Bellevue Healthcare Trust

SEPTEMBER 2023

Factsheet

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 are no restrictions on the constituents of the funds portfolio by index benchmark, geography, market capitalisation or healthcare industry sub-sector. Bellevue Healthcare Trust 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.

Fund facts

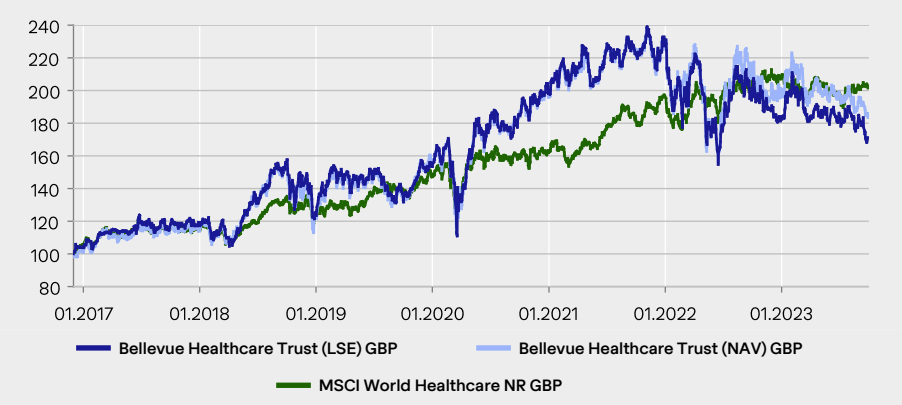
Share price	137.80
Net Asset Value (NAV)	148.03
Market capitalisation	GBP 754.53 mn
Investment manager	Bellevue Asset Management (UK) Ltd.
Administrator	Apex Listed Companies Services (UK) Ltd.
Launch date	01.12.2016
Fiscal year end	Nov 30
Benchmark (BM)	MSCI World Healthcare NR
ISIN code	GB00BZCNLL95
Bloomberg	BBH LN Equity
Number of ordinary shares	547,553,118
Management fee	0.95%
Performance fee	none
Min. investment	n.a.
Legal entity	UK Investment Trust (plc)
EU SFDR 2019/2088	Article 8

Key figures

Beta	1.35
Correlation	0.68
Volatility	27.8%
Tracking Error	21.01
Active Share	91.36
Sharpe Ratio	0.11
Information Ratio	-0.20
Jensen's Alpha	-7.51

Source: Bellevue Asset Management, 30.09.2023;
Calculation based on the Net Asset Value (NAV) over the last 3 years to 30 September 2023.

Indexed performance since launch



Cumulative & annualised performance

Cumulative

	1M	YTD	1Y	3Y	5Y	10Y	ITD
Share	-7.5%	-6.4%	-15.1%	-7.8%	9.6%	n.a.	71.0%
NAV	-4.7%	-8.6%	-11.7%	-1.0%	18.5%	n.a.	83.5%
BM	0.4%	-2.9%	1.1%	25.5%	50.4%	n.a.	101.6%

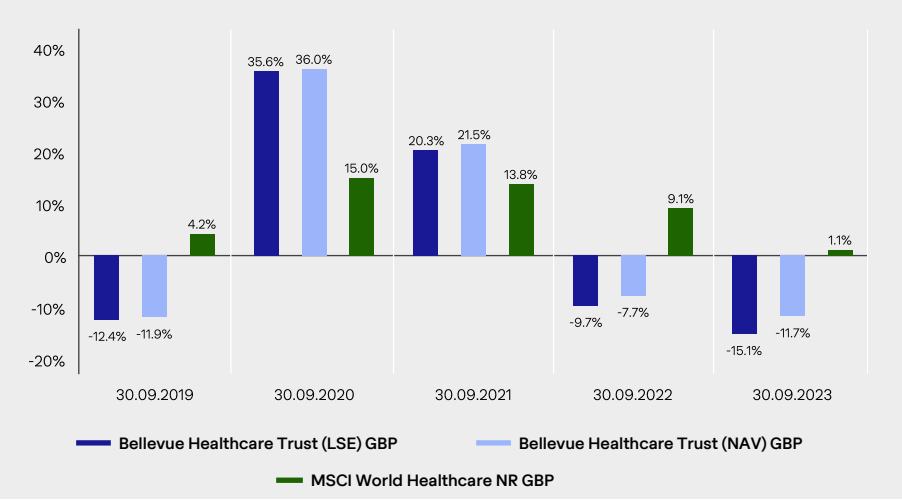
Annualised

1Y	3Y	5Y	10Y	ITD
-15.1%	-2.7%	1.8%	n.a.	8.2%
-11.7%	-0.3%	3.5%	n.a.	9.3%
1.1%	7.9%	8.5%	n.a.	10.8%

Annual performance

	2018	2019	2020	2021	2022	YTD
Share	4.9%	22.7%	29.1%	16.6%	-21.0%	-6.4%
NAV	8.6%	25.9%	25.7%	15.2%	-11.1%	-8.6%
BM	8.8%	18.4%	10.3%	20.8%	5.8%	-2.9%

Rolling 12-month-performance



Source: Bellevue Asset Management, 30.09.2023; 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.

