BB Healthcare Trust

Monthly News
September 2021

As at 09/30/2021	Value	1 Month (September)	YTD	Since Launch (ITD)
Share	194.00	-2.1%	12.5%	122.9%
NAV	195.45	-1.2%	14.9%	125.2%

Sources: Bloomberg & Bellevue Asset Management (UK) Ltd., 30.09.2021, NAV and share price returns are adjusted for dividends paid during the period, assuming reinvestment in relevant security. Full performance data is on page 6.

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 September update. As our so-called summer and the fleeting respite offered by a few weeks away from work give way to autumn and the 'back-to-school routine', it feels simultaneously exciting and foreboding. It is fantastic to see people returning to the office and face-to-face interactions once more in the diary.

However, one cannot ignore the macro-economic miasma arising from suppurating supply chain problems. These will take a long time to work through and should prompt some caution for those forecasting the next leg of the great re-opening. Amongst this general uncertainty, healthcare's many positive tailwinds could ultimately prove compelling.

Summary

BB Healthcare Trust Ltd 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.

Monthly review

The wider market

Somewhat reflecting the concerns aired in last month's missive, the almost relentless market upswing that began in November 2020 finally saw a material correction in September, the first negative month since May and only the second in US dollar terms all year. The MSCI World Index declined 4.3% in dollars. The significant weakening of sterling mitigated this to some extent, so the Index only declined 2.2% when measured in sterling.

On the positive side, the Delta variant's chokehold on developed economies continues to relax; trends for hospitalisations, especially ICU occupancy, and mortality look very supportive for developed markets, with falling case fatality and hospitalisation rates. Concerns over waning vaccine efficacy for those elderly people vaccinated in late 2020/early 2021 continue to look overplayed to us and we remain optimistic that the worst-case scenarios posited around the numbers of hospitalisations and deaths in the winter wave will not come to pass. Indeed, current trends are better than the previously suggested best case scenarios.

However, a confluence of returning economic worries dampened sentiment. It is very clear that the complex web of supply chains in our globalised "just in time" world can lead to cascades of interwoven effects, as supply and demand in various sectors of the market fall out of balance. Post-pandemic, an already skittish consumer is want to panic first and think later. As petrol begins to return to our forecourts, we wonder what the next panic du jour will be.

One could easily write an essay on the contribution of various factors to this reality (energy and raw materials prices, COVID, Brexit, etc. – pick your poison), but what would be the point? We are where we are, and we are going to be here for a while. Moreover, these problems are not unique to the UK or to Europe. As with any highly complex system, re-starting the global economy having basically shut it down was always going to cause some difficulties.

If these issues continue to interrupt the free flow of commerce, then they will over time impact corporate profits, crimping margins through higher input costs on the raw materials and distribution side and also from lost revenues due to supply chain interruptions. This could be compounded by eroding consumer sentiment as inflation bites into disposable incomes. One would have hoped this was anticipated by the collective wisdom of Wall Street, but exuberant indices and ever-climbing earnings estimates suggest that the cart and the horse might have traded places.

When global supply chains are so complex and interlinked, quite who will be most impacted and why though, is anyone's guess. That said, some of the sector performances left us scratching our heads initially.

Healthcare may be our focus, but we are also interested in markets more widely, and always try to understand why things are moving as they are: what impacts one sector today may have implications for another tomorrow.

So, whilst we are unsurprised to see Energy leading the charge (+9.0% in dollars during the month) as oil and gas prices rise, but the Autos sector (+2.6%) coming in as the second-best performer made us wonder and it was not a Tesla-specific phenomenon.

We all know that vehicle production is being curtailed by supply chain issues, but Ford committing massively to electric vehicles and companies like BMW noting that pricing power remains strong due to short supply for the consumer seems to have prompted some investors to bottom fish. Inflationary pressures persist, so it was less surprising to see Banks (+1.4%) in third place, as interest rate rises get baked into assumptions for 2022 and beyond.

As supply chain issues back up, the eventual consequence will be lower production and thus lower demand for raw materials. High energy prices will exacerbate this as some goods become too expensive to produce (steel production in China and fertiliser production in the UK are examples). Materials were the worst performing sector (-8.2%) this month, followed by Utilities (-7.2%), where many companies will struggle to pass on the fairly sudden and dramatic rise in fuel costs to customers. Beyond this, it was again a broader theme of rotating from growth to value and from higher multiple sectors (the Tech/Media complex) to things like Staples.

