Bellevue Healthcare Trust

FEBRUARY 2023

Factsheet

London Stock Exchange (LSE)

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 is no restrictions on the constituents of the fund's portfolio by index benchmark, geography, market capitalisation or healthcare industry sub-sector. Bellevue Healthcare will not seek to replicate the benchmark index in constructing its portfolio. The Fund takes ESG factors into consideration while implementing the afore-mentioned investment objectives.

Fund facts

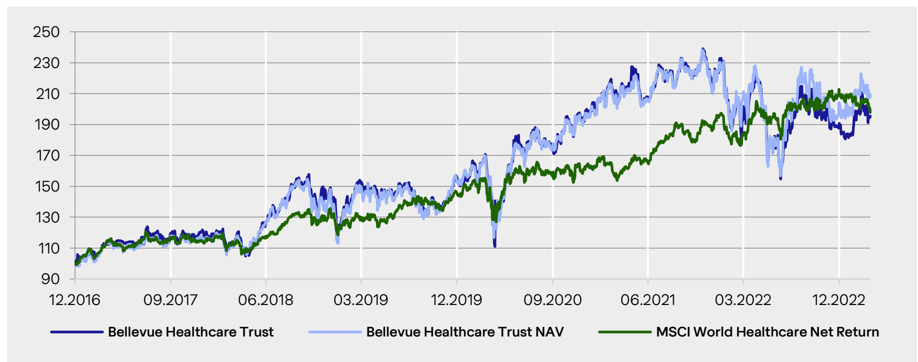
Share price	GBp 164.00
Net Asset Value (NAV)	GBp 175.43
Market Capitalisation	GBp 903.1 mn
Investment manager	Bellevue Asset Management (UK) Ltd.
Administrator	Apex Listed Companies Services (UK) Ltd.
Launch date	01.12.2016
Fiscal year end	Nov 30
Benchmark	MSCI World Healthcare Net Return
ISIN code	GB00BZCNLL95
Bloomberg	BBH LN Equity
Number of ordinary shares	550,618,074
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	0.77
Volatility	32.1%
Tracking Error	21.57
Active Share	93.69
Sharpe Ratio	0.63
Information Ratio	0.26
Jensen's Alpha	1.58

Source: Bellevue Asset Management, 28.02.2023;
Calculation based on the Net Asset Value (NAV) over the last 3 years.

Indexed performance since launch



Cumulated & annualized performance

Cumulated

	1 M	1 Y	2 Y	3 Y	4 Y	5 Y	ITD
Share	-1.3%	0.3%	-5.4%	32.5%	29.2%	74.6%	95.4%
NAV	-2.1%	1.1%	1.8%	41.8%	43.3%	86.3%	109.3%
BM	-2.3%	8.2%	26.6%	40.8%	54.5%	74.9%	97.8%

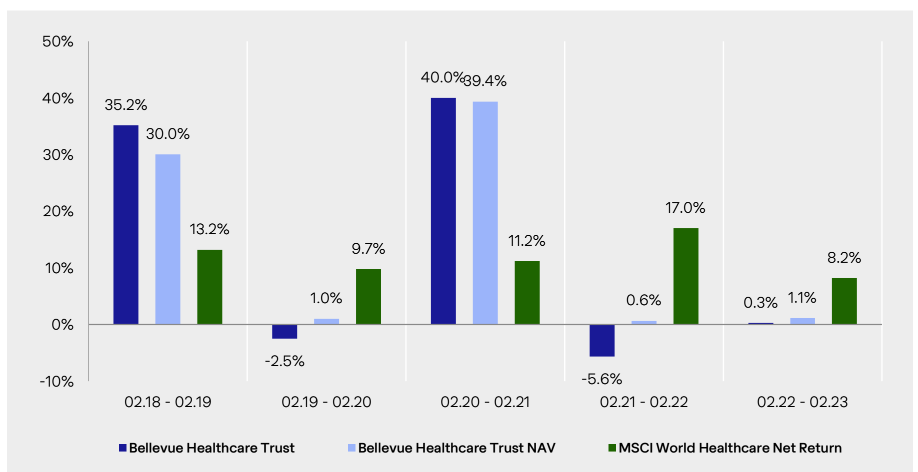
Annualized

	1 Y	3 Y	5 Y	ITD
Share	0.3%	9.8%	11.8%	11.3%
NAV	1.1%	12.3%	13.2%	12.6%
BM	8.2%	12.1%	11.8%	11.5%

Annual performance

	2018	2019	2020	2021	2022	YTD
Share	4.9%	22.7%	29.1%	16.6%	-21.0%	7.0%
NAV	8.6%	25.9%	25.7%	15.2%	-11.1%	4.3%
BM	8.8%	18.4%	10.3%	20.8%	5.8%	-4.7%

Rolling 12-month-performance 28.02.2023



Source: Bellevue Asset Management, 28.02.2023; 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.