Welcome to our September update. Markets remain incredibly challenging and macro led. Worse, within healthcare, a single theme seems to be driving price action and it is difficult to rationalise the size and speed of the moves that we see.

All we can to in this situation is to focus on the long-term, bottom-up drivers of value in healthcare and wait for a more temperate and reasoned view to re-establish itself over time.

Whilst we are struggling with relative and absolute performance on a two-year view, the fundamental drivers of healthcare demand are intact and the evolution of the healthcare marketplace over the life of the fund has unfolded as envisaged. The need for further profound reform seems ever more obvious.

As such, we see no value in altering our philosophy or approach to suit shorter-term fads.

Monthly review

The wider market

During September, the market continued its gradual retreat from the heady highs of summer. The MSCI World Index delivered a total return of -4.3% in dollars (-0.7% in sterling). Generally speaking, this was a broad-based sell-off, albeit Technology led. For comparison, the dollar total monthly returns of the S&P 500, Nasdaq and Stoxx 600 indices were -4.8%, -5.8% and -4.0% respectively.

The MSCI World sector performances are summarised in Figure 1. Rising oil prices (on the back of OPEC+ supply cuts) helped the energy sector swim against the receding tide. The elevated valuations of Tech companies (on a relative and absolute basis) inevitably leave them at greater risk from shifting sentiment and real estate also inevitably flounders in a tougher financing environment and there were signs of investors somewhat tiring of the AI "meme".

Sector	Monthly perf
Energy	+2.7%
Consumer Durables & Apparel	+0.0%
Insurance	-0.4%
Banks	-0.5%
Automobiles & Components	-1.7%
Telecommunication Services	-1.7%
Health Care Equipment & Services	-1.9%
Media & Entertainment	-3.2%
Materials	-3.7%
Pharmaceuticals, Biotechnology	-4.0%
Real Estate Management & Development	-4.2%
Commercial & Professional Services	-4.2%
Financial Services	-4.5%
Consumer Staples Distribution	-4.6%
Transportation	-4.6%
Software & Services	-4.8%
Household & Personal Products	-5.3%
Food, Beverage & Tobacco	-5.3%
Consumer Services	-5.5%
Capital Goods	-5.5%
Utilities	-5.7%
Equity Real Estate Investment	-7.0%
Consumer Discretionary Distributors	-7.1%
Technology Hardware & Equipment	-7.9%
Semiconductors & Semiconductor Equipment	-8.4%

Source: Bellevue Asset Management, 30.09.2023

As ever, macro thematics were in the driving seat and it was seemingly the prospect of higher interest rates at worst or 'higher for longer' at best (and the attendant risk that the assumed soft landing gets a little bumpier) that sent the markets down, with some understandable mitigation for financials and related bond carriers (insurance). More broadly, investors and economists have become more nervous about the impact on the US bond market and deficit from structurally higher interest rates (discussed below).

Sentiment feels all at sea still; people do not want to be more bullish on the broad economy, which makes them fear a rising market. Will there be a recession? Are things going to get worse from here or better, in light of rising geopolitical tensions? How low do prices/valuations need to fall for investors to believe that forward-looking risks are appropriately priced in?

We think it is very hard to conclude on any of these points definitively. The past is proving less useful as a prognostic guide, but the strength of the labour market and corporate profit margins suggest a very resilient economy and, for now at least, a resilient consumer. That being said, it is hard to ignore the significant negative signals building in the background, creating a sense of almost existential doom/fear amongst some investors. We consider some of these below, with US interest rates first.

Early October saw 30-year US Treasuries approach the 5% yield threshold; a level not seen since 2006 and one that feels psychologically important. Various factors suggest that yields will continue to rise for some months yet.

Firstly, the Fed is unwinding its bloated balance sheet (also a factor here in the UK); this equates to $60bn per month of additional bond supply for investors to absorb. This will pressure prices and creates a circularity where investors demand higher yields for the risk of holding bonds, lest yields go yet higher.

Some bond analysts predict this monthly drip of additional supply drives the 10-year yield up around 4bp. This does not sound like much, but the Fed has some $6.5trn still to unwind, were it to return its balance sheet to pre-financial crisis levels. 100 more months of $60bn is 1) a long-term headwind and 2) a further 400bp of upward rate pressure if the aforementioned analysis is correct. One can easily see why this is a concern but, at the same time, the Fed can modulate the cadence of this balance sheet unwind if it wishes.

The second issue is the US deficit. Whilst there is nothing new here (the US has run a primary budget deficit, i.e. spending more than it receives in tax revenues, for 49 of the past 53 years), the growth of the economy kept the debt-to-GDP ratio in reasonable shape until the global financial crisis of 2008, whereupon it ballooned from below 60% of GDP in 2007 to 90% by 2011.

The Trump presidency and its legacy of significant tax cuts did not balloon the deficit in and of itself; the economy was very strong during his first three years. However, the tax revenue and federal spending impact of the pandemic and Biden's post-pandemic stimulus efforts have sent it north of 120% of GDP (100% is a psychologically import and level; the UK has just breached this level on a gross basis).

