EDISON

Polar Capital Global Healthcare Trust

Adapting to a new global healthcare landscape

Initiation of coverage

Polar Capital Global Healthcare Growth & Income Trust (PCGH) was set up in 2010 with a fixed life of seven years. In advance of the expected wind-up at the early 2018 AGM, the trust is proposing a seven-year extension, changing the investment strategy to a growth mandate, and issuing zero dividend preference shares (ZDPs) to introduce gearing for the first time. It is also giving existing shareholders the opportunity to tender up to 100% of their investment at NAV minus costs (expected to be c 0.4%), as well as offering new shares to existing and new shareholders. The proposals are contingent on achieving at least £200m of assets following the tender offer and new share issue. The new, growth-focused strategy, renamed Polar Capital Global Healthcare Trust, will be c 90% invested in large-cap healthcare companies benefiting from industry consolidation, and c 10% in sub-$5bn stocks that are driving change through technological innovation.

12 months ending	Share price (%)	NAV (%)	MSCI ACWI Healthcare (%)	NYSE Arca Pharma CR (%)	MSCI AC World (%)	FTSE All-Share (%)
30/04/13	34.3	31.5	35.8	29.6	20.7	17.8
30/04/14	3.6	11.9	12.5	10.9	6.0	10.5
30/04/15	16.2	23.6	33.1	23.1	18.7	7.5
30/04/16	0.5	(4.1)	(0.2)	(7.3)	(0.5)	(5.7)
30/04/17	18.9	18.5	21.5	13.5	31.1	20.1

Source: Thomson Datastream. Note: All % on a total return basis in GBP, unless stated otherwise. CR = capital returns.

Background to the changes

PCGH's managers view their original investment thesis as having played out largely as expected, producing annualised share price and NAV total returns of c 13-14% since launch. With changes in the competitive landscape and growing pressure on healthcare systems in light of low economic growth and ageing populations, the managers now see opportunities in large companies benefiting from consolidation, and innovators who are disrupting markets with new technology. This leads to a broader investment focus than the previous concentration on pharmaceuticals.

Investment strategy: Concentrated but risk-aware

Under the proposed new strategy, PCGH will invest in a concentrated portfolio of c 25-30 large-cap companies from across global healthcare sectors, and c 10-20 innovative smaller companies. The six-strong management team has c 100 years of collective industry experience and manages c £1.4bn across a range of strategies. Portfolio construction is risk-aware and the managers expect a beta of c 0.8-0.9, with a modest level of gearing from the ZDPs.

Valuation: Certainty of exit drives narrow discount

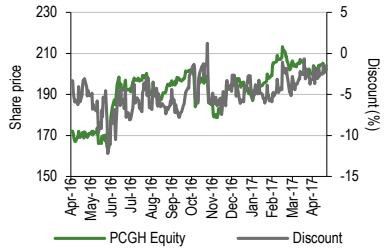
PCGH currently trades at a 1.5% discount, arguably in light of the forthcoming tender at close to NAV. The board views the fixed life of the trust as an important factor in discount control, as shareholders have the certainty of a future exit. The current dividend yield of c 2% is expected to fall to c 1% under the new, growth-focused strategy.

24 May 2017

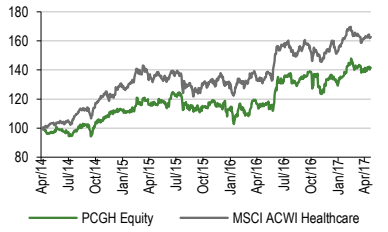
Price	**202.3p**
Market cap	**£244m**
AUM	**£247.4m**

NAV*	205.4p
Discount to NAV	1.5%
*Including income. As at 22 May 2017.	
Yield	2.0%
Ordinary shares in issue	120.5m
Code	PCGH
Primary exchange	LSE
AIC sector	SS: Biotechnology & Healthcare
Benchmark	MSCI ACWI Healthcare

Share price/discount performance



Three-year performance graph



52-week high/low	213.3p	164.0p
NAV** high/low	217.6p	177.7p
**Including income.		

Gearing

Gross*	0.0%
Net cash*	5.0%
*As at 31 March 2017.	

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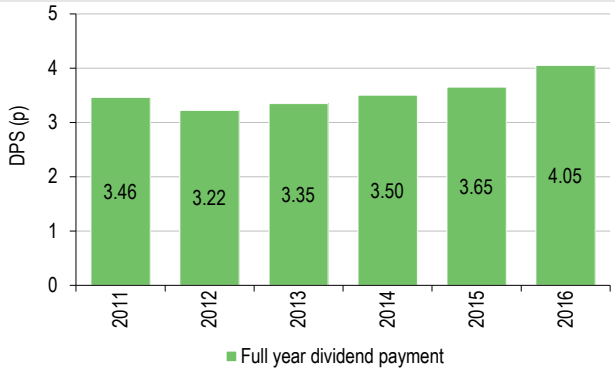
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Polar Capital Global Healthcare Growth & Income Trust's objective is to generate capital growth and income by investing in a global portfolio of healthcare stocks. Under the proposed new investment policy, Polar Capital Global Healthcare Trust will invest for growth, also from a global investment universe, with a bias towards larger companies but with a c 10% allocation to smaller companies providing innovative healthcare-related solutions.	■ 12 May 2017: Publication of prospectus and circular. Full details of proposed new investment policy, name change, offer for new ordinary shares and ZDPs, and tender offer at prevailing NAV per share less costs. ■ 5 May 2017: Results for the six months ended 31 March. NAV TR +3.9% versus +6.4% for MSCI ACWI Healthcare index. Share price rose by 6.0%. 1.65p dividend declared, payable on 9 June. Brief details of reorganisation proposals.

