Worldwide Healthcare Trust

Investment trust review

Edison investment research

Continued strong performance

Investment trusts

Worldwide Healthcare Trust (WWH) is a UK-registered investment trust offering diversified exposure to both the pharmaceutical and biotech sectors. It has a strong, long track record and during the last 12 months has returned 26.3% and 26.2% in terms of share price total return and NAV total return respectively, outperforming its benchmark, the MSCI World Healthcare Index (sterling adjusted), which returned 21.5%. WWH provided 16% year-on-year dividend growth for 2012 (15.0p to 17.5p) while adding 4.3p to revenue reserves. Biotech and pharma valuations, when compared to their longer-term averages, remain at lows despite the recent uplift, suggesting further potential remains. In addition, the outlook for M&A remains positive as big pharma companies seek to replenish their product pipelines.

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return Blended B'mark* (%)	Total return MSCI World H'Care* (%)	Total return DS Wld Phm & Bio* (%)
12/10/2009	40.6	38.0	39.4	34.6	39.4
12/10/2010	15.4	17.8	8.0	7.8	8.5
12/10/2011	5.2	1.1	6.7	6.7	5.4
12/10/2012	26.3	26.2	21.5	21.5	21.5

Note: *Twelve-month rolling discrete performance. Note: NAV assumes full conversion of subscription shares at 638p. Blended Benchmark reflects the performance of the Datastream World Pharmaceutical & Biotechnology Index until 30 September 2010 and the MSCI World Health Care Index after.

Investment strategy: Global healthcare companies

WWH invests globally in healthcare with a broad universe that includes the pharma, biotech, medical devices, healthcare services and diagnostics sectors. The portfolio remains overweight emerging biotechnology companies and underweight large-cap pharmaceuticals, as the manager believes biotech companies offer superior growth prospects and more compelling valuations. Gearing is employed (net gearing is currently c 1%) to enhance returns over the longer term and derivative transactions are used with a view to mitigating risk and enhancing capital returns.

Sector outlook: Positive on valuations and M&A

Despite strong share rises in the global healthcare sector over the past year, earnings growth means that valuations remain compelling when compared to their long-term averages. The manager expects growth to continue despite the global slowdown as the sector benefits from a favourable backdrop of ageing populations and growing income, most apparent in emerging markets. Strong M&A activity seen during the last 12 months is expected to continue into 2013.

Valuation: Discount in line with longer-term averages

The board's policy of using buy-backs to maintain the discount around 6% (NAV in fair value terms) continues to be effective and offers investors confidence that they should be able to enter and exit at valuations around this level. The trust trades at a small discount to the sector average and currently offers the highest yield.

15 October 2012

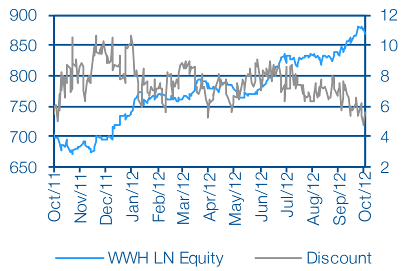
Price	868.5p
Market cap	£394m
AUM	£439m
NAV*	931.98p
Discount to NAV	6.8%
NAV**	920.12p
Discount to NAV	5.6%
Yield	2.0%

** Debt at market value, excluding income and assuming non-exercise of outstanding subscription shares. At 12 October 2012.*

*** Debt at market value, excluding income and assuming full exercise of all outstanding subscription shares at 638p. At 12 October 2012.*

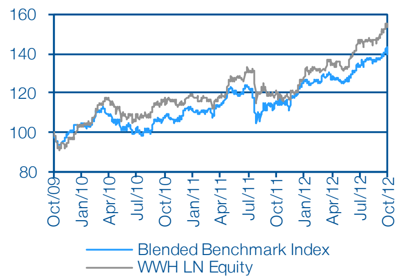
Ordinary shares in issue	45.3m
Code	WWH
Primary exchange	LSE
AIC sector	SS:Biotech/Life Sciences

