

Investing into the rapidly evolving healthcare paradigm

March 2022



Bellevue Asset Management
is a signatory to:



Bellevue Healthcare – overview of public equities team

Part of the Bellevue Group, with a strong heritage in healthcare investments

BB Healthcare Trust & WS Bellevue Healthcare Fund



Paul Major

- 25 years of experience
- Focus: Global Healthcare
- London office



Brett Darke

- 20 years of experience
- Focus: Global Healthcare
- London office

Bellevue Healthcare Funds & Mandates



Dr. Cyrill Zimmermann

- 32 years of experience
- Focus: Medtech, Asia
- Zurich office



Oliver Kubli

- 28 years of experience
- Focus: Generics, EM, Asia
- Zurich office



Stefan Blum

- 25 years of experience
- Focus: Medtech & Services
- Zurich office



Marcel Fritsch

- 17 years of experience
- Focus: Medtech & Services
- Zurich office



Remo Krauer

- 16 years of experience
- Focus: Asia & Emerging Mkts
- Zurich office



Dr. Christian Lach

- 25 years of experience
- Focus: Pharma & Biotech
- Zurich office



Samuel Stursberg

- 20 years of experience
- Focus: Pharma & Biotech
- Zurich office



Zahide Donat

- 8 years of experience
- Focus: Sustainability
- Zurich office



Dr. Lukas Leu

- 6 years of experience
- Focus: Biotech & Pharma
- Zurich office



Mateusz Niedzwiecki

- 1 year of experience
- Focus: Medtech
- Zurich office

BB Biotech AG



Dr. Daniel Koller

- 23 years of experience
- Focus: Biotech
- Zurich office



Felicia Flanigan

- 29 years of experience
- Focus: Biotech
- New York office



Dr. Christian Koch

- 10 years of experience
- Focus: Biotech
- Zurich office



Dallas Webb

- 19 years of experience
- Focus: Biotech
- New York office



Dr. Maurizio Bernasconi

- 9 years of experience
- Focus: Biotech
- Zurich office



Dr. Stephen Taubenfeld

- 16 years of experience
- Focus: Biotech
- New York office



Dr. Samuel Croset

- 8 years of experience
- Focus: Biotech (data science, machine learning). Zurich office

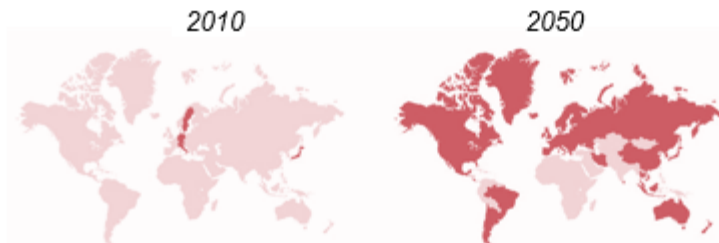
**Bellevue Asset
Management
Healthcare Funds
AuM ~£9bn**

Healthcare: where else can one be certain demand will rise continually?

A growing and ageing population will sustain demand growth for the foreseeable future

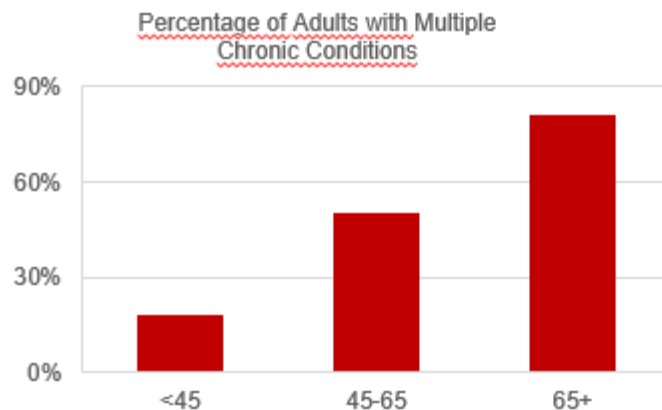
Demographics & Disease Complexity

The proportion of the population aged >60 is rising rapidly within a growing global population



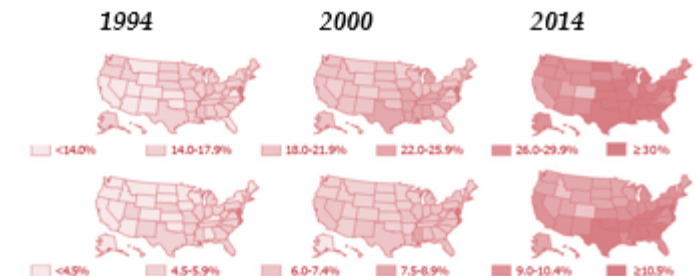
Dark shading: >25% of the population is older than 60 years.