Forthcoming		Capital structure		Fund details	
AGM	Early 2018	Ongoing charges	1.02%	Group	Polar Capital
Annual results	December 2017	Net cash	5.0% (31 March)	Manager	Dan Mahony, Gareth Powell & team
Year end	30 September	Annual mgmt fee	0.85%	Address	16 Palace Street, London, SW1E 5JD
Dividend paid (historic)	Feb, May, Aug, Nov	Performance fee	Yes (see page 13)		
Launch date	15 June 2010	Trust life	Seven years	Phone	+44 (0)20 7227 2721
Continuation vote	General meeting 1 June	Loan facilities	None	Website	www.polarcapitalhealthcaretrust.co.uk

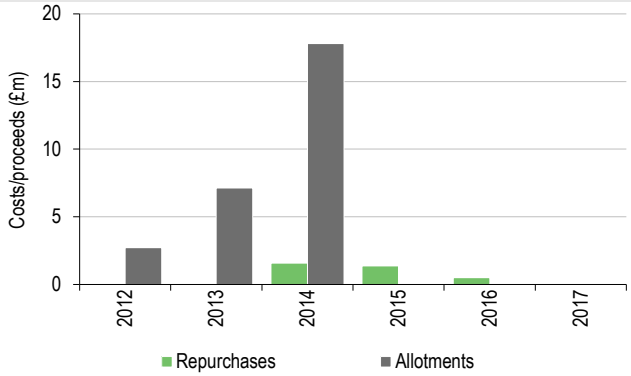
Dividend policy and history (financial years)

PCGH has historically paid four dividends a year, with the intention of providing year-on-year dividend growth. Under the proposed new investment policy, future dividends are expected to be lower. FY11 was a 15-month period from launch.

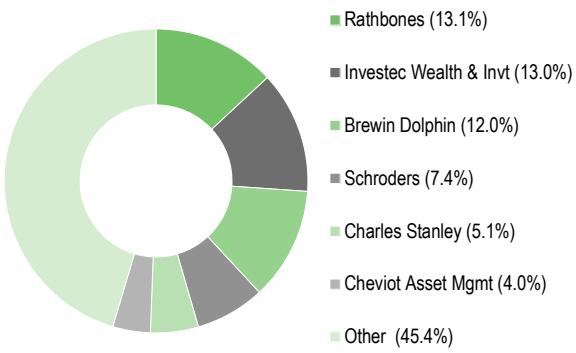


Share buyback policy and history (calendar years)*

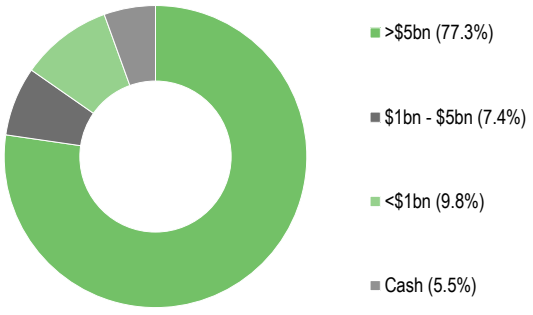
The board of PCGH has the authority to allot up to c 10% or repurchase up to 14.99% of shares annually to manage a premium or a discount. *Includes final exercise of subscription shares in January/February 2014



Shareholder base (as at 10 May 2017)



Portfolio breakdown by market capitalisation (as at 10 May 2017)



Top 10 holdings (as at 10 May 2017)

			Portfolio weight %	
Company	Country	Sector	10 May 2017	30 April 2016*
Merck & Co	United States	Pharmaceuticals	7.3	6.4
Pfizer	United States	Pharmaceuticals	7.1	5.2
Johnson & Johnson	United States	Pharmaceuticals	6.0	5
Sanofi	France	Pharmaceuticals	5.6	3.1
GlaxoSmithKline	United Kingdom	Pharmaceuticals	5.0	4.8
Novartis	Switzerland	Pharmaceuticals	4.6	5.3
Merck KGaA	Germany	Pharmaceuticals	4.5	6.4
Roche	Switzerland	Pharmaceuticals	4.1	5.6
Astellas Pharma	Japan	Pharmaceuticals	3.3	3.8
Bristol Myers Squibb	United States	Pharmaceuticals	3.2	N/A
Top 10 (% of holdings)			**50.7**	**52.4**

Source: Polar Capital Global Healthcare Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in April 2016 top 10.

Summary of continuation proposals

PCGH was launched in June 2010 with a fixed life and was due to wind up following a vote at its seventh AGM in January 2018. While the managers argue that the initial investment thesis has largely played out as expected over the period, they see further opportunities for growth in areas of the healthcare industry over the coming years. With this in mind, the board has published proposals for an extension of the trust's life, offering an exit to those who seek one, and the opportunity for existing investors to increase their holding and new shareholders to come on board. Briefly, the proposals are as follows:

- **Unlimited tender offer**. Existing investors will be able to tender up to 100% of their holding at an adjusted net asset value that takes into account the costs of reconstruction (estimated at c 0.4% of net assets).
- **Open offer to existing shareholders**. Qualifying investors will be able to subscribe for one further share for each two shares they hold, up to an aggregate maximum of 60m shares.
- **Placing and offer for subscription**. New investors will be able to subscribe for further shares, up to a target maximum of 250m shares.
- **Issue of zero dividend preference shares**. ZDPs with a gross redemption yield of 3%, redeeming in June 2024, at a rate of one for every eight ordinary shares following the tender offer and new share issues. This will introduce gearing to the trust for the first time, at a rate of up to 12.5%.

Conditional on PCGH having net assets of at least £200m following the tender offer and new share issue (excluding ZDPs), the following changes will be made to the trust:

- **Extension of life for a further fixed period of seven years.** PCGH will follow a new investment strategy until expected wind-up in March 2025.
- **Change of investment policy.** The current 80%/20% split between income and growth-orientated portfolios will cease. Under the new investment policy, the whole portfolio will be invested for growth, with c 90% in large-cap companies from across the healthcare sectors that are driving or benefiting from the trend towards market consolidation, and c 10% in smaller, innovative companies, particularly those that are driving or benefiting from technological advances. The overall portfolio will be more concentrated than at present, with c 35-50 positions compared with c 65 currently.
- **Change of name.** The trust will change its name from Polar Capital Global Healthcare Growth & Income Trust to Polar Capital Global Healthcare Trust, to reflect the new investment policy.
- **Change of dividend policy.** PCGH has followed a progressive dividend policy in line with its income and growth focus, currently yielding c 2%. Because the new strategy will be focused on capital growth, it is expected that stocks that are currently in the portfolio principally because they offer an attractive level of dividends will be replaced by those that have higher capital appreciation potential. This means dividend income in the portfolio is likely to fall, which will lead to a reduction in dividend payments to shareholders. The board has stated that, assuming net assets of £225m (a midway point between the minimum £200m and the current £250m, the initial rate of annual dividend is likely to be c 2p per share (FY16: 4.05p), which equates to a yield of c 1% based on the current share price.
- **New performance fee structure.** PCGH was set up with a performance fee structure that would reward NAV total return outperformance of the MSCI ACWI Health Care index over the life of the trust subject to a 15p hurdle based on the opening 100p NAV (c 2% compound per year). The fee would be set at 10% of outperformance above the hurdle. No performance fee has been accrued to date, and the calculation will be reset with effect from the date of admission of the new shares to trading on the premium segment of the Main Market of the London Stock Exchange, expected to be on 20 June, with a reduced hurdle equivalent to c 1.5% compound outperformance pa. The performance fee rate will remain at 10%.

