EDISON

Worldwide Healthcare Trust

Positive industry fundamentals

Investment trusts

Worldwide Healthcare Trust (WWH) is managed by Sven Borho and Trevor Polischuk, of OrbiMed, one of the world's leading specialist healthcare investors. The managers are very excited about the prospects for the global healthcare sector for the balance of the year. The threat of regulated drug pricing in the US is abating and the sector is experiencing a period of high innovation, which could lead to the launch of therapies with multi-billion-dollar sales potential. Within the key US market, the regulatory environment is supportive in terms of bringing new products to market, share price valuations are low versus history, and there is a likelihood of increased merger and acquisition (M&A) activity following US tax reform. WWH has a very strong, long-term investment track record. From inception in 1995 until the end of FY18, its average NAV total returns of 15.8% pa are significantly ahead of the benchmark's average total returns of 11.6% pa.

12 months ending	Share price (%)	NAV (%)	MSCI World Health Care (%)	DS World Pharm and Biotech (%)	FTSE All-Share (%)
30/06/14	25.8	27.3	14.7	15.9	13.1
30/06/15	47.0	46.4	28.0	26.0	2.6
30/06/16	(0.4)	3.7	12.8	9.4	2.2
30/06/17	33.1	20.6	13.6	10.4	18.1
30/06/18	8.0	8.1	3.7	2.5	9.0

Source: Thomson Datastream. Note: All % on a total return basis in pounds sterling.

Investment strategy: Robust, long-standing approach

Borho, Polischuk and the OrbiMed investment team conduct thorough fundamental research, which includes analysis of clinical and regulatory events, management meetings and field research. The resulting global portfolio is constructed from a universe of c 1,000 stocks and is diversified by sector, geography and market cap. All holdings are regularly discussed as part of OrbiMed's public equity portfolio review (PEPR), a strategy that has been in place since 2009. Gearing of up to 20% of net assets is permitted; at the end of June 2018 net gearing was 10.0%.

Market outlook: Attractive industry fundamentals

Healthcare industry fundamentals are attractive due to product innovation (novel therapies are being developed that have multi-billion-dollar sales potential); a favourable regulatory environment (there were a high number of US branded and generic drug approvals in 2017); attractive valuations (US pharma and biotech stocks are trading near trough P/E valuation levels); and potential higher levels of M&A (following US tax reform). During 2018, the political overhang of potential regulation of drug pricing in the US has receded, which may lead to greater investor interest in the sector and a subsequent positive rerating of healthcare equities.

Valuation: Regularly trades close to NAV

WWH is currently trading at a 1.4% premium to cum-income NAV. This compares to the averages over the last one, three, five and 10 years of a 0.5% premium and discounts of 2.7%, 3.1% and 5.5% respectively. While the trust aims to generate long-term capital growth, it also offers a 0.6% dividend yield.

26 July 2018

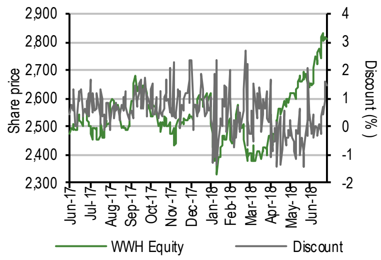
Price	**2,810.0p**
Market cap	**£1,404m**
AUM	**£1,503m**

NAV*	2,765.2p
Premium to NAV	1.6%
NAV**	2,770.1p
Premium to NAV	1.4%

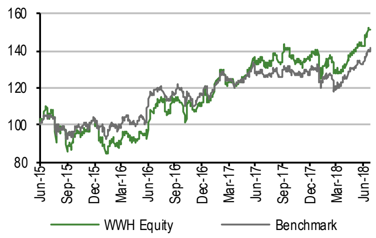
*Excluding income. **Including income. As at 24 July 2018.

Yield	0.6%
Ordinary shares in issue	50.0m
Code	WWH
Primary exchange	LSE
AIC sector	Specialist: Biotech & Healthcare
Benchmark	MSCI World Health Care

Share price/discount performance



Three-year performance vs index



52-week high/low	2,830.0p	2,330.0p
NAV** high/low	2,810.8p	2,320.7p

**Including income.

Gearing

Gross*	19.6%
Net*	10.0%

*As at 30 June 2018.