An aging population needs to manage multiple chronic conditions, increasing the complexity and cost of care



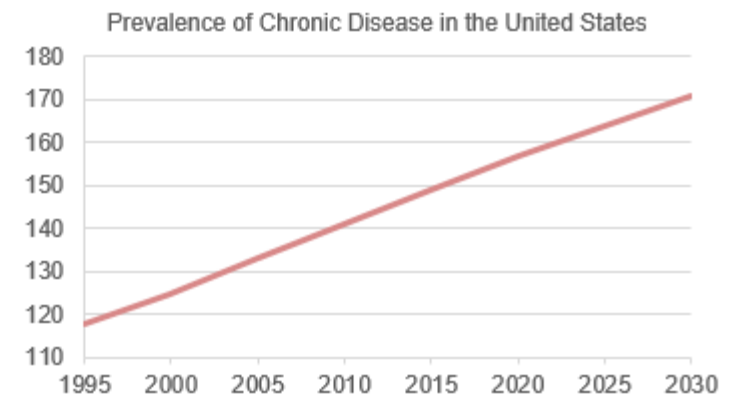
Lifestyle Changes & Chronic Disease

Dramatic rise of obesity and diabetes



Obesity (BMI ≥ 30 kg/m²) and diabetes in the USA

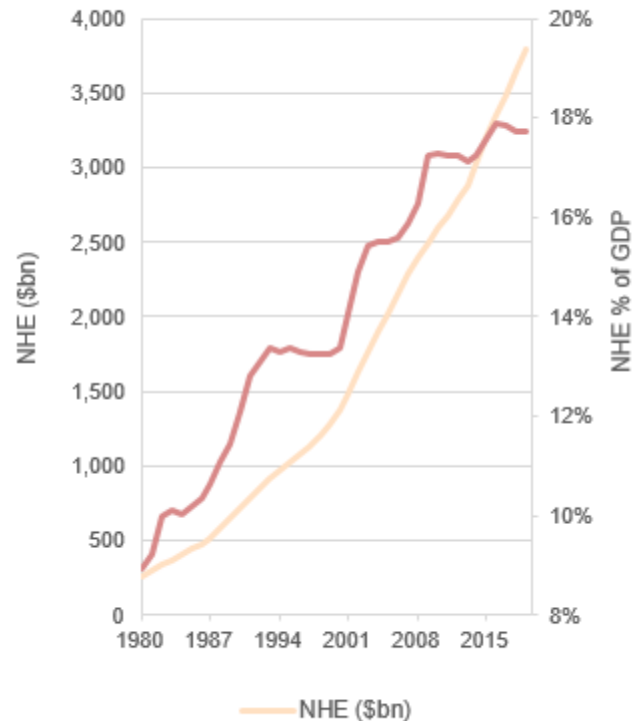
Rates of chronic disease have increased significantly and are projected to continue



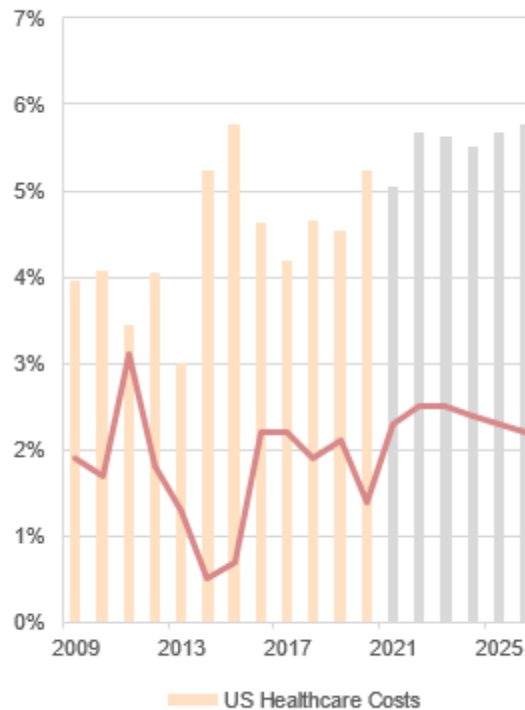
How is society going to pay for all of this inexorable demand?