Background to the proposed changes

PCGH was launched during a period when healthcare stocks – particularly 'big pharma' – were out of favour and trading on depressed valuations (average 12-month forward P/E ratios below 10x), based on investor fears over earnings declines as blockbuster drugs went off-patent, coupled with low expectations for future drug approvals. The trust's managers say they believed at the time that the industry could restructure more quickly than the market assumed, that research and development (R&D) pipelines would quietly recover, and that rising healthcare demand from emerging markets could provide a fillip of growth in the medium term. The initial seven-year life of the trust was based on the timeframe over which a rerating for the sector was expected to occur. Because investors were wary of healthcare stocks, PCGH was set up with a relatively cautious investment strategy, heavily weighted towards dividend-paying pharmaceutical stocks, with little exposure to the riskier (but potentially more rewarding) biotechnology subsector. Expected returns were c 10-12% pa over the trust's life.

The managers note that the initial investment thesis has played out largely as they expected, albeit with a much stronger than expected recovery in R&D pipelines, led by the biotech sector, and a slightly more muted contribution from emerging markets because of pricing pressure. From launch to 30 April 2017, the trust has produced share price and NAV total returns of 130.3% and 144.4% respectively, equivalent to 12.9% and 13.9% pa (see Performance section). However, while healthcare sector valuations look favourable once more, the managers argue that the drivers of growth for the next seven years are different, with structural changes in the competitive landscape meaning that areas of the healthcare value chain other than pharmaceuticals offer more compelling opportunities. The proposed new investment strategy intends to capture the benefits of the trend towards consolidation (typified by some of the 'mega-mergers' seen in the pharmaceutical sector over recent years), as well as reserving a portion (c 10%) to invest in the smaller technological innovators that are changing the delivery of healthcare and enabling new treatments (see The managers' view).

Healthcare market outlook

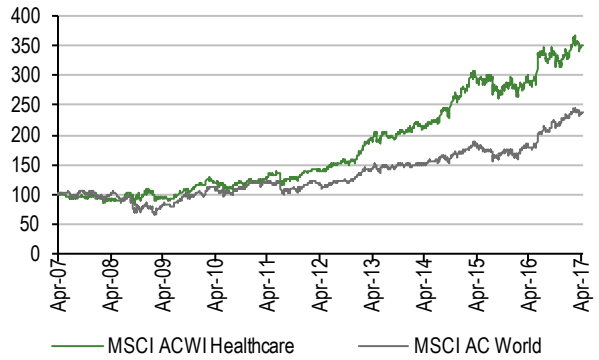
The healthcare sector has performed strongly in aggregate over recent years (Exhibit 2, left-hand chart), although its advance has been punctuated by significant sell-offs in 2015 and 2016, meaning shorter-term investors may have seen less benefit. While global stock markets have also posted strong performance over the past decade, healthcare has outperformed in total return terms by c 100pp. (Note that this chart is in sterling, so both indices have been boosted for UK investors by currency weakness since mid-2016.)

With many local stock indices reaching all-time highs in 2017, and volatility remaining low, the risks may arguably be to the downside. However, optimism may be underpinned by the fact that the world economy continues to grow modestly, and political risk from elections in Europe and the policy direction of the new US administration has so far failed to materialise.

Stock valuations (right-hand chart) are perhaps not hugely compelling, particularly on a price/book basis. Forward P/E valuations are also on the high side relative to history (analysis of another global index, the Datastream World, shows a 10-year average forward P/E of 14.5x). However, the structural growth characteristics of healthcare companies (rising demand underpinned by demographic factors, and scientific and technological advances leading to better health outcomes), suggest that healthcare stocks should perhaps enjoy a premium rating, which has been the case in the past. The fact that the forward P/E for the MSCI ACWI Health Care index is similar to that of the broad global indices, when historically it has been higher, may indicate a degree of rerating potential.

Exhibit 2: Market performance and valuation

Performance vs index



Valuation metrics for MSCI indices (end-April)

	P/E (x)	Forward P/E (x)	Price/ book (x)	Dividend yield (%)
MSCI ACWI Health Care	24.5	16.4	3.6	2.0
MSCI ACWI	21.3	16.0	2.2	2.4
MSCI World	22.4	16.6	2.3	2.4

Source: Thomson Datastream, MSCI, Edison Investment Research

Fund profile: Specialist global healthcare portfolio

Polar Capital Global Healthcare Growth & Income Trust (PCGH) was launched in June 2010 with the aim of producing capital growth and income by investing in a global portfolio of healthcare companies, primarily those involved in pharmaceuticals, medical services, medical devices and biotechnology. It has been managed since launch by Dr Daniel Mahony and Gareth Powell, supported by other members of Polar Capital's healthcare investment team, who between them have more than a century of experience in the sector and manage funds of c £1.4bn across a range of strategies. PCGH was set up with a fixed life, with a proposed wind-up at its seventh AGM, due in early 2018. As described in this note, it has set out proposals to extend the life of the company for a further seven years (expected wind-up in March 2025), with a refocused investment strategy targeting capital growth from companies driving or benefiting from consolidation (c 90%) and technological innovation (c 10%) in the healthcare sector. If the changes are approved by shareholders, PCGH will also take on gearing for the first time through an issue of zero-dividend preference shares. Its dividend yield is expected to fall from the current c 2% to c 1% as a result of the increased focus on growth rather than income.

