell-off in January. The Q4 COVID-19 wave undoubtedly impacted patient volumes and the initial recovery in January looked softer than hoped for. However, most operators struck a reassuring tone on procedure volumes for the year ahead when reporting Q4 results and guiding for the year ahead, which in turn helped sentiment for Medical Technology companies.

At the other end of the spectrum, we continue to see the "sell the pandemic winners" theme play out through lower sentiment toward Tools and Diagnostics. The Generics environment remains awful and reminds us somewhat of the semi-conductors cycle where capacity constraint soon turns to oversupply and a lack of pricing discipline.

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Distributors	1.2%	6.8%	7.2%
Facilities	1.2%	4.8%	5.2%
Med-Tech	14.3%	2.5%	2.8%
Managed Care	10.2%	2.3%	2.7%
Dental	0.7%	1.5%	1.9%
Diversified Therapeutics	34.7%	0.3%	0.7%
Healthcare Technology	0.8%	-0.8%	-0.4%
Healthcare IT	1.2%	-1.0%	-0.6%
Other HC	1.6%	-1.8%	-1.4%
Services	2.9%	-2.5%	-2.3%
Focused Therapeutics	7.2%	-3.4%	-3.1%
Tools	8.8%	-4.1%	-3.7%
Conglomerate	12.7%	-4.7%	-4.4%
Diagnostics	2.1%	-4.8%	-4.7%
Generics	0.4%	-15.9%	-15.6%
Index perf.		**-0.6%**	**-0.2%**

Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of31.01.2022. Performance to 28.02.2022.

We would make two further interesting observations. Firstly, regarding the geographic distribution of returns: the MSCI World Healthcare Index is dominated by companies based in North America (~72%), with the remainder coming from Europe (~21%) and Australasia (~7%). One might think that the US, being less exposed to European markets would have fared better during this month and Australasia better still given it is further away from the heart of the crisis.

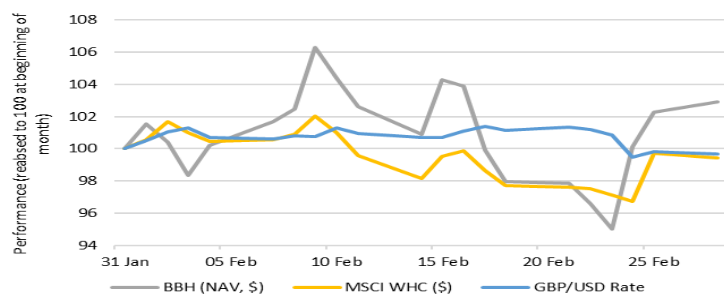
Whilst it is true that Australasia was the best performing region, Europe actually delivered a positive return in the month and it was the US grouping that fared worst.

Secondly, and on a brighter note for the Trust's investment strategy, February saw size factor working in our favour, with Large-Cap and Mid-Cap healthcare outperforming its Mega-Cap brethren.

Trust

As one might surmise from the previous positive comments, this was a better month for our investment strategy. The Trust's net asset value rose 3.3% to 179.67p. Whilst this is a material outperformance of the benchmark, it should be seen in the context of the significant NAV decline in January (-11.2%, compared to -6.8% for the MSCI World Healthcare Index). This left us trailing the Index by 1.6% calendar year-to-date and 1.0% behind fiscal year-to-date (i.e. since the end of November 2021). At the time of writing (3 March), the Trust's NAV had performed in line with the comparator index.

The Services and Medical Technology sub-sectors were the primary drivers of the positive performance, with Diagnostics and Focused Therapeutics the notable laggards. Volatility remained elevated but was thankfully lower than we saw in January. The evolution of the NAV is illustrated in Figure 3:



Source: Bellevue Asset Management (UK) Ltd.

In terms of capital deployment, we continued to bolster our existing holdings, adding to the share counts of 13 positions in the portfolio. We reduced the size of three positions and exited two (one from Managed Care and one from Healthcare IT). We also added a new holding in the Focused Therapeutics category, so the overall active portfolio has declined by one to 32 holdings.