To the extent that history is ever an indicator of the future, it would suggest one cannot discount recessionary risk until 18-24 months after rates have stopped rising and, thanks to the Fed, we don't even know if we are yet at the beginning of that time period, but it is feeling like we are coming to the end of the tightening cycle.

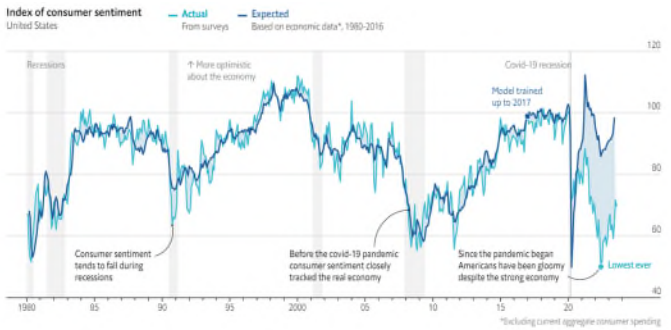
Although the US economy is motoring along in spite of interest rate rises, the size of the debt burden and the primary deficit behind it means that rising rates compound it. Biden's "IRA" stimulus will continue for many more years yet and so the US (like the UK) will need to find ever more foreign and domestic buyers for its paper.

Excess supply usually collides with demand in the form of lower prices and thus higher yields. This is a negative feedback loop that could also spread into the corporate market, bringing earnings risk for indented companies as they refinance at higher rates.

The other existential question is whether or not the leading economic indicators upon which we tend to rely are as dependable as they once were. The US economy, corporate earnings and the labour market has consistently defied expectations over the past 18 months. Perhaps it can continue to do so.

Why has this disconnect emerged? There is some evidence that the response rates for various types of surveys or polling are much lower in the post-Covid/post landline/post physical mail era that we now live in. Fewer respondents or different respondents can lead to confounding results over time as one is not comparing like with like.

This phenomenon has been noted several times in reports from national statistical bodies but were nicely summarised in another article in the Economist magazine last month, which illustrated the breakdown in the predictive power of US consumer sentiment surveys (Figure 2 below). The survey data series would suggest that things are already really bad; barely better than in the aftermath of the global financial crisis. As we know though, the real economic data shows a stubbornly resilient US economy (and jobs market).



Source: The Economist Magazine, 07.09.2023

We used to believe that economies could worry themselves into recession, the ultimate self-fulfilling prophecy and that is one historical belief that investors seem still to hold onto. Indeed, the whole idea of raising interest rates to dampen marginal spending and thus cool the economy is somewhat predicated on this notion.

On the other hand, worry is probably finite. Perhaps the pandemic's enduring misery means that we cannot rely on sentiment as much as we did; people are still in a morose state and this impacts their commentary, even if it does not reflect their actual behaviour in the moment – they keep spending anyway. Maybe not on the same things, but still enough to keep the overall economy in a healthy place.

Perhaps this is also why investors are so short-term and meme focused in the post-pandemic market; they have become used to living day-by-day. As we move around London we are constantly amazed at the obvious levels of consumer discretionary spending, and not just in Mayfair. Lunchtime everywhere sees people again queuing around the corner for one well know chain's insipid sarnies and burnt coffee, even as the price for such a trip is now likely to be north of £10.

The average amount of disposable income a UK citizen will spend on car payments has grown hugely over the past four years. The demise of the Ford Fiesta and brands like Vauxhall reflects a desire for the daily driver to be a BMW or Audi, previously considered to be premium/luxury rather than mass market brands.

Our perception of the world based on everyday experience feels very out of line with the economic data and the headlines in the papers. Is the market trying to follow the economic data or the sentiment? It seems to vary day-to-day. We have no compelling answers here, only questions. The only thing that is clear to everyone is how difficult it is to navigate this market.

Healthcare

During September, the healthcare sector again managed to outperform a falling market. The MSCI World Healthcare Index delivered a dollar total return of -3.3% (+0.4% in sterling). The sub-sector performance breakdown is summarised in Figure 3.

The performance skew was very much to the defensive side, with Managed Care and Distributors leading the way, followed by mega-cap pharma (Diversified Therapeutics). Consumer-oriented Dental was the overt laggard and, to be honest, we are surprised the sector has held up as well as it has in recent months.

The cut-price aligner shop 'Smile Direct Club' finally filed for Chapter 11 at the beginning of October, delivering a 99.8% loss since its $9bn IPO four years ago. We were never fans of its approach and the founders offering to backstop it with some more cash (a fraction of what they made out of the IPO) at 18% interest is no solution. There are too many players in this market now.

