



Bellevue Healthcare (BBH)

BBH is positioned for a significant recovery once healthcare fundamentals kick in again.

Overview

Update
30 July 2025

Bellevue Healthcare (BBH) represents a distinct proposition within the AIC Healthcare and Biotechnology sector, and it is clearly differentiated from its peers. Aside from having a number of what we consider as best-in-class structural features (see [Discount](#) and [Charges sections](#)), the managers fundamental and research-driven approach to stock picking means that this is a highly active growth strategy that offers exposure to many niche opportunities not found in other portfolios.

The BBH strategy centres on investing in those companies operationally geared to the fundamental changes that we are likely to see in 'broken' healthcare systems over the coming decades, and those tackling these problems head-on, by meeting the demands of ageing societies but also helping efficiency and healthcare getting more or better for less, improving productivity, and adapting to new care delivery models – key dynamics shaping the healthcare system of tomorrow. The mandate is wide, enabling the team to invest in any company which provides products or services that support the delivery of healthcare in some form. Over time, BBH typically has higher exposure to mid- and small-cap stocks, reflecting their propensity over time to grow faster than large- and mega-cap companies.

The team have employed a consistent process since launch in 2016, but as we discuss in the [Portfolio section](#), higher volatility in these mid- and small-cap names has prompted two small changes to the process, with the aim of delivering better risk-adjusted returns. The introduction of greater portfolio diversification around core themes, combined with more dynamic trading in response to event risks, has already reduced observed NAV volatility, according to the managers.

Performance issues aside (see [Performance section](#)), the managers continue to believe that the strong fundamentals of portfolio companies are there, and long-term investors will be well rewarded over time. BBH's mid-cap bias and concentrated portfolio continue to differentiate BBH from peers.

Analyst's View

BBH represents a truly active exposure to the healthcare sector, with stock decisions taken purely on fundamentals, rather than what represents a big part of the benchmark index. As we discuss in the [Performance section](#), over the last couple of years, the focus on small- and mid-cap stocks has hurt performance, but over prior years the managers' fundamental stock picking delivered good results. The tweaks made to the process appear sensible, and are geared more at risk mitigation than changing how the team look at potential companies. As such, we take the view that this does not represent a material change to the otherwise long-term investment process that has underpinned the strategy since launch.

Valuations for the healthcare sector are at multi-decade lows, both on an absolute and relative basis. This creates a unique opportunity for long-term investors seeking exposure to innovation-led growth in the sector. BBH's shares typically traded at a premium to NAV prior to 2022, thanks to strong performance and a differentiated offering. Its shareholder-friendly features have meant that BBH has shrunk quite considerably, having achieved net assets of north of £1bn, now at the current level of £200m. The discount to NAV proved persistent until recently, when BBH's board announced it would implement a zero-discount policy, which has been effective in closing the discount. With discount volatility eliminated, investors can focus on the fundamental attractions of the investment proposition.

Paying a dividend worth 3.5% of the NAV from capital, BBH provides an interesting and unusual combination of an income stream, paired with exposure to the potential of high-growth underlying companies and themes. Paying the dividend from capital gives the managers full flexibility over how they manage the portfolio without being hampered with an income target. With very low valuations seen across the portfolio (and the wider healthcare sector), if investor attention focuses on fundamentals once again, BBH has the potential to shine once again, with sector valuations nearing multi-decade lows, according to independent benchmarks.

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BULL

High-growth potential with rate cuts or more visibility from Trump policy important possible catalysts

Specialist managers with long experience in the sector

Strong commitment to managing the discount

BEAR

An active approach increases the potential for underperformance as well as overperformance

Gearing increases downside risks as well as return potential

Focus on a single sector and dominance by one country (the US) brings specific risks



Portfolio

Bellevue Healthcare (BBH) represents a distinct proposition within the AIC Healthcare and Biotechnology sector, and it is clearly differentiated from its peers. Aside from having a number of what we consider as best-in-class structural features (see **Discount** and **Charges sections**), the approach to putting a portfolio together and managing it is also very different to peers. Paul Major and Brett Darke employ a fundamental and research-driven approach to stock picking. The result is that BBH represents a highly active growth strategy that offers exposure to many niche opportunities not found in other portfolios.