We think this febrile environment is likely to persist for some time and that will be reflected in our overall equity risk appetite (as defined by the overall quantum of leverage that we deploy) in the coming months. Whilst healthcare stands apart from much of these worries, it will not be completely insulated from the grossing down of total equity exposures if that is how sentiment turns.

Healthcare

So how immune is healthcare to the concerns cited above? Many healthcare companies also have complex global supply chains and are dependent on shipping containers to move goods (although the value of goods makes air freight an alternative in many ways and air freight rates have remained at similar, very elevated, levels since early 2020). As discussed in the June Factsheet, labour-related issues at the point of care are a persistent and potentially growing issue both here and in the US now that the wider labour market is opening up and this may create bottlenecks on the procedural side of things.

The above caveat having been made, healthcare should continue to benefit from a broad re-opening tailwind as patients get more comfortable with being around others and thus more willing to re-engage with long-delayed elective procedures or routine appointments with their physicians that tend to initiate the journey toward a procedure upon discovery of a medical issue. We are also beginning to see some relaxing of the spatial and temporal distancing measures in the clinical setting, which should boost capacity.

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Although it is right to see the sector as a relative safe haven from the issues described previously, Healthcare was nonetheless out of favour again this month, with the MSCI World Healthcare Index declining 3.3% in sterling terms (5.4% in dollars) and underperforming the wider market by 2.1%.

To the extent that there was a theme to the sub-sector performance, it was a continuation of the previously mentioned growth-to-value rotation and ongoing concerns over the potential for political reform in the US to negatively impact drug pricing (no matter that the odds of this grow longer by the day).

As a consequence, it was the higher multiple sectors (Diagnostics, Healthcare IT, Dental and Services) that fared poorly. Premium-rated Healthcare Technology bucked this trend, due entirely to the diabetes darling Dexcom. The subsector performance is highlighted in Figure 1 below:

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Healthcare Technology	0.9%	1.1%	3.3%
Distributors	1.0%	-2.5%	-0.4%
Generics	0.4%	-3.8%	-1.7%
Tools	9.2%	-3.9%	-1.9%
Med-Tech	15.5%	-4.3%	-2.2%
Managed Care	8.6%	-4.7%	-2.6%
Facilities	1.3%	-4.8%	-2.8%
Other HC	1.5%	-5.1%	-2.9%
Conglomerate	11.7%	-5.9%	-3.8%
Diversified Therapeutics	32.9%	-6.0%	-4.0%
Focused Therapeutics	8.5%	-6.2%	-4.1%
Dental	0.9%	-6.3%	-4.3%
Healthcare IT	1.5%	-7.0%	-4.9%
Services	3.4%	-7.6%	-5.6%
Diagnostics	2.5%	-7.5%	-5.9%
Index perf.		**-5.4%**	**-3.3%**

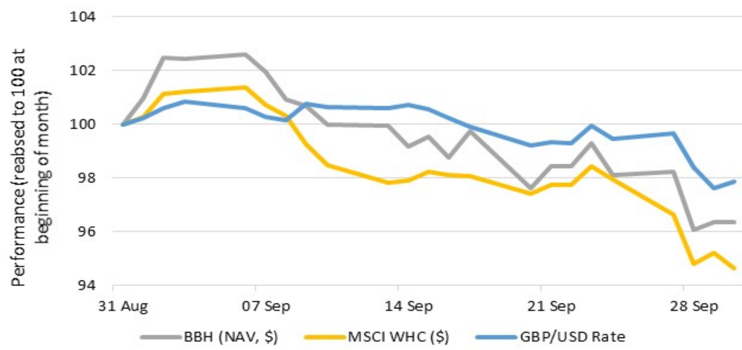
Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of 31-08-21. Performance to 30-09-21.

Small/Mid-Cap Biotechnology stocks continue to struggle to attract interest and the well followed XBI ETF of such companies closed down on the month, broadly back at the levels we saw at the end of July and middle of May. To the extent these are included in the MSCI World Healthcare, they fall within the Focused Therapeutics categorisation under our nomenclature.