Analysts

Mel Jenner +44 (0)20 3077 5720
Sarah Godfrey +44 (0)20 3681 2519
investmenttrusts@edisongroup.com
Edison profile page

Worldwide Healthcare Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

Worldwide Healthcare Trust's investment objective is to invest worldwide in pharmaceutical, biotechnology and related securities in the healthcare sector to achieve a high level of capital growth. Gearing and derivative transactions are used to mitigate risk and enhance capital returns. In 2010, the mandate was broadened to include healthcare equipment and services and healthcare technology.

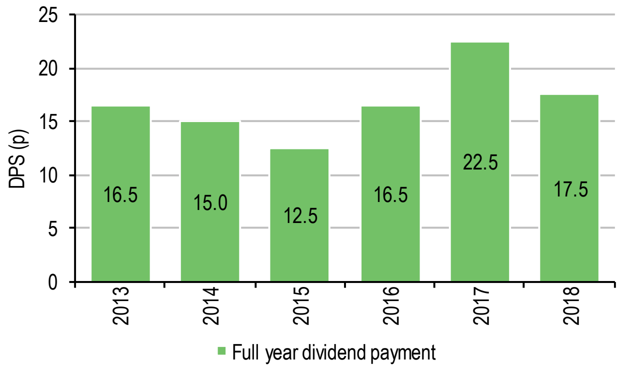
Recent developments

- 15 June 2017: 12-month results to 31 March 2018. NAV TR +2.8% versus benchmark TR -2.5%, share price TR +5.3%.
- 8 June 2018: announcement of second interim dividend of 11.0p per share (-31.3% year-on-year).
- 7 June 2018: manager Sven Borho appointed to WWH's board, with immediate effect.
- 12 January 2018: former lead manager Sam Isaly retired from WWH's board.

Forthcoming		Capital structure		Fund details	
AGM	September 2019	Ongoing charges	0.9%	Group	Frostrow Capital LLP (AIFM)
Interim results	November 2018	Net gearing	10.0%	Managers	Sven Borho and Trevor Polischuk
Year end	31 March	Annual mgmt fee	See page 7	Address	25 Southampton Buildings, London, WC2A 1AL, UK
Dividend paid	January, July	Performance fee	See page 7		
Launch date	April 1995	Trust life	Indefinite	Phone	+44 (0)20 3008 4910
Continuation vote	Five yearly, next in 2019	Loan facilities	Up to 20% of net assets	Website	www.worldwidewh.com

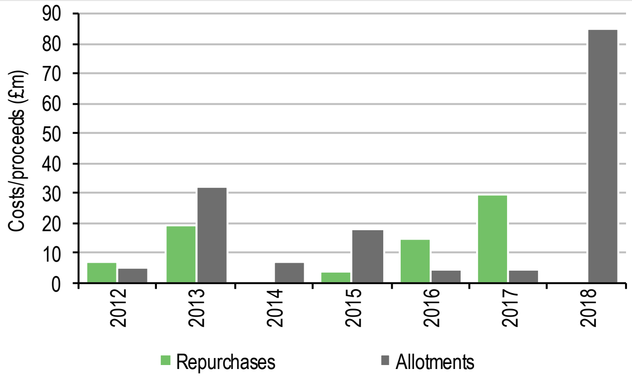
Dividend policy and history (financial years)

In line with the requirement for investment trusts to pay out 85% of their income net of expenses, two interim dividends a year are paid in January and July.

