

- For the second time in our three-and-a-half year history, we find ourselves composing a missive to update investors in the midst of a period of exceptional turmoil (the last time being November 2018). Bluntly, we did not expect things to be like this when we launched the fund: since 2015, it feels like markets have been pummelled from one existential macro shock to another like a pinball. Sadly, real life does not offer hundreds of thousands of bonus points for each ricochet and there are no free plays.
- Then, as now, we are trying to cut through the shorter-term noise to pose some fundamental questions around the risk versus the longer-term opportunity moving forward. Ultimately, these conciliate to a single question; when is the opportune time to deploy additional capital?
- The managers were market participants during the tech crash in 1999, 9/11 and the 07/08 global financial crisis, but the level of anxiety and uncertainty we see around us today feels of a profoundly different magnitude. As with 9/11 and the financial crisis, our belief is that the world will return to a 'new normal' and some things will not be as they were, since certain businesses and consumer behaviour simply will not survive in their current form.
- Those prior periods were all 'events', where the immediate consequences were obvious, making the longer-term ramifications clearer. That facilitated asset allocation decisions, and the markets adjusted over a comparatively short time period to the 'new normal'. Governments too seemed to be more co-ordinated and had a greater range of tools on hand to combat the unfolding economic pain. This lack of faith in clear solutions, pathways and timelines to the new normal has exacerbated volatility and the sense of panic.
- Nonetheless, there comes a point where one feels the opportunity outweighs the risks and we think that point is close at hand. We have broken this email down into three sections – a macro summary, the impact on our portfolio and our planned actions consequential to these significant moves (all data is to the close on 19th March 2020 and in sterling and relates to the last published NAV for the Trust).

Facts are your friend, fear is your enemy

Most of the content of the January and February factsheets has been devoted to the ongoing Covid-19 outbreak. That early reads on its biological properties have played out largely as anticipated is of no comfort, nor has it helped overmuch with respect to our navigation of the market reaction to it, which has been devastating and, in some ways, abstruse.

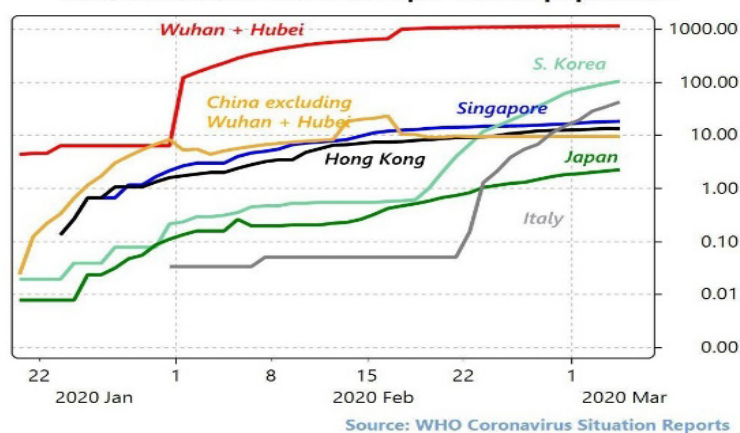
It is vitally important that we all remember this disease has a limited impact on the vast majority of people, who will experience only mildly debilitating symptoms and will then recover without long-term health consequences. It appears more lethal than seasonal flu, but we would argue it is currently impossible to say with any confidence how much worse it is due to the patchy nature of testing. A fraction without a correct denominator is just a random number...

You are all probably fed up of charts, particularly the ones in newspapers that extrapolate early trends far into the future to generate massive numbers of mortality and hospitalisations. Scenario planning is well and good, but we struggle to see an obvious path to claims like eight million UK hospitalisations and hundreds of thousands of deaths, as some media outlets have chosen to focus on. These really are worst possible world extrapolations and, in our opinion, the outbreaks in Spain and France for example are tracking at the lower end of scenario models that we have seen.

As a tonic to sensationalism, we offer another chart from the WHO, which

shows a consistent pattern of infection tapering 2-3 months into an outbreak. It is worth pointing out that Hong Kong and Japan have not imposed draconian measures on the populace, but rather people have themselves taken precautions to stem the spread, as people and companies are now doing here in the UK. In all cases though, extrapolation of early trends is probably unwarranted. Italy does stand out as "Wuhan-like" to some extent, but we shall return to that topic later.

Coronavirus confirmed cases per million population



What has happened?

