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Business

This trust offers an investment cure as the side effects from weight-loss wonder drugs mount

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After a lean time the Bellevue Healthcare fund is now poised for fat returns

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Investors looking to back the next generation of weight-loss drugs, following a warning that the current blockbuster treatments from Novo Nordisk and Eli Lilly may cause "more harm than good", should put Bellevue Healthcare investment trust on their watchlist.

Paul Major, fund manager at Bellevue, has put 4pc of the £665m fund into three companies developing either alternatives to, or combination medications that can work with, the best-selling Ozempic and Wegovy drugs from Novo's and Lilly's Mounjaro and Zepbound. Shares in the Danish and US pharmaceutical giants have soared 355pc and 745pc in the past five years, helped by booming sales of the injectable appetite suppressants that were forecast to hit \$47.4bn (£36bn) earlier this year.

Their meteoric rise and outsized returns have dominated the healthcare sector and drawn comparisons to the "magnificent seven" tech titans that pushed the US stock market to all-time highs, but left investors worrying about their valuations.

Concerns over the glucagon-like peptide-1 (GLP-1) drugs currently leading the treatment of obesity and type 2 diabetes follow clinical studies that suggested patients lost muscle at far faster rates than people dieting or exercising. George Yancopoulos is co-founder and chief scientific officer

Bellevue Healthcare investment trust

BUY

Four per cent of the £665m fund is in three companies developing either alternatives to, or combination medications that can work with Ozempic and Wegovy drugs

of Regeneron, a US biotech that is one of over 80 companies seeking to break into the lucrative weight-loss market. This week he told the *Financial Times*: "I do think that the GLPs should be viewed with a lot of concern in terms of the way they're actually being used in the real world."

Mr Major, a former healthcare analyst and corporate financier turned stockpicker, agrees. Although the weight-loss treatments were "broadly safe and effective", he said they suffered drawbacks.

In addition to the challenges of scaling up manufacturing to serve a potential global market of 800m. Mr Major said there were side effects of nausea as well as the loss of bone and muscle mass that could be serious for older patients or post-menopausal women. Even where treatment is successful, Mr Major said, "if there is no support, after a year of medication people put 70pc of the weight back on and can end up unhealthier".

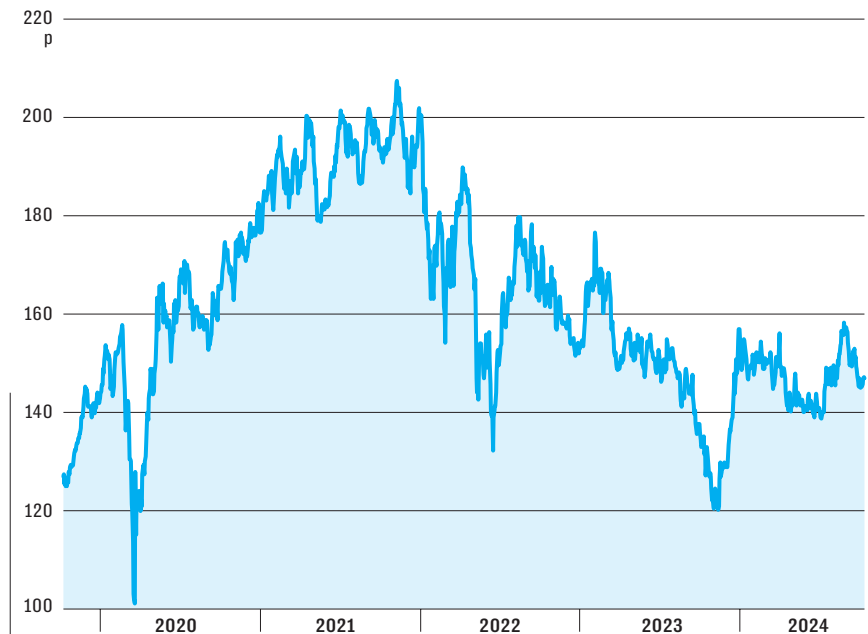
In July Mr Major held 2.2pc of his fund in Structure Therapeutics, a San Francisco-based company trialling a weight-loss pill that may be easier for patients to take than Novo and Lilly's injections. He said: "There's a realisation that they need to pair up with a next generation treatment... I think oral drugs will be superior." Mr Major, and co-manager Brett Darke, are not getting carried away with the

Bellevue Healthcare

Close: **147p**

Key numbers

- ◆ Market value: £665m
- ◆ Year of listing: 2016
- ◆ Discount: 9pc
- ◆ Ave discount over past year: 7pc
- ◆ Yield: 3.4pc
- ◆ Most recent year's dividend: 5.99p
- ◆ Gearing: nil (May 31)
- ◆ Annual charge: 1pc



hype, and will only allocate more money when trials are passed and the potential winners of a sustainable "weight maintenance" market emerge.

The Bellevue trust is a concentrated portfolio of their 32 best stock ideas – almost all of them in the US, whose healthcare market is the largest in the world. They spread the positions across different sectors, with 24pc in "focused therapeutics" companies, such as Structured, and 22.1pc in diagnostics companies, such as top holding CareDx, whose shares have shot up 169pc this year to account for over 10pc of the fund.

Unfortunately, like rivals International Biotechnology, Biotech Growth and Worldwide Healthcare, the Bellevue fund has also suffered a crash diet. The 3.4pc yielding shares have fallen 14.5pc in the past three years, which reflects the way the sector was shunned after the 2020 pandemic. It was deemed as either or too racy, as interest rates rose, or too

'If there is no support after a year of medication people put 70pc of the weight back on and end up unhealthier'

boring, as the speculative boom in artificial intelligence took off.

Bellevue, which is 56pc invested in smaller and medium-sized companies, was hit badly in the interest rate scare of 2022 when the shares slumped 21pc.

While bruised, the trust is a good way to play the global trend for increased healthcare spending as populations age or grow wealthier, which first drew us to its competitors. With interest rates falling, sentiment towards its companies should improve.

With the shares trading 9pc below the valuation of the portfolio, a wider-than-average discount that could narrow as the company completes an annual redemption for shareholders who want to sell, this is a good time to jump in.

Questor says: buy
Ticker: BBH
Closing price: 147p

Gavin Lumsden is editor of Citywire's Investment Trust Insider website