Share price/discount performance



** Positive values indicate a discount; negative values indicate a premium.*

Three-year cumulative perf. graph



52-week high/low	880.00p	671.50p
NAV* high/low	936.26p	727.50p

***Assuming full conversion of sub shares at 638p.*

Gearing

Gross	1.0%
Net	1.0%

Analysts

Matthew Read +44 (0)20 3077 5758
Martyn King +44 (0)20 3077 5745
investmenttrusts@edisoninvestmentresearch.co.uk
Edison profile page

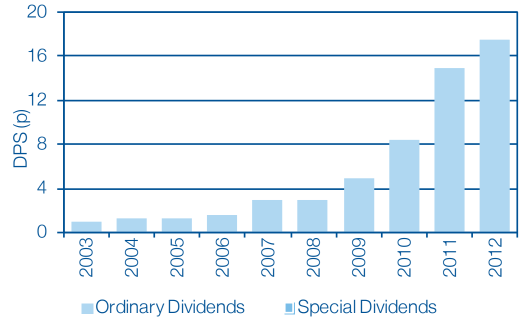
Worldwide Healthcare Trust is a research client of Edison Investment Research Limited

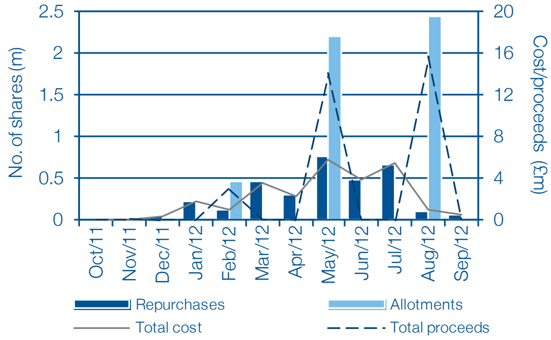
Exhibit 1: Trust at a glance

Investment objective and fund background	Developments last quarter
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.	August 2012: 2.46m shares allotted following exercise of subscription shares. 17 July 2012: AGM – all resolutions passed. Professor Duncan Geddes retired from the board.

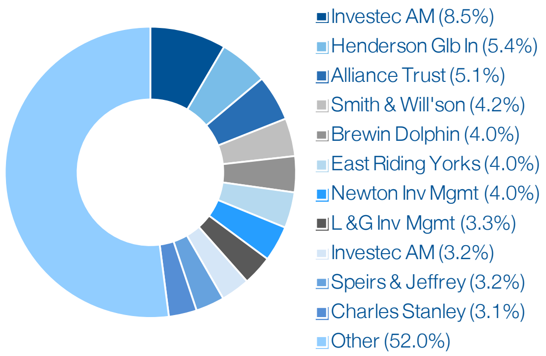
Forthcoming		Capital structure		Fund details	
AGM	July 2013	Total expense ratio	1.0%	Group	Frostrow Capital
Preliminary results	June 2013	Net gearing	(1.0%)	Manager	OrbiMed Capital (Sam D Isaly)
Year end	31 March	Annual mgmt fee	See page 7	Address	25 Southampton Buildings, London, WC2A 1AL
Dividend paid	July	Performance fee	See page 7		
Launch date	April 1995	Trust life	Indefinite	Phone	+44 (0)20 3008 4910
Wind-up date	Vote every five years	Loan facilities	Up to £70m	Website	www.worldwidewh.com

Dividend policy and history	Share buy-back policy and history
One dividend annually, paid in July, assuming adequate profitability. Level may vary accordingly.	Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 10.0% of issued share capital.

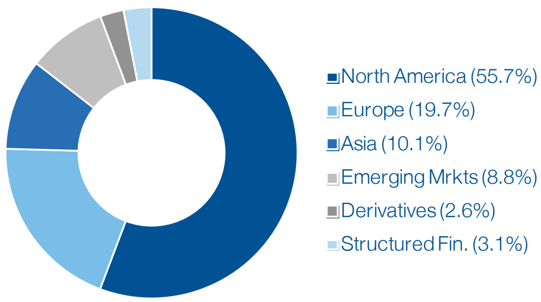




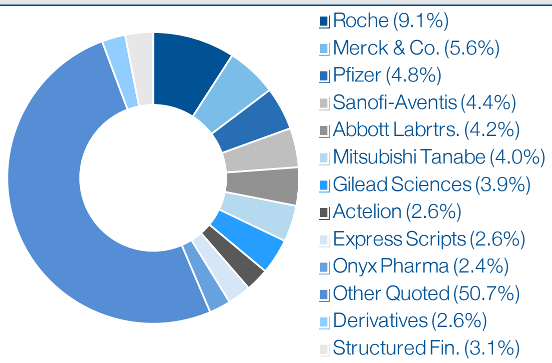
Shareholder base (as at 31 August 2012)



