Bellevue Healthcare Trust

NOVEMBER 2022

Factsheet

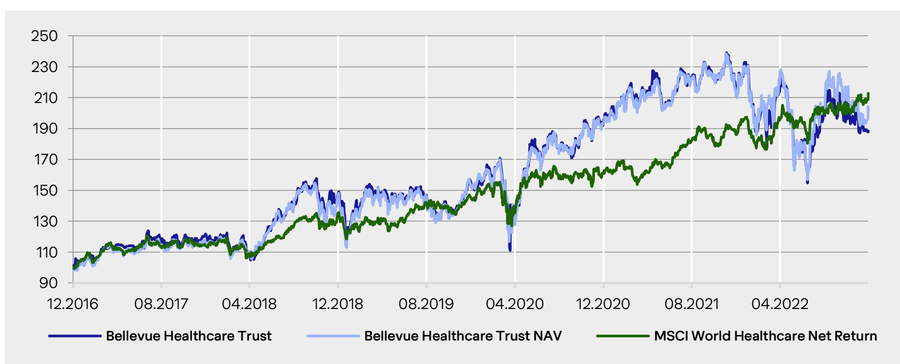
London Stock Exchange (LSE)

Marketing document

Investment focus

Bellevue Healthcare Trust intends to invest in a concentrated portfolio of listed or quoted equities in the global healthcare industry. The investable universe for the fund is the global healthcare industry including companies within industries such as pharmaceuticals, biotechnology, medical devices and equipment, healthcare insurers and facility operators, information technology (where the product or service supports, supplies or services the delivery of healthcare), drug retail, consumer healthcare and distribution. There is no restrictions on the constituents of the fund's portfolio by index benchmark, geography, market capitalisation or healthcare industry sub-sector. Bellevue Healthcare will not seek to replicate the benchmark index in constructing its portfolio. The Fund takes ESG factors into consideration while implementing the aforementioned investment objectives.

Indexed performance since launch



Cumulated & annualized performance

Cummulated

	1 M	1 Y	2 Y	3 Y	4 Y	5 Y	ITD
Share	-5.6%	-11.9%	-1.8%	20.3%	28.6%	56.4%	88.5%
NAV	-2.1%	-4.1%	5.8%	31.8%	40.5%	74.2%	104.2%
BM	1.4%	14.1%	32.2%	45.8%	57.5%	85.9%	112.8%

Annualized

1 Y	3 Y	5 Y	ITD
-11.9%	6.3%	9.4%	11.1%
-4.1%	9.6%	11.7%	12.6%
14.1%	13.4%	13.2%	13.4%

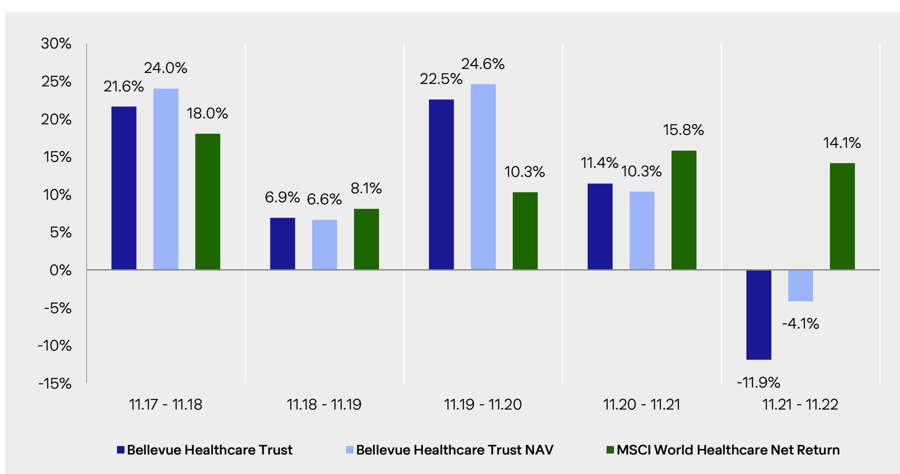
Annual performance

	2017	2018	2019	2020	2021	YTD
Share	14.8%	4.9%	22.7%	29.1%	16.6%	-18.4%
NAV	12.7%	8.6%	25.9%	25.7%	15.2%	-9.5%
BM	9.4%	8.8%	18.4%	10.3%	20.8%	8.5%

Fund facts

Share price	GBp 158.20
Net Asset Value (NAV)	GBp 171.16
Market Capitalisation	GBp 928.3 mn
Investment manager	Bellevue Asset Management (UK) Ltd.
Administrator	Sanne Fund Services (UK) Ltd.
Launch date	01.12.2016
Fiscal year end	Nov 30
Benchmark	MSCI World Healthcare Net Return
ISIN code	GB00BZCNLL95
Bloomberg	BBH LN Equity
Number of ordinary shares	586,783,083
Management fee	0.95%
Performance fee	none
Min. investment	n.a.
Legal entity	UK Investment Trust (plc)
EU SFDR 2019/2088	Article 8

Rolling 12-month-performance 30.11.2022



Key figures

Beta	1.29
Correlation	0.76
Volatility	30.8%
Tracking Error	20.79
Active Share	92.97
Sharpe Ratio	0.52
Information Ratio	0.06
Jensen's Alpha	-2.89

Source: Bellevue Asset Management, 30.11.2022;
Calculation based on the Net Asset Value (NAV) over the last 3 years.