Society must structurally bend the cost curve...the need for substantial system change is clear

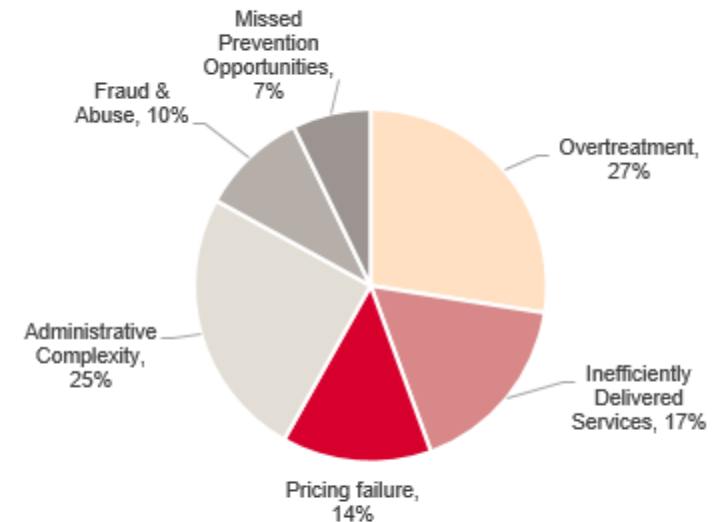
US National Healthcare Expenditure



Annual Inflation Rate



- ▶ US healthcare **waste estimated at \$750bn per annum:**

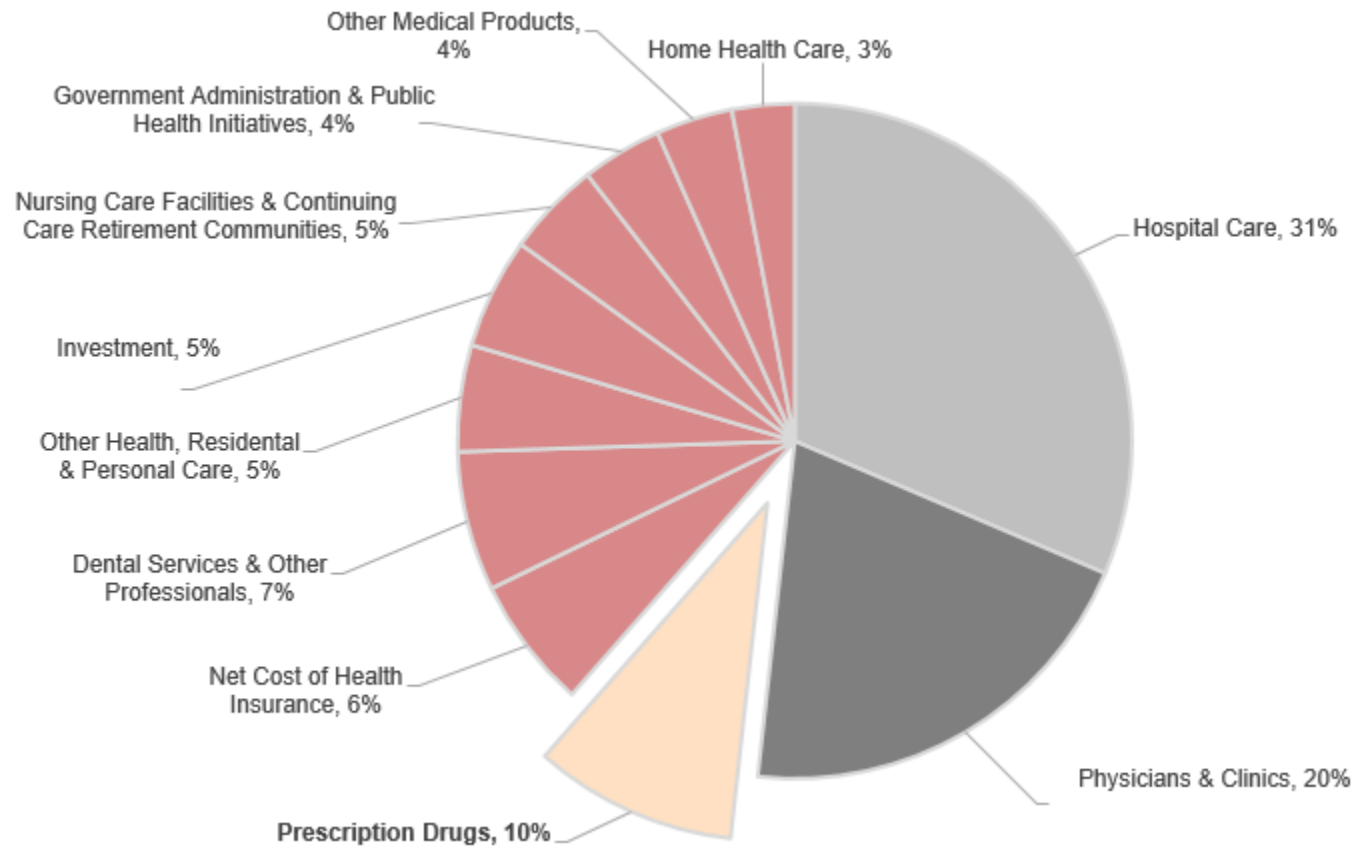


- ▶ 25% of medical appointments are not medically necessary.
- ▶ 1 dollar in 4 is wasted to no actual medical benefit.

Healthcare systems today are very costly, wasteful and thus unsustainable. They