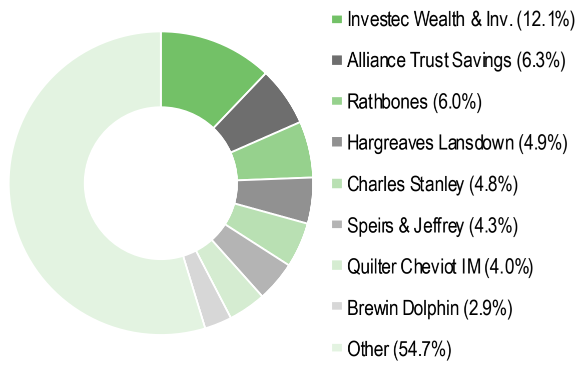


Share buyback policy and history (financial years)

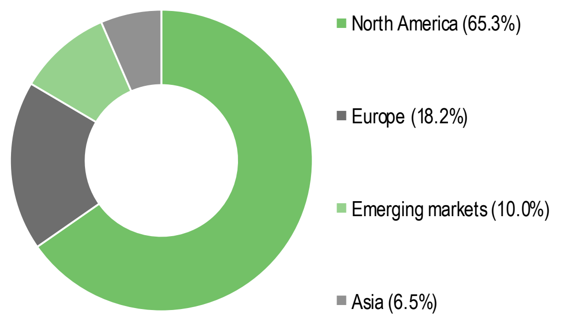
The trust has authority to purchase up to 14.99% and allot up to 10% of issued share capital. Allotments in the chart include exercise of subscription shares.



Shareholder base (as at 30 June 2018)



Portfolio exposure by geography (as at 30 June 2018)



Top 10 holdings (as at 30 June 2018)

			Portfolio weight %	
Company	**Region**	**Sector**	**30 June 2018**	**30 June 2017***
Alexion Pharmaceuticals	North America	Pharmaceuticals	4.9	3.5
Boston Scientific	North America	Healthcare equipment	4.5	4.5
Merck & Co	North America	Pharmaceuticals	4.1	3.3
Biogen	North America	Biotechnology	3.5	N/A
Wright Medical Group	Europe	Healthcare equipment	3.3	4.4
Allergan	North America	Pharmaceuticals	3.2	N/A
Vertex Pharmaceuticals	North America	Biotechnology	3.1	N/A
Novo Nordisk	Europe	Pharmaceuticals	3.1	2.6
Anthem	North America	Healthcare services	2.2	N/A
Celgene	North America	Biotechnology	2.1	N/A
Top 10 (% of holdings)			**34.0**	**32.9**

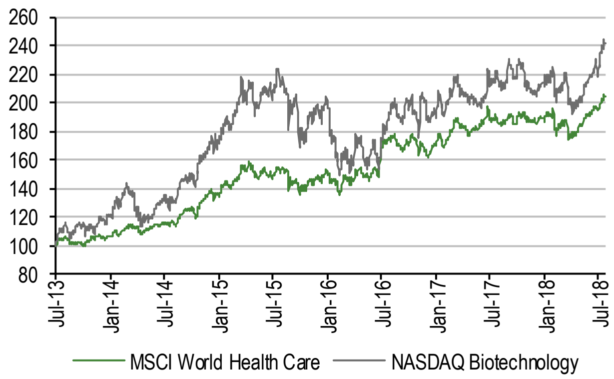
Source: Worldwide Healthcare Trust, Edison Investment Research, Morningstar. Note: *N/A where not in end June 2017 top 10.

Market outlook: Potential positive rerating

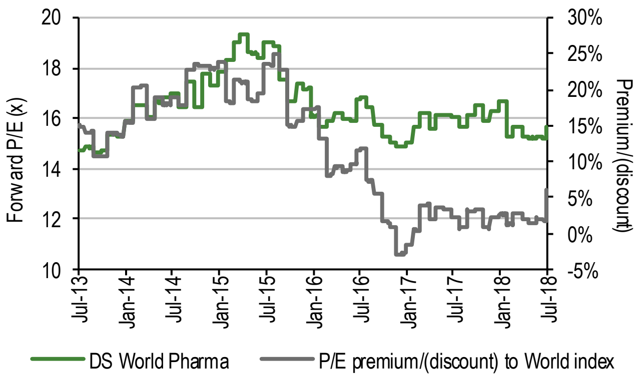
Pharma and biotech companies make up the lion's share of the global healthcare sector, which is dominated by the US. Share prices in these firms performed relatively poorly last year, partly due to concerns about drug pricing. These issues have abated somewhat in 2018 and there are reasons to suggest the sector could enjoy a rerating from near-trough valuation levels. Industry innovation is high; for example, there are novel therapies being developed for the treatment of cancer and Alzheimer's disease that have multi-billion-dollar sales potential, and a favourable regulatory environment in the US means drugs are coming to market faster than historically. Following tax reform in the US, which lowered both corporate tax and the levy paid on the repatriation of overseas assets, there is potential for an increased level of M&A, which has historically been an important driver of healthcare valuations. Investors seeking equity exposure to the sector may therefore wish to consider a healthcare fund that has broad, global diversification and has delivered a considerable above-benchmark total return over the long term.