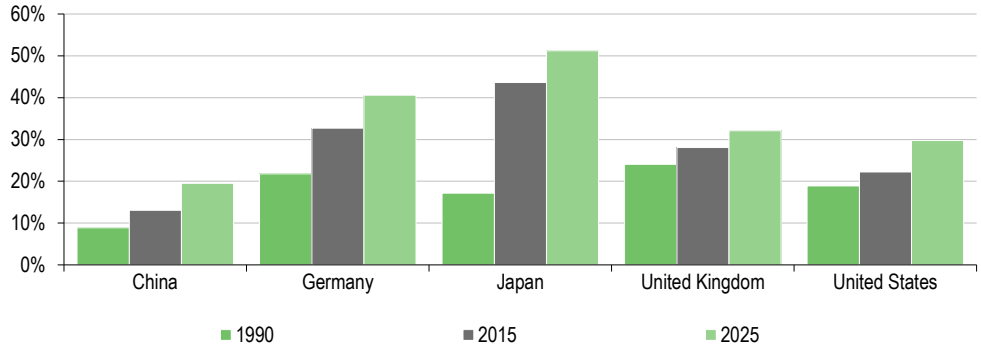
The fund managers: Dr Daniel Mahony, Gareth Powell

The managers' view: Capitalise on emerging healthcare trends

PCGH lead manager Dr Daniel Mahony explains that the proposed investment strategy for PCGH's continuation is based on three main structural changes in the healthcare market: an increase in demand for services from an ageing global population, an attendant pressure on finances for public services given a larger retired population compared with the number of those working and paying taxes, and the disruptive impact of new technology. He argues that 20th century public healthcare systems are largely unsustainable and must adapt in order to meet the need of providing better healthcare to more people for less money.

The rising dependency ratio (the proportion of retired to working people; see Exhibit 3) goes hand-in-hand with a lower rate of GDP growth because fewer people are economically productive. In a low-growth world, Mahony argues, investors need to focus on large companies with stable earnings growth and cash flows that compound over time, or small and mid-cap companies that are innovating and disrupting industries through the use of technology. He points out that both types of company are relatively abundant in the healthcare sector.

Exhibit 3: Old-age dependency ratio for selected major economies



Source: Polar Capital, United Nations Statistics Division, Edison Investment Research. Note: The old-age dependency ratio is the ratio of the population aged 65 years or over to the population aged 15-64. All ratios are presented as number of dependants per 100 persons of working age (15-64).

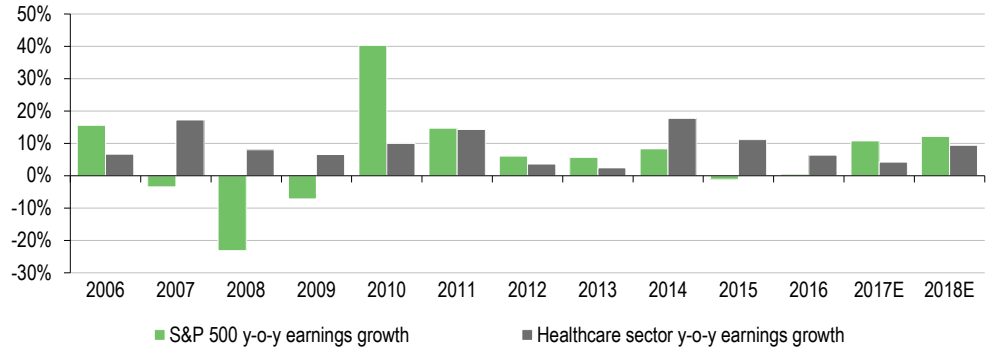
In a time of change, Mahony says, it is not enough simply to buy the incumbents and hope for the best. While there are perceived risks from lower government spending on healthcare, the manager sees this as a catalyst for change, driving innovation in search of efficiency savings.

The recent past has been a challenging time for healthcare, with the focus on drug pricing in advance of the US election putting pressure on pharmaceutical and particularly biotechnology stocks throughout 2015 and 2016. Generalist investors have largely withdrawn from the market and forward P/E valuations for the healthcare sector are a little below their long-term average and stand at a rare discount to the forward P/E of the broad US S&P 500 index. The two previous periods in the last 40 years when this has occurred were at times of mooted healthcare reform in the US: first under President Clinton in the early 1990s, and second in 2009 at the start of the process that led to the Affordable Healthcare Act ('Obamacare'). At the same time, the rate of upward earnings revisions has been lower for healthcare companies than for the wider market, because cyclical companies have been rerated on the back of higher inflation. Mahony points out that share price performance tends to follow earnings revisions, which currently stand at a seven-year low for the healthcare sector versus the US S&P 1500, suggesting a recovery may be likely. Regardless of expectations, the healthcare sector has consistently produced positive year-on-year earnings growth, even during the global financial crisis of 2008/09 (Exhibit 4). These defensive growth characteristics, in Mahony's view, argue in favour of an allocation to stable, large-cap healthcare companies.

However, with the provision of healthcare undergoing change, the manager says investors need to look further than big-name drug companies. In the US, the world's largest healthcare market, there is an increasing trend towards focusing on value and outcomes of treatment, rather than on cost. This is being driven by the big health insurance companies, and goes hand-in-hand with a trend for US consumers (a majority of whom receive healthcare through an employer-sponsored insurance plan) to have to meet more of the cost of their treatment before the insurance company starts to pay.

Mahony points out that increasing use of technology and 'big data' is enabling governments and insurers to reach a better understanding of which treatments offer the best patient outcomes for a given cost. Much of the data capture and analysis is being driven by specialist healthcare IT companies, some of which have been developed or acquired by the insurers. This arguably shifts the balance of industry power away from the drug companies – whose efficacy data is based on tightly controlled trial situations – to the buyers and users of treatments, where large-scale data analysis can test efficiency based on real-world outcomes.

Exhibit 4: A defensive growth sector – healthcare versus S&P 500 y-o-y earnings growth



Source: Polar Capital, UBS, Edison Investment Research.

IT is also a key factor in the shift in healthcare delivery to the lowest-cost setting. Mahony points to the example of US pharmacy chain CVS Health's MinuteClinic, a walk-in service where customers can be seen by a nurse or have a video consultation with a doctor via the internet. Prescriptions can be filled at the pharmacy and, as well as CVS capturing the whole value of the consultation, the consumer pays less than if they had visited their GP. Mahony adds that 'telemedicine' is also gaining ground in the UK, where GP appointments can be hard to access. While patients have to pay a fee for an online consultation, the economic cost to them may be lower than if they had to take time off work; meanwhile, the 'virtual GP' service offers flexible working opportunities for GPs who may otherwise be outside the workforce while bringing up a family or undertaking research.