Source: Bellevue Asset Management, 30.11.2022; all figures in GBp %, total return / BVI-methodology

Past performance is not a reliable indicator of future results and can be misleading. Changes in the rate of exchange may have an adverse effect on prices and incomes. All performance figures reflect the reinvestment of dividends and do not take into account the commissions and costs incurred on the issue and redemption of shares, if any. The reference benchmark is used for performance comparison purposes only (dividend reinvested). No benchmark is directly identical to the fund, thus the performance of a benchmark is not a reliable indicator of future performance of the Bellevue Healthcare Trust to which it is compared. There can be no assurance that a return will be achieved or that a substantial loss of capital will not be incurred.

Top 10 positions

Position	Weight
Sarepta Therapeutics	6.8%
Jazz Pharmaceuticals	6.2%
Axonics	6.0%
Option Care Health	5.8%
Charles River Labs	5.2%
Insmed	4.8%
Silk Road Medical	4.2%
Apellis Pharmaceuticals	4.2%
Exact Sciences	4.0%
UnitedHealth Group	4.0%
Total top 10 positions	51.3%

Sector breakdown

Sector	Weight
Focused Therapeutics	23.8%
Med-Tech	19.6%
Services	14.8%
Diagnostics	11.1%
Managed Care	7.0%
Tools	6.8%
Diversified Therapeutics	6.2%
Healthcare IT	5.6%
Health Tech	4.0%
Dental	1.2%

Geographic breakdown

Country	Weight
United States	95.5%
China	2.6%
Switzerland	1.2%
Canada	0.7%

Market cap breakdown

Market cap	Weight
Mega-Cap	13.1%
Large-Cap	17.3%
Mid-Cap	56.3%
Small-Cap	13.4%

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

Source: Bellevue Asset Management, 30.11.2022;
For illustrative purposes only. Holdings and allocations are subject to change. Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. Where the subfund is denominated in a currency other than an investor's base currency, changes in the rate of exchange may have an adverse effect on price and income.

Welcome to our November narrative. This has been another frustrating and largely macro-driven month; a trend that pretty much sums up the entire year. Just when you think you are getting on top of things, the world pivots once again. China takes another great leap – whether it is forward or backward, time will tell.

Your managers have been on the road seeing companies; normality is finally upon us as we approach the third anniversary of the first cases of COVID-19 (or nCov as it was then known) on 12 December 2019. How the world has changed…

Even as the world struggles with multiple macro-economic and geo-political headwinds and the economic fallout from these impacts the lives of ever more people, one can look back over these three years and be nothing but amazed at the relentless progress in the field of human medicine. This is the season for gifts and healthcare is the gift that keeps on giving.

Monthly review

The UK market

It is gratifying not to feel obliged to devote a section of our update to commenting specifically on issues in the UK marketplace. The absence of a new and noteworthy catastrophe is a far cry from tangible progress, but we will take the win. Unlike Putin, we are bereft of irredentist tendencies and would be more than happy if we never again have to wade into UK-specific matters, but somehow that feels an unlikely outcome.

The above being said, we cannot let pass that "Rish!" felt it appropriate to praise Qatar on the World Cup (via Twitter, of course; the world's chosen medium for quality discourse). If this is the bar he has set for praiseworthy competence, then we are surely doomed. More likely, he recognises we need more LNG and is sucking up to the world's swing producer accordingly. Regardless, the optics are terrible.

Despite continued mixed economic data, November was another strong month for the wider market; the MSCI World Index rose 6.8% in dollar terms (+2.6% in sterling). The Index has now recovered back to mid-June levels, leaving it down only 15.8% YTD, having regained almost half of the losses incurred during the first nine months of the year. It feels as if we are stuck in a bipolar schism, where sentiment is dictated by views on the trajectory of US interest rates: where will they peak?, when? and how long before they begin to decline once more, and what is the 'right number' for long-term rates in a post-COVID world?