urgently need re-inventing to meet the requirements of the 21st century population in a cost-effective manner

A differentiated approach for the rapidly evolving healthcare paradigm

US annual healthcare spend (c\$3.8trn)



Merely tackling pharmaceutical pricing only addresses ~10% of the cost problem. Broader system change is needed to deliver cost-effective care

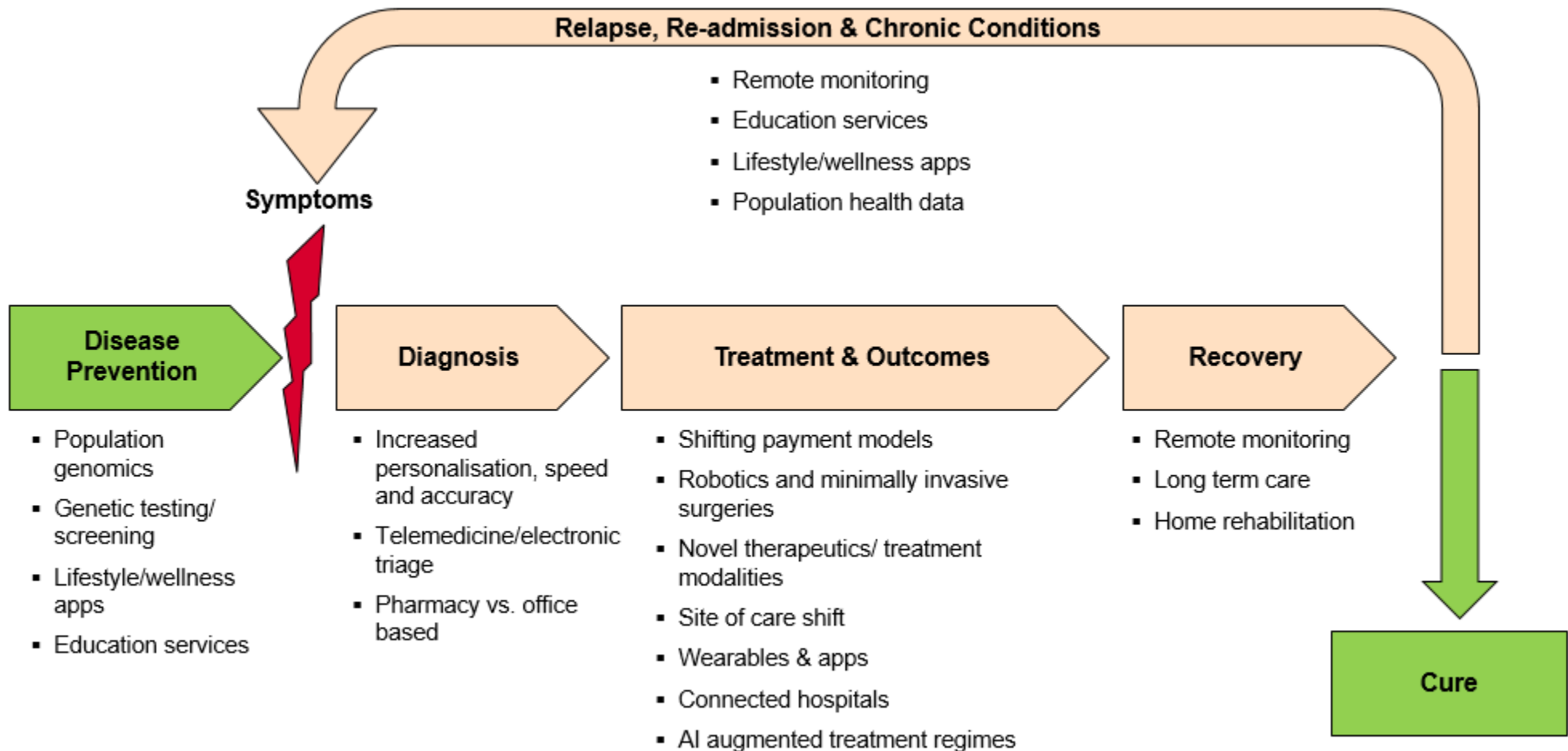
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10 Key themes that drive our thinking