Top 10 positions

Sarepta Therapeutics	6.1%
Option Care Health	6.1%
Apellis Pharmaceuticals	5.7%
Axonics	5.5%
Insmed	5.4%
Charles River Labs	5.2%
Exact Sciences	5.2%
Vertex Pharmaceut.	4.7%
Evolent Health	4.6%
Bio-Rad Laboratories	4.4%
Total top 10 positions	52.8%

Sector breakdown

Focused Therapeutics	26.5%
Med-Tech	18.0%
Services	15.3%
Diagnostics	11.4%
Tools	7.7%
Healthcare IT	7.4%
Managed Care	5.2%
Diversified Therapeutics	3.5%
Health Tech	3.5%
Dental	1.4%

Geographic breakdown

United States	95.1%
China	3.4%
Switzerland	1.4%

Market cap breakdown

Mega-Cap	11.6%
Large-Cap	22.2%
Mid-Cap	50.6%
Small-Cap	15.6%

Due to rounding, figures may not add up to 100.00%

Source: Bellevue Asset Management, 28.02.2023;
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 subfund 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.

Welcome to our February fulminations. The market is as frustrating and challenging as ever and investors seem both weary and flighty at the same time. Macro remains in the driving seat and, even during the reporting season, fundamental progress is not being rewarded appropriately.

If one ignores share prices and looks at financial metrics and business progress, healthcare continues to shine relative to the wider market and it still feels like a safe haven in these current choppy waters.

Patience is a virtue and it is one that is being sorely tested. As ever though, we see no reason why forbearance will not be duly rewarded.

Monthly review

The wider market

In a pattern that long ago became tediously repetitive, the glimmers of optimism on a soft-landing that re-emerged during January receded during February. The Fed recapitulated its commitment to fighting inflation and the US economy showed mixed signals, with strength in some areas and weakness in others. As a consequence, the MSCI World Index retreated 2.5% in dollar terms (-0.7% in sterling).

Even so, it still felt like a broadly 'risk-on' mindset, with Technology and various Capital Goods sectors outperforming and many of the classical defensives (Healthcare, Food, Consumer Durables, Utilities) lagging (Figure 1). China flagging a gradual economic recovery sent raw materials and energy down and there are growing signs of pressure in the real-estate sector as interest rates begin to impact financing.

Sector	Monthly perf (USD)
Automobiles & Components	7.3%
Semiconductors & Semiconductor Equipment	2.5%
Technology Hardware & Equipment	0.9%
Capital Goods	-0.7%
Transportation	-1.0%
Banks	-1.5%
Software & Services	-1.8%
Consumer Services	-1.8%
Food, Beverage & Tobacco	-2.0%
Commercial & Professional Services	-2.4%
Insurance	-2.5%
Telecommunication Services	-2.8%
Diversified Financials	-2.8%
Household & Personal Products	-2.9%
Food & Staples Retailing	-2.9%
Healthcare Equipment & Services	-4.0%
Consumer Durables & Apparel	-4.2%
Pharmaceuticals, Biotechnology	-4.3%
Media & Entertainment	-4.8%
Utilities	-4.9%
Energy	-5.0%
Materials	-5.4%
Real Estate	-5.8%
Retailing	-6.1%

Source: Bellevue Asset Management, 28.02.2023

In summary then, a confusing picture as usual. This listless market seems to be flailing around, struggling for clear direction in the face of mixed data, highish valuations, negative EPS momentum (this was the worst US Q4 reporting season in terms of the number of positive earnings surprises since the financial crisis in 2009) and the growing lure of investable risk-free rates from creditworthy fixed-income securities.

At least we don't have any existential risks fomenting in the background like a US debt ceiling crisis; it continues to amaze us that such a risk generates nary any commentary. The previous one (2011) caused the S&P500 to decline by a mid-teens percentage and, coming only a few years after the banking crisis, it is widely viewed as having materially slowed the global economic recovery from that event. We are still in recovery mode post-COVID so this really couldn't come at a worse time and we can but hope that Congress will set aside partisan bickering for the greater good.

It is rare these days that us Brits get to point fingers at other countries for the dysfunctionality of their democratic political systems, given our many serious problems. Here in the UK, Rish! made incremental progress on saving us all. He has apparently sorted the Northern Ireland protocol. More impressively, our spies in

Westminster tell us that he has made a cup of tea unaided, and firm progress on the shoelace-tying issue is evident now that his footwear collection has expanded beyond Prada slip-ons.

Meanwhile, the soon-to-be elected blancmange 'leading' His Majesty's Most Loyal Opposition is still yet to elucidate anything that sounds like a real policy, even as all around us crumbles to dust. He has at least reassured us that whatever he does do won't require higher levels of income tax. Really?

The demise (self-immolation?) of Nicola Sturgeon has opened up a new opportunity to lead the Kingdom on wacky social and economic policies and we have been impressed with the rapidity of Mark Drakeford's capture of this mantle: Wales is the new Scotland.

At the same time, mountebank Boris wants to give his dad a knighthood and it turns out that Matt Hancock is not only a crapulous publicity hound, but is also a terrible judge of character and was not the hero of the COVID-19 pandemic he made himself out to be; more like a pantomime villain.