The Trust

Amongst this continuing and frustrating dynamic, we can at least be pleased that the Trust outperformed the wider sector during September, with the net asset value declining 1.2% in sterling terms to 195.38p. Performance was given a lift early in the month by the confirmation of Baxter's rumoured acquisition of Hill-Rom. We continue to work down our remaining exposure to Hill-Rom now that it is trading around the risk/reward relating to the transaction rather than on business fundamentals.

Thereafter, we have been fighting a worsening tape, with partial mitigation from the deteriorating outlook for sterling. We estimate that FX contributed +2.1% to the evolution of the net asset value over the month and around 0.5% of our 2.1% outperformance of the MSCI World Healthcare Index during September. The monthly evolution of the NAV is illustrated in Figure 2:



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

Our best performing sub-sector during this period was Healthcare Technology (+6.3%) and Services our worst (-9.1%). We were already in the midst of a re-allocation of our Services weightings and this was one of two areas where we added new holdings to the portfolio, alongside Diagnostics. We have also exited two of our inception positions in the wider therapeutics category (one from Focused and one from Diversified), leaving us with a net portfolio of 31 active positions, unchanged from August.

It is worth noting that our Diagnostics addition is a re-entry of a company that we have long favoured but which we sold out of on valuation grounds at the beginning of the year. We have re-entered on the share price pulling back to attractive levels once more.

This serves as a useful illustration of our valuation framework: there are no sacred cows at BBH and we will exit any holding that falls out of our acceptable valuation corridors. We have a daily portfolio management meeting where we review holdings and weightings: if we cannot justify to ourselves adding to a holding at the current share price, then we should consider taking profits. The more uncomfortable it feels, the more obvious it is that we should sell down. At a certain point, we shouldn't own it anymore, no matter how good the underlying business might be.

We continued to deploy capital throughout the month. Our net gearing at the end of September was essentially unchanged at £8.7m, versus £8.6m at the end of August. This is despite the cash generated from a significant reduction in our Hill-Rom position and continued inflows from the tapping programme, where we issued 4.4m shares during the month. This left us with a month-end leverage ratio of 0.8%, again virtually unchanged compared to the end of August.

The evolution of our sub-sector weightings is illustrated in Figure 3. As noted previously, we have added to our Diagnostics holdings but this has been offset by relative underperformance. The same is true for Diversified Therapeutics. The increased exposure to healthcare IT reflects outperformance and we also saw strong returns in Healthcare Technology, but this has been offset by profit taking. We have added materially in the Services sector and have actively reduced exposure to both Tools and Medical Technology on valuation grounds.

EVOLUTION OF PORTFOLIO WEIGHTINGS

	Subsector end Aug 21	Subsector end Sep 21	Change
Diagnostics	6.0%	6.0%	Unchanged
Diversified Therapeutics	12.3%	11.9%	Decreased
Focused Therapeutics	27.3%	27.8%	Increased
Healthcare IT	8.0%	8.3%	Increased
Healthcare Technology	3.9%	3.9%	Unchanged
Managed Care	12.2%	13.3%	Increased
Med-Tech	17.6%	16.2%	Decreased
Services	9.5%	10.3%	Increased
Tools	3.2%	2.3%	Decreased
	100.0%	**100.0%**	

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Managers' Musings

Extraordinary Popular Delusions and the Madness of Crowds

What, ultimately, is the point of the BB Healthcare Trust? Prosaically, it exists primarily to enrich its shareholders, and seeks to do so in a manner that exceeds the returns alternative passive options in the same industry sector might offer. More thoughtfully, one might describe it as offering the opportunity for investors to participate in an inevitable and necessary change in the healthcare delivery paradigm, since that which is currently on offer demonstrably fails to meet society's needs at an acceptable cost.

The fulfilment of these concurrent objectives necessitates an understanding of the nature of, and inter-relationship between, three key variables: 1. The bottlenecks in the current healthcare delivery system that create inefficiencies and sub-optimal outcomes; 2. The practical utility of proposed solutions to these problems and 3. The best way to gain exposure to these solutions vis-à-vis maximising risk/return for investors.