	Weighting	Perf (USD)	Perf (GBP)
Managed Care	10.2%	5.1%	9.0%
Distributors	1.7%	2.4%	6.0%
Diversified Therapeutics	39.4%	-2.1%	1.6%
Focused Therapeutics	8.3%	-3.2%	0.6%
Generics	0.4%	-3.3%	0.3%
Conglomerate	10.2%	-3.7%	-0.1%
Healthcare IT	0.5%	-4.0%	-0.4%
Med-Tech	13.6%	-6.0%	-2.5%
Tools	8.3%	-8.4%	-4.8%
Other HC	1.4%	-8.7%	-4.8%
Facilities	1.0%	-9.4%	-5.3%
Healthcare Technology	0.7%	-9.9%	-6.6%
Services	2.3%	-10.7%	-7.4%
Diagnostics	1.4%	-11.5%	-8.2%
Dental	0.6%	-16.8%	-13.6%
Index perf		**-3.3%**	**0.4%**

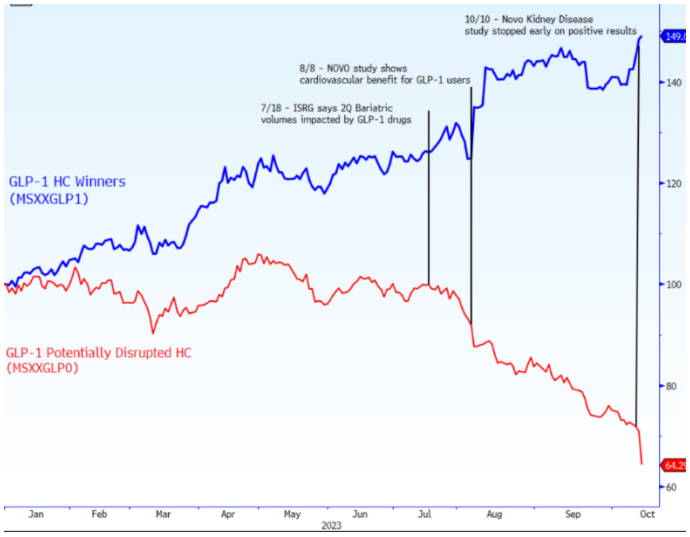
Source: Bloomberg/MSCI and Bellevue Asset Management, Weightings as of 31.08.2023, Performance to 30.09.2023

In contrast to August, the GLP-1/obesity stalwarts Novo Nordisk and Eli Lilly did not skew the overall return of the healthcare index, with their dollar total returns of -1.4% and -3.1% respectively. Our "ex GLP" version of the Index delivered a comparable total dollar return of -3.3% during September.

Although the Novo/Lilly/GLP-1/obesity obsession did not feature as an outsized influence on the MSCI benchmark during the month, it seems to have remained the pre-eminent discussion for the sell-side. One of your managers collated the mentions during the month and of c1,000 sell-side research emails received September, >450 mentioned these agents. Our conversations with sales people suggest it remains the pre-eminent discussion point in terms of investor interactions.

We remain concerned by what we perceive as a growing acceptance of the narrative around the material impact of these drugs on almost every sub-sector of the healthcare space, and even the wider market.

Some commentators point to surveys of users that indicate changes to appetite (er, that's the point of the drugs), food choices and socialisation patterns. In our view, these are neither profound observations, nor are they new, but the argument is winning nonetheless. Morgan Stanley has been tracking the so called winners and losers of GLP adoption in a series of healthcare stock baskets and the extreme impact of this sentiment shift is clear for all to see in Figure 4 overleaf (we have included data from October to capture the impact of the Novo FLOW trial readout).



Source: Morgan Stanley Research Commentary 11.10.2023

As noted last month, the impact of this feels hugely premature to us. The incremental impact of these drugs on the patient funnels for dialysis, orthopaedic and bariatric surgery and for interventional cardiology around atherosclerosis, heart valves and atrial fibrillation will take time and be incremental. The market is trying to tell us that these companies will grow more slowly and therefore merit lower ratings but this remains to be demonstrated.

Weight Watchers and its ilk advocate less eating out and reduced alcohol intake because these are calorie intensive activities. The difference with GLP-1 versus the traditional calorie restriction plus counselling/support model of old is that you still "feel" hungry with calorie restriction alone, but much less so when GLP-1 is added. It does not permanently alter your innate desire for food though and there is limited evidence that lifestyle or dietary changes that occur whilst on therapy persist beyond this point. To our minds, GLP-1 therapy is the Hotel California.

Moreover, they might get a really obese person from a BMI in the low 40s to one in the high 30s. This is still a far cry from the healthy range of low 20s. They are no panacea. If your BMI is still in the 30s, then you are still at elevated risk for all of the medical complaints mentioned above.

Beyond obesity, size factor was again a major influence on the overall return, with investors eschewing small and mid-cap growth stocks for the perceived safety of their larger-cap brethren. This is illustrated in the divergent performance of the US Russell 1000 and 2000 Healthcare indices.

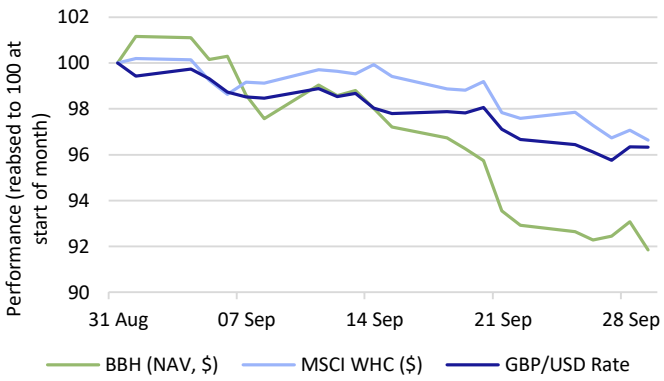
The latter has 411 constituents with a combined market cap of $381bn, compared with the 116 members and $5.1trn market cap of the former. During September, The Russell 2000 Healthcare Index delivered a total return of -4.8%, compared to -1.4% for the Russell 1000 Healthcare Index. Such an environment is not a supportive one for our strategy, which tends toward US mid-cap growth equities.

