Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	JUN 2015	MAR 2015
Europe	33%	35%
North America	27%	29%
Japan	5%	5%
Asia	2%	2%
Australia	1%	1%
Cash	32%	28%
Shorts	1%	1%

Source: Platinum. Refer to Note 3, page 4.

Performance and Changes to the Portfolio

(compound pa, to 30 June 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund	1%	34%	29%	21%	10%
MSCI AC World HC Index	1%	44%	36%	23%	10%

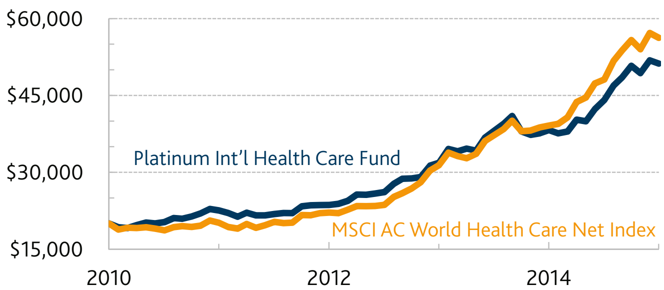
Source: Platinum and MSCI. Refer to Note 1, page 4.

Health care shares performed well again this quarter, led by US biotechs (+14%), notwithstanding shaky bond markets and despite Greece's plight undermining European markets.

Standout performances among the large stocks for the quarter included Gilead (+16%) and Mylan (+13%, please see discussion below), while GlaxoSmithKline (-17%) was once again a notable laggard. For the Fund, our largest Japanese holding, **Daiichi Sankyo** (+17%) traded well following the end of its poorly executed Indian generics venture, and the Chinese regional pharmacy business **Jintian Pharma** (+41%) ran up following good results and we trimmed the position in mid-June. **AstraZeneca** was down (-15%) with side effects stalling one of the pipeline products. Beyond that, several moves of plus or minus 20% among our smaller biotech

Value of $20,000 Invested Over Five Years

30 June 2010 to 30 June 2015



Source: Platinum and MSCI. Refer to Note 2, page 4.

positions might reflect the increasing volatility in the sector as fear and greed – mostly greed – grow.

The Fund was up 1% for the quarter (and 34% for the 12 months to 30 June), while the MSCI AC Health Care Index (A$) also edged ahead 1% over three months (and leapt 44% for the year).

Commentary

Generic drug makers are interesting in their own right as well as being important to mitigate run-away health care spending in most countries. In recent years, there have been long delays at the US Food and Drug Administration (FDA) in approving generic versions of off-patent drugs. This hinders the smaller generic firms, but for those with already-approved generics on the market, product prices are much more stable with, say, two competitors than they would be with eight or more. Reforms to the assessment and approval process mean that the authorities are now making good progress in addressing the 3,000(!) cases awaiting their attention. But this probably means that after a few fat years of generous pricing, the established generic players can see things becoming more difficult in the 2017-20 timeframe. Notwithstanding their protestations that they would love the FDA to speed things up, a new round of proposed mergers indicates a certain concern that scale (and cost-cutting potential) may be important considerations in the coming years.

On that note we can report that the largest holding in the Fund, **Teva Pharmaceutical Industries Ltd**, has been for a few months now actively pursuing another very large generics concern, Mylan NV, which is in turn pursuing (the not insignificant) Perrigo Co. Mylan seemingly doesn't want to be bought, while Teva doesn't want Mylan to buy Perrigo (not least because that would make Teva's proposal too costly and/or problematic regarding anti-trust). Usually, Hollywood plots aside, almost all corporate deals are "agreed" rather than hostile, and so the apparent stalemate will most likely be resolved when one party offers to pay enough to bring the other quietly to the altar. Of course, if Teva pays too much, then we as shareholders will be giving most of the benefit of the deal to Mylan's owners, but in fact a likely compromise should allow the spoils to be shared among the parties.