November was another month of optimism in this regard; some tempering of core inflation data and employment offered hope that the cadence of rises will be moderated. Does this matter? There are as many arguments for 'short and sharp' as for gradual rises. The end goal will be a figure that constrains inflation at or below the 2% level that economists have collectively decided is benign to GDP growth (which is also contentious). Nonetheless, the yield curve for maturities >12 months rolled over from its early November highs, with 10 and 20-year Treasuries back at mid-September levels.

As investors turn their minds to the outlook for 2023, it is difficult to be optimistic about equities in the wider sense. Rates will continue to rise and earnings forecasts have further to fall (healthcare stands apart from this to some degree, as we will outline in the next section). If interest rates and the wider bond market dynamic is the equity market's problem, then the pain is probably some way away from ending.

Inflation in the wider world is very much structural and driven by energy and commodity market disruption. The initial drivers of this (post-COVID re-opening) are long forgotten; it is Russia's illegal invasion of Ukraine that now drives the narrative, compounded by China's zero COVID policy (more on that topic in the Musing's section).

Inflation in the US feels more complex; energy prices are up but much less so due to energy independence. The labour market is very tight, but price increases are allowing corporations to preserve margins and the huge slosh of money from pandemic and post-pandemic stimulus measures is (thus far) largely insulating the consumer from the worst of the Federal Reserve's efforts to slow this economic juggernaut.

Whilst companies may not want to hire more people in this environment, onshoring/reshoring from an unpredictable China and an energy-starved Germany (helped by some tasty subsidies) is driving a new industrial renaissance: a spoonful of Biden's sugar is most definitely helping the Fed's medicine go down in the most delightful way.

With this backdrop, several trillion dollars of liquidity still needs to come out of the system and rates will probably go higher and for longer than markets expect. One must therefore be sanguine over the nascent reality of only moderately reduced consumer discretionary spending power. Employment too may yet taper off, compounding the pressure on the consumer's wallet. In the meantime, the Fed will likely continue to tighten and it seems logical to conclude that overall US corporate profits (and margins) are going to fall back from their current record levels.

As noted previously, it was optimism about the consumer and, inter alia, corporate profits that drove sector performance for the MSCI World Index, as outlined in Figure 1 below:

Sector	Monthly perf (USD)
Semiconductors & Semiconductor Equipment	18.6%
Consumer Durables & Apparel	18.4%
Materials	14.3%
Household & Personal Products	10.8%
Transportation	10.4%
Insurance	9.9%
Diversified Financials	9.6%
Capital Goods	9.5%
Consumer Services	8.3%
Media & Entertainment	8.0%
Real Estate	7.8%
Banks	7.7%
Utilities	7.6%
Food & Staples Retailing	7.2%
Pharmaceuticals, Biotechnology	6.8%
Food, Beverage & Tobacco	6.5%
Software & Serivces	5.6%
Commercial & Professional Services	4.9%
Healthcare Equipment & Services	3.2%
Energy	3.0%
Retailing	2.7%
Telecommunication Services	2.6%
Technology Hardware & Equipment	-0.3%
Automobiles & Components	-4.2%

Source: Bellevue Asset Management, 30.11.2022

Healthcare

As one would expect, the defensive MSCI World Healthcare Index underperformed the wider market during this period of pro-consumer positivity, rising only 5.5% in dollars (+1.3% in sterling). Even with the more positive sentiment toward the wider market, the Healthcare Index has outperformed its parent by 10.8% year-to-date in US dollar total return terms.

The sub-sector performance data for November is summarised in Figure 2. Again, the consumer-focused narrative cited previously shone through, with hospitals (Facilities) and Dental amongst the best performers, alongside Biotechnology (Focused Therapeutics), Tools and Healthcare IT as proxies for a more "risk-on" mindset. We admit to being somewhat surprised at the strength in the Dental sector, since the reporting season outlined continued and growing uncertainty over the outlook for the dental market across multiple geographical regions.

Managed Care has been a very popular safe haven over the past year, for both generalist and healthcare specialist investors alike. Given that valuations are close to all-time highs and profits continue to benefit from the lingering emergency status accorded to COVID, it is no surprise to see the sector lagging in this dynamic as people utilised their holdings as a source for funds for other exposures.

Size factor was again irritatingly dominant, with mega-caps significantly outperforming mid and large caps.

	Weighting	Perf (USD)	Perf (GBP)
Facilities	0.9%	11.5%	7.1%
Tools	8.0%	10.2%	5.8%
Dental	0.4%	8.6%	4.3%
Focused Therapeutics	8.2%	8.3%	4.0%
Healthcare IT	0.6%	7.4%	3.1%
Diversified Therapeutics	36.7%	6.9%	2.7%
Generics	0.4%	6.3%	2.1%
Med-Tech	12.6%	5.4%	1.2%
Diagnostics	1.5%	5.2%	1.0%
Conglomerate	12.0%	5.2%	1.0%
Distributors	1.6%	3.5%	-0.6%
Other HC	1.3%	2.2%	-1.8%
Healthcare Technology	0.9%	1.6%	-2.4%
Services	1.2%	1.2%	-2.8%
Managed Care	12.8%	-1.1%	-5.0%
Index perf		**5.5%**	**1.3%**

Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of 31.10.2022. Performance to 30.11.2022.