Before we dive into the areas of healthcare that the portfolio is currently exposed to, and the thought process behind the stocks finding their way into the portfolio, there have been some modest changes made to the investment process which the managers believe will meaningfully reduce the volatility of the portfolio and result in better risk-adjusted returns going forward. As we discuss in the **Performance section**, after a strong five years' of performance following launch in late 2016, BBH has experienced a tougher time of late, we think at first precipitated by a rise in interest rates which has hindered growth stocks, added to the fact that mid- and small caps have materially underperformed large caps, especially within healthcare. More recently, politics and economic uncertainty has meant that generalist investors are currently focusing less on fundamentals, and more on momentum. Which means that frustratingly for shareholders and for the managers alike, all of the outperformance delivered during the first five years has been given back, and more.

One aspect of current market conditions that the managers have become increasingly aware of, is the material increase in volatility for small- and mid-cap stocks versus large- and mega-cap stocks. The managers have sought to mitigate the impact of this trend through implementing a different approach to portfolio concentration and sizing of positions. In practical terms, what this means is that rather than pick one company to gain exposure to a desired theme, they will attempt to pick two or three companies, all of which have a good chance of success. In this way, risk is minimised, and the managers can trade between these companies over time as news flow develops and stock prices react, offering a more dynamic way to add alpha. A result of this change has been the need to increase the maximum number of stocks held in the portfolio from 35 to 45. The current number of holdings is 35 (as at 30/06/25).

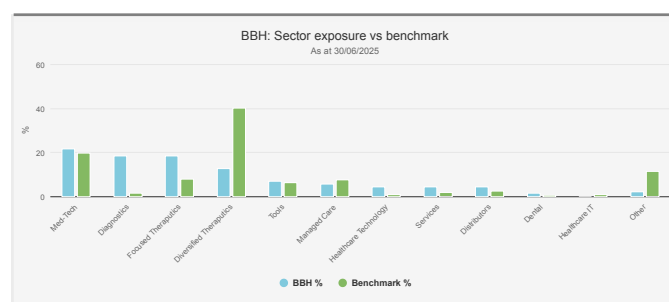
The second measure implemented by the managers to address higher volatility in mid- and small-cap stocks has been to reduce exposure ahead of binary event risks such as clinical trial results, or results announcements. Where possible, on a case-by-case basis, the managers may reduce exposure before such events. The managers observe that it is always possible to buy back positions

after trimming, especially since such events often result in higher trading volumes in the immediate aftermath. The introduction of greater portfolio diversification around core themes, combined with more dynamic trading in response to event risks, has already reduced observed NAV volatility, according to the managers. The more active trading engendered by these initiatives echoes the wider market, which the team observe seems to be focusing on ever shorter timeframes. Risk-mitigation measures aside, we take the view that this does not represent a material change to the otherwise long-term investment process that has underpinned the strategy since launch.

Paul and Brett's investment strategy centres on investing in those companies operationally geared to the fundamental changes that we are likely to see in 'broken' healthcare systems over the coming decades, and those tackling these problems head-on. Companies that are able to meet the ever-increasing demands of ageing societies will be key beneficiaries. However, the team also acknowledge that the solution to broken healthcare systems is not necessarily to just keep spending more money. Perhaps the biggest gains will be to those companies who are also able to improve efficiency, or enable healthcare buyers get more (or better services) for less. The mandate is wide, enabling the team to invest in any company which provides products or services that support the delivery of healthcare in some form.

In the manager's view, whilst valuations for healthcare companies may be cyclical, the potential for earnings growth over the medium to long term is not, with healthcare demand fairly inelastic as to price and resilient in economic downturns. These same characteristics are leading to pressures on healthcare systems in developed economies, and those companies able to deliver better outcomes or increased productivity, especially at a lower cost will be well rewarded. With many healthcare companies potentially serving a global market, even if they are in the small and mid-cap space when bought, the potential runway for earnings growth is very strong. Paul and Brett typically have a spread of different themes or sub-sector exposures to aid diversification, which we show below. The relative weights of the benchmark illustrate just how different an exposure BBH offers to the index.