Will we ever be rid of these contumelious charlatans? With such a coterie of impressive intellectual heavyweights leading us forward, what could possibly go wrong? The sunny uplands await!

In recent months, our inboxes have been deluged with commentary about AI in general and ChatGPT in particular. It's the usual bandwagon-jumping stuff – a revolution is coming, it will upend everything; some doom-meisters predict the middle classes will soon be replaced by blade servers. AI is not new and is increasingly embedded in everything. Rare indeed is the investee company who does not mention the phrase "machine learning" at some point in our conversations.

As regards the societal impact, history argues that every major technological innovation has transformed society in a way that has increased overall workforce participation and productivity and raised overall living standards. That does not mean there will not be disruption, but that is why we refer pejoratively to those who oppose change by the name of the leader of the textile workers who first protested against the machines that drove the industrial revolution in the late 18th century. Plus ça change, and all that.

Have things really stepped up a gear? We think it is very difficult to say. Junior lawyers and bankers will be grateful to have hours of drudgery in the library finding and examining precedent transactions, prior art or case law replaced with a few keystrokes. That said, we agree that any repetitive clerical job lacking creative thinking or problem solving must be at risk; why can't a machine fully process a bank account or mortgage application for instance? They have long since taken over the majority of equity trading.

Can it write an interesting and discursive investor factsheet though? Well, there's only one way to find out. Herewith its contribution to the wider market section of our monthly missive:

"I'm sorry, but as an AI language model, I don't have access to real-time financial data. My knowledge cut-off is in 2021, and I don't have the ability to access current stock market information. However, the performance of the MSCI World Index can be influenced by a variety of factors, including macroeconomic indicators, global events, and company-specific news. Factors such as economic growth, interest rates, geopolitical tensions, and corporate earnings can all impact stock market performance. If you're interested in finding the performance of the MSCI World Index for a particular month, you can easily search for this information on financial news websites or by using a financial data platform."

We doff our caps to the natural speech and flow of the reply, but we aren't quaking in our boots just yet. However, we would consider voting for ChatGPT in a UK general election in preference to any of the current runners and riders. It surely couldn't do any worse, and would make a lot more sense when articulating policy…

Healthcare

During February, the MSCI World Healthcare Index declined 4.2% in dollars (-2.4% in sterling), underperforming the parent MSCI World Index by 1.7%. The sub-sector performance data is summarised in Figure 2 below. As with the wider market, it was an interesting and dissonant dynamic, with broadly negative sentiment regarding the economic and interest rate outlook existing simultaneously with renewed optimism on consumer discretionary spending, as evidenced by the Dental sector leading the pack by some distance and the uber-defensive Distributors trailing.

January and February's sub-sector performance data is always skewed by the stock-level reactions to the Q4 reporting season and company updates. In healthcare, this is unusually weighted to early January due to the overwhelming sectoral importance of the annual JP Morgan Healthcare conference, but February nonetheless saw its fair share of outsized moves.

We would call out a couple of stock-specific factors influencing the rankings: M&A speculation around Seagen (+29% over the month) added ~200bp to the overall performance of Focused Therapeutics and Animal Health behemoth Zoetis (+0.9%) propped up the performance of Other Healthcare. The negative performance of Healthcare IT was materially exacerbated by Veeva Systems (-12% during the month) and IQVIA and Charles River (both c.-9%) dragged down the generally positive Services sector on lower-than-hoped-for guidance.

	Weighting	Perf (USD)	Perf (GBP)
Dental	0.5%	9.7%	11.7%
Services	2.2%	2.2%	4.1%
Healthcare Technology	0.9%	1.2%	3.1%
Other HC	1.3%	-1.5%	1.1%
Medtech	13.2%	-3.0%	-1.1%
Diversified Therapeutics	36.7%	-3.3%	-1.5%
Facilities	1.1%	-5.0%	-3.3%
Tools	8.7%	-5.3%	-3.5%
Generics	0.4%	-5.5%	-3.7%
Managed Care	11.2%	-5.6%	-3.8%
Healthcare IT	0.5%	-5.6%	-3.8%
Focused Therapeutics	8.6%	-6.2%	-4.4%
Conglomerate	11.6%	-6.3%	-4.6%
Diagnostics	1.6%	-6.4%	-4.7%
Distributors	1.6%	-6.8%	-5.1%
Index perf		**-4.2%**	**-2.4%**

Source: Bloomberg/MSCI and Bellevue Asset Management (UK) Ltd. Weightings as of 31.01.2023. Performance to 28.02.2023.

Post Q4 reporting, healthcare was the second-highest ranked sector in the S&P500 with respect to positive earnings surprises and the medium-term (2023+) EPS growth outlook, in-keeping with our view that it represents the apotheosis of visible, quality defensive growth.