The Trust

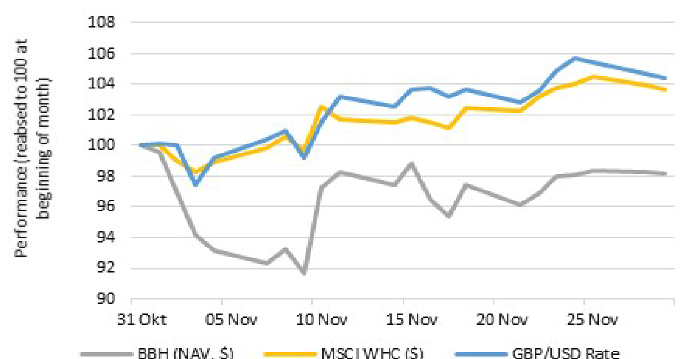
During September, the Trust's net asset value declined 2.1% to 171.16p, underperforming the MSCI World Healthcare Index by 353bp. For the Trust's financial year (the year end is 30 November), the total NAV return was -4.14%, underperforming the MSCI World Index by 1881bp.

This is clearly a very disappointing result and all the more surprising given that we kept up with the benchmark through to the end of March 2022, which was actually quite a challenging period in absolute return terms. We then suffered a very challenging Q2 (FYTD absolute return reached -3133bp on 16 June, which was also the date of the Index's absolute low for the year) and almost made it back over the summer (FYTD absolute return clawed back to -288bp on 15 August), before it deteriorted again from mid-September.

We have written numerous pages on the drivers of the year's poor performance; most of which accrued during that second quarter and so we will not expand upon them again here. We will instead reiterate our belief that the current portfolio has tremendous long-term value creation potential and our conviction in the ultimate realisation of that value remains undiminished.

Sterling was again a material headwind during the month. We estimate that the monthly return was reduced by 433bp due to the appreciation of Sterling, broadly in line with that for the benchmark (-420bp). The evolution of the NAV is illustrated in Figure 3 below and illustrates that, like October, the majority of the underperformance arose in the early part of the month and can be attributed to a handful of stock-specific events.

Only one of these was thesis changing or particularly "bad" in our view, but this is not a market environment that forgives perceived disappointments. Indeed, the balance of the Q3 reporting season was broadly positive and there have only been two companies that disappointed relative to our expectations in a manner that prompted material forecast revisions.



Source: Bellevue Asset Management, 30.11.2022

Medical Technology, Tools and Focused Therapeutics were the largest positive contributors during the month, with Diagnostics, Healthcare IT and Healthcare Technology the laggards, accounting for almost all of the negative return during the period. The evolution of the portfolio is summarised in Figure 4 below and we would make the following comments:

The increase to Dental and decrease to Diagnostics are driven by relative performance rather than active allocation. Diversified Therapeutics and Managed Care were actively reduced, whereas Healthcare Technology was driven by relative performance; we added to holdings during the month. We also added to Tools, Services, Healthcare IT and Focused Therapeutics. We modestly reduced overall holdings in Medical Technology, but this was offset by relative performance.

	Subsectors end Oct 22	Subsectors end Nov 22	Change
Dental	1.0%	1.2%	Increased
Diagnostics	11.6%	10.5%	Decreased
Diversified Therapeutics	6.7%	6.3%	Decreased
Focused Therapeutics	23.3%	24.3%	Increased
Healthcare IT	5.4%	5.4%	Unchanged
Healthcare Technology	5.0%	3.9%	Decreased
Managed Care	9.1%	7.0%	Decreased
Med-Tech	18.4%	19.3%	Increased
Services	14.6%	15.3%	Increased
Tools	4.9%	6.5%	Increased
	100.0%	**100.0%**	

Source: Bellevue Asset Management, 30.11.2022

The investment portfolio remains unchanged, with the same 29 holdings. There was no share issuance during November because the Trust's shares remained at a discount to NAV that averaged 3.0% across the month, compared to a discount of 3.8% during October. The overall gross exposure was gradually reduced across the month to create a cash reserve of ~£50m in order to meet the redemption outflow that will occur in the second week of December. As a consequence, gearing fell to 3.8% at the end of the month, compared to 6.2% at the end of October (the redemption reserve approximates to an impact on the gearing ratio of ~520bp).

Manager's Musings

Re-Gifting

This month's missive is somewhat delayed relative to our usual schedule of getting it out early in the month. We began compiling the material for this section of the factsheet before the end of the, as is customary, but our travel schedule meant that we did not work on it over the days straddling the month end.