The Trust

As alluded to previously, size factor and duration were significant factors in market performance, making September another challenging month for the Trust. The Trust's Net Asset Value declined 8.1% to 148.03p. Ten of our 29 holdings declined >15% during the month and six of these declined by >20%, despite what we would again characterise as a generally positive month again in terms of corporate newsflow.

Indeed, we really cannot attribute any of the deteriorating market valuation to fundamentals and many of these companies went into the month trading at multi-year absolute valuation lows. This is a capricious and unforgiving market with little in the way of fundamental support.

The evolution of the NAV over the course of the month is illustrated in Figure 5 below:



Source: Bellevue Asset Management, 30.09.2023

This month, Diagnostics was the outsized contributor to the deterioration in NAV, followed by Tools and Medical Technology. Healthcare Technology (Tandem Diabetes Care) was the worst performing sub-sector in percentage terms. The evolution of the sub-sector weightings is summarised in Figure 6 below and we would make the following comments:

	Subsectors end Aug 23	Subsectors end Sep 23	Change
Diagnostics	11.8%	10.5%	Decreased
Diversified Therapeutics	0.6%	0.6%	Unchanged
Focused Therapeutics	23.2%	25.1%	Increased
Healthcare IT	10.2%	10.2%	Unchanged
Healthcare Technology	3.9%	3.5%	Decreased
Managed Care	9.0%	10.3%	Increased
Med-Tech	19.2%	18.9%	Decreased
Services	12.2%	12.1%	Decreased
Tools	10.1%	8.8%	Decreased
Diagnostics	11.8%	10.5%	Decreased
	100.0%	**100.0%**	

Source: Bellevue Asset Management, 30.09.2023

It was generally a very quiet month in terms of portfolio changes; we were waiting for things to calm down a bit before meaningfully deploying any capital. We only traded in eight of the 29 holdings, adding to six and reducing two. Consequently, the overwhelming driver of the moves in percentage exposures were driven by relative performance.

Over the month, the leverage ratio increased from a 1.0% at the end of August to 3.5% geared at the end of September. Around two thirds of this increase was driven by incremental investments, with the remainder a consequence of the declining value of the gross assets.

In line with much of the investment trust sector, the average discount to NAV widened during September increasing from 5.5% in August to 7.3% in September. The conditions for the share buyback programme were triggered as the Trust's discount widened, resulting in 1.2m shares being repurchased during the final week of the month.

The board manages the buyback parameters and it is conducted at arm's length by the Trust's broker and they are monitoring the effectiveness of the programme on an ongoing basis. Share buybacks remain a contentious issue for some investors; should capital be deployed into investments or into buybacks?

It might seem obvious to buy shares at a steep discount, but this only makes sense if it will result in the discount closing, allowing shareholders to realise better value on their investment. Otherwise, buybacks reduce capital for investments, shrink liquidity for existing investors and over time will raise the TER.

In our case, the buyback did not have a positive impact on the discount, which widened modestly during that week and widened further again during the first week of October. Of course, one cannot know if it would have widened further still in the absence of this activity.

Whilst our buyback programme has operated in narrow windows of time over the course of 2023, some of our peers have operated programmes near continuously across the year and it is not apparent either that such an approach has meaningfully impacted the discount for those Trusts.

Managers' musings

"An elegiac lamentation"

Your managers are getting on a bit. We are not so young as to brim with that eternal optimistic hope which defines youthfulness (naivety?), but not so old as to despair of a world that we no longer understand, although recent weeks are testing our metal in this regard.

However, we are old enough though to have seen a few crazy things in financial markets. The 'dot-com' bubble around the millennium and the financial crisis of 2007/2008 spring to mind. These two events are interesting because the implosion which followed the excesses that defined them seem obvious in hindsight. In the moment though, the coming crises were much less apparent.

Why were so few people talking about banks being 35x levered or 100% self-certified, seven-figure mortgages as a financial risk? There were plenty of people who were sceptical, and vocally so, but they were dismissed. Some of the 'naysayers' were very early and a lot of money was made in the period from the early 2000s when the orthodoxy of cheap borrowing and high leverage first began to be questioned. In the long run though, they were correct, but the negative scenario took some time to play out.

Turning to the dot-com bubble, it might seem obvious now to ask how ticket bidding site Priceline.com could have been worth $10bn at its IPO in March 1999, it lost ~$30 per transaction at that time. What is now known as Booking Holdings finally recovered to a level equalling its IPO price in March 2011, almost 12 years to the day from its IPO. It was a bumpy ride though; in late 2000 it had lost 98% of its value.

Several decades and dozens of acquisitions later, the ongoing listed entity is the world's largest travel agent, worth $109 billion dollars. It makes $7bn of free cashflow every year on 500m+ monthly visits to its website. If you were late to the (much changed) party, then you could have made a very handsome return indeed.