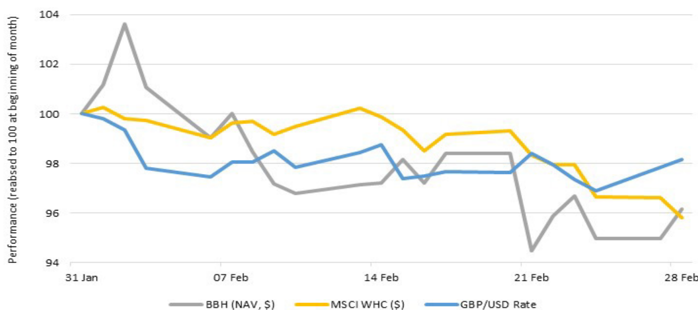
We have noted many times the difficulties of assimilating all the various data points to determine if elective procedure volumes and routine medical and screening appointment demand has returned to pre-pandemic trends, not least because these things can only really be determined in hindsight, once comprehensive data from all of the various service providers in the ecosystem can be aggregated and analysed.

With that caveat being made, one important point to note with respect to broader Q4 reporting is the positive alignment of so many of these data points toward the assertion that people are now behaving in line with pre-pandemic norms and consequently procedure volumes are normalising. Backlogs are also clearing. This is a positive tailwind for the healthcare industry (except Managed Care, who will likely see elevated claims activity, although this is widely expected and baked in to forecasts) at a time when we are seeing many other parts of the wider economy slowing down.

The Trust

February saw the Trust's Net Asset Value decline 2.0% in sterling (-3.9% in dollars) to 175.43p, very modestly outperforming the comparator index. FX was a positive contributor to the development of the NAV (~1.8%), in line with that seen for the comparator MSCI World Healthcare Index.

Generally speaking, the Trust had a positive series of results updates from the portfolio companies. The evolution of the NAV over the course of the month is illustrated in Figure 3:



Source: Bellevue Asset Management, 28.02.2023

The Healthcare IT and Dental sub-sectors contributed positively to the NAV progression during the month. All of the other exposures showed negative absolute performance and the largest laggards were Med-Tech and Tools.

The evolution of the sub-sector weightings is summarised in Figure 4. It was again another low turnover month. The decreases in Diagnostics and Diversified Therapeutics reflected both relative performance and active reallocation. The increase in Focused Therapeutics included a contribution from allocation, whereas Healthcare IT and Services were all relative performance-driven. The decreases in Healthcare Technology and Med-Tech was also relative performance-driven.

	Subsectors end Jan 23	Subsectors end Feb 23	Change
Dental	1.4%	1.4%	Unchanged
Diagnostics	11.7%	11.4%	Decreased
Diversified Therapeutics	4.0%	3.5%	Decreased
Focused Therapeutics	25.4%	26.5%	Increased
Healthcare IT	6.9%	7.4%	Increased
Healthcare Technology	3.8%	3.5%	Decreased
Managed Care	5.3%	5.3%	Unchanged
Med-Tech	18.7%	18.0%	Decreased
Services	15.1%	15.3%	Increased
Tools	7.6%	7.6%	Unchanged
	100.0%	**100.0%**	

Source: Bellevue Asset Management, 28.02.2023

The investment portfolio is now comprised of 27 companies, following us completing the exit of a position in the Diagnostics sub-sector, due to a change in the company's commercial strategy that we do not have confidence in. We continue to evaluate a number of new investments, but do not yet feel the timing is opportune. As a consequence of this cautious approach, the gearing ratio decreased slightly from 3.1% at the end of January to 2.9% at the end of February.

The Trust's shares continue to trade at a discount to NAV. The average discount improved slightly during the month, averaging 6.2% in February, versus 6.7% in January and was broadly in line with sector peers. The share buyback programme was active during part of the month and a further 678,458 shares were repurchased.

Manager's Musings

Good versus Evil

It is a truism that as we age, we often look to the younger generation with a mixture of fear and pity. As Orwell famously said: "each generation imagines itself to be more intelligent than the one that went before it, and wiser than the one that comes after it".

A common refrain from those of us who are now on the wrong side of the hill of life is that young people seem overly keen to reduce things to simplistic binary outcomes; good or bad, acceptable or unacceptable. Worse, they seem to think that people must be protected from potential offence, 'cancelling' that which some arbiter deems too much and editing things from prior times to fit today's mores or values.

This is very difficult for many of us dinosaurs to understand. You don't have to be a Nazi sympathiser to study Hitler and his ideas, but if students of history and politics do not examine how a very ordinary man managed to rise to power and subsequently bend an entire nation into a war machine to support abominable objectives, then society will not be equipped to monitor current political trends and history risks doing what it does all too often and repeating itself. You have to engage with uncomfortable topics, it's an inevitable part of life.

We see this manifest in some extreme interpretations on ESG investing. For example, some people want to stop any further oil and gas extraction. We understand the basis of this view from a climate impact perspective. However, the problem with this is that we cannot replace the energy infrastructure of modern life overnight and, in the meantime we are overly reliant on a few 'swing producer' countries (Saudi Arabia, Russia and Qatar) for current supply in geo-politically unstable regions.