This delay has proven to be fortuitous, given the chosen topic was China's Zero COVID Policy (ZCP). All the views expressed below are our own. Other people may well choose to interpret the available data and historical record differently, and that is their choice; such is the joy of living in a democratic country where the right to free speech is protected.

As readers will be aware, the ZCP has suddenly and unexpectedly become a rapidly evolving topic owing to unprecedented demonstrations in at least 20 Chinese cities (as with anything in China, we have no idea what is really going on because the narrative is sanitised/controlled by the "great firewall" and oppressive surveillance). The original topic was going to be an explanation of why a relaxation of the ZCP seemed very unlikely.

Now this is happening, Aesop' s fables spring to mind: be careful what you wish for. Equally, the motivation for this action may not be what one first thinks. The comments below reflect the situation as of 7 December 2022 and, given the speed with which things are moving, some of this content may become out of date quite quickly.

China gifted COVID to the world and, whilst the debate over its origins rages in the background, it cannot be denied that the severity and rapidity of the virus' spread in Wuhan was not made as clear as it should have been to the wider world in December 2019/January 2020. Again, readers can decide for themselves who they think is to blame for this. Our view is that the World Health Organisation was pressured by (its major donor) China to play the outbreak down.

Even in mid/late January when it became apparent that a novel coronavirus was causing severe respiratory illness, the outbreak was believed to be localised and many thought it could be contained as SARS was. The global pandemic emergency was not declared until March 2020, by which time the horse had already bolted and SARS-CoV-2 had spread across the globe.

As the majority of humanity looks back on the pandemic as a largely historical event, with the return to normality most obviously epitomised by the football festival of the World Cup (there are some suggestions that it was TV coverage beamed into China and the realisation that the rest of the world was living very differently that started the protests), some may feel a degree of schadenfreude that China has continued to shuffle along in a permanent rolling lockdown as the rest of the world has moved on.

This perpetual state of emergency has incurred massive curtailments to free movement that have clearly decimated the economy, especially for the young; youth unemployment is very high and the housing market is imploding. Those brave enough to talk to foreign journalists speak of feeling hopeless.

Again though, we would caution against such a smug view. This is not karma, it's just another terrible policy decision writ large. China is not hermetically sealed off from the rest of the world. Viruses are ever changing and the petri dish of several hundred million unvaccinated and previously unexposed people amongst this 1.4 billion populous could yet deal us all another nasty surprise; the gift that none of us want.

Vaccines, variants and values

Readers will doubtless have a range of views on the topic of re-opening and learning to live with the virus; the UK went earlier than many but the subsequent epidemiological data broadly supports this decision in our opinion. As China's policy pivot amidst growing economic consequences and civil unrest surely demonstrates, this was an inevitable and necessary step. You cannot lock people down for ever.

There will always be vulnerable people who need to take precautions, but the virus must be allowed to circulate amongst the wider population to provide that background immunity to keep symptoms mild. As brilliant as the vaccines are, they reduce severity not transmission and offer 4-6 months of optimal protection and that protection wanes faster in those with no background exposure to the virus.

The challenge for China is threefold. Firstly, its inflated sense of national pride promoted it to go it alone on the vaccination front. However, we have empirical data from Chile, Peru and Brazil that neither Sinopharm's BBIBP-CorV vaccine nor CanSino's single-shot Convidecia were comparably efficacious to Western vaccines (mRNA or Astra's Vaxzevria). Convidecia was finally granted an emergency use licence (EUL) by the WHO in May 2022, 18 months after the first such licence was granted to Pfizer/BioNTech. Sinopharm was granted an EUL in May 2021 and SinoVac's CoronaVac in June 2022.

From what foreign media in China have been able to report, the perception of the vaccines inferiority is widespread inside the country. There are now seven domestically produced and authorised vaccines (five inactivated virus, one viral vector and one viral subunit vaccine) and very little is known about the real-world efficacy beyond what we learned in South America early on in the pandemic.

The second challenge, which may well be related to the first, is that vaccine take-up has been low amongst the most vulnerable group – the elderly. Whilst about 90% of China's population is vaccinated (primary series: so two doses of BBIBP-CorV or a single-shot of Convidecia), the timing of these vaccinations is unknown (the national campaign began in December 2020 and two billion doses had been given by August 2021, so it seems fair to assume the majority of that 90% was done last year), and there is very little data on the durability of protection offered by these inactivated vaccines, since no-one else is using them.

