

# PLATINUM INTERNATIONAL HEALTH CARE FUND



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## PERFORMANCE

The biotech sector in particular experienced a difficult quarter as investors' aversion to risk increased and both Amgen and Genentech faced tighter restrictions from regulators as well as concerns about their maturing products.

For our pharmaceutical holdings, the quarter offered both positive as well as negative developments. New HIV drugs are approaching the market quite quickly, while regulators have delayed the approval of Novartis' new diabetes drug.

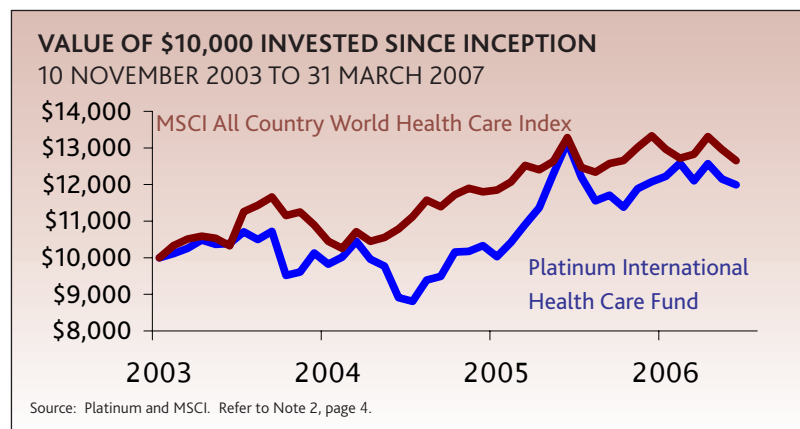
Corporate activity and rumours were also plentiful, particularly in the pharmaceutical and diagnostic sector. GE appears to be following Siemens' lead in gaining access to the *in vitro* diagnostic market by buying Abbott's diagnostic division. At the same time established diagnostic companies continue to add new technology, purchasing smaller players with limited distribution and positively influencing valuations of some of our holdings.

There has been no shortage of activity in the health care sector this quarter and many companies are finding themselves in a state of transition, products are maturing and new portfolios are being accumulated. Simple financial valuations do not fully capture the assets that many companies have gathered, unfortunately resulting in uncertainty and short-term volatility.

The Platinum International Health Care Fund was down 0.9% this quarter, while the MSCI Health Care Index was down 1.4%.

DISPOSITION OF ASSETS		
REGION	MAR 2007	DEC 2006
NORTH AMERICA	60%	56%
EUROPE	24%	24%
JAPAN	7%	6%
OTHER ASIA (INCL KOREA)	2%	2%
SOUTH AMERICA	1%	0%
CASH	6%	12%
SHORTS	1%	1%

Source: Platinum



## CHANGES TO THE PORTFOLIO

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Refocusing on its scientific strength, building a pipeline and introducing new drugs has been part of our Merck case. This story has been unfolding nicely over time with the valuation having reached a level that we feel accounts for this achievement. We sold our position and feel we can add more value elsewhere. A number of companies with exceptional long-term track records are being considered as their valuations represent interesting opportunities.

Exposure to some of our themes, including early detection of diseases and the area of biological therapeutics was increased this quarter; we introduced two new ideas to the portfolio, one supplying tools to make biological drugs, and the other is building its capability to take part in the emergence of biosimilars.

## COMMENTARY

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Amid the noise and turmoil that represents the short-term focus of many market participants, it is valuable to remind oneself that the activities of companies to find ways of treating or managing diseases continues everyday. The scientists in the laboratories do not abandon their work simply because of a change in near-term market impulses. Everyone is very familiar with the long development time lines (12 to 13 years) from finding a new compound to receiving regulatory approval in the industry. There are also the challenges along the way.

With these thoughts in mind it is now a matter of looking at how companies have overcome hurdles in the past and in what way management has prepared the company in anticipation of challenges they will almost inevitably face.

Historical events as well as the long-term picture quite often slip the mind of investors and many become intensely focused on current dilemmas. Thus, when looking at a company as an

investment opportunity it is good practice to step back. Interestingly, the most recent annual report from Johnson & Johnson (JNJ) did exactly that. While the existence of challenges was acknowledged, the company offered a picture of the opportunities they have accumulated over the years. It was a refreshing read compared to other reports which incessantly describe the problems of the industry.

Developments at the large profitable biotechs further emphasise that “financial valuations” only tell a small part of the story. Several of these successful companies are currently trading at historical low valuations and at a quick glance look like enticing opportunities. Unfortunately, a closer look reveals some of these companies may have not ordered their affairs to manage the unfolding environment and at the same time expand geographically. Quite often these companies rely on a small number of very profitable products with little competition as yet. As signs of slowing growth and competing products emerge, these warnings are initially being dismissed by the market even though it is the start of a significant change for the company itself. In their haste to join the ranks of big pharmaceuticals many biotechs can be criticised for their failure to develop a steady flow of follow-on products.

While these companies have built over time a very impressive franchise, the next phase of growth is still in the making and perhaps the difficulties along the way are underestimated by these companies. To make a balanced assessment of the company one needs to take into account these transitional and hidden issues.

Similarly, for small companies it is one thing to have a great technology platform but to assess the evolution to the next stage is problematical. Success lies in maintaining continuous clinical development as well as assembling a sales and marketing infrastructure. One device company that has caught our eye has spent a lot of effort forming solid alliances with well-positioned, large companies and in making sure the products are supported by solid clinical development. Delays

did occur along the way causing disagreement and doubt among investors. However, to us this careful and diligent approach of introducing a novel technology tends to work better over time than taking shortcuts as a competitor has done.

It may seem unnecessarily painstaking to keep looking at all the facts of a company but quite often the conclusion arrived at is in contrast to the short-term consensus. The time lines of this industry require particular patience.

## OUTLOOK

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Despite multiple miserable headlines there is a lot of activity in this sector. By looking beyond the most obvious choices and taking into consideration the company's long-term ability as well as the financial valuation, some interesting, quality companies can be identified.

Overall, there is a general view that health care companies are moving closer together as a way of overcoming challenges. When looking at device and drug companies the deal activity remains very steady. Consequently, to disregard a company simply because the current pipeline is empty or unexciting can cause one to undervalue their other strengths or options, such as securing rights to products or technologies. These external activities and alliance networks of companies have become an essential part of their business and will expand further in coming years.

## NOTES

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1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the relevant Fund since inception relative to their Index (in A\$) as per below:

Platinum International Fund:  
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:  
Inception 31 January 2005, MSCI All Country World Net Index

Platinum Asia Fund:  
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:  
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:  
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:  
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:  
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:  
Inception 18 May 2000, MSCI All Country World Information Technology Index

(nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

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Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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