Paranoia and panic are sound evolutionary strategies to avoid death in the unfriendly world humanity was born into. In today's safe and highly connected world though, they become the driver of the self-fulfilling prophecy. It does not really matter anymore what the course of this pandemic looks like; consumer behaviour (either voluntarily or by government edict) has changed and the economic carnage that will follow may prove short-lived, but it will feel very real to those who are impacted. Make no mistake; that impact is profound and we are already seeing it play out here in the UK, with two high street names now having closed their doors and many of the small businesses local to us struggling.

The scale of the economic challenge is significant. For instance, we can all envisage layoffs in the tourism sector as hotels, bars, restaurants, airlines, cruise lines etc. adjust to lower volumes when their costs are painfully fixed. This notion is thrown into starker relief though when one considers that the tourism industry directly employs >300 million people globally. A 10% cut in employment is thus equivalent to making the entire population of Malaysia unemployed. In turn, these people cannot spend as before and so the economic contagion spreads even faster than the virus causing it.

How has the market reacted? The halcyon days of new year optimism saw the MSCI World Healthcare Index rise >5% in the year to 12th February. It then retreated ~1%, only to recover its peak by 19th February, despite the burgeoning headlines around the virus, which was declared a global emergency by the WHO on 30th January.

And then the sell-off began, as the epidemic took hold in Korea and Iran. Why was this the trigger, when so much had already happened over the prior three weeks? We will never really know, but the Korean and Iranian outbreaks were the first where there was not a clear person-to-person link back to China and the original outbreak in Hubei. Considering facts such as those above, a material market correction from levels where economic growth is robust and employment generally full seems a reasonable response. But how much is 'enough'?

As ever in these situations, the jolt downward has been interspersed with short-lived and sometimes violent recoveries (the perished cat carom). As of 19th March, the MSCI World Healthcare Index has declined 12.1% from its peak. The healthcare sector has exhibited defensive characteristics; its 7.3% year-to-date fall contrasts with a 17.5% decline for the parent MSCI World Index.

As noted above, the wider market sell-off has gathered pace as investors became concerned and frustrated at the lack of synchronous government action to mitigate firstly the infection's spread and impact and secondly the inevitable economic fallout arising from changes in consumer behaviour (and government edicts). Let us leave the market to one side for a moment, and return to the epidemiology.

We reiterate our view that all the current data about the prevalence of the virus and the incidence of severe clinical effects needs to be interpreted with caution; there will be a direct correlation with the amount of testing being carried out and the apparent speed and extent of spread. Under-testing makes the spread look "peakier" and the severity worse; it hits like a tsunami because the earlier mild cases are effectively not recognised as such.

For example, one town in Italy (called Vo) tested its entire population in late February and found a 3% positivity rate, with 50% of the positives being asymptomatic. This is a possibly unique and interesting dataset. Across Italy, non-random testing positivity has been >4%, so we can probably conclude Vo's 3% is a reasonable proxy for the prevalence of the disease. This would imply there are >2.5 million cases in the country as a whole. When seen in this context, its 3,500-odd deaths are more comprehensible. We will return to the mortality data below.

Fear is peaking, what might make it begin to subside? It is probably only evidence of declining new cases. On a less positive note, we would argue that declining new case reports is not prima facie evidence of containment or peak prevalence given the limitations of testing (which become greater as the number infected climbs); the best proxy we will have for now regarding impact is hospitalisation data and even there, the worst-hit regions will be struggling to admit all the needy patients. We also urge caution on the apparent wonder of containment by edict; it will curtail spread but the infection can recur if there is a ready reservoir of the unexposed to infect once restrictions are lifted. This will be another tricky journey for societies to manage, and one for which there is no historical precedence to guide us.

The most commonly asked question from investors in recent days has been why Italy of all places (renowned for the quality of its healthcare outcomes in a European context) is seemingly suffering so much, in terms of the rapidity of spread and severity of outcomes (mortality etc.). We remain of the view that this is an artefact born of slow testing in the early phase, compounded with multiple socio-cultural factors. Italy is a very sociable place, with lots of close contact (cheek kissing etc.) in normal life and a lot of elderly people (second only to Japan), with many living closely to younger relatives who, per the Vo data, might not even realise that they are infected.

As we went to press, there are now ~41,000 live cases in Italy and ~7,850 closed cases. 43% of these have ended in deaths. Open cases is now ~33,000 and 92% of these are considered to be mild. For Spain, its 94% and 43% for closed cases that ended in death. When these resolve, things should begin to look different. For Spain, another socio-culturally similar country, 94% of open cases are deemed mild and 33% of closed cases ended in death. It remains the case globally that mortality in the 0-50 age group is around 0.2%, but again this will be impacted by the testing rate in each country.