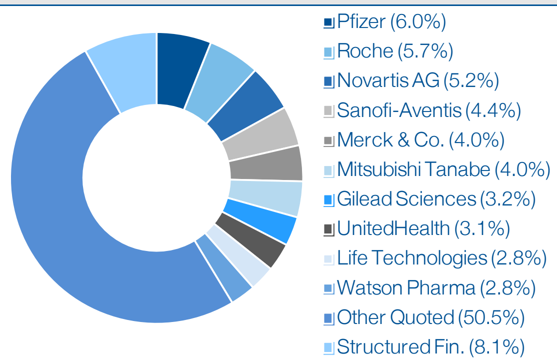
Geographic distribution of portfolio (as at 31 August 2012)



Portfolio composition (as at 31 August 2012)



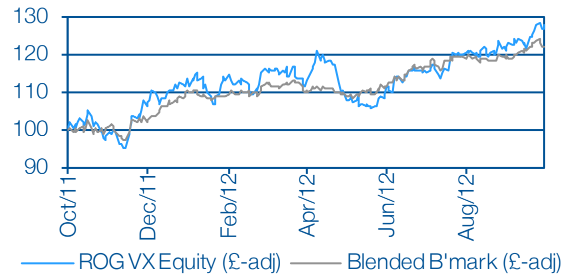
Portfolio composition (as at 29 February2012)



Source: Worldwide Healthcare Trust, Edison Investment Research

Exhibit 2: Top five holdings at a glance

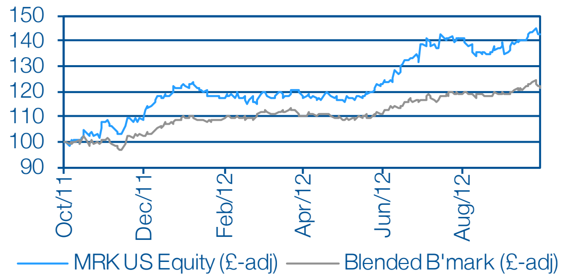
Roche	Code: ROG VX	Market cap: CHF128,780m (£85,744m)



Div Yield (trail. 12 months)	3.71%
Industry/Sector	Pharmaceuticals/Medical-Drugs
Listing	NASDAQ – GS
Website	www.roche.com

Roche is a Switzerland-based healthcare company that discovers, develops and provides diagnostic and therapeutic products and services. It has a global presence and is organised around two core business areas: pharmaceuticals and diagnostics. In addition to being well managed and offering a decent yield, the manager believes that Roche's anti-cancer products are attractive and considers that it has a decent pipeline of follow-on and new cancer drugs.

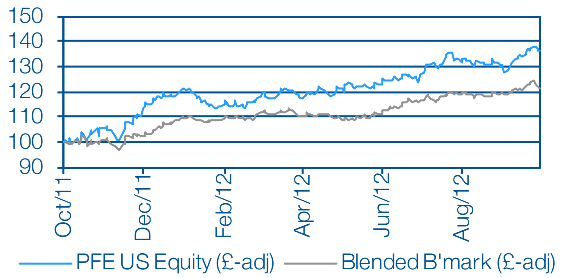
Merck & Co.	Code: MRK US	Market cap: US$140,617m (£87,894m)



Div Yield (trail. 12 months)	3.64%
Industry/Sector	Pharmaceuticals/Medical-Drugs
Listing	NYSE, Xetra
Website	www.merck.com

Headquartered in the US, Merck is a global pharmaceutical company that discovers, develops, manufactures and markets a broad range of human and animal health products. Following its merger with Schering-Plough in 2009, Merck is now the second-largest pharmaceutical company in the world and employs c 100,000 people globally. The manager believes that Merck is well managed, well resourced, has a broad portfolio of products and has a good pipeline of drug candidates.

