BB Healthcare Trust

Monthly News
June 2019

As at 06/30/2019	Value	1 Month (June)	YTD	Since Launch (ITD)
Share	137.50	2.2%	16.7%	46.0%
NAV	138.45	4.7%	18.8%	48.6%

Sources: Bloomberg & Bellevue Asset Management AG, 30.06.2019, NAV and share price returns are adjusted for dividends paid during the period (but not assuming reinvestment)

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

Welcome to our June update. "May you live in interesting times" is surely the most prophetic of curses. One used to be able to rely on certain truisms to guide an investor through the market's machinations. No more, it seems. June saw long-dated treasuries, global equity indices and gold all materially increase in value, even as the bipolarity of economic forward indicators continued. It is hard to know anymore which way is up. If avoiding irrationality were the aim, then healthcare proved no safe haven either.

Summary

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

Sweet harmony

If June was the month when the long-only investor literally couldn't lose, why is the tone of our introduction so glum? The simple answer is: we generally fear that which we do not understand and there has been much in recent weeks to confuse us. Let us expand upon why we find these quiescent conditions troubling...

In simple terms, equity market sentiment represents the equilibrium between bulls and bears. In the longer term, the market functions as a reasonable risk quantification mechanism; its participants can assimilate multiple data points to an aggregate view. In the short-run, the price discovery process means that it oscillates around the "reasonable" value, which creates volatility. Some volatility is acceptable and even desirable.

If 'safe haven' (i.e. riskless) assets like gold and bonds are rising, it would normally signal that the typical investor (these days an algorithm on a server in a data centre somewhere) is pricing in an economic slowdown and commensurate fall in the value of other cyclically-correlated asset classes. This is not an unreasonable premise at the current time given mixed economic data and, arguably, a prudent position to adopt when riskier assets such as cyclical equities are making all-time highs.

However, these so-called risk assets are also currently rising in value. A pointed illustration of this lies in the relative performance of healthcare (a defensive sector where demand is inured to the vagaries of the economic cycle and thus supposedly a safe haven in times of economic uncertainty) only marginally outperformed in June: the MSCI World Healthcare Index rose 6.7% versus 6.5% for its parent, the MSCI World Index. Furthermore (and discussed in more detail below), the riskier sub-sectors within healthcare outperformed the more typically defensive ones.

Additionally, the correlation between similar shares in market sub-sectors seems higher than usual to us. That is to say that the market appears less discriminate on operating company performance than it is on the existential question of appropriate market exposure levels to given areas of the marketplace.

This tightly correlated rising tide lifting every boat is certainly unusual and may even be unprecedented (we cannot recall such a situation); that in itself should be enough for people to be asking themselves searching questions about how we got here and what might come next.

What could drive such harmonistic synchronicity? We can think of three possibilities. One is that more polarised views on the market are forming and, for the moment, they are equal. Rather like politics, the middle is hollowing out, replaced by more extreme views at the edges.

An alternative is that we really are in a brave new world of stable low inflation and continued economic growth (the 'Goldilocks' scenario), so all of this is merely an ongoing re-pricing of assets in such a world.

Another is the shorter-term wall of money argument; there simply is not enough liquidity around to absorb all the profits of the past decade's growth and thus money is being sprayed around in an indiscriminate fashion. The rapidly increasing number of Biotech IPOs in recent weeks to our minds supports a view that bankers are looking to take advantage of less discriminate investor sentiment and perhaps that they also think the market will rollover ("get out there before the window closes").

As befits such a haphazard market dynamic, the performance of the various healthcare sub-sectors is similarly erratic and rather puzzling, as the table below attests. Typical "risk on" segments like Healthcare Technology and Diagnostics have done well, but other assets that would normally be characterised as "risk on" like Healthcare IT and Dental have not fared so well. Pharma and Managed Care (arguably the most defensive areas) have been notable laggards, which largely confirms that the predominant attitude in healthcare is "risk on", although we would have thought that Managed Care would have fared a little better as the Democratic primaries began to inject some much needed realism into the polemics of 'Medicare for all'.

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Biotech	9.3%	7.1%	6.6%
Conglomerate	11.7%	8.3%	7.8%
Dental	0.6%	-0.7%	-1.2%
Diagnostics	2.3%	11.3%	10.7%
Distributors	2.9%	6.0%	5.4%
Facilities	1.1%	9.8%	9.2%
Generics	0.4%	9.9%	9.3%
Healthcare IT	1.0%	3.6%	3.0%
Healthcare Tech.	0.2%	23.5%	22.9%
Managed Care	8.8%	1.8%	1.3%
Med-Tech	15.3%	7.9%	7.3%
Other Healthcare	1.2%	11.7%	11.1%
Pharma	34.3%	4.2%	3.7%
Services	1.6%	11.8%	11.2%
Specialty Pharma	3.3%	15.3%	14.6%
Tools	5.8%	9.9%	9.3%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 31-05-19. Performance to 30-06-19.