1. **“Everything must change”** – western healthcare systems are broken and not fit for purpose in terms of serving the needs of an ageing population. The human skills deficit is already too far gone to bridge.
2. **“Technology and healthcare will intersect as never before”** – IT innovations such as AI & big data that can cope with noisy (i.e. incomplete) healthcare records data will increasingly drive insights and prevention plans.
3. **“It’s written in your genes”** – genetic data will be at the forefront of diagnosis and population health (preventative interventions).
4. **“Electronic first”** – your first interaction with the healthcare system will be digital; creating a footprint that can be tracked and allow you to get the best care in the cheapest and most convenient manner possible.
5. **“People are fallible”** – we do not follow medical advice and do not behave rationally. People need to be nudged and prompted to do the right thing and making things easier is just as important as making treatments better (e.g. CGM).
6. **“Knowledge is power”** – the future consumer wants to be far more engaged in decision making and future care models will need to be more patient centric.
7. **“Acuity must fall”** – hospitals are expensive and full of sick people. No-one wants to be there and newer care models will be increasingly used.
8. **“Connected care and the internet of things”** – the future treatment setting will be loaded with passive sensing technology that enhances physician decision-making.
9. The **“democratisation of innovation”** – the future favours those with the best ideas in drugs and med tech being able to bring projects to middle stages of development using outsourced models of R&D and production, tilting the balance in favour of disrupters over incumbency.
10. Related to the point above, **legacy infrastructure** in the pharma/biotech and hospital space has less value than it did historically.

A differentiated approach for the rapidly evolving healthcare paradigm

Our strategy addresses all stages of patient interactions/costs with the healthcare system



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How a selection of Bellevue Healthcare's investments address the need for system change

Novel therapeutics/
treatment modalities



Increased diagnostic
personalisation, speed and accuracy



Remote monitoring, wearables &
AI augmented treatment regimes



Shifting
payment models



Site of care shift



Robotics & Minimally
Invasive Surgeries



Telemedicine, electronic triage
and benefits navigation



Improving
system efficiency



Population genomics
and screening



Connected hospitals



Our investments readily address multiple areas of the cost challenge

A differentiated approach for the rapidly evolving healthcare paradigm

Our investment process results in an uncorrelated and highly differentiated portfolio