Sometimes, the perfect triangulation of these variables is not yet possible, typically because: 1. There are problems for which practical solutions still elude us; 2: There are proposed solutions that do not make sense to us and, more commonly, 3: There are solutions available that can only be gained through exposures that we do not consider attractive investments overall.

Regarding the third point, we usually reach this conclusion because of one or more factors that include valuation, management quality, irrational expectations on the part of investors (i.e. consensus forecasts seem too high) or because the solution lies buried within a larger conglomerate structure that dilutes the return potential to a point where it is no longer compelling.

The focus of this month's missive is on those situations where it is our contention that the market either seems to misunderstand the likely solution to an issue, or has accorded it a valuation out of kilter with the realities of the marketplace it seeks to address. We find these two scenarios to be a frustratingly prevalent issue in the world of Healthcare IT in the post-pandemic world.

Everyone likes Tulips

One of your managers spent many years working as a sell-side analyst in the healthcare sector. Perhaps the most challenging aspect of this role relates to "selling" an investment idea to the preponderance of generalist investors who control the majority of investable capital.

There are always more ideas than bandwidth to assimilate them, and effectively transmitting one's idea across the market relies upon the amplification of the proposal through various channels (email, Bloomberg, sales people, phone calls etc.). In a crowded market for ideas, an investment proposition (long or short) has got to capture people's attention and imagination in order to gain the traction that will make it a success: it needs a punchy headline.

As any healthcare analyst who has fought for a prime slot in an investment bank's morning sales meeting will attest, discussing a supermarket or an airline is much more relatable to the aforementioned generalist than the esoteric details of why a new drug that intervenes in a different molecular pathway than another one is going to be better at improving the symptomology of some disease (often one that no-one has heard of).

Even if an investor can wrap their head around the central premise, there are 'p-values', 'approval pathways', 'secondary endpoints' and all manner of technocratic nonsense that would not seem out of place at an EU summit. The idea thus needs to be repackaged in an easily digestible format. As any of you who have tried to read investment bank research notes on healthcare companies will appreciate, the necessary reductionist simplification is seldom done well.

Inasmuch as the details of a prospective healthcare investment may veer into the dry and arcane, the bigger picture investment case for healthcare solutions remains beguiling. By way of an example, one need only to look at the share price reaction of US large-cap biotech Biogen upon speculation that its now-approved Alzheimer's therapy Aduhelm might reach the market.

Few diseases capture the public imagination as much as this fearful syndrome and, despite the disease having the worst historical probability of positive clinical outcomes of any area of medicine that we can recall, the Aduhelm developments became front page news across the globe; no matter that the data behind the drug could charitably be described as mediocre.

Now however, gravity has re-asserted itself. Doctors are sceptical to use a therapy with limited clinical utility and payors understandably reluctant to fund it. Prescription volumes are lacklustre relative to irrational market expectations. This is now reflected in Biogen's share price, which stands 32% below the peak Aduhelm over-excitement; around $15bn of market value has evaporated.

As the pandemic has shown us, science is ever changing and often messy, with probabilities of outcomes dominating over certain conclusions in the vast majority of cases. The challenge of communicating complex medical ideas as simple investment cases, in a world where people are both time poor and prone to multitudinous distractions, often results in the loss of these subtleties. Consequentially, share prices can often end up reflecting not the optionality of future success, but the presumption of it. Clearly, this is a problem for any rational, valuation-sensitive investor.

The illusory truth effect

The often esoteric nature of the products and services can create a second-order problem for prospective investors. We all want healthcare to be better, since becoming ill during our lifetimes is almost a certainty. When someone comes to investors, say during a euphonious IPO pitch, with an argument as to why a new product or service has something to offer in addressing the issues faced by the industry, they are want to believe it is credible.

Moreover, when those same people are offering not a slice of the ~$1.3 trillion dollar market for drugs as tended to be the focus of yesteryear, but are rather seeking to capture a small percentage saving across the $10 trillion (and growing) total global healthcare spending pie, the temptation to conflate even the chance of modest success with certainty of value becomes quite compelling.

The artificer must always be asking what a new offer really brings and what, if anything, is genuinely differentiated about it. One must also remember that successful long-term investing is as much about the visibility of future profits as anything else; at some point you have to generate some cash. Yes, hot stocks can rise for a time, but gravity has proven a reliably consistent force throughout history.