If one could retrieve some of that IPO research from the fag end of the 90s, it would probably focus on a blue-sky scenario where one day (presumably very soon) the internet displaces the traditional travel agent and becomes the go-to conduit for booking everything from flights to cars to hotels.

As noted above, this statement turns out to have been true: priceline.com and Booking's other sites are poster children for successful disruptive disintermediation. Who goes to a high street travel agent these days? Of course, the next step of the journey is for Booking to use AI to curate your ideal trip for you and then book it all and excitement about this prospect added around $20bn to the market value of the summer.

Echoing some parallels with the financial crisis example: where the research went wrong was in forecasting the evolution of the market opportunity over time and the money to be made along the way. It was ever thus.

We are minded to think that the unfolding excitement over obesity drugs represents something very similar. The ultimate outcome, at some point in the future, may well be a very large market in terms of value and patients. It may over time impact the funnel of patients into areas commonly associated with the secondary complications of obesity. However, all of this will unfold over a long period of time, creating the two probable scenarios described above.

Those who ignore the risks face the prospect of potentially significant losses on the GLP-1 carry trade and those who ignore the opportunities in the meantime through being too bearish on the adjacent areas of healthcare expenditure could miss out on a lot of value creation in the meantime.

"The weight loss industry, yo-yos and neolithic people"

If ethical considerations are not front and centre of your mind and you want to make lots of money as a business, find something that impacts a lot of people at a psychological level and doesn't really work very well, or has the propensity to be habit forming and then you have a repeat customer. If you can throw some pseudo-science into that, then all the better.

We will keep this general, but readers will be aware of countless companies that offer calorie counting nutrition plans or food alternatives ("meal replacements") and support to help people try to lose weight. These may work for some people for some time. However, the clinical evidence that they work long term for the majority is very limited, otherwise they would bang on about it endlessly. To our minds, the only winners seem to be the companies receiving the monthly subscriptions from the clients trying to lose the weight.

We have no interest in owning such companies because we believe that the approach is fundamentally flawed. As soon as you stop restricting calories, you will (re)gain weight. This is great for these businesses, because you will come back – "yo-yo dieting" or "weight cycling" as it is known and it will happen rapidly in an environment of abundant calories.

This cruel and unfortunate cycle is a scientific reality born of our evolution and exacerbated by modern lifestyles. We will try and explain why in the following paragraphs.

Adipose tissue (fat cells) is a complex organ system in its own right, responding to and producing hormones and cytokines ('adipokines' such as leptin, adiponectin, and adipsin) that have a broader impact on the basal metabolic rate and appetite.

These cells have evolved to be storage vessels and can thus expand to absorb significant amounts of fat in the form of triglycerides (a process known as adipocyte hypertrophy; the cells can swell to up to 10x their normal size). Equally, when these reserves are drawn down (i.e. when you are burning fat calories), the cells shrink away until the storage vesicles are empty.

The production of the adipokine leptin from individual adipocytes is proportional to the amount of fat mass stored within them. Leptin supresses appetite. Thus, as you try to shrink your fat mass through calorie restriction, the blighters undermine you by literally making you feel more hungry. The body will adjust to this signal over time, but it will hinder you in the early 'dieting' phase.

Unlike muscle cells, what these cells tend not to do (within the bounds of normal metabolism) is to die away when no longer needed. They tend to lay dormant until the next influx of triglycerides comes along and they duly absorb it.

The lack of programmed cell death (apoptosis, or 'lipolysis' in the case of fat cells) is probably because these are not hugely metabolically

active and thus the "burden" of them staying there is limited. There is adipose tissue turnover of course, but complex signalling pathways suggest that dying cells are replaced, it is almost as if the adult human body works to sustain the level of fat cells once formed.

Worse for modern hominins in an age of food plenty, the consumption of certain foods actually stimulates the creation of new fat cells ('adipogenesis' or 'adipocyte hyperplasia') from precursor cells via multiple signalling pathways. This unfortunate metabolic ratchet means that we all gain fat cell mass as we age, and thus our propensity to become overweight will similarly increase.

Generally speaking, hypertrophy is more significant than hyperplasia in severe obesity. There is a complex feedback loop that kicks in where very large adipose cells promote inflammatory cytokine release and infiltration of the fat tissue by white blood cells. This can finally trigger apoptosis, which may seem like a good thing.

However, it is not in this case. This process leads to a cascade of other cellular signals and an increase in blood triglycerides etc., which causes all manner of secondary consequences that accelerate the progression of Type 2 diabetes and ischaemic cardiovascular disease. In general then, one is better off having a fat mass distribution that consists of more adipocytes that are less hypertrophic than to have less adipocytes that are full of triglyceride.

How hypertrophic those cells are will depend on your calorie balance (activity versus intake), your diet and the interplay of this complex system of hormones and neurones connected to the brain's reward centers. What does this mean? Simply put, we are programmed to seek out calorie dense foods. We get a literal kick from eating fats and sugar. This is why almost all of us love desserts and sweet treats and over-indulge from time to time.