Exhibit 2: Market performance and valuation

MSCI World Health Care and NASDAQ Biotech indices total returns (£)



Absolute and relative forward P/E multiple for DS World Pharma index



Source: Thomson Datastream, Edison Investment Research. Note: Valuation data as at 25 July 2018.

Fund profile: Broad exposure to global healthcare

WWH was launched in 1995, since when it has been managed by OrbiMed (founded in 1989), one of the largest dedicated healthcare investment managers in the world, with c $14bn assets under management and more than 80 investment professionals (of whom more than 20 hold MD or PhD degrees). Sven Borho, a founder and managing partner at OrbiMed, has been WWH's lead manager since December 2017; before then, he worked closely with former lead manager Sam Isaly. Borho is assisted by another of OrbiMed's partners, Trevor Polischuk. They aim to generate long-term capital growth from a diversified portfolio of global healthcare equities. The trust is benchmarked against the MSCI World Health Care index (sterling adjusted). The trust has certain portfolio construction parameters: a maximum 15% of the portfolio (at the time of acquisition) in a single holding; at least 60% in larger companies (market cap >$5bn); at least 20% in smaller companies (market cap <$5bn); up to 10% in unquoted securities; and a maximum of 5% in each of debt instruments, convertible bonds and royalty bonds issued by pharma and biotech companies. In terms of subsector allocation, a maximum 20% of the portfolio may be invested in each of: healthcare equipment and supplies; healthcare technology; and healthcare providers and services. The use of derivatives is permitted to enhance returns and manage risk. The managers can employ borrowing up to 20% of net assets; at the end of June 2018, net gearing was 10.0%.

The board measures WWH via three key performance indicators: NAV performance versus the benchmark; the discount/premium of the trust's share price to NAV; and the ongoing charges ratio.

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The fund manager: Sven Borho and team

The manager's view: Very optimistic for the balance of the year

We met with Borho's co-manager Polischuk, who is very optimistic on the outlook for WWH's prospects for the balance of the year. The political overhang is diminishing; while comments about US drug pricing have weighed heavily on the share prices of pharma and biotech stocks, OrbiMed believes that overall, the pricing environment is benign. On 11 May 2018, President Trump gave a widely anticipated speech about plans to combat high drug pricing in the US. From the healthcare industry's perspective, there was no specific recommendation for legislative action to change the way drugs are priced. OrbiMed has discussed the issue in meetings with its many industry contacts and concludes that while Trump will continue to tweet and 'wave a big stick', particularly given the upcoming mid-term elections, the environment is completely different behind the scenes. Pharma company executives have a 'seat at the table' when dealing with the US administration and despite his rhetoric, the president essentially remains pro-business.

Polischuk says industry innovation is unquestionably at an all-time high. He believes there are many opportunities in terms of new drug launches and companies' late-stage pipelines, and the environment is the most favourable that he has encountered in his career. Valuations of biotech and pharma companies remain close to their historical trough levels, and the healthcare sector in general is trading on a cheaper forward earnings multiple than the key S&P 500 index.

