Zug, May 2014

Dear Shareholders
Ladies and Gentlemen

I am delighted to enclose your invitation to our Ordinary Shareholders' Meeting on 20 June 2014. HBM Healthcare Investments closed an excellent year with a record profit. You can read all about that and more in our informative Annual Report.

Five years have already passed since I was appointed to the Board of Directors. It is therefore a good time to look back, assess where we stand now, and look ahead to our future. It has been a very challenging and interesting time period. A global banking crisis, triggered by overheated property prices and a casual approach to lending, especially in the USA, was followed by debt crises in individual eurozone states. Overall, these events shattered confidence in the financial markets. This loss of faith, on the one hand, and necessary intervention on the part of central banks, on the other, resulted in a sharp rise in the Swiss franc against the Euro and the US dollar. This impacted negatively on the value of our investments, and thus on our performance.

Amid all of this turbulence, HBM Healthcare Investments navigated its way successfully through these difficult years. Prudent portfolio management on the part of our investment advisor, HBM Partners, was one of the reasons for this. We were also supported by the fundamentally intact growth prospects for our sector. Patients have a considerable medical need for new and innovative therapies, and demand is now also rising in the Emerging Markets. Pharmaceutical companies, and biotech firms especially, have achieved significant progress by focusing on their research activities. The quality of forecasts and proper planning for clinical trials have set new standards that are much higher than they were ten years ago. Research has become faster, more targeted, and more precise – and thus much more successful. I expect that value-creation in our sector will continue to benefit from this momentum in the future. In addition, expiring patents mean that major pharmaceutical companies are facing sales and income gaps, which they will have to fill. This is being reflected in a lively M&A market. This will be in our favour when we want to sell or finance portfolio companies. Here, too, I see no indication of any change on this front in the foreseeable future.

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HBM Healthcare Investments

Strong performance despite negative currency trend

HBM Healthcare Investments has increased net assets by more than CHF 400 million over the past five years. As a result, net asset value (NAV) per share has risen by 85%, despite the aforementioned depreciation in our main investment currencies, the US dollar and the Euro, of around 20% each. Furthermore, the share price has advanced by over 240%, albeit from a low base, in the midst of market distortion at the height of the banking crisis in March 2009.

Performance	09/10	10/11	11/12	12/13	13/14	Cum.
NAV	12.1%	-6.6%	-1.9%	13.2%	59.1%	85.0%
Share price	125.0%	-9.9%	-7.0%	23.7%	47.0%	243.2%

Significant funds returned to shareholders (> CHF 200 million)

Good performance has allowed the Company to return around CHF 140 million to shareholders over the past years, in the form of share buy-backs and an additional cash dividend. In parallel with these share buy-backs, the Company has repaid its debts of more than CHF 190 million in full – this should not be forgotten, as it is a major contributor to the sound financial situation in which we find ourselves today.

The excellent result achieved in the financial year just ended will permit a significant increase in the funds we are able to return to our shareholders. The Board of Directors is proposing to the Ordinary Shareholders' Meeting that last year's distribution be doubled to CHF 3.00 per share. As you are already aware, in view of the share price's persistently high discount to NAV, the Board of Directors has decided to conduct an accelerated share buy-back programme even before the Ordinary Shareholders' Meeting takes place. The put options allocated free of charge to shareholders enable them to tender a tranche of their shareholding to the Company at an exercise price of CHF 100.00, i.e. an attractive premium over the share price, and thus an additional return on their investment. Swiss withholding tax means that exercising these options will hold little appeal for the majority of private and foreign shareholders. For this reason, the put options were listed on the stock exchange, so that they can be traded.

Together, the proposed cash distribution and the put options will return an additional approx. CHF 80 million to shareholders. This will take the **total amount returned to shareholders to well over CHF 200 million, corresponding to around half of profit earned over the past five years**. We will continue to make every effort in the future to pass a high proportion of value creation on to shareholders in the form of distributions.

Size is key, investments are essential

In addition to making distributions to shareholders, it is essential that we continue to tend to our portfolio and expand it selectively with interesting new investments in innovative private companies with strong growth prospects. HBM Healthcare Investments is one of the leading investors in the healthcare sector in Europe and the USA, and is therefore courted by many companies as a welcome source of financing. The ability to invest significant amounts is central to maintaining this position, and to securing access to promising investment opportunities. Other reasons for having a certain critical financial mass are many and varied. First of all, a strategy of investing in private companies requires an appropriate degree of portfolio diversification, especially in a sector with long development horizons which faces a considerable level of risk. Second, expertise is needed. Investments in private companies, specifically, demand close and time-consuming attention, generally associated with a seat on the board, in order to provide the company with active support in its operational development. Third, follow-on investment is a further decisive factor of success as a relevant investor, because market volatility – as we have just experienced during the financial crisis – may require IPOs or sales at attractive prices to be delayed. In this respect, our investment partners do an exceptional job, and have a unique network of contacts. It would therefore be wrong to over-shrink the Company and to jeopardise – or at least severely restrict – its objective.

High discount unjustified

Naturally, there are also negatives among the positives. The level and, in my view, unjustified nature of the discount of our share price to our net asset value is a thorn in the side of us all. Over the past five years, we have made an enormous effort to broaden the Company's shareholder base – and with considerable success. Around half of our current shareholders have taken stakes in our Company since we went public. Unfortunately, this has not been enough to reduce the discount over the long term. We will continue to devote great time and energy to this challenge.