The demographics of the mortality in Italy are also interesting (per the Lancet paper from 13th March), with a median age of 79 for men and 83 for women, 2/3 with pre-existing conditions and 74% over the age of 70 and 83% over 60. The under 50s have made up only 3% of deaths but account for ~65% of the population. This latter point is simply not correlative with the levels of anxiety being expressed by the general public about their own personal risk and that of their families (particularly children) and we hope

that it will put some of our reader's minds at rest as well. We are not saying this disease poses no risk to younger people, nor seeking to trivialise its impact on those impacted. We are merely trying to emphasise that the data has consistently shown that the probability of a young, healthy person (i.e. the vast majority of humanity) suffering adversely is very low. It is vital to keep this in mind. Nonetheless, this anxiety and the behaviour changes in response to it, lead the managers to believe that a global recession is likely inevitable.

We would also reiterate our view that healthcare stands apart from the wider economy. If there is a global downturn, it will have little impact on the industry's demand side as a whole, although the close correlation in the all-important US market between having a job and having access to medical insurance that adequately covers medical treatment for non-life threatening conditions should not be ignored in the event of a material increase in unemployment. In that sense then, healthcare's defensive attributes in these sorts of market sell-offs are well deserved.

The anatomy of a panic

It is a truism that the market is not an efficient aggregator of data in the short-term. Within the market, various structural trends (passive strategies, ETFs, algorithmic trading) are widely believed to have exacerbated volatility in recent years, particularly during times of market stress. As such, it is not reasonable to think that short-term share price reactions in times like these will be rational; the two phases of a crash are "sell what you can", followed by "sell everything".

It increasingly feels that we have entered this second (and final) phase. Unfortunately, history tells us there is no easy way to accurately call the bottom. We are all acutely aware how painful this can be to one's wallet and for some people, the consequences to their very livelihoods will be profound.

On the other hand though, volatility also creates opportunity and there will be many a baby thrown out with the bathwater. If we think about the past few weeks and empirical observations of other economic shocks, there are a number of qualitative conclusions one might reasonably draw about the market's behaviour within the healthcare sphere:

- **Managed care** should do well: Bernie Sanders primary campaign is on the ropes and, whilst US hospitals may fill with elderly patients suffering pneumonia, elective procedures will be postponed and these are costs that the insurance company would be on the hook for. Medical costs for treating patients may thus improve through Q1/Q2, especially for those insurers less exposed to the elderly Medicare population. The opposite is true for hospitals (**Facilities**); the profits are made in caring for the mildly unwell via elective procedures. Margins are thin and capex and debt levels generally high, so profits will be hit hard. Maybe the US government will help though.
- **Pharma, Spec Pharma** and **Biotech** should be a safe place to hide: prescriptions are generally necessary and people are no more likely to forget to take their meds now than before. This is presumably even more true for specialty drugs treating severe conditions, thus patients and doctors are more motivated to ensure ongoing compliance.
- Patient-centric **Med-Tech** could underperform near-term as elective surgical volumes decline. Bigger ticket items could also suffer as hospital capex projects are delayed with leadership focused on other, more pressing matters. Critical care equipment providers may see a bolus of demand if production can be ramped in a reasonable timeframe. **Diagnostics** providers exposed to respiratory testing could see increased placements and a bolus of testing volumes.
- **Dental** may struggle as patients defer visits through social distancing and then, longer-term, consumers may seek to reduce out of pocket or discretionary expenditures in the event that they are directly impacted by the economic fallout.

- The same goes for hearing aid suppliers, which are quasi retail companies serving an elderly population. They could suffer greatly in the short-term. Pharmacies make money on wellness and beauty and happen to serve prescriptions. They probably won't fare as well as you might imagine, but pharmaceutical wholesalers (Distributors) should fare okay as they operate largely on a fee-for-service basis.

Figure 2 below summarises the sub-sector performance of the MSCI World Healthcare Index since 19th February. It shows that Pharma/Conglomerates and Biotech have indeed outperformed wider healthcare, although specialty pharma has lagged. Facilities, Hearing Aids and Dental have indeed fared poorly, but Managed Care has not outperformed as one might have expected, perhaps because of fears that the insurance market will shrink in the event of mass unemployment. Healthcare Technology and Generics are concentrated sectors and the former are highly rated, so there is a degree to which one might expect them to sell-off harder as they have further to fall to find a floor valuation.