The healthcare regulatory environment remains very favourable. The Food and Drug Administration (FDA) commissioner Scott Gottlieb has transformed the US drug approval process in terms of both reduced timelines and more approvals. In 2017, there were 46 new molecular entities approved by the FDA. This is highest annual level this century, and not far behind the record number of 53 in 1996. During 2017, there was also a record number of generic drug approvals (1,027). Polischuk also notes changes in the healthcare regulatory environment in China, which he believes will generate new investment opportunities for WWH. In terms of product approvals, China is adopting a stricter, more western-style approach and there have been changes in listing rules, whereby a number of earlier-stage biotech companies are now able to be quoted on the stock market.

OrbiMed believes there will be an acceleration in M&A activity within the healthcare sector. US tax reform has been a positive catalyst – the large multinational companies have updated their tax assumptions, which are now meaningfully lower. The extra capital available as a result is being put to work via higher dividends, share repurchases and M&A. Polischuk says there has been a faster pace of M&A so far in 2018 compared with 2017 and he believes there will be a further acceleration in activity over the balance of the year. For this, and the other reasons highlighted above, the manager believes that it is a very exciting time for healthcare investors.

Asset allocation

Investment process: Thorough fundamental research

Borho, Polischuk and the OrbiMed investment team focus on fundamental research, aiming to generate long-term capital growth from a diversified portfolio of global healthcare equities. The investment universe is c 1,000 stocks, encompassing early-stage pre-clinical firms through to multinational biopharmaceutical companies. An ideal candidate for WWH's portfolio would be a company with underappreciated products in its pipeline, a robust balance sheet and a strong management team, that is trading on a reasonable valuation. OrbiMed's investment process is centred on its PEPR, which is undertaken by the whole public equities team five times a week, during which all of WWH's holdings are reviewed. Subjects for discussion include: clinical events (which historically have been the largest source of share price volatility); regulatory events; new drug launches; management meetings; and doctor surveys and other field research.

Current portfolio positioning

Exhibit 3 shows WWH's sector and geographic exposure to end-FY18. On a sector basis, the largest changes over 12 months were increased biotech exposure (+7.3pp) and reduced healthcare providers/services exposure (-6.2pp). Compared to the benchmark, the largest differences are an underweight position in large-cap pharma and an overweight position in emerging biotech. WWH's geographic exposures were little changed during FY18; the portfolio continues to be dominated by US companies, in keeping with the country's global dominance in healthcare.

Exhibit 3: Financial year-end portfolio sector and geographic exposure (%)

Sector	End-Mar 2018	End-Mar 2017	Diff.(pp)	Region	End-Mar 2018	End-Mar 2017	Diff. (pp)
Biotechnology	35.9	28.6	7.3	North America	64.6	66.0	(1.4)
Pharmaceutical	29.5	30.7	(1.2)	Europe	17.2	15.4	1.8
Healthcare equip/supplies/tech	15.2	16.5	(1.3)	Emerging markets	11.4	12.1	(0.7)
Healthcare providers/services	7.5	13.7	(6.2)	Asia	6.8	6.5	0.3
Life sciences tools/services	4.0	3.3	0.7				
Swap baskets	5.4	4.6	0.8				
Debt instruments	2.5	2.6	(0.1)				
	100.0	**100.0**				**100.0**	

Source: Worldwide Healthcare Trust, Edison Investment Research. Note: *Rebased to exclude gearing.

Recent activity within WWH's portfolio includes initiating a position in UK biotech company Shire. While there is investor scepticism that the takeover by Japanese pharma company Takeda Pharmaceutical will be completed, OrbiMed has undertaken in-depth due diligence, including discussions with Takeda management, and has high confidence that the deal will go through. The trust's managers are optimistic about the combined company, including the potential for meaningful margin expansion. The position in US pharma company Eli Lilly was sold. One of WWH's top 10 positions is Novo Nordisk, and while both Lilly and Novo have dominant diabetes franchises, Novo Nordisk has developed a novel drug Semaglutide – a once-weekly glucagon-like peptide-1 (GLP-1) receptor agonist for type 2 diabetes – which competes against Eli Lilly's Trulicity. The diabetes sector has experienced pricing pressures in the past, so the managers looked to reduce their overall exposure to this therapeutic category. Within healthcare services, the managers have shifted subsector exposure. The trust had an overweight exposure to hospitals in anticipation of rising utilisation, but research undertaken by OrbiMed suggested this positive trend was likely to reverse, and so profits were taken in hospital companies, with the proceeds reinvested in managed care organisations with positive fundamentals, such as Anthem, Humana and UnitedHealth Group.