Mahony explains the proposed new PCGH investment strategy takes advantage of two key trends that are emerging: large-cap consolidators that are adapting to change, and smaller firms that are driving technological innovation. The main allocation (c 90%) to large-cap, blue chip companies will focus on those that are beginning to consolidate on their core franchises (Mahony points to the 2015 asset swap between GlaxoSmithKline and Novartis, where Glaxo – which is strong in vaccines – exchanged its oncology assets with Novartis in return for the latter's vaccines business). These companies are benefiting from their capacity to standardise processes and create economies of scale, as well as having the ability to buy in growth and innovation through acquisition. Another example is Abbott, whose purchase of rival St Jude Medical allowed it to consolidate its position in medical devices for cardiothoracic indications, allowing it to compete better with industry leader Medtronic. Mahony points out that buyers of services will tend to use two main suppliers, with a proportion of their budget perhaps reserved for a smaller, specialist firm; therefore, a company needs to be in the top two or three in its sector in order to ensure its long-term survival.

The smaller allocation to 'innovators' will focus on those companies that are using technology to change established medical practice, creating new markets and targeting unmet medical needs. Mahony says such companies are particularly prevalent in the areas of IT and medical devices, as well as the more widely known sector of emerging biotechnology.

The manager says the proposed new strategy will be concentrated in a relatively small number of names: "we are stock selectors, not stock collectors". The portfolio will be constructed without reference to indices, and is therefore likely to diverge widely from index weightings. The core large-cap portfolio will contain c 25-30 stocks, with 10-20 in the small-cap innovation portfolio.

Asset allocation

Investment process: Risk-aware with bias to large-cap

While PCGH's investment strategy is based on an understanding of top-down macroeconomic, scientific and competitive factors affecting the healthcare industry, portfolio construction is bottom-up, driven by an assessment of each individual company by Polar Capital's highly experienced healthcare team. Large-cap companies are analysed on both a quantitative and a qualitative basis. The managers argue that the healthcare sector is unsuited to a purely quantitative approach, given the potentially high impact of clinical and regulatory factors that cannot be second-guessed.

Quantitative factors assessed by the team include valuation, market expectations and growth potential. The managers look at valuation, particularly with regard to how the market is assessing a company, using a combination of P/E, PEG (P/E divided by earnings per share growth) and EV/EBITDA ratios. They also use fair value methodologies, such as discounted cash flows or residual income, to formulate a view on the underlying value (notwithstanding that stocks rarely trade at fair value). Market expectations can be affected by clinical data: for example, Bristol-Myers Squibb was widely expected to capture a dominant position in the emerging area of immuno-oncology after its drug Opdivo performed well in trials as a second-line lung cancer treatment. However, the stock sold off sharply after disappointing results as a first-line treatment, while Merck's rival Keytruda did better than expected. PCGH's managers felt that the market was over-optimistic on Bristol-Myers, and held an overweight position in Merck as well as rivals AstraZeneca and Novartis. When assessing growth potential, the managers may draw on the expert knowledge of doctors, scientists and consultants (both industry and political) to determine the size of end-markets, and the barriers to market penetration for new products and services. A key factor is the alignment of interests in a healthcare value chain and what incentives each stakeholder has to use a product or service. Mahony points out that these value chains can be quite complicated: quite often the person who pays for a product or service (usually the government or insurer) is neither the person who chooses the product or service (often a doctor or hospital) nor the beneficiary of the product or service (generally the patient).

Qualitative factors include the strength and track record of the management team, corporate strategy and an assessment of how well the company is recognising and responding to change in the healthcare market. Products or services are evaluated based on their value to all stakeholders (the company, its customers and intermediaries), and the managers point out that growth from existing products can be more resilient than the market anticipates. With new products, the team assesses market consensus on clinical outcomes, but may take a contrarian view, as in the case of Merck versus Bristol-Myers above. As well as Polar Capital's in-house team, PCGH's managers use an external market research company to assist with due diligence (for example, conducting a telephone survey of doctors to gauge their opinion on a treatment, service or industry trend), and a consultancy firm focused on US regulation, which can have a large impact on outcomes for healthcare companies.

With smaller companies that are accelerating innovation, a deeper level of due diligence is required, as they tend to be less well-covered by market analysts and may also be more dependent on binary outcomes (for example, the success of a clinical trial or winning/losing a large contract) than larger companies with a broader portfolio of products or services. PCGH's managers add that assessing the strength of management of smaller companies is even more important than with large firms, as clinical or technological brilliance may not necessarily translate into business acumen. Smaller companies may also be the beneficiaries of merger and acquisition (M&A) activity as larger companies seek to buy in the growth and innovation they lack.

Across sectors, the managers look for companies whose potential is under-appreciated by the market, leading to share price anomalies. They see free cash flow generation as the best measure of sustainability for larger companies, although earnings growth and revisions of analyst estimates are also considered.

In line with their generally risk-aware approach, the managers seek to avoid disproportionate impact from binary events. They point out that market expectations often run ahead of trial results, so that a company's share price may have largely factored in clinical success in advance of a data readout; in such a situation there is far more downside potential if the data is poor than there is upside from a positive outcome. For this reason, they may reduce exposure to stocks in advance of such events, capturing gains already made and giving them the scope to reinvest at a more favourable valuation if they feel the market has overreacted to an adverse outcome.

Current portfolio positioning

If PCGH achieves the necessary size (£200m+) following the tender offer and issue of new shares, allowing the proposed changes to be implemented, the number of positions in the portfolio is expected to fall to between 35 and 50. The breakdown of the portfolio by industry subsector and country at 10 May is shown in Exhibits 5 and 6. Under the new strategy these weightings are expected to change. Around 90% of the portfolio will be invested in large-cap companies that are driving or benefiting from consolidation in the healthcare sector. This largely mirrors the strategy of the open-ended Polar Capital Healthcare Blue Chip Fund, managed by the same team. Sector and geographical weightings for this fund are shown in Exhibit 7 as a guide. On a sector basis the open-ended fund has a far lower weighting in pharmaceuticals (25.8% versus 59.1% for the current PCGH portfolio), and significantly higher weightings in healthcare equipment, biotechnology, managed healthcare and healthcare services, sectors where yields are generally too low for PCGH under its current strategy. There is no exposure to healthcare REITs, which are in the current PCGH portfolio principally because of their high dividends. Geographically, the blue-chip fund has a much higher weighting to the US (above the MSCI ACWI Health Care index weighting of 66%, compared with PCGH's current c 19pp underweight versus the index), with no exposure to the UK (a higher-yielding market), Japan, France and Australia.