	Bellevue Healthcare Strategy ⁽¹⁾	MSCI World Healthcare Index
No. of holdings/ constituents	32 ⁽²⁾ (max 35, avg since inception 30)	154
Top 10 (% of overall)	51.7%	37.1%
Active share	~95% (~65% outside of MSCI WHC Index)	n.m.
Correlation	0.25 to MSCI WHC Index	n.m.
Sector Exposure	Unconstrained (can vary as we deem fit)	Exposure to all sub-sectors
Market Cap. Exposure	<p>Small-Cap, 12.1%</p> <p>Mega-Cap, 17.2%</p> <p>Large-Cap, 9.8%</p> <p>Mid-Cap, 60.9%</p>	<p>Mid-Cap, 1.8%</p> <p>Large-Cap, 23.8%</p> <p>Mega-Cap, 74.5%</p>
Geographic Exposure	<p>Rest of World, 4.8%</p> <p>United States, 95.2%</p>	<p>Europe, 21.3%</p> <p>Rest of World, 6.6%</p> <p>United States, 72.1%</p>

Source: Bellevue Asset Management (UK) Ltd and MSCI. Data as at 28 February 2022. Correlation is calculated as prior two years against benchmark in GBP.

(1) The figures used to represent the Bellevue Healthcare Strategy are those for the BB Healthcare Trust.

(2) Excludes Alder CVR.

Healthcare's secular growth trends drive long-term outperformance

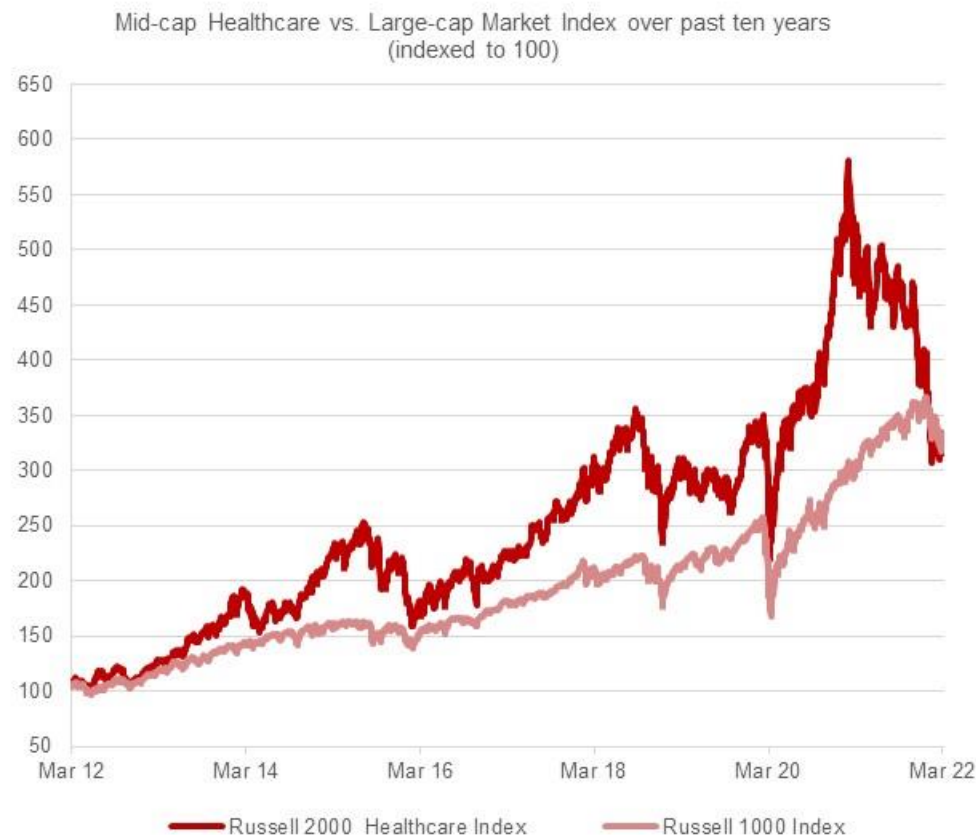
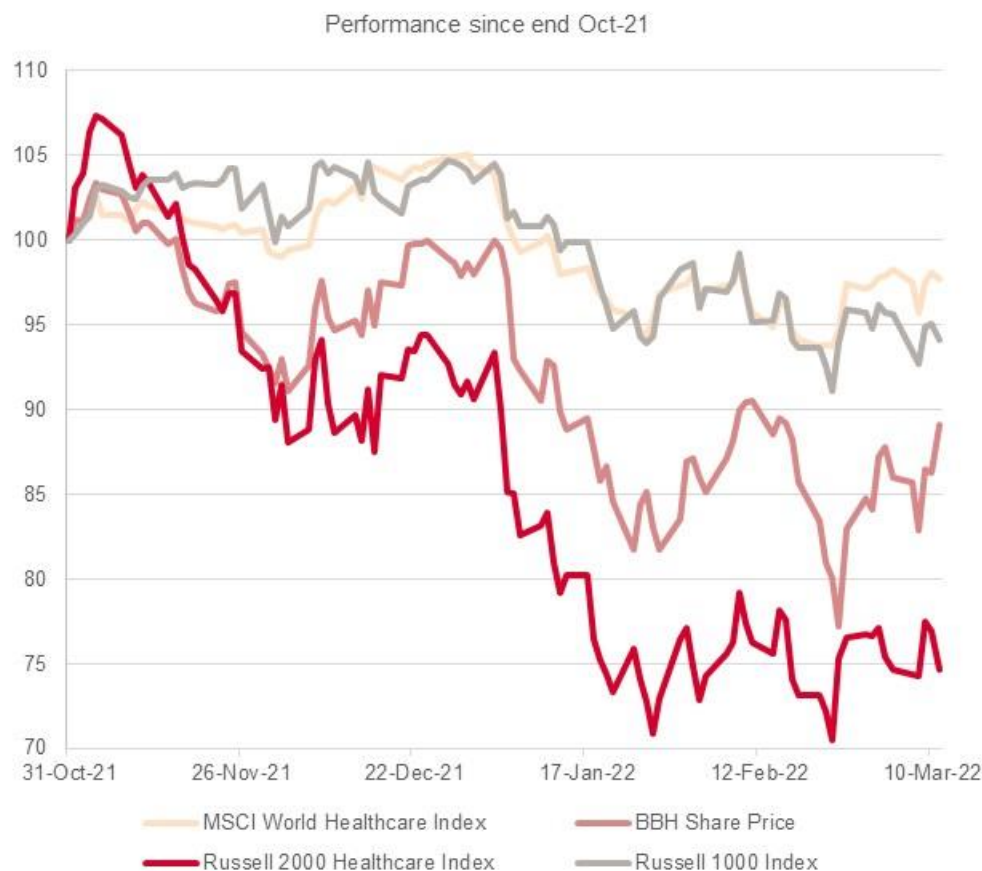
Demographics, innovation and rising GDP per capita in developing countries should sustain this