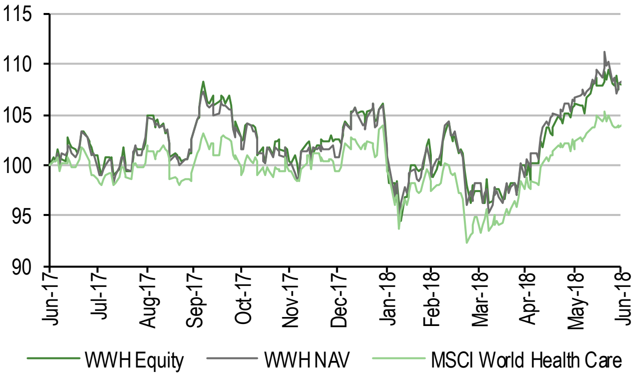
Performance: Very positive long-term record

In FY18 (to 31 March), WWH's NAV and share price total returns of +2.8% and +5.3% were ahead of the benchmark's -2.5% total return. The outperformance was a result of both efficient stock picking and effective subsector asset allocation. It should be noted that during the period, absolute returns were negatively affected by a c 12% appreciation in sterling versus the US dollar (US companies make up around two-thirds of WWH's portfolio). The top contributors to returns during FY18 were: BeiGene (0.44pp – a China-based, commercial-stage biopharmaceutical company, which announced a collaboration with Celgene for the development and commercialisation of tislelizumab for the treatment of solid tumours); Intuitive Surgical (0.33pp – a robotics company, which benefitted from higher procedure volumes, and new system installations surpassing consensus expectations); and Juno Therapeutics (0.26pp – which was acquired by Celgene). The biggest performance detractor (0.51pp) was medical device company Wright Medical, which experienced operational disruption due to an expansion in its sales force.

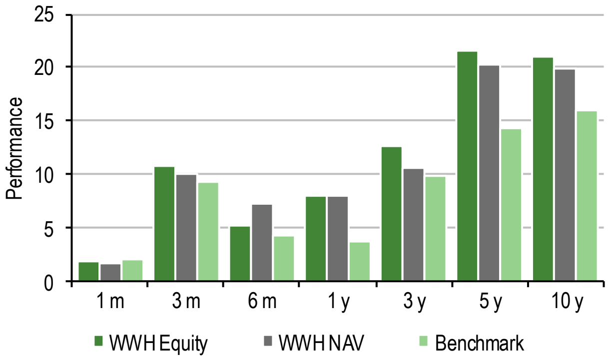
The trust has a very positive long-term performance record – from inception in 1995 to end-March 2018, its 15.8% average annual NAV total return is significantly ahead of the benchmark's 11.6% average annual total return. WWH's recent performance has been boosted by its holding in US biotech company Biogen, whose stock price rallied by c 20% on 6 July 2018 due to positive Phase II trial data for its Alzheimer's drug BAN2401, an anti-amyloid beta protofibril antibody, which is under development in a joint venture with Japanese pharma company Eisai (also owned by WWH).

Exhibit 4: Investment trust performance to 30 June 2018

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. Benchmark is DS World Pharma & Biotech index until 30 September 2010 and MSCI World Health Care index thereafter.