Exhibit 5: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio 10 May 2017	Portfolio end-April 2016	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Pharmaceuticals	59.1	64.1	(5.0)	47.8	11.3	1.2
Healthcare equipment	9.6	9.3	0.3	13.8	(4.2)	0.7
Biotechnology	5.8	7.6	(1.8)	17.1	(11.3)	0.3
Healthcare REITs	5.5	5.5	0.0	0.0	5.5	N/A
Healthcare services	4.4	3.7	0.7	3.4	1.1	1.3
Healthcare facilities	3.5	3.9	(0.4)	1.5	2.0	2.3
Managed healthcare	3.4	0.8	2.6	7.8	(4.4)	0.4
Healthcare supplies	1.6	1.2	0.4	2.0	(0.4)	0.8
Life & health insurance	0.7	N/S	N/A	0.0	0.7	N/A
Life sciences tools & services	0.6	N/S	N/A	3.9	(3.3)	0.2
Healthcare distributors	0.2	N/S	N/A	2.3	(2.1)	0.1
Environmental & facilities services	0.0	N/S	N/A	0.0	0.0	N/A
Healthcare technology	0.0	N/S	N/A	0.6	(0.6)	0.0
Other	0.0	1.1	1.1	0.0	0.0	N/A
Cash	5.5	2.7	2.8	0.0	5.5	N/A
	100.0	**100.0**		**100.0**		

Source: Polar Capital Global Healthcare Trust, Edison Investment Research. Note: N/S=not separately stated.

The remaining c 10% of the portfolio, earmarked for 'innovations', will be invested in small and mid-cap (sub-$5bn) companies, across subsectors and geographies, that are disrupting or innovating in healthcare through the use of technology.

The overall portfolio is expected to have a similar beta (market sensitivity) to the existing trust (c 0.8-0.9, meaning it is expected to slightly underperform the index in a rising market, but to outperform in a falling market), a lower yield, and a modest (12.5%) level of structural gearing.

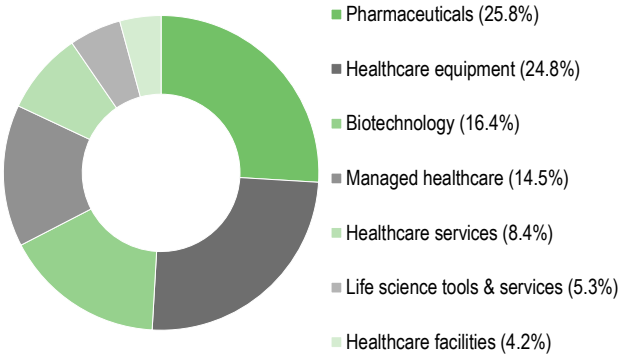
Exhibit 6: Portfolio geographic exposure (% unless stated)

	Portfolio 10 May 2017	Portfolio end-April 2016	Change (pp)
United States	47.1	47.5	(0.4)
United Kingdom	10.9	16.1	(5.2)
Switzerland	9.4	11.4	(2.0)
Japan	5.6	6.1	(0.5)
France	5.5	3.1	2.4
Germany	5.1	N/S	N/A
Australia	3.0	2.8	0.2
Ireland	3.5	N/S	N/A
Canada	1.8	2.0	(0.2)
Denmark	0.9	N/S	N/A
India	0.7	N/S	N/A
Italy	0.6	N/S	N/A
Norway	0.3	N/S	N/A
Israel	0.0	2.9	(2.9)
Other	0.0	5.4	N/A
Cash	5.5	2.7	2.8
	100.0	**100.0**	

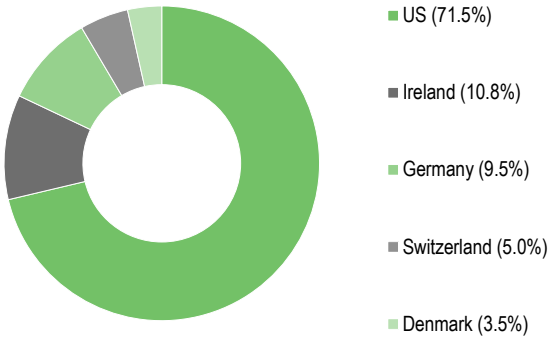
Source: Polar Capital Global Healthcare Trust, Edison Investment Research. Note: N/S=not separately stated.

Exhibit 7: Polar Capital Healthcare Blue Chip Fund sector and geographical breakdown

Sectir weightings at 10 May 2017



Geographical weightings at 10 May 2017



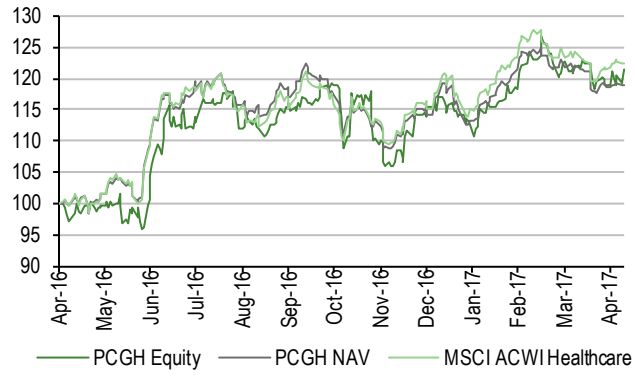
Source: Polar Capital, Edison Investment Research. Note: for information purposes only; PCGH portfolio may differ.