Net asset value is a very good indicator, and its details are subject to repeated, painstaking review. I have evaluated the elements of our portfolio on many occasions myself, and discussed them with other experts. I support this approach to valuation, although I regard it somewhat conservative – as, indeed, it ought to be.

Our portfolio is very broad and diversified, so assessing it is a very complex task. It is difficult for outsiders to validate the figures we present. Our company is also ignored by many analysts. This deprives our stock of the additional momentum with which the markets typically recognise companies with promising value-generating assets. That is the nature of the beast. Share buy-backs, as we have pursued on a large scale in recent years, have so far been unable to close the discount gap, or at least narrow it to an acceptable level. We are nonetheless in good company in this, as you can read in studies issued by the Listed Private Equity Association (LPEQ). That said, in view of the discount cycle it is likely that, one day, HBM Healthcare Investments too will once again be traded at a low discount to NAV – or without any discount at all.

The past financial year, in particular, has shown the value-creation potential held within certain of our investment holdings. Pacira, Basilea, Ophthotech, PTC Therapeutics and Skyepharma have all reached important milestones, and are well on their way to becoming very successful companies which still have many good things in store for you.

The portfolio of privately held companies also contains a few gems with significant value-generation potential. I am thinking, in particular, of US company Ellipse Technologies, which is reporting pleasing growth from the sale of its magnetically adjustable devices to treat severe spine deformations (Magec®) and for limb-lengthening (Precice®). The company will soon cross the profitability threshold. Advanced Accelerator Applications (AAA), the latest addition to our portfolio, is another example. The company is active in the interesting field of molecular nuclear medicine, and in Lutathera® is developing a compound for the oncology segment which has substantial sales potential.

Independent investment decisions are important

As you can see from the invitation to the Ordinary Shareholders' Meeting, the Alpine Select AG investment company has submitted a proposal to cancel the percentage transfer restrictions that are laid down in our articles of association in the form of a restriction on voting rights. Alpine Select is pursuing a strategy to buy in to undervalued companies with a view to bring about an increase in value through active engagement. However, when managing a portfolio in the healthcare sector, it is key that the right expertise is applied to make the most of the value-creation potential of successful investments, and keep losses from non-performing risks as low as possible. This requires experts in the field, as we have within HBM Healthcare Investments and HBM Partners. They make independent decisions on new investments and divestments, and have done so with considerable success for many years on the strength of their expertise and experience.

I should like to mention Pacira Pharmaceuticals as an example. Pacira is one of the most successful investments in our portfolio, and has so far contributed some US$ 140 million to our profits. The company went public on the US-exchange NASDAQ and issued shares at US$ 7. Initial suggestion from the petitioner that the holding be sold and the proceeds channelled into share buy-backs were made when Pacira's share price stood around US$ 14. Pacira shares are now trading at over US$ 70 each, or more than five times their earlier value. HBM Healthcare Investments' shareholders would have been deprived of profit running into nine figures (!) if Management – which had correctly recognised the company's value-creation potential – had been unable to take independent decisions.

The provisions on restricted voting rights (transfer restrictions) have been in our articles of association since the Company was founded. They enable the Board of Directors to refuse entry in the share register of shares carrying voting rights which belong to a single shareholder or pool of shareholders, if the volume of those shares exceeds 10% of the aggregate registered shares entered in the Commercial Register. Shareholders are aware of this restriction when they invest in the Company, and Alpine Select was no exception.

Such restrictions on share register entry are found at countless companies throughout Switzerland. In many cases, the thresholds are even far lower, at 2%, 3%, or 5 % – as at Novartis, Schindler, Nestlé or Galenica, for example. The threshold of 10% laid down in our Company's articles of association permits any shareholder to take a significant stake, but is designed to prevent any single shareholder exerting an excessive influence which might, under certain circumstances, run counter to the interests of the other shareholders. This is all the more important in the healthcare sector, where value growth takes much longer than in most other industries, and where the fair value of private companies is often difficult to determine for outsiders.

The Board of Directors has carefully examined the request from Alpine Select AG, and also spoken to other major shareholders in the Company. It has emerged from these discussions that Alpine Select's proposal is not in the interests of all shareholders, or in the interests of the company. Many shareholders share the Board of Directors' concern about the dominant influence of one shareholder or pool of shareholders, and that short-term decision-making might cost the Company both assets and value.

The Board of Directors has included the request of Alpine Select, as a shareholder, as an agenda item for the Ordinary Shareholders' Meeting to permit all shareholders to vote on the motion. For the reasons described above, the Board of Directors has decided to **recommend that the Alpine Select motion be rejected**, and that the transfer restriction be maintained. It goes without saying, however, that we will accept and implement in full the decision of the shareholder body.

We are well established as a company, have a close network of contacts within the industry, and we are familiar with and support all of the projects that we finance with your money. The portfolio has continued to mature in terms of its quality and it offers a promising outlook. I firmly believe that it will be able to continue generating attractive returns for our shareholders in the future. On behalf of the Board of Directors, I would like to thank you for your faith in us, and look forward to your continued confidence in the future.

Yours sincerely

Hans Peter Hasler
Chairman of the Board of Directors