Fig.1: Sub-Sector Allocation

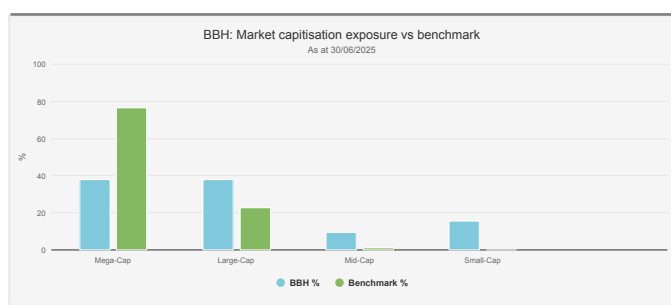


Source: Bellevue Healthcare



Being a pure stock-picking fund, the managers have latitude to position the portfolio irrespective of the shape of the index. Over time, they typically have higher exposure to mid- and small-cap stocks, reflecting their propensity over time to grow faster than large- and mega-cap companies. Valuations of small and mid-caps have fallen relative to large caps, and so the team have been finding they are adding yet more exposure to this end of the market. In particular, they have a strategic underweight to large-cap biopharma stocks, believing that share price progress will be limited over the short term thanks to the market fixating on the US government's unpredictable development of policy. In contrast, at the smaller end of the scale, M&A is ramping up with acquirors attracted by very low valuations.

Fig.2: Market-Cap Breakdown



Source: Bellevue Healthcare

Currently, with equity markets closed, the managers' focus on holdings is that they should have strong balance sheets, which will enable them to have a runway of at least 12–18 months. Valuations across the board are low, and with companies being targeted by M&A, it is clearly important for companies to not be seen as needing a sale – in fact, valuation metrics for many portfolio constituents are approaching levels not seen in over 20 years, presenting a compelling risk/reward setup. Risks are being priced in by the market, and many investors are just staying away from healthcare given the unpredictable nature of President Trump's term of office. The managers continue to believe that the strong fundamentals of portfolio companies are there, and long-term investors like them will be well rewarded over time. In particular, the managers are enthused for the potential for AI to increase the pace of innovation in healthcare – particularly as AI advances accelerate diagnostics, drug discovery, and operational efficiency – areas where many BBH holdings are already positioned. And in this regard, BBH should be a beneficiary, given the mid-cap bias and the concentrated portfolio continue to differentiate BBH from the two direct peers in the sector, both of which are mostly invested in large caps.

Gearing

BBH's stated borrowing policy is to use gearing to enhance long-term capital growth, up to a maximum of 20% of

net assets, but that over time the managers expect that gearing will average between 5% and 10% of NAV. BBH has a multi-currency revolving credit facility of up to \$125m, which at current exchange rates is well in excess of the maximum of 20% of net assets. The facility is 'committed' through to December 2025, and we understand the expectation is to arrange new facilities at this time.

BBH represents a truly active exposure to the healthcare sector, with stock decisions taken purely on fundamentals. The manager's approach to deploying gearing is similarly a function of their decision-making on stocks and opportunities. Generally speaking, Paul and Brett aim to run with BBH fully invested, and over the medium term with a mid-to-high single-digit percentage level of gearing. However, over the short term the managers can take a tactical approach to gearing, with the level depending on how they view the overall level of the market as well as any the stock-specific opportunities they see. Over the last year or two, the managers' caution on markets has meant BBH has had lower gearing, and at times a net cash position. Currently, BBH holds 8% net cash, with the managers expecting the number of holdings to rise gradually over the coming months and for the cash balance to continue to decline as a proportion of total assets.