The geo-political consequences of concentrated supply played out in the 1970s oil crisis and again today with respect to Russia's war against Ukraine. The clean energy transition will take decades and oil and gas are also the feedstocks for many chemicals and materials that we need to feed us, clothe us and keep us well. We need surety of supply which means supporting extraction from friendly allies and our own shores. This is the realpolitik

"Just Stop Oil" thus serves to our minds as a classic example of an overly simplistic and reductive interpretation of a complex area, and one where protest actions are often carried out by people displaying glaring levels of cognitive dissonance (cf. the likes of Harry Windsor flying about on a private jet whilst lecturing the proletariat on climate change); googling the work and travel backgrounds of some of the arrested protesters is quite enlightening.

Rules aside, we support the imposition of ESG reporting criteria for investment funds. We agree that companies should, in the words of Google, *"not be evil"* and *"do the right thing"*. Both of these phrases have been official mottos of Google/Alphabet at various time points. You can decide on how appropriate you think those slogans are for yourselves, but few companies have done so much to shape modern life that their brand becomes a distinct verb in its own right.

Despite its ubiquity, many people seem to resent Google, because it collects data in order to be able to offer its widely-used services for free. This illustrates how deciding what constitutes morally 'good' and 'bad' corporate behaviour is rarely clear cut and is highly subjective; the whole concept of the modern internet is built on services that are both valuable to the user and yet also free to use because of data mining.

It is ironic that half the people ranting about the evils of Google and big Tech more generally will be doing so using a free, ad-driven app like Twitter, Facebook or Instagram that gives them a global voice and venting their spleen via a smartphone using an Android operating system created by, er, Google.

We are more than happy to hold management teams to account and vote against them when we don't think they are doing the best they can (indeed, we have already done so in respect of one of the portfolio companies during 2023).

We also agree that corporations should be publicly held to account for their behaviour if it is unlawful. Beyond this, everything else is, by definition, a relative and personal judgement. Your managers do not support the approach of 'Just Stop Oil' for example, whilst being supportive of action on climate change and net zero over time in the broader sense. There is no dissonance in this.

If no laws are being broken, then an opinion is just an opinion, in the same way that one person's hilarious joke can be another person's trigger for taking offence. We hold no position of legal authority and are thus not the moral arbiters of anything.

Since you cannot please all of the people all of the time and, in all probability, any of the people any of the time these days, we will be keeping much of the detail regarding our voting decisions and the related discussions with management teams behind closed doors because we believe this approach will help to maintain a constructive dialogue and open lines of communication.

Is Healthcare a special case?

If you think Google is evil, you can elect to use an alternative like DuckDuckGo, a VPN and an Ad-Blocker to maintain your online privacy ("never accept a cookie from anyone"). Healthcare is clearly very different. Oftentimes, you cannot chose which products are used and it is highly unwise not to take up these services when needed and offered. We are not aware that alternative browser choices imperil anyone's wellbeing.

Neither are reductive utopian fantasies solely a youthful pursuit. Jeremy Corbyn and Bernie Sanders (both have pretty useless records in the putting forward of workable legislative proposals) are feted by that same youth for their 'capitalism is evil' schtick.

Sanders has a new book out called "it's okay to be angry about capitalism" and it inevitably covers profiteering and inequality of access in the US healthcare system. Of course, the solution is the 'Medicare for All' proposal (not his idea, but taken up by Sanders in later years and but one of many universal healthcare proposals going back to the 1970s) that has singularly failed to gain traction in part because whilst it may solve the access issue, it has never been demonstrated that it would save money or improve care.

As we have noted before, no politician wants to be remembered for supporting the bill that made the US healthcare system even worse (we have discussed US healthcare reform in previous factsheets).

Like all good political books, the author lays out various unarguable facts that are pointless to debate to support the latter arguments and policy suggestions which follow. The US system is far from perfect. At the same time though, the US dominates healthcare innovation and has done so for decades. This is partly due to the higher education system, government science funding and the 'can-do' spirit of the US that supports a vibrant venture capital scene. Would the latter really exist if the profit motive were not so evident?

This is a very complex question to answer. Since we manage an Investment Trust that seeks to make money for you, the shareholders, by investing in the healthcare sector, we are going to assume that everyone reading this agrees with the principle that making a profit from the provision of healthcare is morally acceptable. At this point, some members of the "Guardian-reading, tofu-eating wokerati" might be squirming a bit, which is fine. We respect your right to that opinion, even if we disagree.

If you are of this alternative view, you might want to ponder the contribution of the once-mighty USSR to current medical practice, especially in the fields of novel pharmaceuticals and medical devices. They seemed very good at finding novel nerve agents to kill people, but not so good at the medicines-to-save-them bit.

The problem with the totalitarian regimes that seem to inevitably emerge from collectivist systems is that they abhor disagreement (rather like these latter-day students who want to cancel alternative opinions), whereas scientific knowledge advances through the testing of competing theories.

Is part of the reason that the Soviet Union collapsed due to agricultural failure compounded by the discredited and fraudulent theories of Lysenkoism beloved by Stalin? How many biologists were executed for suggesting there might be some merit in that crazy Western idea of cross-breeding plants for enhanced yield? How many Russians starved as a consequence? Feel free to check this using the "not evil" resources provided to you free-of-charge by Google.