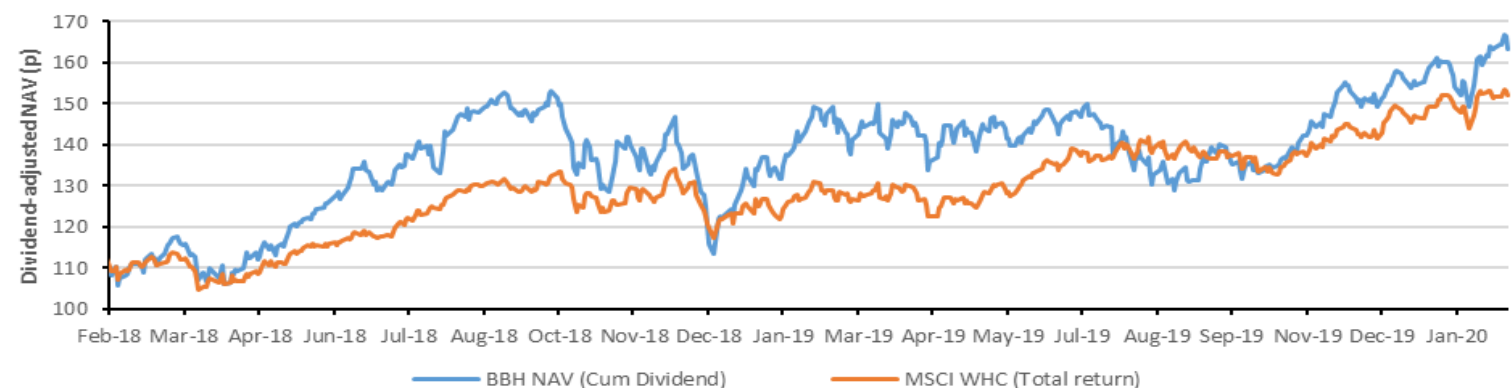
On the subject of that floor though, one must wonder if a ~21% sell-off of a defensive sector that was already trading at a relative valuation discount to historical averages versus the wider market (because of the 'Medicare For All' "M4A" overhang) is really warranted, especially given the progress Biden is making toward securing the Democratic nomination (he opposes M4A).

BENCHMARK SUB-SECTOR PERFORMANCE AND WEIGHTINGS

Sub-Sector	Weighting	Perf. (USD)	Perf. (GBP)
Biotech	8.3%	-7.9%	3.0%
Conglomerate	11.6%	-19.0%	-9.4%
Dental	0.5%	-47.6%	-41.5%
Diagnostics	2.0%	-26.4%	-17.7%
Distributors	2.9%	-21.6%	-12.4%
Facilities	1.1%	-41.2%	-34.7%
Generics	0.4%	-37.9%	-30.6%
Healthcare IT	1.0%	-14.3%	-4.2%
Healthcare Tech.	0.6%	-31.3%	-23.2%
Managed Care	8.4%	-29.6%	-21.2%
Med-tech	15.7%	-27.2%	-18.4%
Animal Health / Othe	1.3%	-31.0%	-22.9%
Pharma	34.7%	-18.2%	-8.7%
Services	1.9%	-26.0%	-17.3%
Specialty Pharma	3.8%	-24.5%	-15.6%
Tools	6.0%	-20.6%	-11.2%
Index perf.		-21.4%	-12.1%

Source: Bloomberg/MSCI and Bellevue Asset Management. Weightings as of 29-02-20. Performance to 19-03-20.

In summary, although the quantum of the sell-off might be excessive, the sub-sector data does indeed suggest some degree of rationality has played out at the Index level. How have we fared during this period?



Source: Bloomberg/MSCI and Bellevue Asset Management.

2018 Redux

With the Trust now having been in existence for more than three years, some of its inherent characteristics are sufficiently obvious that one can quantify them. Our objective was to create a concentrated, yet diversified and operationally geared portfolio of exposures to the areas of healthcare that would benefit from an inevitably changing paradigm. We have followed a long-term investment approach and have been unconstrained as to what we could own across geographies, sub-sectors and market-capitalisation. This has left us with a rather greater mid-cap focus versus our peers and our benchmark.

In terms of relative performance to that benchmark, the track record (Figure 3 below (which illustrates our performance up to the 19th February)) shows that the strategy fares best in benign market conditions and struggles in periods of rapid market sell-offs, owing to its relative characteristics in terms of company size and liquidity.

During periods of market stress these factors have detracted from performance and adversely impacted metrics like beta and Sharpe ratio. This was most evident in the market sell-off of Q4 2018.