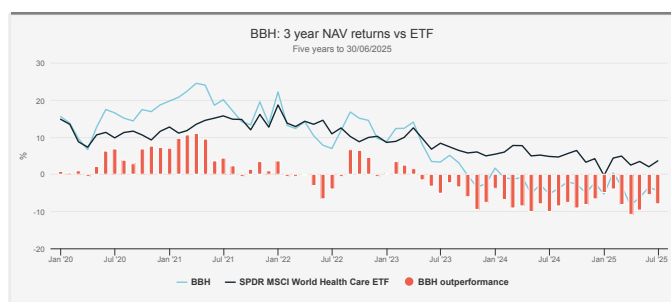
Performance

BBH is a differentiated specialist trust, set up to deliver high returns and outperformance of the healthcare benchmark through stock picking. As such, BBH has a relatively high tracking error (19.5, as at 31/05/2025 according to the factsheet) relative to the benchmark index. In practical terms, this means that shareholders should expect the NAV to outperform or underperform relative to the index, potentially by quite a margin. Throughout its life, BBH has lived up to this expectation. Initially, in the first five years of its life, BBH yielded very strong absolute and relative performance, delivering a NAV total return of +16.1%, compared to +13.2% for the MSCI World Healthcare Index. However, more recently, relative returns have been disappointing.

BBH's shareholders recently approved a simplification of the returns target, which forms part of the trust's investment objective. This meant cutting out an absolute return target, leaving the managers with a simpler objective of outperforming the total return of the MSCI World Health Care Index (in sterling) on a rolling three-year period. In the graph below we show how BBH's NAV has performed over each three-year period since the beginning of 2017 on a monthly basis. It highlights the strong period of performance for the first few years, and the more difficult period BBH has suffered since 2022, despite following the same strategy and approach.



Fig.3: Returns Vs Target



Source: Morningstar, Kepler Partners

Past performance is not a reliable indicator of future results.

Overall, the cumulative effect of the underperformance since 2022 has been detrimental to the overall performance of BBH since launch, with the NAV and share price now well behind the benchmark (see table below, which shows performance to the end of May 2025). In the latest annual report the managers concede that the last few years have been very difficult, and observe that over the period since BBH's launch, only one trust in the peer group has delivered outperformance of the benchmark. They observe that BBH has only meaningfully underperformed the MSCI World Healthcare Index in three of the past eight years, and state that in each of these years of relative underperformance, short, sharp shocks hindered BBH's ability to regain sufficient momentum before the end of the respective year.

Total Return Performance As At 30/06/2025

	1M %	YTD %	1Y %	3Y %	5Y %	ITD %
BBH SP	-0.3	-14.5	-12.4	-11.3	-12.3	56.2
BBH NAV	-0.9	-17.9	-17.2	-12.5	-13	57.3
MSCI World Health Care Index £	-0.04	-8	-13	-0.9	21.1	93.7

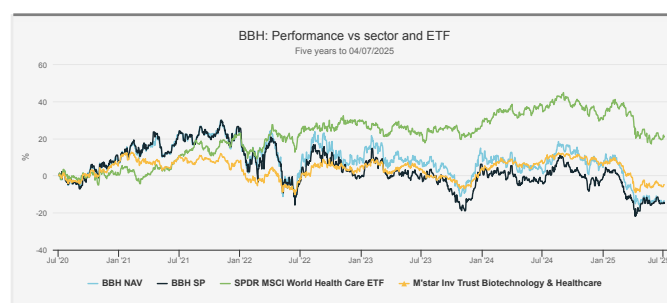
Sources: Bellevue Healthcare

Past performance is not a reliable indicator of future results.

As we discuss in the **Portfolio section**, a number of small changes have been made to the investment process, with the aim of reducing volatility and specific risks. According to the managers these initiatives have so far had a positive effect, and over time the hope is that these should deliver a measurable improvement to the risks and returns. That said, BBH's strategy is one that is unashamedly reliant on stock picking and is focused on growth stocks. With a historic beta of 1.29, BBH has exhibited consistently higher volatility than the benchmark as well as the peer group. Whilst the last five years (shown below) hasn't turned this higher volatility into outperformance, the managers are optimistic that if investor attention focuses on fundamentals once again, the low valuations currently seen across the portfolio (and the wider healthcare sector) as well as the superior growth of the companies in the

portfolio, should mean that the next five years should be significantly better.