Performance: Solid absolute return record

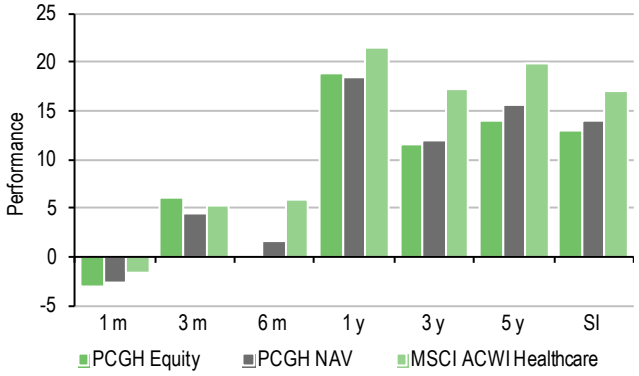
As shown in Exhibit 8 below (right-hand chart), PCGH's current income-focused, lower-beta approach has produced solid absolute NAV and share price total returns of 10-20% a year over periods of 12 months and longer, despite lagging its performance benchmark, the MSCI ACWI Health Care index (Exhibit 10), which has more exposure to fast-growth areas such as biotechnology (c 17% of the index versus c 6% of the portfolio at 10 May 2017). As shown in Exhibit 9, PCGH has a positive long-term track record versus the NYSE Arca Pharmaceuticals index. The focus on dividends means the current portfolio has a higher weighting to the UK and a lower weighting to the US than the MSCI index, meaning that PCGH has benefited less from sterling weakness following the Brexit referendum than a notional sterling-based investor in the index would have. Under the proposed new investment strategy, there is likely to be less of a focus on the UK and Europe than currently. There is also likely to be less exposure to big pharmaceutical companies (currently c 60% of the portfolio).

Exhibit 8: Investment trust performance to 30 April 2017

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



Price, NAV and benchmark total return performance (%)



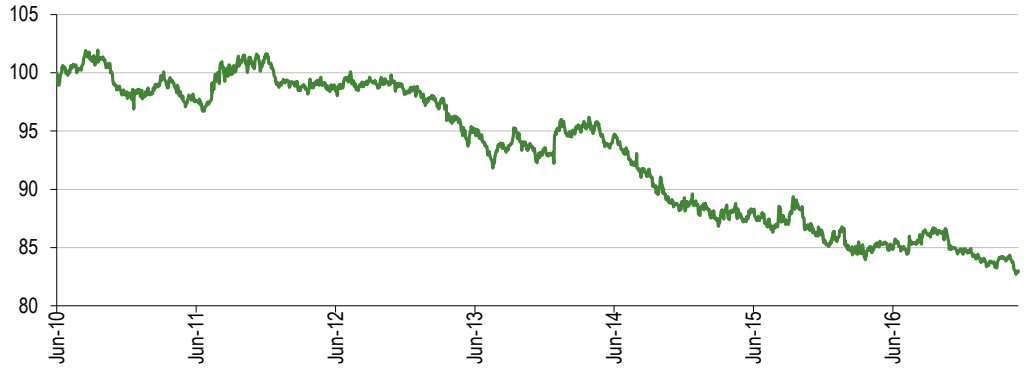
Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. SI (= since inception) date is 15 June 2010.

Exhibit 9: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to MSCI ACWI Healthcare	(1.5)	0.7	(5.6)	(2.2)	(14.0)	(21.7)	(21.6)
NAV relative to MSCI ACWI Healthcare	(1.2)	(0.7)	(4.0)	(2.5)	(13.0)	(16.2)	(16.8)
Price relative to NYSE Arca Pharmaceutical CR	(0.5)	2.4	(1.7)	4.8	7.2	3.8	11.9
NAV relative to NYSE Arca Pharmaceutical CR	(0.2)	0.9	(0.0)	4.4	8.4	11.0	18.8
Price relative to MSCI AC World	(1.3)	3.0	(5.4)	(9.3)	(10.4)	(2.5)	4.9
NAV relative to MSCI AC World	(0.9)	1.5	(3.8)	(9.6)	(9.3)	4.3	11.3

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-April 2017. Geometric calculation. SI (= since inception) date is 15 June 2010.

Exhibit 10: NAV total return performance relative to benchmark since inception



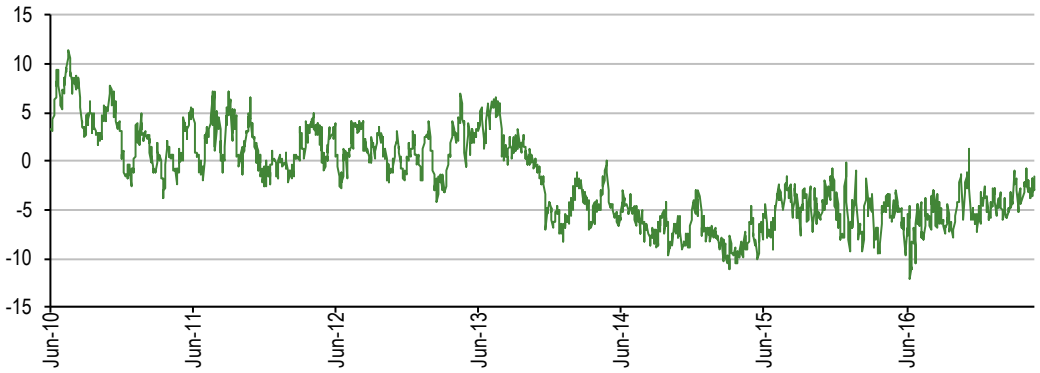
Source: Thomson Datastream, Edison Investment Research. Note: Inception date is 15 June 2010

Discount: Shares trading close to NAV

At 22 May 2017, PCGH's share price stood at a 1.5% discount to cum-income NAV. This is narrower than the averages over one, three and five years and since inception (4.9%, 5.6%, 3.4% and 1.8%, respectively). While it could be argued that the current discount reflects the opportunity for all investors to exit at NAV in the coming tender offer, the trust reached a small premium to NAV (a three-year high of 1.3%) as healthcare stocks rallied following the election of Donald Trump as US president. The past 12 months have also included PCGH's all-time widest discount of 12.2%, the day after the UK's EU referendum in June 2016. PCGH's board has the authority to repurchase up to 18m shares (c 14.99% of the current share capital) or allot shares equivalent to 10% of the current share capital in order to manage a discount or a premium. In practice, the buyback powers have seldom been used; only 2m shares have been repurchased over the trust's life, most recently in June 2016. In its first three years of life PCGH frequently traded at a premium (Exhibit 11),

although since the final exercise of subscription shares in early 2014, a small discount to NAV has been more common. It is anticipated that the fixed-term nature of the proposed extension to the trust's life will continue to limit discount volatility in normal market conditions.