Inflows were more subdued in February. The Trust issued 2.2m shares, raising £4.0m. Issuance is only possible when the Trust's shares are trading at a premium to net asset value and the Trust's shares have traded at a discount since 21 February. This phenomenon is not unique to BBH: many investment trusts have seen an increase in the level of discounts in recent weeks as perceived levels of market risk have risen. At the time of writing, the Trust stood on a 5.6% discount to NAV and that NAV is, in our opinion, the sum of some very attractive valuations.

These inflows, alongside the increase in the valuation of the portfolio meant that the leverage ratio declined from 9.4% at the end of January to 8.1% at the end of February. The evolution of the portfolio is summarised in Figure 4.

EVOLUTION OF PORTFOLIO WEIGHTINGS

	Subsector end Jan 22	Subsector end Feb 22	Change
Diagnostics	12.0%	11.8%	Decreased
Diversified Therapeutics	11.4%	11.3%	Decreased
Focused Therapeutics	27.8%	28.6%	Increased
Healthcare IT	7.6%	5.9%	Decreased
Healthcare Technology	3.7%	3.8%	Increased
Managed Care	9.6%	7.9%	Decreased
Med-Tech	12.7%	14.1%	Increased
Services	11.4%	12.4%	Increased
Tools	3.8%	4.3%	Increased
	100.0%	100.0%	

We would note that the declines in the Managed Care and Healthcare IT weightings reflects mainly the net selling through exiting two positions. Diagnostics and Diversified Therapeutics fell as a consequence of relative performance. Services, Tools and Medical Technology increased through a combination of active allocation and relative performance.

Your managers were not able to take full advantage of the ongoing market dislocation to bolster our personal holdings in the Trust during February, because we were in a close period ahead of the publication of the annual report for the 2021 Financial year (this can be found on the Trust's website) until the final day of the month. However, we did again buy shares on this date.

The Trust's AGM will take place at midday on 22 April 2022, at the offices of the Company's solicitors, Stephenson Harwood (1 Finsbury Circus, EC2M 7SH). This will be our first 'in person' event for some years now that COVID restrictions have been lifted. The managers will not be giving a presentation, but will be available for a Q&A session. For those who cannot, or do not wish to attend, we can be contacted at any time for questions via the usual email address at the end of the factsheet.

Finally, we would highlight that the Company will be re-branding as "Bellevue Healthcare Trust" in early April, as part of a ongoing re-brand of the products managed by Bellevue Asset Management. This will result in Trust having much similar branding to the open ended version of the same strategy which is marketed as the "WS Bellevue Healthcare Fund". Nothing else about the Trust is changing.

Managers' Musings

Ev'rybody's talking 'bout... this-ism, that-ism

We are seldom lost for words, nor do we often decline an opportunity to indulge in the wondrous breadth of the English language. However, any meaningful critique on the irrationality of markets or the future of healthcare feels hopelessly self-indulgent at this moment and readers deserve better than some languorous meanderings about the state of the world.

Much as we do not really understand the illogical factor-driven behaviour of the stock market over recent months, we do not understand either what strategic benefit Putin hopes to gain from his murderous war on the people of Ukraine. He cannot hope to hold on the territory and the direct and indirect costs of his actions to Russia and its benighted population are incalculably large and growing by the day.

I'm just sitting here watching the wheels go round and round

In truth, we are all helpless passengers for now. We can be thankful that the epicentre of all this remains sufficiently far away as to not trouble us directly, but it is perilously close enough for most of us to know someone who is directly affected by events, and our thoughts are with all those caught up in this tragedy.

We can but hope that a peaceful resolution will be swift and this new-found spirit of global co-operation against tyranny lasts for many years to come; "the West" has stood idly by for far too long in respect of Russian expansionism and has also been very selective in which oppressive dictatorships it chooses to challenge, leaving inevitably to circumlocutions about moral equivalence. Most of us can easily tell the difference between right and wrong.

