

Platinum International Health Care Fund



Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	JUN 2013	MAR 2013
Europe	45%	41%
North America	27%	28%
Japan	3%	4%
South America	1%	1%
Australia	1%	1%
Cash	23%	25%
Shorts	2%	2%

Source: Platinum

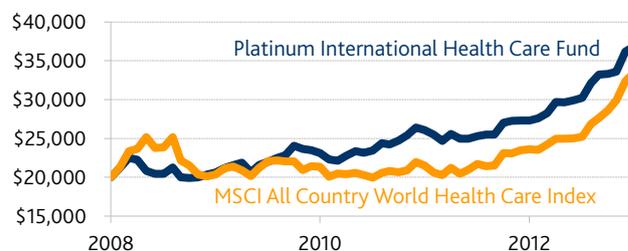
Performance and Changes to the Portfolio (compound pa, to 30 June 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Int'l HC Fund	11%	35%	17%	13%	7%
MSCI AC World HC Index	17%	42%	16%	11%	5%

Source: Platinum and MSCI. Refer to Note 1, page 3.

There is plenty of money changing hands in healthcare which is keeping the consolidation theme alive. Generic companies have been buying each other, while also adding branded and patent protected products. Private equity firms are selling long-held assets such as Bausch & Lomb (eyecare company acquired this quarter by Valeant) and Quintiles (contract research organisation, now listed again). New public offerings are also coming through steadily, while big biotech and pharma alike have an insatiable appetite for assets. Johnson & Johnson and AstraZeneca spent about \$1 billion each acquiring one private biotech each. Amgen also tried its luck and offered a "low" price (almost \$9 billion; 10x sales) for US oncology biotech Onyx. However, the biotech rejected and is now looking for other suitors. While none of our holdings were a target this quarter, we are comfortable that their time will come.

Value of \$20,000 Invested Over Five Years 30 June 2008 to 30 June 2013



Source: Platinum and MSCI. Refer to Note 2, page 3.

This merger and acquisition excitement supports the sector and in hindsight the Fund should have been more invested. However, while corporates can justify high valuations a lot easier, we often find it difficult to see value in companies that are valued at almost 10x sales. Nevertheless, we have been adding to a number of our holdings this quarter and will continue to do so but we remain conscious of valuation.

Commentary

Cancer is a clever beast and needs to be targeted from as many angles as possible. One of the conundrums is that the tumour has found a way to stay invisible to our immune system. Despite a fully intact immune system, tumours happily continue to grow and spread. A lot of research has gone into this particular field and we now know that cancer manipulates immune-inhibitory checkpoints thus preventing the immune system to elicit a proper anti-tumour response. These checkpoints resemble "brakes" that are in place to preserve self-tolerance and make sure the immune system is kept in balance.

It is these checkpoints that have oncologists, scientists and company executives excited. Developing drugs that target these checkpoints or their mediators (ligands) will release these immunological brakes and start the anti-tumour response. As always, science systems are complex and the immune system is no different. There is a plethora of these immune-checkpoints; often at different levels of the immune system and probably different checkpoints dominate depending on the cancer. We are at the start of a new era in cancer therapy.

Today we have one immunotherapeutic approved for melanoma. Ipilimumab (Yervoy) targets the "godfather of checkpoints" CTLA4 (or Cytotoxic T-Lymphocyte associated Antigen 4). CTLA4 is a receptor on T cells which are the first line of defence in an immune response. The receptor inhibits and thus keeps the T cell response to a minimum; for a tumour an ideal situation. Yervoy simply blocks that inhibitory effect and unleashes an immune response which in melanoma patients prolongs life. Unfortunately, such an immune therapy comes with side effects that have to be carefully managed.

Until May, oncologists were quite encouraged with Yervoy but that was before the PD1 inhibitors (programmed cell death protein 1), Nivolumab (BMY) and Pembrolizumab (MRK), made their mark. Again PD1 is an inhibitory checkpoint; this time on T cells that surround tissue and the tumour. The latest results were so exciting that some oncologists suggested the drug should get approval in melanoma as soon as possible (on phase 2 results). Basically more patients respond to the drug (meaning the tumour shrinks) and the response lasts.

These new drugs are indeed exciting. While Bristol Meyer Squibb and Merck have been in the limelight, AstraZeneca and Roche (all holdings in the Fund) are also active in the field. AstraZeneca has quietly accumulated a CTLA4 antibody as well as other checkpoint inhibitors while Roche tackles the PD1 checkpoint by targeting the ligand with its antibody. Analysts like to focus on one winner, while history teaches us that cancer is quite diverse and can have many players. There is a plethora of checkpoints and as always in cancer it will be important to hit several points to have an impact.

Outlook

Cash balances at big pharma and big biotech will continue to rise and shareholders should benefit from it as will biotechs with good assets.

We have been looking at European medtech companies recently; compared to their US counterparts these companies are relatively small, less profitable but often with a stable family shareholding. For now, valuations are slightly too high but we are keeping a close eye on these companies as their products and technology excite us.

Next year many more people will have health insurance in the US as the main part of ObamaCare, universal insurance, will be implemented. A large project that will, no doubt, have its issues along the way and for now, analysts and companies alike have not found a way of predicting how things will play out. We are looking at the long-term theme of more people utilising the system while costs need to be contained. Not an easy undertaking but we think we may have found some investment opportunities.

Notes

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 historical 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).

The inception dates for each Fund are as follows:

Platinum International Fund: 30 April 1995

Platinum Unhedged Fund: 31 January 2005

Platinum Asia Fund: 4 March 2003

Platinum European Fund: 30 June 1998

Platinum Japan Fund: 30 June 1998

Platinum International Brands Fund: 18 May 2000

Platinum International Health Care Fund: 10 November 2003

Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A\$20,000 invested in the relevant Fund over five years from 30 June 2008 to 30 June 2013 relative to their Index (in A\$) as per below:

Platinum International Fund - MSCI All Country World Net Index

Platinum Unhedged Fund - MSCI All Country World Net Index

Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index

Platinum European Fund - MSCI All Country Europe Net Index

Platinum Japan Fund - MSCI Japan Net Index

Platinum International Brands Fund - MSCI All Country World Net Index

Platinum International Health Care Fund - MSCI All Country World Health Care Net Index

Platinum International Technology Fund - MSCI All Country World Information Technology Net 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.

3. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short derivatives.

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