Unfortunately, evolution did not envisage the human ability to process sugar and cream etc. from natural sources. The consumption of these products literally overwhelms these pathways, sending reward centres and fat deposition into overdrive. The reward centre stimulation may lead to addiction-like habituation, where people actively seek out 'bad' calories. Some of the modern additives in ultra-processed foods may exacerbate these qualities, although research in these areas is at an early stage.

On this topic, we do not subscribe to the view that food companies have actively sought to make their products addictive. It is the desire for mass production (arguably beginning with the Chorleywood bread making process, developed in the UK in 1961) that has changed food ingredients, and ignorance of the long term effects of the chemicals used in that process of industrialisation which has led us here. None of us were complaining as food became ever cheaper in real terms, due to mass production.

Consumption of large amounts of fat calories also overwhelms the glycogen (carbohydrate) storage mechanism, raising blood sugar (bad in its own right) and causing our tiny little pancreas to work overtime making insulin. Eventually this system runs out of gas and Type 2 diabetes can result. This is what scientists mean when they refer to an "obesogenic environment". Too much of a good thing is not good.

Why are we all made this way? The neolithic human was a nomadic hunter gatherer. Modern studies of people still living a subsistence lifestyle show an incredible consistency in their metabolic balance over long periods of time: they are expending similar calories every day.

In ancient times, the availability of food could vary significantly, a literal case of feast or famine. In such circumstances, evolution would favour those people who could pack away surplus calories for hard times. We are evolved to store excess calories because that trait kept our ancestors alive.

Today though, we have both too many ready calories in front of us, many of them in unnatural forms that our bodies struggle to cope with, and too many labour saving devices that contribute to a sedentary lifestyle where that level of daily activity is far below that which our bodies evolved to 'expect'.

The points summarised above were combined into a homeostatic theory known as "set point" from the early 1980s, which postulates that each of us has a predetermined fat mass range "built in", and this complex interplay of various hormones and cytokines creates compensatory physiological and psychological mechanisms that drive us toward this set point.

Perhaps counter-intuitively, one is better off having a fat mass composed of more, but smaller fat cells than having a smaller number of hypertrophic cells. The name of this theory is rather unfortunate, because the set point can move upward due to the stimulatory effect of food via the signalling pathways mentioned previously.

What does all of the above mean in simple terms? It is a grim conclusion, but one that needs to be stated. Losing weight through calorie restriction alone is unlikely to be successful; the deck is stacked against you. If it is combined with lifestyle modifications to increase daily metabolic load, then the weight may stay off. Whichever road you choose, you cannot get off it. It's either lifelong exercise, or lifelong moderation.

There are pathways that can be interfered with using drugs to break some of these reward systems or to switch off those signals that promote adipogenesis, or that convert white adipose tissue to brown adipose tissue (which burns calories to aid thermoregulation) and much research in this area is ongoing.

"The drugs do work"

The final two paragraphs of the preceding section might seem like a perfect segway into explaining the excitement over GLP-1 obesity medications. If diet alone doesn't cut it, and the causes of obesity are not, in fact, weaknesses of self, born of slovenliness or immoderation of appetite, but a complex clinical response to an unnatural environment, then bolstering the efficacy of calorie restriction and lifestyle interventions with pharmacological tools must be the answer.

What are the metabolic benefits of GLP-1 analogues, independent of its core effect that it suppresses appetite and thus makes it less uncomfortable to endure a period of protracted calorific restriction?

Tissue studies of GLP-1 analogues show that it does tilt the balance in favour of adipogenesis over hypertrophy when it comes to the storage of fat and this may explain why it has cardiovascular benefits that are independent of weight loss; it reduces the risk of the inflammatory cascade referred to earlier. This is good, but not necessarily linked to the sustaining of weight loss.

GLP-1 analogues decrease leptin levels. This is unhelpful and may explain why there is such interest in dual and triple incretin mechanisms, to reduce the risk that hunger is not dampened enough. Again though, data for Lilly's dual acting GLP-1/GIP "twincretin" Mounjaro (tirzepatide) shows significant rebound weight loss and a modesty of effect that will not turn the morbidly obese into a normal BMI.

And these points are the key ones for us. There is no panacea for weight loss in the morbidly obese. It requires lifestyle modification and dietary changes for life. This is easier with bariatric surgery because it becomes physically impossible to eat a large volume of food. Everything else requires enormous and life-long commitment. The obesity crisis is not "solved" and we do not think that it will be "solved" in the foreseeable future.

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

Bellevue Healthcare Trust

Top 10 positions

Axonics	7.7%
Insmed	7.6%
Option Care Health	7.1%
Evolent Health	6.4%
Exact Sciences	5.9%
UnitedHealth Group	4.7%
Bio-Rad Laboratories	4.6%
Axsome Therapeutics	4.2%
Pacific Biosciences of California	4.2%
Charles River Laboratories	4.1%
Total top 10 positions	56.5%
Total positions	29

Sector breakdown

Focused Therapeutics	25.0%
Med-Tech	18.9%
Services	12.1%
Diagnostics	10.5%
Managed Care	10.4%
Healthcare IT	10.2%
Tools	8.8%
Health Tech	3.5%
Diversified Therapeutics	0.6%

Geographic breakdown

United States	96.7%
China	3.3%

Market cap breakdown

Mega-Cap	14.7%
Large-Cap	19.0%
Mid-Cap	47.5%
Small-Cap	18.9%

Source: Bellevue Asset Management, 30.09.2023;
Due to rounding, figures may not add up to 100.0%. Figures are shown as a percentage of gross assets.
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 fund 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.
Market Cap Breakdown defined as: Mega Cap >$50bn, Large Cap >$10bn, Mid-Cap $2-10bn, Small-Cap $2bn. Geographical breakdown is on the basis of operational HQ location.