On the other hand, those same inherent characteristics of operational gearing and liquidity allow the fund to recover rapidly when the market regains its footing (cf. Q1 2019).

With these characteristics, we recognised that navigating this period would be tricky and we did what we could to mitigate, within the boundaries of trying to remain fully invested (a commitment at the time of the Trust's launch). When adjusted for trading ex-dividend (in respect of the 2.425p dividend per share to be paid on 9th April 2020, our Net Asset Value has declined 16.0% during the quarter, versus the 7.3% decline for the MSCI Healthcare Index.

This may seem a dramatic underperformance, but when we compare it to the Q4 2018 market correction, it seems less surprising: our NAV fell 20.0%, versus a 7.6% decline for the MSCI Healthcare Index over the same period. It is also worth remembering that, whilst the volatility within the strategy has been higher than we hoped at inception (due to the barrage of macro headwinds described over so many factsheets), the longer-term outperformance trend is also clear. In the time from inception to 19th February 2020, BBH delivered a total return for shareholders of 69.1% versus, 57.9% for the MSCI World Healthcare Index, which equates to a 16% higher annualised return.

Once more unto the breach

When the dust settles and Covid-19 has thankfully become a historical consideration, the 'new normal' will still feature the same demographic and societal drivers of a growing and ageing population. These point strongly to a continuation of the existing multi-decade trend of increasing consumption of healthcare resources; it is as close to a demographic certainty as one could find.

Whilst it is too early to speculate how the world will be different, it is already obvious that the stresses and inefficiencies of the current healthcare model have been amply demonstrated in the current crisis. Better models of care (digital first, telemedicine, alternative sites for care delivery to reduce strain on hospitals) have been allowed to demonstrate their value in ways that we did not anticipate and in a timeframe that is shorter than we expected. We see this as a boon to our longer-term expectations for system-wide change.

Amidst the current crisis, asset prices look very attractive in many areas of healthcare, particularly outside the mega-caps. We stand ready to deploy additional capital, but with caution. We are aware that substantially increasing the leverage of the Trust in what remains a volatile period is not necessarily the right way to go, but we are increasingly comfortable to begin to deploy some borrowings and would very much welcome any additional capital through tap issuance *that may be undertaken pursuant to the current prospectus*.

Although your co-managers are already very exposed to the share price of BBH from a personal wealth perspective, we have both purchased additional shares this week that materially add to our holdings. The attractive asset valuations inherent in the current NAV were further compounded by the dislocation between the NAV and the share price, and the shares are still trading at an 8.3% discount to NAV as we went to press. We hope investors recognise this action as a sign of our personal belief in the long-term opportunity we see unfolding.

The Board has considered the option of buying back shares in light of the discount having briefly moving beyond 10%. However, with so many of the portfolio holdings currently trading at discounts to our fair values that are greater than the discount of the NAV to the share price, the board's view is that the company will not be buying back shares in the current market conditions. This is consistent with the company's objective to generate long term investment returns. We agree with the Board's stance, and expect the discount to narrow as market volatility reduces. In the meantime, our focus is on maximising the Net Asset Value.

This is an unprecedented period in history and its consequences will be very challenging for many people at a personal level, with respect to their family members and the wider economic picture. Whilst we would not seek to diminish this tragedy, it is ever the case that periods of great uncertainty are also fantastic entry points for the patient investor. As the Sufi's wisely said more than 700 years ago, "this too shall pass" and we must all try to hold on to that certainty.

Current circumstances mean that we have had to cancel our planned presentation at the AGM and we apologise to those of you who were planning to attend. In the meantime, you are always welcome to submit any questions to: shareholder_questions@bbhealthcaretrust.co.uk.

We wish you and your families good health and the best of luck navigating these coming months and thank you all for your continued support for BBH during this challenging period.

Paul Major and Brett Darke

INVESTMENT FOCUS

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

DISCLAIMER

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FIVE GOOD REASONS

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

MANAGEMENT TEAM



Paul Major



Brett Darke

GENERAL INFORMATION

Issuer	BB Healthcare Trust (LSE main Market (Premium Segment, Official List) UK Incorporated Investment Trust
Launch	December 2, 2016
Market capitalization	GBP 596.6 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	437 057 062
Number of holdings	Max. 35 ideas
Gearing policy	Max. 20% of NAV
Dividend policy	Target annual dividend set at 3.5% of preceding year end NAV, to be paid in two equal instalments
Fee structure	0.95% flat fee on market cap (no performance fee)
Discount management	Annual redemption option at/close to NAV

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