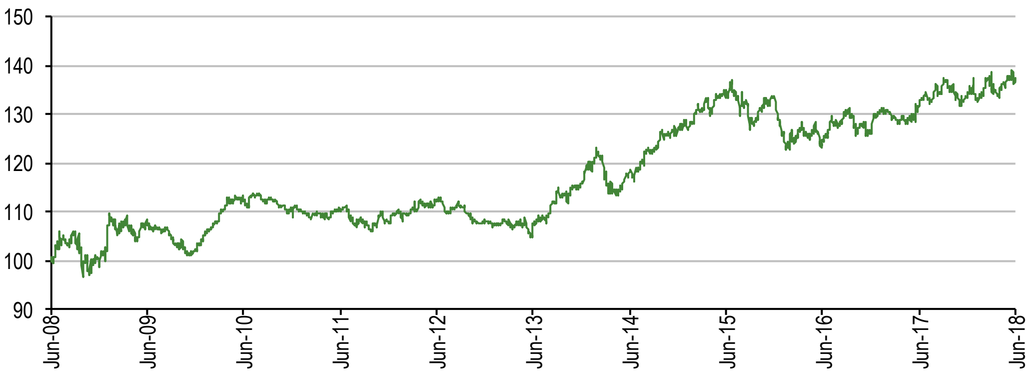
WWH's shareholders have enjoyed strong c 20% average annual NAV and share price total returns over five and 10 years (Exhibit 4, RHS). In relative terms, the trust has also performed very well (Exhibit 5), outperforming the MSCI World Health Care and the World-DS Pharma & Bio indices, in both NAV and share price terms, over the last one, three, five and 10 years. WWH's long-term outperformance versus UK equities is particularly impressive; over the last 10 years it has outperformed the FTSE All-Share index by c 190% in NAV and c 220% in share price terms.

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI World Health Care	(0.2)	1.4	0.9	4.2	7.7	35.6	60.4
NAV relative to MSCI World Health Care	(0.4)	0.6	2.8	4.2	1.6	29.0	44.9
Price relative to World-DS Pharm & Bio	0.4	3.7	3.1	5.4	15.6	46.5	66.6
NAV relative to World -DS Pharm & Bio	0.2	3.0	5.1	5.4	9.1	39.3	50.5
Price relative to FTSE All-Share	2.1	1.5	3.5	(0.9)	8.8	73.3	219.9
NAV relative to FTSE All-Share	1.9	0.8	5.5	(0.9)	2.7	64.9	189.0

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-June 2018. Geometric calculation.

Exhibit 6: NAV total return performance relative to benchmark over 10 years



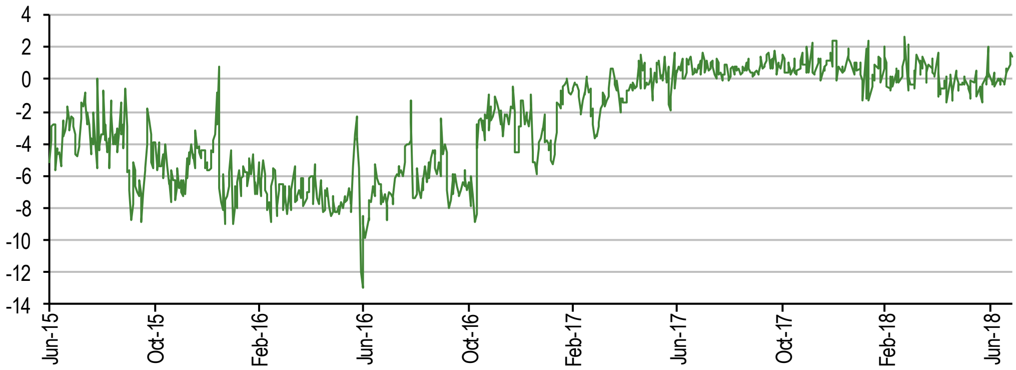
Source: Thomson Datastream, Edison Investment Research

Discount: Active share issuance to manage premium

WWH's board aims to keep the trust's discount below 6%. It has authority, renewed annually, to repurchase up to 14.99% and allot up to 10% of issued share capital.

WWH's current 1.4% share price premium to cum-income NAV compares with the range of a 2.7% premium to a 1.5% discount over the last 12 months. Over the last one, three, five and 10 years, the trust has traded at an average premium of 0.5% and average discounts of 2.7%, 3.1% and 5.5% respectively. During FY18, WWH regularly traded at a premium, and 3.4m new shares were issued (c 7% of the share base at end-FY17), raising £84.7m. No shares were repurchased during the financial year (Exhibit 1).

Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

WWH is a conventional investment trust with one class of share in issue. There are currently 50.0m ordinary shares outstanding. The trust has an overdraft facility with JP Morgan Securities and gearing of up to 20% of NAV is permitted (net gearing of 10.0% at the end of June 2018).

OrbiMed is paid a base fee of 0.65% of NAV and is eligible for a 15% performance fee for outperformance versus the benchmark (on incremental outperformance since launch, if it has been maintained for a 12-month period). Since 1 April 2018, Frostrow Capital, WWH's alternative investment fund manager (AIFM) is paid 0.3% of the trust's market cap up to £150m (unchanged); 0.2% on £150m to £500m (unchanged); 0.15% on £500m to £1bn (increased from 0.125%); 0.125% on £1bn to £1.5bn (unchanged); and 0.075% over £1.5bn (reduced from 0.125%). Frostrow is also paid a fixed fee of £57,500 pa, although it is no longer entitled to a performance fee.

In FY18, WWH's ongoing charge (excluding performance fees) was 0.9%, which was in line with the two previous financial years. Including performance fees, the FY18 ongoing charge was 1.2%, which was 20bp higher than in FY17.

Dividend policy and record

WWH pays dividends twice a year, in January and July. In FY18, the annual 17.5p dividend was c 22% lower than 22.5p in FY17, and the net revenue return of £9.0m was c 15% lower than £10.7m in FY17. As well as a lower level of portfolio income, a stronger pound also affected the revenue received. At the end of FY18, revenue reserves were £12.4m, which is equivalent to c 1.4x the last annual dividend. While the trust aims to generate capital growth rather than income, it currently offers a dividend yield of 0.6%.

Peer group comparison

In Exhibit 8, we highlight the members of the AIC Sector Specialist: Biotechnology & Healthcare sector as well as two Switzerland-listed funds, BB Biotech and HBM Healthcare. WWH's NAV total returns are broadly average over one year and above average over the other periods shown, ranking second and third out of seven funds over three and five years respectively, and third out of five over 10 years. Its ongoing charge is lower than average, but along with the majority of its peers, a performance fee is payable. WWH has a below-average dividend yield, as would be expected given its focus on capital growth rather than income.

Exhibit 8: Selected peer group as at 20 July 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Worldwide Healthcare Trust	1,401.6	12.7	35.4	152.8	518.7	0.4	0.9	Yes	110	0.6
BB Biotech Trust	2,915.2	2.5	6.5	163.2	639.8	8.5	1.3	No	103	4.9
BB Healthcare	369.4	22.0				(1.5)	1.0	No	103	2.8
Biotech Growth	464.8	4.3	(2.3)	112.2	687.4	(6.8)	1.1	Yes	108	0.0
HBM Healthcare Investments	956.8	20.2	63.7	196.8	279.9	(9.1)	1.5	Yes	100	3.4
International Biotechnology	248.6	10.1	10.5	134.0	416.1	(4.2)	0.9	Yes	100	4.1
Polar Capital Global Healthcare	256.0	9.2	25.2	72.8		(7.5)	1.4	Yes	100	1.0
Syncona	1,715.9	18.5	33.7	53.9		58.8	2.4	No	100	0.9
Average (eight funds)	**1,041.0**	**12.4**	**24.7**	**126.5**	**508.4**	**4.8**	**1.3**		**103**	**2.2**
WWH rank in peer group	**3**	**4**	**2**	**3**	**3**	**3**	**7**		**1**	**7**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 19 July 2018. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

There are six directors on the board of WWH, five of whom are non-executive and independent of the manager. Chairman Sir Martin Smith was appointed as a director in 2007 and assumed his current role in 2008. Senior independent director Dr David Holbrook was appointed in 2007, Doug McCutcheon in 2012, Sarah Bates in 2013 and Humphrey van der Klugt in 2016. The newest member of the board is Sven Borho, who is a founder and managing partner of OrbiMed and one of WWH's lead managers, and therefore considered to be non-independent. He was appointed in June 2018 following the resignation of WWH's former lead manager Sam Isaly in January 2018.