Even with the more potent and effective mRNA vaccines, we know their protection wanes after time and boosting is necessary in elderly/vulnerable populations. If you are an elderly American, you have likely now had your fifth dose of mRNA vaccine and that last booster will have been an updated bivalent formulation that more adequately reflects the current situation, which is some 300-odd circulating variants that are derived from the highly differentiated "omicron" (B 1.1.529) lineage that emerged in South Africa in late 2021 and caused a global second wave of infection in Q1 2022. There is no approved Chinese vaccine containing omicron lineage material, although several such mRNA vaccines are under development.

The uptake of booster vaccines in China is much lower. We have struggled to find clear data on this topic. On 28th November, a Chinese government official said that only 40% of people over 80 had received more than their primary series (and around 70% of those over 60), whilst also claiming that the primary series was still offering protection to the elderly (which we personally doubt is true to any meaningful extent if you received your shot in early 2021). China has ~265mn over-60s and >35mn over-80s.

For reference, 96% of the deaths in the March/April 2022 Hong Kong omicron wave were people aged 60 or older and 70% of these were unvaccinated. Over the first five months of the year, more than 9,000 COVID fatalities were recorded in Hong Kong. In contrast, China claims (and presumably the population believes) that only ~5,250 people have died in mainland China since the pandemic began! (There are 7m people in Hong Kong, vs. 1.4bn in mainland China). One could reasonably argue that, as far as we know, around a third of the 265m elderly people in mainland China (i.e. 89m) are as good as unvaccinated.

Whilst one can criticise China's vaccine development and rollout, it is difficult to deny the effectiveness of the COVID surveillance that has gone on for the past two years. You need a PCR test and linked smartphone app to travel anywhere, even within your home city. This has kept the background level of circulating infection very low. We could reasonably postulate there are hundreds of millions of people in China who have never been naturally exposed to SARS-CoV-2.

In contrast, the UK ONS estimates that at any given time 1.6% or one in 60 people are infected with SARS-CoV-2. This is actually low at the moment and will rise in the coming weeks. Since omicron lineages became dominant in early 2022, the estimated positivity rate has averaged around 3%. With an infection cycle lasting about a week, it is not unreasonable to imagine that the virus passes through us all at least once every year. Because of repeated exposure and vaccination, most of these cases are mild and a lack of mass testing means many of us don't even realise that we have had it.

The third challenge is one of infrastructure. We spend a lot of our time talking to people about healthcare and it is interesting that most people perceive China to have an advanced healthcare system. To the extent they have seen any images of a Chinese medical facility, it is in a Tier One city like Shanghai and would appear very modern. However, this is not the reality for the majority of citizens.

A cursory examination suggests China to scores well versus OECD peers: 2.5 doctors per 1,000 people vs. 2.0 in the USA and 6.7 hospital beds per 1,000 people versus 2.9 in the US. However, beds mean very little; it's just a place to lay down. Similarly, not all doctors are the same: being a primary care physician (PCP) is one thing, but having secondary and tertiary interventional medicine is what keeps people well. All a PCP can do is make recommendations and prescribe drugs.

The US has four times the density of Intensive Care facilities compared to China and yet it still struggled hugely during the first wave of COVID to meet demand. Indeed, one could argue that the whole ZCP approach is not merely another opportunity for an authoritarian dictatorship to enhance control and retain power, but the logical policy conclusion of a country that knows it could not possibly cope with an uncontrolled outbreak of COVID.

Various groups have sought to model what might happen in China during an omicron wave, based on what happened in Hong Kong as the nearest cultural proxy, whilst adjusting for the lower vaccination and booster rates and lack of hybrid immunity (i.e. ongoing natural exposure) within mainland China. The law of big numbers inevitably comes into play: for example, the UK predictive health analytics company Airfinity forecasts China could lose 1.3 million to 2.1 million people if it lifted the ZCP.

In summary then, China is nothing like the rest of the world. Its vulnerable population is not adequately vaccinated, it has minimal recurrent exposure to SARS-CoV-2 and lacks the infrastructure to be able to cope with a mass outbreak of the virus, especially now that it is dealing with the highly transmissible variants arising from the omicron lineage. These are the three tenets on which we built our (incorrect) assumption that the ZCP would persist until the country had developed its own omicron-derived mRNA vaccines and deployed them (which we were going to suggest would be some time in 2024).

These mRNA vaccines are probably not that far away. There are several in development, the most advanced of which is AWcorna/ARCov (also known as the Walvax COVID-19 vaccine). This has been licensed in Indonesia under an EUA since September 2022. In contrast to the Pfizer and Moderna mRNA vaccines, it primarily targets the receptor-binding domain of the W1 spike protein rather than the whole protein itself.

Phase III clinical trials are ongoing and even preliminary results have not yet been published, so it is unclear on what basis the Indonesian regulator made its approval decision. The Indonesian drug agency (BPOM) has suggested that the virus has an efficacy of around 71% against omicron (whatever that means – presumably avoiding hospitalisation and death).