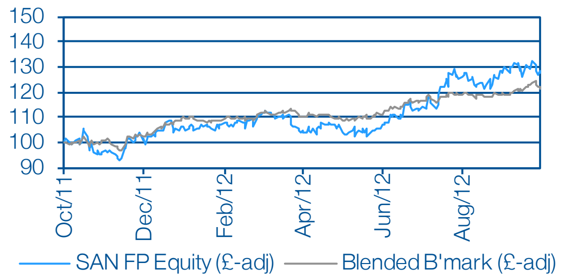
Pfizer	Code: PFE US	Market cap: US$189,053m (£118,167m)



Div Yield (trail. 12 months)	3.48%
Industry/Sector	Pharmaceuticals/Medical-Drugs
Listing	NYSE, LSE – Standard Listing
Website	www.pfizer.com

Based in New York, Pfizer is a global biopharmaceutical company that is organised around two business segments: biopharmaceutical and diversified. Biopharmaceutical includes primary care, specialty care, established products, emerging markets and oncology. Diversified includes animal health and consumer healthcare products. The manager believes that Pfizer is cash generative and has the potential to provide strong growth with agents targeting rheumatoid arthritis.

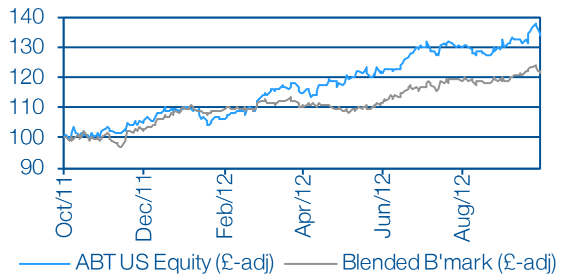
Sanofi	Code: SAN FP	Market cap: €88,632m (£71,441m)



Div Yield (trail. 12 months)	3.97%
Industry/Sector	Pharmaceuticals/Medical-Drugs
Listing	Euronext – Paris, NYSE
Website	www.sanofi.com

Sanofi (formerly Sanofi-Aventis) is a global healthcare company engaged in the discovery, development and distribution of therapeutic solutions. It employs c 100,000 people across 100 countries and is organised around six key segments: emerging markets, vaccines, consumer healthcare, diabetes treatments, innovative products and animal health. In addition to its broad portfolio of products, the manager believes that Sanofi has a strong platform for rare diseases.

Abbott Laboratories	Code: ABT US	Market cap: US$111,2661m (£69,548m)



Div Yield (trail. 12 months)	2.88%
Industry/Sector	Pharmaceuticals/Medical-Drugs
Listing	NYSE, Frankfurt
Website	www.abbott.com

Abbott Laboratories (ABT) is a broad-based global healthcare company. Its product line includes pharmaceuticals, medical devices, diagnostic assays, nutritional and animal health products. A long-time constituent of WWH's portfolio, the manager believes that ABT's arthritis drug Humira, (which Thomson Reuters Pharmaceutical has predicted to become the top-selling drug in 2012) continues to have very strong growth potential after strong sales growth so far.

Source: Worldwide Healthcare Trust, Thomson Datastream, Edison Investment Research

Fund profile

Launched in April 1995, WWH is by far the largest of all the UK-registered investment trusts to focus on the global pharmaceutical and biotechnology sectors. 2010 saw WWH's investment policy broadened to include companies in the healthcare equipment and services and healthcare technology sectors, and the name changed to Worldwide Healthcare Trust to reflect the revised policy. Reflecting this, the benchmark was changed from Datastream World Pharmaceutical and Biotechnology Index to MSCI World Healthcare Index (both total return, sterling adjusted) from 30 September 2010. Frostrow Capital provides management, administration and secretarial services. The investment manager, OrbiMed Capital, is based in New York and lead manager, Sam Isaly, has managed WWH since launch. OrbiMed, established in 1989, is the largest independent specialist investor in the biotechnology and pharmaceutical sectors. It employs over 40 experienced investment professionals globally and has assets under management of c $6bn.