Even with the wider market's tailwind from technology, and despite persistent US political uncertainties since 2015 healthcare has still outperformed

BB Healthcare Trust - Framing the past few months...

Significant & rapid rotation away from growth, particularly impacting mid-cap healthcare equities



Whilst midcap healthcare has clearly been out of favour over the past few months, we think this sharp retracement represents a compelling opportunity

BB Healthcare Trust - Performance & Financial Leverage

Recent environment has been extremely challenging for the strategy

% Total Return ⁽¹⁾	1 Year	2 Years	3 Years	4 Years	5 Years	Since Incep.
BBH Share Price	(5.6%)	32.1%	28.8%	74.2%	73.6%	94.9%
BBH NAV	0.6%	40.2%	41.7%	84.3%	84.5%	107.0%
Benchmark	17.5%	31.4%	44.9%	65.0%	67.0%	87.6%
Relative to b.m.						
BBH Share Price	(23.2%)	0.8%	(16.1%)	9.2%	6.7%	7.3%
BBH NAV	(16.9%)	8.9%	(3.2%)	19.3%	17.6%	19.4%

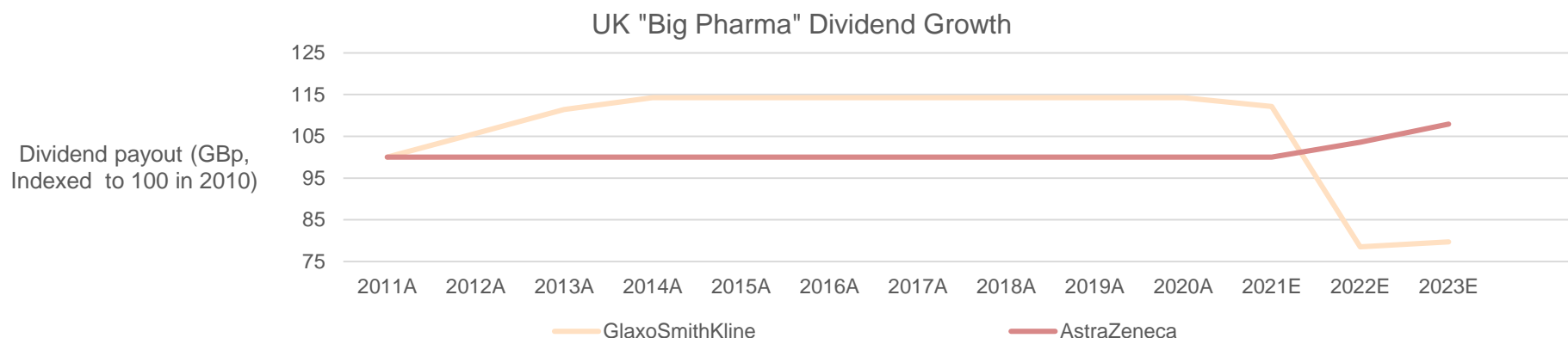
- ▶ Performance during Q4'21 (both relative and absolute) was very challenging, in particular the period from the beginning of November through to the end of the year. This was largely driven by macro considerations versus any notable change in the underlying business outlook or operational execution of our holdings, where company news flow remains supportive of investment theses.
- ▶ Unfortunately, these macro factors have continued in 2022, being exacerbated by current the geopolitical uncertainties. On a NAV basis, YTD performance⁽¹⁾ of BBH is (8.3%) versus the MSCI World Healthcare Index of (6.8%). Whilst clearly very disappointing, we continue to navigate these testing periods as best we can, executing an unaltered investment strategy that is focused on the longer term fundamental outlook.



- (1) Source: Bloomberg. All performance figures are calculated as total return with dividends being reinvested in the relevant security, calculated in GBP and with the relevant period ending on 28 February 2022.
- (2) Source: Bellevue Asset Management (UK) Ltd. Financial leverage is calculated as at month end. Average calculated as the arithmetic average since inception on 1 December 2016, currently being 2.1%.

A few words about dividends in the healthcare sector...

We recognise the importance of material and growing dividend income to retail investors



- ▶ The current dividend yield of the MSCI World Healthcare Index is 1.6%.
- ▶ The 5-year growth rate of the amount paid out has been 6.7%, versus the Compound Annual Growth Rate for GSK and AZN of 0%.
- ▶ 35% of the 154 companies in the index do not currently pay a dividend.
- ▶ There is ZERO correlation between dividend payout and total return to shareholders in this sector.
- ▶ Why aren't UK "Big Pharma" dividends growing in line with the index?
 - ▶ R&D productivity is too low – need money for M&A/in-licensing.
 - ▶ Patent cycles (LOE, Loss of Exclusivity/Cliffs) is antithetical to regular payout; buyback is much more flexible.

In light of the above, it makes far more sense to be agnostic to yield in stock selection and portfolio construction and manufacture a dividend payout from capital, which is what we do

A differentiated approach for the rapidly evolving healthcare paradigm

Conclusion

- ▶ **Healthcare is the secular growth story of our age:**
 - ▶ There are ever more people.
 - ▶ The World is ageing and more and more countries are becoming developed economies.
 - ▶ Scientific progress continues to open up new avenues to relieve the burden of human suffering, raising expectations of what products and services will be available to them.
- ▶ **However, someone (your children and grandchildren) needs to pay for all of this and the current model is neither easily scalable nor financially sound:** if we cannot bend the cost curve and change the delivery paradigm, the services will need to be cut or the system will go bankrupt. Ergo, healthcare must change. There is no alternative.
- ▶ **The tools, products and services to re-imagine healthcare already exist and can be accessed through the public equity realm:** society as a whole will benefit greatly from these changes, but so can you at a personal level, through investment performance.
- ▶ **That said, these elements are not being delivered by the FTSE-type healthcare companies you all know: accessing this opportunity requires a more specialised approach, best achieved through actively managed strategies.**

BB Healthcare Trust offers a differentiated approach to invest into the rapidly evolving healthcare paradigm, that is scalable and has demonstrated strong performance over >4.5 years through a variety of macro market conditions

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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 an 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.

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