Protests, Politics, Power

Why then are we now seeing a pivot toward a more relaxed attitude to the virus? Officially, it is because the omicron ("BA.5") lineages are less lethal than previous strains and thus warrant a different approach. A Chinese government spokesperson even went so far as to suggest that the terms "COVID-19" and "COVID" should no longer be used to describe the illness caused by the omicron lineage virus, since it is such a different (i.e. milder) proposition. Leadership within central government for this initiative appears to have come from Vice Premier Sun Chulan (who is soon to step down).

This comment about omicron being "less pathogenic" is patently untrue, as Hong Kong's Easter 2022 omicron wave amply demonstrated. COVID has always been a mild disease for the majority; the problem is that a significant minority suffer considerable morbidity and mortality. Even in heavily mRNA-vaccinated Western countries, where omicron lineages dominate a small proportion of deaths are still attributed to COVID (the condition still accounts for around 300 deaths per week in the UK for instance, or about 2.5% of weekly deaths).

With regard to China, we have little real-time data on which omicron lineages are circulating in China; the country is less transparent than we are in the West, making it is even more difficult to assess the validity of these comments. The omicron family has continued to mutate and to evolve, increasing transmissibility and, to some extent, immune escape. This is what drives the recurrent waves of the disease.

The “BQ.1” and BA 2.75/omicron X” are the current variants of interest and have increased immune escape potential from prior exposure/vaccination versus previous strains. China has experience of SARS-CoV-2 in an unprotected population from Wuhan of course and that was grim enough. However, that was the W1 strain. It is estimated that the basic reproduction number (R0) for W1 was 2.4-3.1. In contrast, reported R0 values for omicron in the initial outbreaks have ranged from 8-24!

Japan, which has been praised for its robust control of COVID, is experiencing a new wave of omicron at the moment and this is gathering pace despite ongoing social measures (and very high compliance with them) and high rates of vaccination and boosting with the bivalent mRNA vaccines. Perhaps in time we will see that a new BA.5 derived variant is driving this new wave.

It has been estimated that the R0 of omicron has increased further by about 10% over the past six months, but the RE continues to be lowered by a combination of vaccination and behavioural/legislative modifications in various countries. Simply put, this is now a virus that is so transmissible it could not be contained by anything less than the draconian policies enacted in China, and even then they have struggled to stop outbreaks.

We have no idea if these strains are more lethal to a population lacking vaccination or prior exposure, since no such population exists outside China. In this context, we find the comments from the Chinese government nothing short of breath-taking. Why would the CCP be willing to let this genie out of the bottle in such an uncontrolled manner?

Perhaps the answer is an economic one. The country’s development goals are increasingly challenged by a rapidly slowing economy and rising unemployment as consumers spend less and China is seen as an unreliable partner for manufacturing and supply.

Or perhaps the answer is political. The protests that swept across China in late November and early December represented the most serious challenge to the authority of the Communist Party (CCP) since the 1989 student protests that led to the Tiananmen Square massacre, in which it is alleged that 2,600 protestors were killed.

Rather than resort to military action, the CCP appears to have quelled the current wave of dissent through a clever pivot. Various jurisdictions have begun to ease testing and quarantine requirements and visibly removed infrastructure such as COVID testing booths.

Testing booths were removed in Beijing on Friday 2 December and on Saturday 3 December, Shenzhen, Chengdu and Tianjin announced they would no longer require people to show a negative COVID test result to use public transport or enter parks. Guangzhou and Zhengzhou also announced an end to daily mass testing for those who do not need to leave home frequently. Haizhu district went further, saying only those in certain employment sectors will be required to test daily. As of 7 December, we are aware of 20 local authorities publicly announcing rollbacks of prior COVID containment measures that impact daily life for non-infected citizens.

Initially, the most noteworthy aspect of this development to our minds was its apparent direction from local government officials rather than at the national policy level. It is difficult not to conclude that certain local officials had been given an impossible task – rollback onerous requirements while also preventing an uncontrolled outbreak. This continues to be a rapidly evolving situation though and by Wednesday 7 December, the central government had issued a list of guidelines for local authorities to follow, leaving the populous in no doubt as to who is directing the policy shift (and thus responsible if it all goes wrong).

The End Game

The loosening of COVID restrictions is going to go one of two ways. Either the country will pull off a miraculous dodge and gradually move toward a Western style “living with the virus” approach without a massive wave of infections, morbidity and mortality or it will experience a huge COVID wave as Hong Kong did.

In light of the latter, what would the government do? Surely it would be forced to respond with the reimposition of previous measures or possibly even a return to the draconian lockdowns of before. The CCP could blame the local regions for their lack of care; heads will roll, but not at the top (Sun Chulan is gone either way).