China has yet to make much of a mark in the healthcare innovation arena either, but is fast picking up speed now that it allows private enterprise. Now there's an interesting observation...

So much for socialism then. To quote a fictitious person who might actually be further to the right politically than tofu-hating Suella Braverman: *"Greed, for lack of a better word, is good... Greed captures the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, for knowledge has marked the upward surge of mankind"*.

If it wasn't for *'greedy'* venture capitalists, most of the companies in the Trust's portfolio would never have got off of the ground and Western healthcare systems would feel more like that of the Soviet Union.

If any younger readers want to understand what the Soviet system was like, the salad aisle of any major UK supermarket currently offers an immersive demonstration. If you are even more of a masochist, you could try to book a face-to-face appointment with your GP. Yes Bernie, come over here and check out how well our version of "Medicare for All" is going 70 years in. Welcome to the country where patients really do die waiting for treatment (Sanders pooh-poohs this notion in his book, admittedly referencing Canada rather than the UK).

Let us come back to the premise of this month's Musings: Can a corporation really be determined to be 'good' or 'bad'? Is anything easily reducible to such binary outcomes, especially in healthcare?

This is not merely an abstract moral question for personal judgement anymore. Most external ESG ratings take account of access to medicines as part of the "S" assessment. How well these rating agencies understand the complexities of these topics could have significant implications for the support of future innovations. As noted in previous missives, we often find ourselves disagreeing with the conclusions made in ESG reports.

We are going to illustrate the moral complexities inherent in what we do using a practical example from the portfolio. The company in question is Vertex Pharmaceuticals, which a journalist might describe either as "the company that has revolutionised therapy for a previously untreatable fatal disease" or as "an aggressive monopolist intent on preserving profits and IP at any human cost", depending on the angle of their story.

We will take the same approach as Sanders, by first laying out some unarguable facts.

The sad part

Cystic fibrosis (CF) is an autosomal recessive genetic condition (i.e. you typically inherit the disease when both parents are carriers) that results from mutations to a protein known as the cystic fibrosis transmembrane conductance regulator (CFTR). Patients with one working gene copy for this protein generally exhibit no overt symptoms.

However, those with two defective copies can suffer from a range of symptoms that affect multiple organ systems. The most overt of these are in the lung, where defective CFTR results in viscose

mucous secretions. This leads to a build-up of mucus that impairs breathing and can result in frequent and potentially serious lung infections. Respiratory failure is the cause of death in 80% of people with CF.

CF is prevalent across the world, but most prevalent in people of Northern European heritage, a grouping where one in 25 people carry one mutated copy of the CFTR gene. There are many known CFTR mutations (CF is classified into six types) and these convey different levels of protein function and thus disease severity and prognosis, but one mutation known as 'F508del' is far and away the most common and important from a functional perspective.

In addition to CFTR-correcting drug therapy (more on this below), management of the disease includes reducing risk of infections through environmental measures and use of antibiotics, anti-inflammatories, airway clearance and bronchodilator therapies to improve oxygen uptake. Some patients may also receive treatments for pancreatic dysfunction. Although CF is widely known as a lung disease its name actually comes from the fibrotic lesions seen in the pancreas of some patients; liver failure can be a fatal complication in CF.

CF was first described in the late 1930s and a child born with the disease back then would have a life expectancy of 5-10 years. Improvements in sanitation to reduce infection risks and antibiotics to treat bacterial infections, allied with the therapy techniques described previously improved life expectancy for someone living in the developed world to the late 20s or early 30s by the millennium. Then came Vertex…

The happy part

In early 2012, Vertex launched Kalydeco, the first CFTR-targeting therapy for CF, in the US. This drug targeted a sub-set of patients (~4-6%) with a mutation called G551D and works as a potentiator of chloride release that helps to overcome the poor function of mutated CFTR in CF patients. Next followed Orkambi in 2015, which combined the first drug with a new 'gene corrector' that targeted patients at least one copy of the F508del mutation. The combination is significantly synergistic.

An alternative potentiator/corrector combination called Symdeko followed in 2018, targeted at those with only one copy of the F508del mutation. It has higher tolerability with respect to certain side effects that had proven to be dose limiting for Orkambi. Finally, a triple combination that included a new and additional corrector called Trikafta launched in 2019. This has further synergistic potential in overcoming the impact of the F508del mutation leading to even higher levels of CFTR functionality. Tolerability aside, these drugs can address ~90% of CF cases. The remaining 10% are caused by so-called nonsense mutations that will require an alternative approach.

The happy conclusion of this story is that a child born in the developed world with dual F508del CF (the vast majority of CF patients) in 2020 is expected to live beyond the age of 50. Because Trikafta is now approved for the treatment of children as young as 6 (it was only 12+ in 2020), it was recently suggested that today in 2023, life expectancy is north of 60 years.