Fig.4: Five-Year Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

We surmise that given a rise in interest rates that has broken the manager's previous strong performance track record, the catalyst for an improvement in BBH's fortunes will be rates falling. Unfortunately, there have been several false dawns on this front over the last few years. It may only be anecdotal, but we observe that BBH's relative performance has improved during periods where expectations of rate cuts have been on the horizon. One example was during the summer of 2023, when Jerome Powell of the US's Federal Reserve hinted at a September rate cut in that year. BBH's relative performance improved, with market participants focusing on a more rosy outlook for growth stocks if interest rates fell. The headwinds faced by mid-cap growth stocks have been particularly acute since 2022, driven by the macroeconomic environment. However, if we enter a regime of falling rates or greater political clarity, BBH's positioning could offer substantial upside.

Dividend

BBH pays an attractive level of dividend from capital. The dividend is set formulaically, giving investors a high degree of confidence that it will remain material in relation to their investment in BBH. Each year, the board sets a dividend target for the following financial year at 3.5% of the NAV as at the close of markets on 30/11 each year (i.e. BBH's financial year end). The dividend is paid in two equal instalments in August and April/May each year. For the 2025 financial year, the board is proposing a total dividend of 5.40p, composed of interim and final dividends of 2.70p each, subject to shareholder approval.

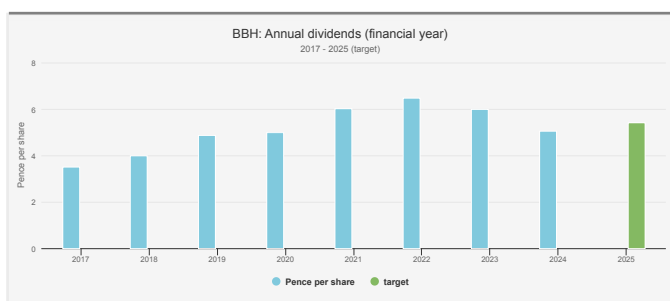
In this way, BBH provides an interesting and unusual combination of an income stream, paired with exposure to the potential of high-growth underlying companies and themes. Paying the dividend from capital gives the managers full flexibility over how they manage the portfolio without being hampered with an income target. Healthcare is generally not a high-yielding sector, at least



outside the large-cap pharma, and so stock selection would be severely constrained were the managers asked to generate a natural yield.

The chart below shows the progression of the dividend in recent years. The sell-off over 2022 and 2023 has resulted in the dividend falling for two successive years. However, with the NAV having risen by 11.1% in 2024, the board is targeting a corresponding increase once again. Over the long run, we continue to believe that the high earnings growth in mid-cap healthcare stocks should over time lead to strong share-price gains. The dividend policy means that any such growth would feed through to the payout, and therefore BBH could provide strong dividend growth. As such, we think that this growth (if achieved) could make the trust an appealing component of an income portfolio.

Fig.5: Dividend



Source: Bellevue Healthcare

Management

Both Paul Major and Brett Darke have over 20 years of experience covering the healthcare sector. Prior to joining Bellevue in 2016 in order to launch BBH, Paul was a sell-side analyst covering the sector. Brett, who joined Bellevue to manage the trust with Paul in 2017, previously worked on the buy side, and both worked in corporate finance. Both have academic backgrounds in biochemistry or medical sciences.

Paul and Brett have therefore gained experience in the sector from multiple angles, which we think gives them an advantage when it comes to investing in a highly specialised area. The process and strategy contain multiple elements that speak to what they have learnt and are designed to overcome pitfalls the managers have seen over the years. For example, they both take responsibility for each and every stock pick rather than get into a situation where competing interests can cloud decision-making. They note that this problem can be acute for larger teams of analysts, where colleagues can end up competing for ideas and for capital in order to further their own careers. While they will each take on the responsibility of researching different ideas, they insist on coming to an agreed-upon decision on whether to buy or sell. Similarly, we think their cautiousness about story stocks within the

sector stems from their experience of seeing multiple cycles.

Bellevue Asset Management is a Swiss asset-management company listed on the Swiss stock exchange. If they so wish, Paul and Brett can draw upon the experience and resources of a wider team of 18 healthcare investment professionals managing 16 different healthcare-focused strategies.

Discount

As we discuss in the **Performance section**, BBH's fortunes have waned since the start of 2022 when interest rates started to rise and growth strategies started to struggle. The past few months have seen no respite, with macroeconomic and political worries continuing to weigh on sentiment. What BBH's managers see in valuations for their portfolio companies is also reflected in the average discount for investment trusts exposed to the healthcare and biotech sector, as we show in the graph below.