The case for global healthcare and biotech companies

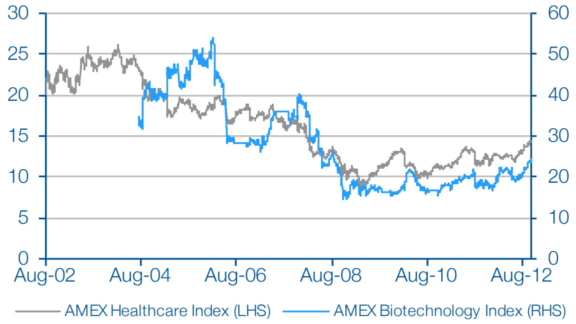
Healthcare and biotech companies benefit from supportive fundamentals from increasing demand from growing and ageing populations, particularly in the western world, and from growth in emerging markets, with the sector typically being a disproportionate beneficiary. A benefit of biotech compared to traditional big pharma is that the greater complexity of biotech drugs often provides a longer commercial life as they are more difficult to copy even when patents expire, and the copies often need additional licensing.

The fund manager: Samuel D Isaly

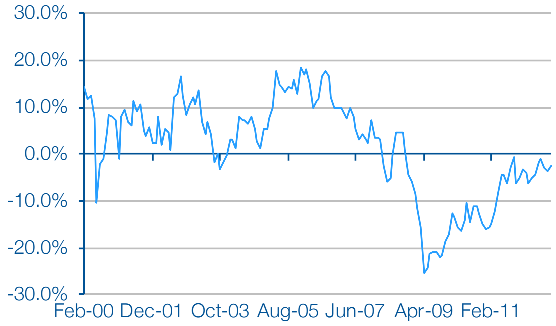
The manager's view: Current valuations offer upside potential

Exhibit 3: Healthcare sector valuations

Biotech and pharma P/E over 10 years



Healthcare P/E relative to S&P over 10 years



Source: Factset, Edison Investment Research

As illustrated in Exhibit 3, since 2009 healthcare P/E ratios have moved back from a discount to a near neutral position against the S&P 500 after trading at a premium for the initial part of the decade. When compared to their longer-term averages biotech and pharma valuations remain at lows despite the recent uplift, reflecting earnings increases that have accompanied the price rises. The manager reports little change in his outlook during the last six months, and believes the sector remains attractive because of valuations, demographics and innovation. Long term, OrbiMed believes that biotech will provide the core of innovation, so WWH will remain overweight biotech and underweight large pharma. Recently OrbiMed has become relatively more bullish on large pharma, viewing 2012 as a trough year for patent expiration. The improvement in large-cap pharma valuations suggests investors are starting to look beyond this and the manager sees upside for companies with good pipelines and products in late-stage development. Additionally cash-rich big pharma companies are still looking to build product pipelines and so current strong M&A activity is expected to continue into 2013. OrbiMed remains selectively bullish on generic companies, but notes that with patent expirations peaking in 2012 there will be an impact on growth prospects, so continues to like generic companies with branded businesses that are well diversified by geography. The 2012 US election season appears to have limited impact on sector performance and the manager believes a Romney win would be most likely to support the healthcare and biotech sectors.

Asset allocation

Investment process: Bottom-up stock selection

The ability to identify innovative therapies and the next product cycle can generate significant alpha in the global healthcare space. As such, gaining a detailed understanding of both the science and financials is crucial to making an investment decision. Because OrbiMed invests across the complete industry life cycle, it will have conducted extensive fundamental research and followed a company long before it becomes a candidate for inclusion in WWH's portfolio. Suitable companies are screened based on their valuations and prospects for future growth. Portfolio changes are typically made on a one-for-one basis as this helps to ensure the portfolio remains focused and that stocks continue to meet OrbiMed's criteria for inclusion. Analysts monitor the portfolio companies, running valuation screens and meeting management at least once a year.