One might have expected a performance dispersion like that above would be very favourable for our strategy. However, like the Baudelaire children, we have suffered a series of unfortunate events. A small number of stocks have seen material price declines on the back of immaterial news (or even none). Consequently, the Trust's NAV rose only 4.7% to 138.45p, versus 6.1% for the MSCI World Healthcare Index.

FX represented a small headwind for the month and is likely to remain volatile through the Conservative leadership election process and the emergence of some sort of strategy to advance the Brexit debate (as we wistfully recall those halcyon days of a functioning legislature).

Returning to the Trust and looking back over the past three months, they have proven to be rather challenging in terms of surprising events with even more surprising consequences. Few of these have any bearing on the longer-term investment theses that drive our asset allocation decisions. Nonetheless, we are very frustrated by our recent performance.

Future music

If short-term sentiment is binary, then one of these groups (i.e bond bulls vs. equity bulls) is "long and wrong" because risk cannot both be "on" and "off" for long. The fence always collapses under the weight of being sat upon. Coming back to the three scenarios posited above, only the unlikely 'Goldilocks' scenario can have a benign ending for the typical (i.e. long-only) equity investor. What might the coming months bring, and how might we react?

Recent moves seem to suggest that sentiment is mainly contingent on a favourable resolution to the ongoing US-China trade dispute; specifically any measures to delay or negate tariffs. The extent to which a mutually acceptable deal (given both sides need to claim victory for domestic political reasons) is in reach remains unclear, even as the leaders met on the fringes of the recent G20 conference. As we have noted before, we expect the market to continue to stagger sideways without such a settlement and, given the mixed macro-economic data, for the risks to skew to the downside in its absence.

Such a view argues for some caution. Firstly, we have gradually reduced our gearing from around 10% of gross assets over the January to April period, where our conviction that many assets were undervalued and thus the market should move higher, to around 7.2%.

Secondly, we have a plan of action in the event of another sharp market correction. We have identified a number of companies that fit within our top-down positioning of an evolving healthcare paradigm, but which have generally traded at premium valuations. Since we are long-term investors, we must remain disciplined on valuation so cannot justify owing these assets at current prices. Everything tends towards a mean eventually and, whilst these companies have premium growth, we do not feel that they will generate enough long-term value creation from current levels if they are slowly de-rated.

Having just been through a sharp and very short-lived market correction in December of 2018, we have identified a sub-set of these enterprises that seem to exhibit cyclical tendencies in market downturns. In the event of another such correction, we have completed all of the relevant due diligence and thus stand ready to deploy leverage to take advantage of a reasonable entry point into these companies if one emerges.

Liquid is liquid

As the back and forth of the macro-economic debate rages on, many UK investors have found themselves unwittingly embroiled in a liquidity crisis with certain retail fund products. This has led to a wider debate around the appropriateness of holding less liquid investments within a UCITS or Investment Trust structure that is predominantly focused on listed equities. Whilst we have no wish to comment on what other managers might do, we thought it worthwhile to clarify BB Healthcare's own positioning with respect to liquidity.

Our investment mandate limits us solely to already listed main-market equities. This excludes companies about to IPO, or those listed in places like Guernsey, even though technically one could define such assets as listed within a UK equity fund.

We do not utilise any derivative products at all, save for the option of hedging tax liabilities in the very limited number of markets that do not allow foreign investment firms to make tax-exempt capital gains. Although this option exists, we have not made any investments in such markets to date.

We have agreed liquidity criteria for all our investments with the board and an independent third party monitors these limits to confirm that we remain within them. These were put in place to give investors' confidence in the annual redemption option. Put simply, if everyone were to redeem, there needs to be a mechanism in place to allow an orderly liquidation of the Trust within about one month and these measures give the board conviction that the manager could execute such a liquidation. Details on the redemption process can be found on page 100 of the most recent prospectus on our **website**.

Qualitative reassurances are all well and good, but how liquid is 'liquid'? We produce monthly data on the portfolio liquidity that relies on rolling 12-month trading volumes. If we were to limit ourselves to 15% of daily volume in the stocks we own (this being a level of trading widely accepted not to impact share prices deleteriously), the weighted average time to liquidate the portfolio would be 3.3 days and c.94% of the portfolio could be liquidated within two weeks. By any relative measure, this is a very liquid portfolio.

Our comfort with continued equity issuance is intimately linked to this high level of portfolio liquidity. Because the investments are so liquid, it is very easy to deploy additional capital. For example, if we were to double the size of the Trust tomorrow, we could deploy 95% of the additional capital in a pro-rata fashion to our existing portfolio and remain within the pre-agreed liquidity limits.

Since we are investing into the same companies, there is no change to our return expectations and thus we are happy to continue to see the Trust grow. Such issuance benefits existing holders in two ways: it improves daily liquidity in the Trust's shares and reduces the fixed cost element of the running costs as a proportion of assets under management (i.e. our total expense ratio).

Time to get up

The second quarter has been extremely frustrating, for all of the reasons detailed previously. In these periods, one must not be reactive, but considered. The only important thing is whether fundamentals are changing and how any such changes impact the long-term investment theses that underpin our asset allocation decisions. In this regard, we see little reason to be concerned, as generally we have seen positive progress across the portfolio in terms of business evolution.