Exhibit 11: Share price premium/discount to NAV (including income) since inception (%)



Source: Thomson Datastream, Edison Investment Research. Note: Inception date is 15 June 2010

Capital structure and fees

PCGH is a conventional investment trust, currently with one class of share. At 22 May there were 120.5m ordinary shares in issue. The trust was set up with a fixed life, with a requirement at the seventh AGM (due in early 2018) for the directors to propose liquidation. Under the proposals for extension of the trust's life, PCGH would run for a further seven years until March 2025. An unlimited tender offer has been proposed to allow those investors who wish to exit to do so at an adjusted NAV that includes the costs of the reorganisation. Following the tender offer, shareholders will vote on the continuation proposals at an extraordinary general meeting. If the proposals are approved, PCGH plans to offer new ordinary shares to both existing and new shareholders in a placing and offer for subscription. There will also be a placing of ZDPs, with an expected gross redemption yield of c 3% and a redemption date in June 2024, issued on the basis of one ZDP for every eight ordinary shares (an effective gearing level of 12.5%). For the continuation to take place, PCGH's net assets following the tender offer and the issue of new shares (excluding ZDPs) must be at least £200m.

Polar Capital acts as PCGH's Alternative Investment Fund Manager (AIFM) under the AIFM Directive, as well as its investment manager, and will continue to do so if the continuation proposals are accepted. Polar Capital is paid an annual management fee of 0.85% of the lower of market capitalisation or net assets, currently charged 80% to capital and 20% to income. The management fee will remain unchanged under the new proposals. A performance fee arrangement was put in place when the trust was launched, under which 10% of any outperformance would be paid at the end of the expected seven-year life if the NAV per share (including reinvested dividends) was at least 15p higher than the benchmark MSCI ACWI Health Care index's return (in sterling) on 100p over the period (15p being equivalent to 2% compound on the opening 100p NAV per share). No performance fee had been accrued as at FY16. Under the proposals to extend the life of the trust, the hurdle will be reset at 1.5% compound, with the calculation period beginning at the date of admission of the new shares to trading on the premium segment of the Main Market of the London Stock Exchange, expected to be on 20 June 2017, and running until the expected wind-up in March 2025.

For FY16, the ongoing charges for PCGH were 1.02%. If the proposed reorganisation is successful and the number of shares increases as a result, the board anticipates that future ongoing charges may be lower, owing to a reduced impact of fixed costs across a larger asset base.

Dividend policy and record

PCGH has historically paid four dividends a year, in February, May, August and November. Under the original investment policy, the board's aim has been to increase dividends each year, as long as portfolio income allows. Compound annual growth in the dividend since launch has been 5.8% and dividends have been fully covered by income in every year since launch except FY15 (revenue per share of 3.63p versus dividends of 3.65p). The trust had built up a revenue reserve of £3.5m at H117. Following the payment of a 1.65p per share dividend in June 2017, the reserve will reduce to c £1.5m. Based on the last four dividends and the 22 May share price, PCGH currently yields 2.0%.

The proposed new investment policy is focused on growth rather than income, and the board anticipates that future dividends will be paid at a lower level as a result, with more of the return coming from capital appreciation. In an update released to the London Stock Exchange on 8 May, the board of PCGH stated that, assuming a portfolio of c £225m (a mid-point between current net assets and the minimum £200m required for the proposals to be implemented), the initial rate of dividend expected under the new investment policy would be c 2p per share. Based on the current share price, this would equate to a dividend yield of c 1%.

Peer group comparison

The Association of Investment Companies' specialist Biotech & Healthcare sector is a small peer group containing three healthcare generalists and two specialist biotechnology funds. (Exhibit 12 below excludes the newly launched BB Healthcare Trust, as it does not yet have a one-year performance track record.) While PCGH has posted solid absolute NAV total returns over all the periods shown, its low-beta, ungeared, income-slanted approach, and relatively low exposure to the high-octane biotech sector, means it has underperformed the peer group average over all periods shown. All of the peers may charge a performance fee; PCGH has the second-lowest ongoing charges in the group. The trust also has the smallest discount to NAV (although Worldwide Healthcare Trust is currently trading at a small premium); PCGH's shares have tended to trade quite close to NAV because the fixed-life structure means investors can be sure of a future exit. The trust currently has the second-highest dividend yield in the sector, although it is important to note that the highest-yielding trust, International Biotechnology Trust, pays dividends out of capital. Under the proposed new investment strategy, targeting growth rather than income, PCGH's managers expect the dividend yield to fall back, probably to a level closer to the yield of generalist peer Worldwide Healthcare Trust.

Exhibit 12: AIC Sector Specialist: Biotechnology & Healthcare peer group as at 10 May 2017

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 7 year*	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)
Polar Capital Global Healthcare	**246.1**	**18.1**	**42.5**	**112.2**	**144.7**	**1.0**	**Yes**	**(0.9)**	**100**	**2.0**
Biotech Growth Trust	384.7	17.6	62.5	197.3	343.0	1.0	Yes	(7.8)	105	0.0
International Biotechnology Trust	215.1	28.3	96.6	196.3	267.9	1.4	Yes	(6.2)	100	4.0
Worldwide Healthcare Trust	1,081.3	23.5	83.8	197.3	256.4	0.9	Yes	1.0	109	0.7
Simple average	**481.8**	**21.9**	**71.4**	**175.7**	**253.0**	**1.1**		**(3.5)**	**104**	**1.7**
Weighted average		**22.1**	**75.7**	**186.3**	**260.7**	**1.0**		**(1.8)**	**106**	**1.4**
Trust rank in sector	**3**	**3**	**4**	**4**	**4**	**3**		**2**	**3**	**1**

Source: Morningstar, Edison Investment Research. Note: *Seven-year performance is from PCGH launch, 15 June 2010. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

PCGH currently has four non-executive directors, all of whom have served on the board since the trust's launch in 2010. The chairman, James Robinson, is a chartered accountant with 37 years' investment experience. Prior to his retirement in 2005, he was chief investment officer, investment trusts and director of hedge funds at Henderson Global Investors, and has also chaired the investment committee of the British Heart Foundation. John Aston, chairman of the audit and management engagement committees, is also a chartered accountant and spent his professional career in investment banking and as chief financial officer for two biotechnology companies. Anthony Brampton is a biochemist by training and worked as an analyst and corporate financier from 1985 to 2006. Antony Milford is a former fund manager who ran the Framlington Health and Framlington Biotechnology funds until 2005.

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