Benefits

- 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 targeted 3.5% dividend yield.
- Bellevue Healthcare Trust has a strong board of directors and relies on the experienced management team of Bellevue Asset Management (UK) Ltd

Inherent risks

- The fund invests in equities. Equities are subject to strong price fluctuations and so are also exposed to the risk of price losses.
- Healthcare equities can be subject to sudden substantial price movements owning to market, sector or company factors.
- The fund invests in foreign currencies, which means a corresponding degree of currency risk against the reference currency.
- The price investors pay or receive, like other listed shares, is determined by supply and demand and may be at a discount or premium to the underlying net asset value of the Company.
- The fund may take a leverage, which may lead to even higher price movements compared to the underlying market.

You can find a detailed presentation of the risks faced by this fund in the "Risk factors" section of the sales prospectus.

Management Team

Paul Major
Co-Portfolio Manager

Brett Darke
Co-Portfolio Manager

Sustainability Profile – ESG

EU SFDR 2019/2088 product category: Article 8

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

Key Figures:

CO_2-intensity (t CO_2/mn USD sales):	24.2 (Low)	Coverage:	96%
MSCI ESG Rating (AAA - CCC):	BBB	Coverage:	96%

Based on portfolio data as per 30.09.2023; – 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; Stewardship: Engagement in an active and constructive dialogue with company representatives on ESG aspects as well as exercising voting rights at general meetings of shareholders.MSCI ESG Rating ranges from "leaders" (AAA-AA), "average" (A, BBB, BB) to "laggards" (B, CCC). 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.

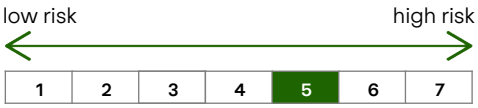
Bellevue Healthcare Trust

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 acc. to SRI

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.



We have classified this product as risk class 5 on a scale of 1 to 7, where 5 corresponds to a medium-high risk class. The risk of potential losses from future performance is classified as medium-high. In the event of very adverse market conditions, it is likely that the ability to execute your redemption request will be impaired. The calculation of the risk and earnings profile is based on simulated/historical data, which cannot be used as a reliable indication of the future risk profile. The classification of the fund may change in future and does not constitute a guarantee. Even a fund classed in category 1 does not constitute a completely risk-free investment. There can be no guarantee that a return will be achieved or that a substantial loss of capital will not be incurred. The overall risk exposure may have a strong impact on any return achieved by the fund or subfund. For further information please refer to the fund prospectus or PRIIP-KID.

Liquidity risk
The fund may invest some of its assets in financial instruments that may in certain circumstances reach a relatively low level of liquidity, which can have an impact on the fund's liquidity.

Risk arising from the use of derivatives
The fund may conclude derivatives transactions. This increases opportunities, but also involves an increased risk of loss.

Currency risks
The fund may invest in assets denominated in a foreign currency. Changes in the rate of exchange may have an adverse effect on prices and incomes.

Operational risks and custody risks
The fund is subject to risks due to operational or human errors, which can arise at the investment company, the custodian bank, a custodian or other third parties.

Target market

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

Important information

This document is only made available to professional clients and eligible counterparties as defined by the Financial Conduct Authority. The rules made under the Financial Services and Markets Act 2000 for the protection of retail clients may not apply and they are advised to speak with their independent financial advisers. The Financial Services Compensation Scheme is unlikely to be available.

Bellevue Healthcare Trust PLC (the "Company") is a UK investment trust premium listed on the London Stock Exchange and is a member of the Association of Investment Companies. As this Company may implement a gearing policy investors should be aware that the share price movement may be more volatile than movements in the price of the underlying investments. **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 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. This document is for information purposes only and does not constitute an offer or invitation to purchase shares in the Company and has not been prepared in connection with any such offer or invitation. Investment trust share prices may not fully reflect underlying net asset values. There may be a difference between the prices at which you may purchase ("the offer price") or sell ("the bid price") a share on the stock market which is known as the "bid-offer" or "dealing" spread. This is set by the market markers and varies from share to share. This net asset value per share is calculated in accordance with the guidelines of the Association of Investment Companies. The net asset value is stated inclusive of income received. Any opinions on individual stocks are those of the Portfolio Manager and no reliance should be given on such views. This communication has been prepared by Bellevue Asset Management (UK) Ltd., which is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Any research in this document has been procured and may not have been acted upon by Bellevue Asset Management (UK) Ltd. for its own purposes. The results are being made available to you only incidentally. The views expressed herein do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the view of Bellevue Asset Management (UK) Ltd. and no assurances are made as to their accuracy.

The most important terms are explained in the glossary at www.bellevue.ch/en/glossary.

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