The earlier reference to the good pricing environment of recent years highlights the difficulty for the system: while the government may see the generic companies as agents of cost control, the generics themselves are profit maximisers, and it is a measure of the (perhaps excessive) prices of branded (i.e. on-patent) pharmaceuticals to see quite how profitable their "rip-off" imitators are. At a recent generics conference discussing the likely increase in approvals of competing drugs, the generic companies were confident that despite increasing supply they expected "to maintain 55%-65% gross margins". For context, that is **10-20 percentage points higher** than what mighty Nike earns with its near dominance of the sneakers market – and Nike has to actually develop its own product!

Elsewhere in the industry, the annual American Society of Clinical Oncology (ASCO) meeting in Chicago once again focused on the exciting developments in the immuno-oncology area. Among many presentations and discussions, one interesting conclusion that seemed to be drawn was that more subtle, segmented, diagnostics-based approaches should in time overcome the lead that Bristol-Myers seemed to have established with its first-to-market, broad applicability strategy. This outcome, together with the need for combining multiple therapies to treat the myriad cancer types, means that Merck, AstraZeneca, and especially Roche may be more favourably placed than investors presumed 6-12 months ago.

Outlook

A cash holding of 30% might seem perverse in the face of a robust bull market in biotechs, and indeed may be a source of surprise or frustration to some unitholders. We emphasise that this cash position should **not** be seen as a vote against the prospects of the industry – indeed, ongoing scientific advances and the public and private willingness to pay for better treatments suggest continued profitable growth. Nor are we trying to "time" the market in the sense of being inactive or defeatist – several interesting opportunities have been acted upon this quarter. Instead, the cash holding has built up simply because there are relatively few compelling investments to be made at the moment. We measure this in hard numbers. For example, the average upfront payment by big pharma companies to biotechs to license their drugs was US$59 million per drug in 2014, **73% more** than in 2013, and valuations paid by venture capitalists, private equity and the stock market are commensurately higher.

Without putting undue weight on anecdotes, the behaviour of the protagonists – both investors and companies in the sector – indicates how late it is getting in the boom cycle. In one notable deal, Alexion paid US$8.4 billion for Synageva, a company with no revenue and one drug awaiting regulatory approval in a "rare disease" – a designation familiar to Alexion which owns the world's single most expensive medication – Soliris, priced at over US$500,000 per patient per year. Presumably, Alexion paid a 130% premium, despite the absence of any obvious competitors, for a company whose share price had already increased fivefold since listing in 2011, specifically because it plans a similar pricing strategy for Synageva's drug.

Perhaps more astonishing still is the story which came to a head in mid-June when Axovant Sciences was listed on the New York Stock Exchange at a US$2 billion valuation, only to go over US$3 billion by lunchtime on the first day of trading. This would merely be a successful, well-received IPO were it not for the fact that the company consists only of an experimental Alzheimer's drug candidate sold to it by the beleaguered GlaxoSmithKline seven months earlier for just US$5 million upfront. Some reports suggest Glaxo had sent the chemical through a dozen clinical trials (Alzheimer's is among the most intractable of diseases when it comes to trialling *tolerable* medications), and yet still sold it for a modest sum. Aside from Glaxo's embarrassment, perhaps the real story here (given that limited additional work has been carried out on the "drug" in the past few months) is how unrealistic the biotech valuations have become on the stock market.

It is with this sort of excess in mind that we are holding over a quarter of the Fund in cash, awaiting opportunities in the inevitable hangover from such a wild party.

The portfolio manager of the Fund, Bianca Ogden, is currently on maternity leave.
Kerr Neilson is the portfolio manager in Bianca's absence.

Notes

1. The investment returns are calculated using the relevant 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: 28 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

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

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 June 2010 to 30 June 2015 relative to its benchmark index (in A$) 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

   The investment returns are calculated using the relevant 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 benchmark 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. Invested position represents the exposure of physical holdings and long stock derivatives.

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