At least you get a tulip

Many of our readers will have heard ad nauseam our summary of the healthcare patient continuum and our views on the attractive points within this for novel approaches to create significant value for society through lower costs or better outcomes. As regards the nature of the changes to come, many of you will also be familiar with our frequent prognostications, but some bear repeating:

1. The system is too reliant on skilled human capital, which is scarce; 2. The system is wasteful; 3. Due to the self-initiated nature of care, many interactions between patients and physicians are viewed as not medically necessary after they have taken place; 4. The intersection between the patient and physician is the single largest area of expenditure. 5. The administrative burden resulting from frontline patient interactions amounts to a very material proportion of caregivers' worktime.

Having immersed oneself in studying this, it is not really difficult to conclude that one of the most impactful changes that could take place quickly is a move toward a system of electronic triage and case management ("ETCM"): your first interaction with the healthcare system is a digital one that enables your progress to be tracked and for you to be directed to the lowest acuity point of care along the way.

As a practical example, savings could come from re-direction: there is no point seeing the GP (cost to NHS - £150) if you have the flu. Isolate at home; go online and get some Lemsip and take it easy. On the other hand, if you have had flu-like symptoms for some days and are now struggling to catch your breath, you probably have pneumonia and you may need to bypass the GP and go to the hospital.

Incidentally, if you are wearing a recent generation smartwatch/fitness band, its pulse oximeter could even help confirm a diagnosis of pneumonia or COVID-related silent hypoxia remotely, but we are not quite there yet. Such rapid elucidation of a worsening prognosis could save lives and money.

Semper Augustus

It is easy to see how, at first glance, ETCM tools could bloom into that rarest of products: one that both improves outcomes and saves money. However, the next question is: in what form is this potential bonanza made manifest? The initial (and probably meretricious) view was that telemedicine was central to the answer. For a time, we thought this was the case too.

There is no doubt virtual consultations can improve productivity for physicians: people do not dilly-dally in the virtual world, they are seldom late for their appointments and they are more likely to attend. Even when they are late or absent, it is much easier for the doctor to quickly move along to some other work. Thus, if we think of the physician simply as a productive asset, we can sweat them harder in a virtual world.

However, there is still a cost. Diverting someone away from the "real GP" so they can waste cyber time is still a waste. Perhaps its £75 or £100 instead of £150, but it is not zero cost. Furthermore, there is still some paperwork that needs to be done and so the inefficiencies of the system are not really being addressed. One could of course try to shift the administrative burden onto the patient via pre-meeting form filling, but this is a double edged sword – ask them to do too much and they will vote with their feet.

Coming off the back of a bolus of artificially high utilisation driven by the pandemic, the challenge with the telemedicine stocks now is determining what a reasonable cadence for growth is and what, if anything defines a unique, market share winning advantage. Is it simply a network effect (more doctors available across a range of specialities)? Is it the interface itself?

If the pandemic taught us anything, it is that complex interfaces are really not necessary for the majority of routine interactions. If we take September 2020 as the baseline, (when Amwell listed on the back of its pandemic windfalls), the share price of SOC Telemed has declined 78%, Amwell 49% and Teladoc 34%.

The beginnings of the 'return to normal' has also confirmed that many people who switched from face-to-face to virtual did so from necessity rather than choice, leading us to conclude that, whilst the widespread adoption of virtual visits has been temporally accelerated versus our pre-pandemic base case, it has not proved durable to the extent that current consensus expectations imply.

Another question we keep asking ourselves relates to the barriers to entry. If we were to add up the invested capital consumed by this entire sector so far, it amounts to a sum that probably wouldn't trouble say Optum Health, or anyone in 'big tech' who decided to make a move into this area and they could easily afford to hire the relevant medical expertise.

In other words, the field is still wide open, especially when it is not obvious to us that anyone has built a sustainable competitive advantage and made their tools a 'must have' for any insurance carrier or physician group/hospital. We have recently reviewed the telemedicine sector in detail (as we do for all sub-sectors on a regular basis), but are a long way from re-joining the fray.

Propagation and hybridisation

If telemedicine in and of itself is likely to become commoditised, how does one expand the offer to create that compelling value proposition that might actually save money and improve access to quality healthcare?