However, July brings the Q2 reporting season and the hope of a re-focussing on fundamentals and some differential performance in terms of company quality. Whilst the market has not rewarded fundamental performance as we hoped and expected, at a certain point the market will revert from being a voting machine on economic sentiment to more of a weighing machine on stock-specific corporate outlooks.

Developments within the Trust

We have exited our holding in AmerisourceBergen, a US wholesaler on valuation/expected return grounds, leaving us with 27 stocks in the portfolio. As noted previously, the leverage ratio has declined from 9.9% to 7.5%.

It was another strong month in terms of demand for additional shares through the tapping programme, with 16.4m additional shares issued during the month. We can issue up to a further c.30m additional shares under the authority granted at the AGM in April 2019.

We thank you all for your continued support of the Trust and always appreciate the opportunity to interact with our investors directly. We would remind readers that they can submit questions regarding the Trust at any time via: shareholder_questions@bbhealthcaretrust.co.uk

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

Paul Major and Brett Darke

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Standardised discrete performance (%)		
12-month total return	June 18 - June 19	Dec 16 - June 19*
NAV return (inc. dividends)	16.7%	48.6%
Share price	13.2%	37.5%
MSCI WHC Total Return Index	17.6%	36.9%

Sources: Bloomberg & Bellevue Asset Management AG, 30.06.2019

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

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

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SUB SECTOR BREAKDOWN

Managed Care	16.7%
Diagnostics	14.9%
Biotech	12.4%
Healthcare IT	12.3%
Med-tech	10.7%
Specialty Pharma	9.7%
Dental	8.3%
Services	6.2%
Pharma	5.0%
Health Tech	2.1%
Facilities	1.7%

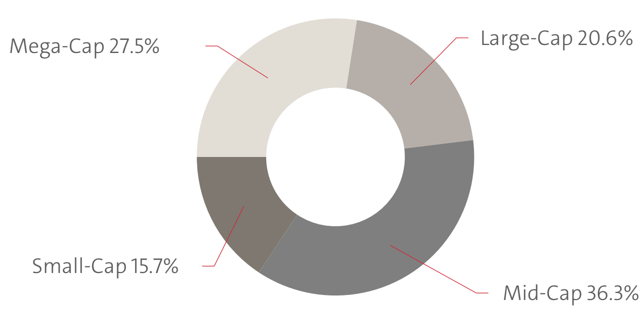
Source: Bellevue Asset Management, 30.06.2019

TOP 10 HOLIDINGS

Teladoc	10.2%
Anthem	9.7%
Illumina	8.6%
Align Technology	8.3%
Lonza	6.2%
Humana	6.1%
Bristol Myers Squibb	5.0%
Intuitive Surgical	3.3%
Esperion	3.2%
Hill-Rom Holdings	3.2%

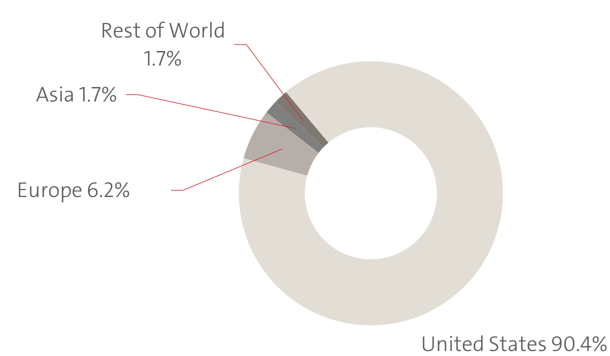
Source: Bellevue Asset Management, 30.06.2019

MARKET CAP BREAKDOWN



Source: Bellevue Asset Management, 30.06.2019

GEOGRAPHICAL BREAKDOWN (OPERATIONAL HQ)



Source: Bellevue Asset Management, 30.06.2019

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

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INVESTMENT FOCUS

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

FIVE GOOD REASONS

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

MANAGEMENT TEAM

Paul Major

Brett Darke

GENERAL INFORMATION

Issuer	BB Healthcare Trust (LSE main Market (Premium Segment, Offical List) UK Incorporated Investement Trust
Launch	December 2, 2016
Market capitalization	GBP 562.4 million
ISIN	GB00BZCNLL95
Investment Manager	Bellevue Asset Management AG; external AIFM
Investment objective	Generate both capital growth and income by investing in a portfolio of global healthcare stocks
Benchmark	MSCI World Healthcare Index (in GBP) - BB Healthcare Trust will not follow any benchmark
Investment policy	Bottom up, multi-cap, best ideas approach (unconstrained w.r.t benchmark)
Number of ordinary shares	409 042 593
Number of holdings	Max. 35 ideas
Gearing policy	Max. 20% of NAV
Dividend policy	Target annual dividend set at 3.5% of preceding year end NAV, to be paid in two equal instalments
Fee structure	0.95% flat fee on market cap (no performance fee)
Discount management	Annual redemption option at/close to NAV

DISCLAIMER

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