With this in mind, we continue to run the portfolio on the basis of a world order that is broadly unchanged in long-term, i.e. assuming that the current crisis does not grow into a global conflagration. Presuming this is the case, then we continue to be positive about the opportunities that lie in front of us, and these are compounded by the depressed asset valuations that persist as a consequence of geo-political uncertainty.

Whilst the portfolio has recovered some of its relative performance to wider healthcare, there is still a significant gap in relative valuation between small/mid-cap healthcare and large/mega-cap healthcare compared to historical norms.

For instance; does it really make sense that the Nasdaq Biotechnology Index recently touched levels seen in late 2019, i.e. pre-COVID? Has the sector really not created any economic value in three years (and let us not forget that it would be ~5% lower still if the COVID vaccine stocks were at 2019 valuations)?.

As noted in the introduction, macro and geopolitical events are clearly going to be the main drivers of sentiment and thus portfolio performance and it is likely to be a bumpy road as investors vacillate between 'risk on' and 'risk off' mindsets. We will continue to take a long-term approach and be opportunistic in the short-term regarding opportunities to bolster the portfolio.

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@bbhealthcaretrust.co.uk

As ever, we will endeavour to respond in a timely fashion and we thank you for your continued support during these volatile weeks.

Paul Major and Brett Darke

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February 2022

Standardised discrete performance (%)						
	1 year	2 years	3 years	4 years	5 years	since
12-month total return	Feb 21 - Feb 22	Feb 20 - Feb 22	Feb 19 - Feb 22	Feb 18 - Feb 22	Feb 17 - Feb 22	inception
NAV return (inc. dividends)	-5.6%	32.1%	28.8%	74.2%	73.6%	94.9%
Share price	0.6%	40.2%	41.7%	84.3%	84.5%	107.0%
MSCI World Healthcare Index (GBP)	17.5%	31.4%	44.9%	65.0%	67.0%	87.6%

Sources: Bloomberg & Bellevue Asset Management (UK) Ltd., 28.02.2022

All returns are adjusted for dividends paid during the period, assuming reinvestment in relevant security.

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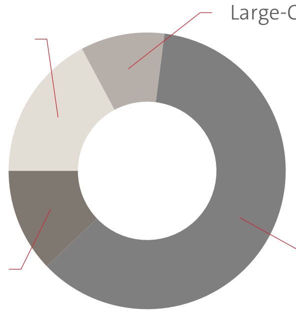
TOP 10 HOLIDINGS

Jazz Pharmaceuticals	7.6%
Vertex Pharmaceuticals	5.6%
Insmed	5.5%
Sarepta Therapeutics	5.5%
Option Care Health	5.4%
Amedisys	5.1%
CareDx	4.7%
Anthem	4.4%
Outset Medical	3.9%
Axonics Modulation Tech.	3.8%
Total	**51.7%**

Source: Bellevue Asset Management, 28.02.2022

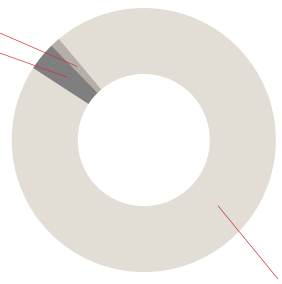
MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 28.02.2022

"Mega Cap >$50bn, Large Cap >$10bn, Mid-Cap $2-10bn, Small-Cap <$2bn."

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 28.02.2022

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):	24.2 t (low)	MSCI ESG coverage: 100%
MSCI ESG Rating (AAA - CCC):	24.2 t (low)	MSCI ESG coverage: 100%

Based on portfolio data as per 31.12.2021 (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

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February 2022

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 group ("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
- The Fund takes ESG factors into consideration while implementing the aforementioned investment objectives

DISCLAIMER

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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 Investment Trust
Launch	December 2, 2016
Market capitalization	GBP 997.2 million
ISIN	GB00BZCNLL95
Investment Manager	Bellevue Asset Management (UK) Ltd.; 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	579 752 365
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
EU SFDR 2019/2088	Article 8

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