Some companies are experimenting with Artificial Intelligence and 'Bots' to do the triage component. This has gained some traction in China (where medical access is a huge problem for those outside major cities) and may well help with the Managed Medicaid market in the US where the consumer does not really have free choice and healthcare resources may be geographically sparse. Some of these systems are argued to be no worse than the average doctor (and thus better than all those below the median), but who recognises their doctor is one of the below average ones?

Moreover, the liability issues and risks around so-called edge cases (where something potentially serious presents as something benign, confounding accurate diagnosis) are likely to hamper consumer willingness to accept such care. One can only imagine what the print media could do with such a case; if you can manufacture panic from nothing over a few petrol stations being closed somewhere far away, what could you make of this situation?

We continue to monitor these sorts of tools but have yet to conclude that they amount to a compelling investment opportunity, even though valuations have come back quite a way from the pandemic peak. This leaves us with two remaining areas of interest within the wider Healthcare IT sub-sector. One relates to the proposition of value based care ("VBC") and the other is a sub-set of case management that we call system navigation (not really relevant in the UK, but critical in America).

The nobility of profit

Value-based care is a delivery model where a provider (a hospital, physician group or Accountable Care Organisation ("ACO"), which is a multi-disciplinary collective setup to manage such models), are paid a capitation payment based on patient health outcomes. Under VBC contracts, outcomes are measured in detail and providers are rewarded for helping patients improve their health, especially regarding the incidence and management of chronic diseases.

Another way of looking at this would be to say that an accredited organisation is in effect bidding to manage the medical risk of a particular group of patients (usually in a geographical location). If they do not meet performance goals then they are penalised financially. If they manage to deliver over and above (i.e. better outcomes) they are rewarded and, most importantly, the link between reimbursement and activity (the so-called fee-for-service model in the US that drives so much over-treatment) is broken. In this way, both sides (the ultimate payor, usually the State or Federal government, and the provider organisation) share the financial benefits of successful innovations.

The most surprising thing about this marketplace in the US is that it is not already much larger, given that one of the key objectives of the 2010 Affordable Care Act ("Obamacare") was to promote VBC approaches (and the related value based payments, where hospital reimbursement levels for procedures paid for by Medicare and Medicaid varies with longer-term outcomes).

Part of the problem has been developing the IT systems to identify and manage patient needs better and thus meet the quality requirements and gain the opportunity to earn the upside; many physician groups and hospitals lacked the software tools to analyse how to intervene to change the cost/benefit ratio.

The big players in the market are beginning to build their own systems to do this (e.g. Anthem's EPHC initiative, with its Co-operative Care program), but the provider networks in the US remain highly fragmented and smaller players need the help of specialist IT companies to build the necessary capabilities. It is here that we see opportunities for investment returns in line with both the thematic and financial objectives of the Trust and there remains room in this marketplace for the smaller software vendors to compete with larger players.

The moral maze

Imagine being a middle class employed American with a chronic medical condition. You are resigned to spending a significant amount of money managing your condition through recurrent physician appointments and your out of pocket drug costs. There may be other services that you might need as well, such as routine scans or tests. How do you navigate the landscape of providers and services to optimise cost, convenience and disease management? Even assuming that you had all of the relevant data to hand, how can a layperson weigh up the various trade-offs to get the best overall package for their personal needs?

There are innumerable surveys showing that employees do not really understand, or make full use of many of the benefits available to them from their carrier and others show they often get sub-optimal or over-treatment because they do not have access to second opinions. When we look to the individual health plan market (the so-called insurance exchanges created by Obamacare), the larger states also offer lots of choice (e.g. California had 11 plans on offer in recent years, New York 12 plans).

One could devote pages to criticisms of this fragmented and complex network, but for now it is what it is. Until that changes, consumers and employers will benefit greatly from benefit navigation software that enables them to select the best care for themselves or their plan members and then make best use of that care in order to stay as healthy as possible without incurring unexpected costs. Similar algorithms applied in the VBC segment can help to flag up people who are likely to incur certain issues ahead of time, which is another way to save them and their insurance carrier money.

Benefit navigation and optimisation is another area of the Healthcare IT landscape that we currently find attractive. It suits independent players as they can avoid perceived conflicts of interest and it is a growing niche as data builds up showing that employees who have access to these sorts of "care assistance" packages are happier and healthier, which makes them both more productive and cheaper for their employer.