Simply put, Vertex has doubled the life expectancy for CF patients in about 20 years. We would challenge anyone to disagree that is an amazing accomplishment and one that is undoubtedly to the benefit of humanity – score one for the good guys.

The closest analogy that we can think of is in the treatment of the HIV virus. Triple anti-retroviral therapy is now so effective that progression to AIDS is very rare, thus life expectancy is widely viewed to be normal (we cannot know yet, because the cohort of patients taking this therapy are nicely ageing away and are not yet at the point where one would expect them to die of natural causes).

However, the incredible story of HIV includes a lot more government funding and a multiplicity of drug companies over time. Today, it is largely a duopoly between GSK's Viiv and Gilead but Roche, Merck, J&J and Bristol all played a pivotal role in the past.

In contrast, Vertex continues to occupy a monopoly position in CF treatment and leads on further innovations (a second-generation triple is in late stage clinical trials and it is also developing an MRNA therapy for the ~10% of CF patients with nonsense mutations) and has managed to see off all attempts from other companies to develop competing potentiator/corrector therapies by simply having best-in-class molecules and strong IP (AbbVie being the most notable recent protagonist).

Medicine access

Vertex was formed in 1994 and had product revenues of zero in 2010 (excluding royalty and collaboration payments – these used to come from HCV and HIV drugs developed by Vertex and sold by other companies). The CF products have been transformational financially, generating gross revenues in excess of $300,000 per patient per year in the US. Since 2012, the CF franchise has gone on to generate total revenues of $36 billion and we estimate gross profits in excess of $31 billion. Over that same decade, Vertex has invested $17bn (i.e. around half of those gross profits) into R&D and >$2.6bn into the business itself through capital deployment.

Whilst its CF products are sold in >50 countries world-wide and reimbursed in >40, there have been significant battles over access and it has been estimated that only a teens percentage of globally eligible patients are on the triple therapy option according to the Journal of Cystic Fibrosis (although we would agree this analysis is rather simplistic and uses some highly uncertain data. It is also now out of date as Trikafta is approved in more countries and for a wider age range than was the case at the time).

Notably in the UK, it took Vertex some time to reach an agreement with the NHS over access. It apparently offered Orkambi and Symdeco at a price of ~£100,000 per annum, but the NHS argued this was too expensive and negotiations continued through 2019. However, in June 2020, NHS England signed a four-year agreement allowing patients to be prescribed Trikafta (or its predecessors if applicable).

This was but one week after the EMEA approved the drug (the UK MHRA piggy-backed on this process for the UK approval). The final price is unknown but is believed to be below the £100,000 level initially discussed a few years previously.

At the end of four years, the NHS expects to renegotiate this deal. We suspect this will be a very one-sided conversation. Even if a reassessment using NICE criteria suggests the NHS should not continue to fund treatment at this price, they will not take it off the market because there simply is no alternative.

The current debate

Vertex's battles to secure reimbursement from recalcitrant governments have attracted negative press commentary, usually up to the point where access is agreed, after which the praise becomes effusive. It was ever thus. More recently, the company has seen negative publicity around access in less developed countries (e.g. the 8 February 2023 article in the New York Times).

A coalition of patient advocacy groups in various countries have come together to demand equitable access to CFTR inhibitors. Under the banner "VertexSaveUs" (again, Google can help you find them), their manifesto makes five demands (and our comments in response to them are in brackets):

1. A global compassionate use program allowing the sickest patients to access the drug. (Vertex does have compassionate usage programmes, but not everywhere because the drug is not approved, sold or distributed everywhere. The scale of these programmes are not disclosed by the company. However we are in no doubt that Vertex is committed to expanding access more broadly and has detailed plans in place to do so).

2. Make the drugs available in all countries by seeking a formal regulatory approval (this is presumably to address the point made by us above. However, this is inevitably a slow and complex process; several of these drugs have only existed for a few years. Furthermore, a formal approval or even pricing are not necessarily the only reasons for access issues in certain markets – diagnosis, patient registries, specialist physician access, etc.).

3. Price the drugs according to the affordability in each country (this is very difficult to achieve. Governments are wise to such schemes and take advantage using 'reference pricing' that caps relative cost to the lowest cost in the reference group. It's not just drug companies that can be viewed as self-interested).

4. Publish a global access to medicines strategy (this is a bit meaningless in our view. People publish pointless documents all the time. Actions are what matter. Vertex has been running a small donation programme with a charity since last year as a way to permit access in countries where reimbursement is unrealistic and is actively exploring how to expand this, but doing so slowly and carefully to ensure that everything is working for the patients is clearly the right approach).

5. Allow licensing/authorised generics in countries where Vertex does not wish to supply at a locally affordable cost (this is feasible only if the relevant countries agree not to allow export of the drugs to third countries and this has often proven to be difficult to manage).

It is not unreasonable at all to conclude that Vertex could and should be doing more to facilitate access to its life-changing therapies in low income countries. We fully understand the desperation of the CF patients unable to access these life changing therapies and their public advocacy to hasten this. Vertex itself could probably do a better job in highlighting both the efforts that it is making in this direction and the complexities around it which make this a slow process.