This may not work, however. The central government has clearly said omicron is less dangerous and has now laid down rules that limit the restrictions local government is allowed to impose to contain outbreaks. If one were a local official facing the blame for a wave of COVID, it would be very tempting to point the finger upward.

Even if a worst case scenario comes to pass, would a populous terrified by news stories of a plague wave on their doorsteps be so willing to criticise the government or gather in numbers to protest? One doubts this and, even if it were to happen, the government would have a public health justification for quelling such gatherings.

Either way, we will not have to wait long for an answer, since we know from prior history that the omicron lineage of the virus will spread very rapidly. Even if there is less testing, the spike in cases and latterly hospital admissions will tell.

We sincerely hope, against all rational expectations, that this situation unfolds positively. The worst case scenario would be a huge outbreak that leads to not only significant morbidity and mortality in China, but also a novel variant which then triggers another wave of COVID beyond China’s shores.

Such a scenario will be very difficult to manage with the global economy already on its knees, not to mention the psychological impact of going back to lockdowns having only recently moved beyond several years of painful disruption. Once again, the world stands by as a vast and unprecedented social and public health experiment takes place before our eyes. The problem with genies is that they are much harder to get back into the bottle than to summon out of it.

This is our final missive of the year. We wish all of you and your families a happy and relaxing Christmas and we all hope for a saner and more positive geo-political and macro-economic backdrop in 2023. You never know…

We always appreciate the opportunity to interact with our investors directly and you can submit questions regarding the Trust at any time via:

shareholder_questions@bellevuehealthcaretrust.com

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

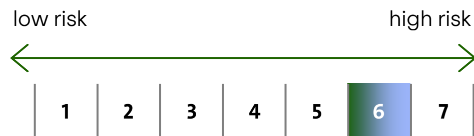
Paul Major and Brett Darke

Objective

The fund's investment objective is to achieve capital growth of at least 10% p.a., net of fees, over a rolling three-year period. Capital is at risk and there is no guarantee that the positive return will be achieved over that specific, or any, time period.

Risk Return Profile

This product should form part of an investor's overall portfolio. It will be managed with a view to the holding period being not less than three years given the volatility and investment returns that are not correlated to the wider healthcare sector and so may not be suitable for investors unwilling to tolerate higher levels of volatility or uncorrelated returns.



The risk indicator assumes you keep the product for 5 years. The actual risk can vary significantly if you cash in at an early stage and you may get back less.

The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because the fund is not able to pay you.

This fund is classified as 6 out of 7, which is a medium-high risk class. This rates the potential losses from future performance at a medium-high level, and poor market conditions will likely impact the capacity to pay you.

The portfolio is likely to have exposure to stocks with their primary listing in the US, with significant exposure to the US dollar. The value of such assets may be affected favourably or unfavourably by fluctuations in currency rates.

This fund does not include any protection from future market performance so you could lose some or all of your investment.

If the fund is not able to pay you what is owed, you could lose your entire investment.

Target market

The fund is available for retail and professional investors in the UK who understand and accept its Risk Return Profile.

Chances

- Healthcare has a strong, fundamental demographic-driven growth outlook.
- The fund has a global and unconstrained investment remit.
- It is a concentrated high conviction portfolio.
- The fund offers a combination of high quality healthcare exposure and a 3.5% dividend yield.
- Bellevue Healthcare Trust has an experienced management team and strong board of directors.

Management Team

Paul Major
Portfolio Manager
since inception of the fund

Brett Darke
Portfolio Manager
of the fund since 2017

Awards

Sustainability Profile – ESG

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

CO_2 intensity (t CO_2/mn USD sales):	25.8 t (low)	MSCI ESG coverage: 100%
MSCI ESG Rating (AAA - CCC):	AA	MSCI ESG coverage: 100%

Based on portfolio data as per 30.09.2022 (quarterly updates) – ESG data base on MSCI ESG Research and are for information purposes only; compliance with global norms according to the principles of UN Global Compact (UNGC), UN Guiding Principles for Business and Human Rights (HR) and standards of International Labor Organisation (ILO); no involvement in controversial weapons; norms-based exclusions based on annual revenue thresholds; ESG Integration: Sustainability risks are considered while performing stock research and portfolio construction; Best-in-class: systematic exclusion of "ESG laggards"; MSCI ESG Rating ranges from "leaders" (AAA-AA), "average" (A, BBB, BB) to "laggards" (B, CCC). Note: in certain cases the ESG rating methodology may lead to a systematic discrimination of companies or industries, the manager may have good reasons to invest in supposed "laggards". The CO_2 intensity expresses MSCI ESG Research's estimate of GHG emissions measured in tons of CO_2 per USD 1 million sales; for further information c.f. www.bellevue.ch/sustainability-at-portfolio-level

Important information

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