Shoots or Leaves?

In summary then, the challenge for the longer-term investor is balancing the obvious central role that technology and software-enabled solutions will play in transforming the healthcare system with the realistic proposition for monetisation and investor value creation. Many of the ideas currently on offer are, like a beautiful flower, superficially attractive.

However, they are not immune from wilting and dying. How does one find a hardy perennial or identify that special tulip when the seed will not become a bloom for several years? As far as we can tell, there is no magic answer to this and, frankly, if we did have one, we would not be articulating it in our factsheet for all to read. The only way to navigate through this topic is to remain grounded in the numbers.

We are, at heart, GARP investors and will only pay up for growth that we can see within a reasonable timeframe and that reflects a base case scenario with appropriate levels of competitive risk baked in. Information technology undoubtedly has an outsized role to play in the re-shaping of the healthcare delivery paradigm, but that does not mean that every opportunity is worthy.

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. We thank you for your ongoing support of BB Healthcare Trust.

Paul Major and Brett Darke

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Standardised discrete performance (%)					
	1 year	2 years	3 years	4 years	since
12-month total return	Sep 20 - Sep 21	Sep 19 - Sep 21	Sep 18 - Sep 21	Sep 17 - Sep 21	inception
NAV return (inc. dividends)	20.3%	63.1%	42.9%	91.0%	122.9%
Share price	21.5%	65.2%	45.5%	96.6%	125.2%
MSCI World Healthcare Index (GBP)	14.3%	32.1%	38.4%	63.1%	87.4%

Sources: Bloomberg & Bellevue Asset Management (UK) Ltd., 30.09.2021

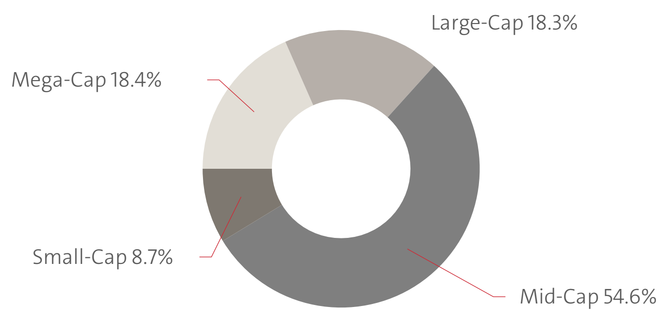
All returns are adjusted for dividends paid during the period, assuming reinvestment in relevant security.

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

TOP 10 HOLIDINGS	
Jazz Pharmaceuticals	6.8%
Insmed	6.3%
Vertex Pharmaceuticals	5.8%
Anthem	5.1%
Bristol Myers Squibb	5.1%
Humana	4.6%
Hill-Rom Holdings	4.3%
Option Care Health	4.3%
Tandem Diabetes Care	3.9%
Sarepta Therapeutics	3.6%
Total	**49.8%**

Source: Bellevue Asset Management, 30.09.2021

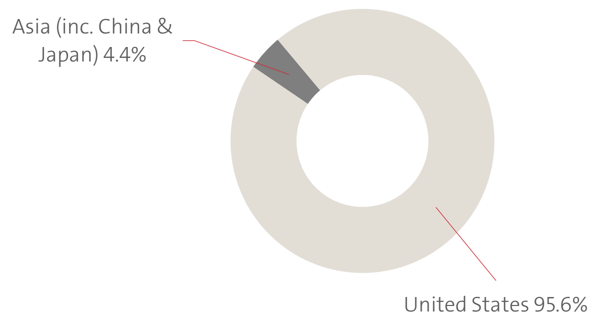
MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 30.09.2021

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

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 30.09.2021

Sustainability Profile – ESG

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

CO2 intensity (t CO2/mn USD sales): 23.6 t (low) MSCI ESG coverage: 100%

Based on portfolio data as per 30.09.2021 (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; ESG Integration: Sustainabiltiy risks are considered while performing stock research and portfolio construction; 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/en/corporate-information/sustainability

BB Healthcare Trust

Monthly News
September 2021

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

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.

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. 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. ©

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 1074.8 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	553 999 086
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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