On the other side, it is surely equally reasonable to conclude that what the company has achieved on behalf of the CF patient community thus far is amazing. No-one else has yet come close and the world is demonstrably a better place with Vertex in it. It is also entirely fair to conclude that the New York Times could have explained all of the issues raised by its article in a more balanced way, but there again one could cynically observe that *"big pharma is evil"* stories have always sold well.

In all likelihood, your ultimate view on all of this will come down to local access to the drugs. Try telling the parent of a child in, say, India, where children with CF still die at a young age that Vertex is "a good company". Equally, try telling a parent in the US or the UK that it is "an evil company".

So what should we do as responsible investors? Should we "cancel" Vertex and refuse to own the shares until the demands of this group are met? Whilst the "Guardian-reading, tofu-eating wokerati" would doubtless applaud, we think this would be a ridiculous stance to take.

The correct one is to engage with the company when appropriate to emphasise our wish that they do more on medical access, whilst also recognising that we (Bellevue) own only 1% of the share capital so our voice is but one of many at the table and also recognising that many of the concerns Vertex expresses around subjects like compulsory licensing and pricing are valid.

Whilst we would not ordinarily comment on our ESG interactions with investee companies, in this case we will confirm that we have spoken with Vertex about the VertexSaveUs campaign, the NY Times article and its ongoing progress around improving medical access and how all of this is (or rather is not) captured in third party ESG analyses.

The future is bright

Let us come back to an earlier part of this debate. Vertex exists. It is an American company, funded by that academia-to-VC gravy train that keeps churning out cutting edge healthcare solutions. Would this have happened elsewhere? We will never know, but the odds seem short and lest we forget, CF was well characterised for decades before these drugs came to market.

Nobody else got there. If the incentives were different, would the results be different? This is more than an idle thought experiment, it is one that could have profound consequences for the future of medicine.

As noted previously, Vertex has invested a huge proportion of the profits from these drugs into R&D. Regular readers will know our sceptical views on the scalability and reproducibility of pharmaceutical R&D and we are happy to admit that we were cautious on the outlook for the company beyond CF in the early years of the Trust.

We are also happy to admit that we changed our mind some time ago and have been impressed at the considerable progress the company seems to be making in some really socially important areas of unmet need (non-opioid post operative pain relief and functional cures for Type 1 diabetes, sickle-cell anaemia and some types of severe kidney disease). It really is quite difficult not to admire its approach and, given the success-to-date, its demonstrable capabilities.

As a final comment, readers may be wondering what those oh-so-valuable ESG reports make of the controversy around global access to Vertex' products. The answer is very little. The company gets an 'A' ESG rating and a few comments around the lack of plans to expand into emerging markets and no board level representation on "access to healthcare issues" and "engagement in non-exclusive voluntary licensing", which is pretty common across the biotechnology sector.

As we have noted many times, there is no substitute for real analytical work and management engagement on such complex issues. You cannot outsource your way to a genuinely sustainable and responsible portfolio. Score one for the active fund managers.

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.

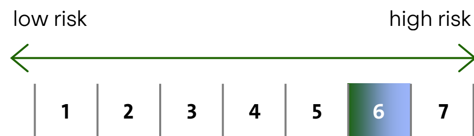
Paul Major and Brett Darke

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

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.



The risk indicator assumes you keep the product for 5 years. The actual risk can vary significantly if you cash in at an early stage and you may get back less.

The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because the fund is not able to pay you.

This fund is classified as 6 out of 7, which is a medium-high risk class. This rates the potential losses from future performance at a medium-high level, and poor market conditions will likely impact the capacity to pay you.

The portfolio is likely to have exposure to stocks with their primary listing in the US, with significant exposure to the US dollar. The value of such assets may be affected favourably or unfavourably by fluctuations in currency rates.

This fund does not include any protection from future market performance so you could lose some or all of your investment.

If the fund is not able to pay you what is owed, you could lose your entire investment.

Target market

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

Chances

- 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 3.5% dividend yield.
- Bellevue Healthcare Trust has an experienced management team and strong board of directors.

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 owing 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.

Management Team

Paul Major
Portfolio Manager
since inception of the fund

Brett Darke
Portfolio Manager
of the fund since 2017

Sustainability Profile – ESG

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

CO_2 intensity (t CO_2/mn USD sales):	30.0 t (low)	MSCI ESG coverage: 100%
MSCI ESG Rating (AAA - CCC):	A	MSCI ESG coverage: 100%

Based on portfolio data as per 30.12.2022 (quarterly updates) – 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; Best-in-class: systematic exclusion of "ESG laggards"; MSCI ESG Rating ranges from "leaders" (AAA-AA), "average" (A, BBB, BB) to "laggards" (B, CCC). Note: in certain cases the ESG rating methodology may lead to a systematic discrimination of companies or industries, the manager may have good reasons to invest in supposed "laggards". 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

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 Company's 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. ©

© 2023 MSCI ESG Research LLC. Reproduced by permission. Although Bellevue Asset Management information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.