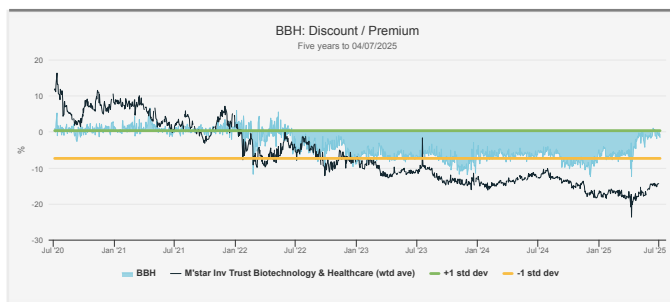
Valuations for the healthcare sector are at multi-decade lows, both on an absolute and relative basis. This creates a unique opportunity for long-term investors seeking exposure to innovation-led growth in healthcare. BBH's shares typically traded at a premium to NAV prior to 2022, thanks to strong performance, a differentiated offering and some best-in-class structural features. However, these same shareholder-friendly features have meant that BBH has shrunk quite considerably, having achieved net assets of north of £1bn to the current level of £200m. The discount to NAV proved persistent until recently, when BBH's board announced it would implement a zero-discount policy from 23/04/2025. As the graph below highlights, this has been effective in closing the discount and has resulted in the shares trading in a tight range relative to the NAV.

Clearly, whilst painful for the manager over the short term, this shows that BBH continues to put shareholders first, and is a perhaps a necessary condition that will in time allow the trust to grow once again when investor appetites return. With discount volatility eliminated, investors can focus on the fundamental attractions of the investment proposition. We note that shares in treasury can be re-issued free of stamp duty, and have the other benefit relative to peers on wider discounts in that investors can be reasonably sure that they will have liquidity for their holding, and the discount will not widen yet further.

BBH retains its annual redemption facility, operated at the discretion of the board, which allows shareholders to tender all or part of their shares for NAV less costs, the price being at the board's discretion. This provides longer term downside protection to the discount. The redemption point is in early November each year.



Fig. 6: Discount



Source: Morningstar, Kepler calculations

value. As such, both BBH's board and the managers take voting obligations seriously, and the team tries to ensure that they vote in all shareholder meetings.

Paul and Brett note that larger companies tend to report more fully and, as a result, tend to score better on ESG, whereas BBH focuses on small and mid-caps. Indeed, we note that Morningstar assigns BBH a score of two out of five globes for sustainability and has a low carbon designation.

Charges

BBH's latest ongoing charges figure (OCF) is 1.03%. This includes a management fee of 0.95%, which is charged on market cap rather than NAV. We see this way of charging management fees as best practice, as it incentivises the manager to see the shares trade close to NAV, aligning their interests with shareholders'. This OCF compares favourably to a 1.24% weighted average for the AIC Biotechnology & Healthcare sector. There is no performance fee, unlike for some trusts in the sector. BBH's KID RIY is 1.1%. There are imminent regulatory changes around KID RIYs, and whilst their phase-out appears likely, the outcome remains uncertain.

ESG

BBH is registered as an Article 8 fund under the EU's SFDR. This means that it promotes environmental or social characteristics but doesn't have an explicit sustainability objective (which could see it qualify as Article 9). The annual report includes full disclosures on how it meets this article and how the portfolio scores on a number of underlying ESG metrics.

Bellevue Asset Management has a centralised ESG team that works with managers on each strategy to integrate ESG analysis into all aspects of the investment-management process. As fundamental stock pickers, Paul and Brett embrace ESG as part of the investment process in a number of ways. As a first step, the team filters prospective investments for potential ESG issues so as to screen out companies that would not meet their criteria as early as possible. In terms of detailed due diligence, the team uses MSCI reports and their own internally generated metrics to form the basis of decision-making. Scores are not used to exclude companies but more as tools to consider investments within a much more comprehensive and holistic approach. The team believes that ESG considerations do not end with the selection of portfolio constituents and sees engagement with management teams as a key part of their role and an opportunity to add



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