Overview

As at 31 August 2012, WWH's portfolio comprised 56 equity holdings, two fixed interest bonds, three convertible bonds, two royalty bonds and two options. The top 10 quoted equity holdings accounted for 41.2% of gross assets, structured finance (the bonds) for 3.1%, derivatives 2.6% and the remaining 46 equity holdings accounted for 52.2% of gross assets. The majority of the portfolio, 55.7% of gross assets, is invested in US stocks with Europe, Asia and emerging markets accounting for 19.7%, 10.1% and 8.8%, respectively. As such, WWH has a significant exposure to the US dollar. Borrowings, currently 1% of net assets, have historically been primarily dollar denominated to match assets with liabilities. To maintain its large-cap focus, at least 60% of the portfolio must be invested in stocks with a market cap over $5bn. As a counterweight, up to 10% of assets can be invested in unquoted companies. WWH derivatives exposure is limited to 5% of the portfolio's assets.

Exhibit 4: Sector allocations as at 31 August 2012

	Trust weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
Emerging biotechnology	12.5	2.2	10.3	5.70
Specialty pharmaceuticals	12.5	5.2	7.3	2.41
Life science tools	6.6	2.4	4.2	2.73
Generics	6.8	2.8	4.0	2.41
Large cap biotechnology	5.8	7.4	(1.6)	0.78
Healthcare services & managed care	9.8	12.2	(2.4)	0.81
Medical devices	6.8	12.8	(6.0)	0.53
Large cap pharmaceuticals	33.5	55.0	(21.5)	0.61
Structured finance	3.1	0.0	3.1	N/A
Derivatives	2.7	0.0	2.7	N/A
Cash	0.0	0.0	0.0	N/A
Total	100.0	100.0	0.0	

Source: Worldwide Healthcare Trust, Edison Investment Research

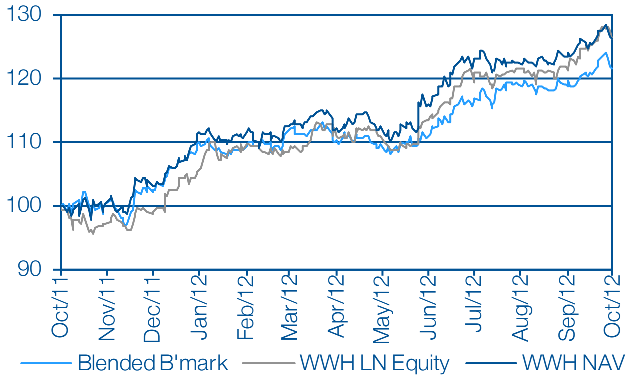
Current portfolio positioning

The portfolio remains overweight biotechnology companies and is substantially underweight the big pharmaceuticals, a positioning that means the portfolio leans towards the US and is overweight smaller caps when compared to the benchmark. The ongoing biotech tilt reflects OrbiMed's view that biotech companies have a greater output of new products. These products have superior growth prospects and, given this, biotech companies continue to offer superior valuations.

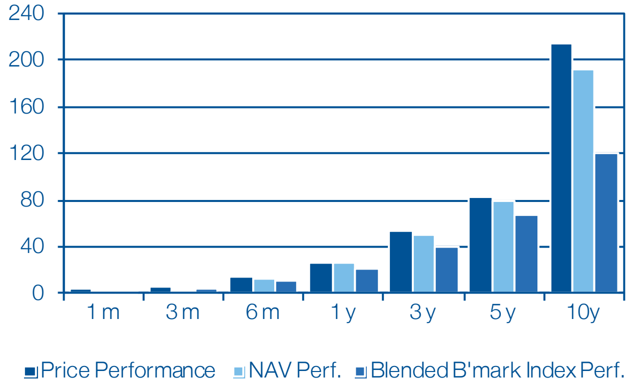
Recent performance

Exhibit 5: Investment trust performance

Price, NAV and benchmark total return perf, one year rebased



Price, NAV and benchmark total return performance (%)



Source: Worldwide Healthcare Trust, Thomson Datastream, Edison Investment Research

Exhibit 6: Share price and NAV total return performance (sterling adjusted)

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to Blended Benchmark	1.8	1.6	3.8	4.8	13.3	15.3	94.5
NAV relative to Blended Benchmark	(0.1)	(1.7)	2.5	4.7	10.4	12.1	73.2
WWH Price	4.1	5.9	13.9	26.3	53.3	83.0	214.0
WWH NAV	2.2	2.6	12.6	26.2	50.4	79.8	192.8
Blended Benchmark	2.3	4.3	10.1	21.5	40.0	67.7	119.5
MSCI World Health Care	2.3	4.3	10.1	21.5	39.8	55.9	99.8
DS World Pharma & Biotech	2.2	4.7	12.8	21.5	39.0	66.4	117.9

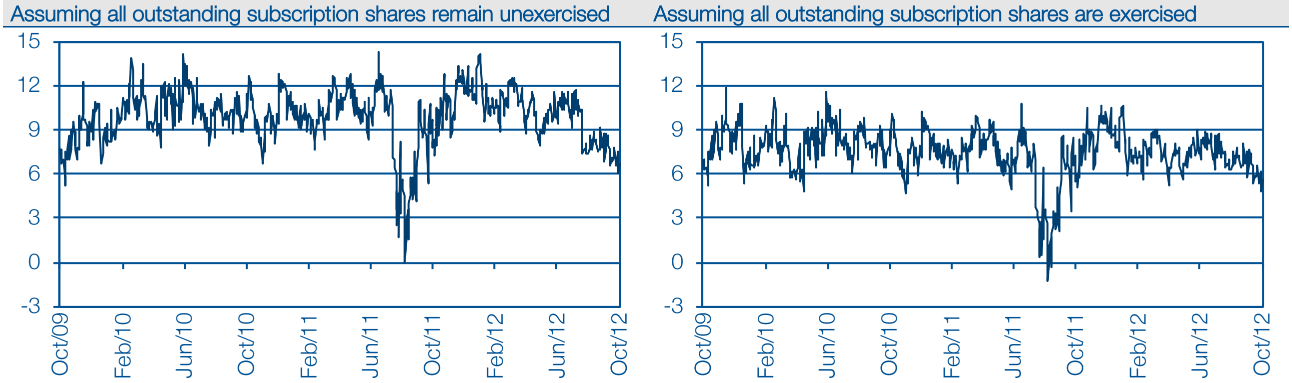
Source: Worldwide Healthcare Trust, Thomson Datastream, Edison Investment Research

As Exhibits 5 and 6 illustrate, WWH has a consistent long-term track record of outperforming a sector that itself has provided strong absolute returns. WWH does not publish detailed attribution but the manager has highlighted that the expansion of reach of the mandate two years ago has provided access to a greater range of opportunities. Critically, the manager has been able to expand the allocation to emerging markets, which has been a strong source of growth. In addition, the overweight to biotech has been key as companies such as Affymetrix, Biomarin, Onyx and Vivus have seen substantial appreciation.

Discount

The trust has a policy of actively managing the discount to broadly maintain it within 6.0% of the diluted NAV. Consequently, as Exhibit 1 illustrates, the trust is active in the market for its own shares with 3.3m shares repurchased during the past 12 months at a cost of £25.8m. WWH is sufficiently large for such a policy to be effective, as illustrated in Exhibit 7. The first graph assumes the outstanding subscription shares remain unexercised. The second graph assumes dilution from the full conversion of all outstanding subscription shares and has more relevance as the subscription shares are comfortably in the money. WWH has been successful in maintaining its fair value NAV close to 6%. Its average discount, based on fair value NAVs, is 7.5% during the last 12 months.

Exhibit 7: Discount through three years



Source: Thomson Datastream, Edison Investment Research

Capital structure

WWH has a conventional structure with two classes of security in issue, 25p ordinary shares and 1p subscription shares, with 2.43m outstanding as at 12 October 2012. The subscription shares are both listed and tradeable and confer the right but not the obligation to subscribe for one ordinary share at each of 31 October, 31 January, 30 April and 31 July between 31 October 2009 and 31 July 2014. The subscription price is now 699p (since 1 August 2012). At each of the 12 subscription dates so far, WWH has been in receipt of conversion requests and allotments of ordinary shares have been made accordingly, as illustrated in Exhibit 1. WWH is permitted to borrow up to the lower of £90m or 20% of net assets. As at 31 August 2012 WWH had gross and net gearing of 1.0%.

Frostrow's management fee is equal to a fixed amount of £50,000 a year plus 0.30% of the company's market cap up to £150m and 0.20% of the market cap in excess of £150m. OrbiMed receives a management fee of 0.65% of net assets a year. Both Frostrow and OrbiMed's management fees are charged 5% to revenue and 95% to capital. The trust also pays a performance fee of 16.5% of any outperformance of the NAV over the benchmark index (total return, sterling adjusted). The performance fee, calculated quarterly, is based on the lower of the cumulative outperformance of the investment portfolio, against the benchmark since inception and the cumulative outperformance of the investment portfolio, against the benchmark over the previous 12 months. Where a performance fee is payable, OrbiMed receives 15.0% and Frostrow Capital receives 1.5% of the outperformance. Performance fees are charged entirely to capital. Performance fees of £2.89m were accrued during the year ended 31 March 2012 (2011 saw a write back of £135k) of which £909k crystallised and was paid for maintained outperformance during the year ended 31 March 2010. As at 31 March 2012, WWH had performance fees falling due within one year of £1.98m. For the year ended 31 March 2012, WWH's ongoing charges, excluding and including performance fees were 1.1% and 1.3% respectively. This compares to 1.0% and 1.8% for the year ended 31 March 2011, excluding and including performance fees respectively. The management contract can be terminated at one year's notice by either party.

The life of the trust is indefinite. However, from July 2009 then every fifth AGM after, a continuation vote will be put to shareholders. The next vote will be at the 2014 AGM.

Dividend policy and record

WWH's investment objective is to achieve a high level of capital growth. Its mandate does not include an income element and there is no explicit dividend policy. However, assuming adequate profitability, a single payment is made in July of each year. Reflecting the capital growth objective, at 2% the dividend yield is modest when compared to many other investment trusts, but remains strong for the sector. Since launch, the trust has maintained or increased its dividend in all but two years – 2002 and 2003. Since 2003 WWH has increased its dividend by 994% from 1.0p to 17.5p (an average increase of 33% per year, or 27% per year annualised). The dividend was increased by 16% between 2011 and 2012 (15.0p to 17.5p) which, with a revenue return during the year of 21.8p per weighted average share, did not require any dipping into reserves. As at 31 March 2012, WWH had revenue reserves of 30.5p per share (13.0p after payment of the final). As such, we expect that, assuming growth in revenue reserves during the year, WWH will at least be able to maintain the dividend at 17.5p for the year ending 31 March 2013, while retaining some capacity to smooth dividends.

Peer group comparison

As Exhibit 8 illustrates, the AIC Sector Specialist: Biotechnology/Life Sciences sector is a relatively small peer group. All four constituents invest in healthcare-related companies but their investment objectives are markedly different. Within this peer group WWH ranks third over one and three years and second over five years when considering share price total return.

Exhibit 8: Global growth sector, as at 12 October 2012

Company	Share price total return on £100			Ongoing charges (%)	(Disc)/ prem.	Net gearing (100=no gearing)	Five-year dividend growth (%)	Div. yield
	One year	Three years	Five years					
Sector average	**138.7**	**171.1**	**198.5**	**1.32**	**(4.0)**	**102**	**N/A**	**N/A**
Worldwide Healthcare Trust	**126.3**	**153.3**	**183.0**	**1.08**	**(6.4)**	**107**	**42.3**	**2.0**
Biotech Growth	168.4	210.1	262.5	1.29	0.4	96	N/A	N/A
International Biotechnology	149.1	168.1	148.6	2.19	(9.9)	97	N/A	N/A
Polar Cap Glbl H'care Grw & In	122.5	N/A	N/A	1.25	2.5	100	N/A	2.6

Source: The Association of Investment Companies

The board

All directors are non-executive and most are independent of the investment manager. They are Martin Smith (independent non-exec chairman), Anthony Townsend (senior independent non-exec director), Josephine Dixon, Dr David Holbrook, (independent non-exec directors) and Sam Isaly (non-exec director). Average service is 10.7 years.

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www.edisoninvestmentresearch.co.uk

London +44 (0)20 3077 5700
Lincoln House, 296-302 High Holborn
London, WC1V 7JH, UK

New York +1 646 653 7026
245 Park Avenue, 24th Floor
NY 10167, New York, US

Sydney +61 (0)2 9258 1162
Level 33, Australia Square, 264 George St,
Sydney, NSW 2000, Australia