

PLATINUM INTERNATIONAL HEALTH CARE FUND



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PERFORMANCE

It has been an eventful year for the health care sector and the past quarter did not fail to disappoint. Biotechs in general continued to enjoy investors' attention, helped by rather strong deal activity. Pharmaceutical, in contrast, struggled this quarter with a number of late stage pipeline setbacks, as well as the Democrats' success in the US elections reinvigorating the possibility of more stringent price controls in the not too distant future.

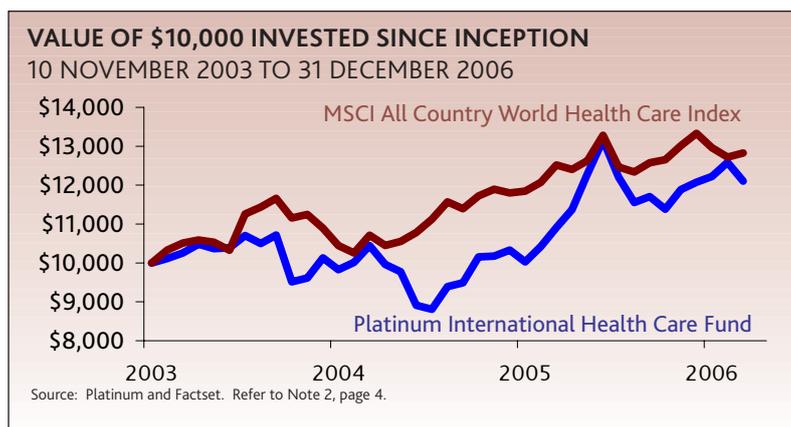
Business development teams of pharmaceutical and large biotech did not slow down. For many companies plenty of money is available and the appetite for external opportunities continues to increase, as do the valuations of licensing deals and acquisitions. In the current scenario all drug developers are looking externally for new products and it is becoming apparent that some are more anxious than others.

Private Equity also visited the sector looking to buy US orthopaedic device maker Biomet. As mentioned previously, valuations of several device companies have slowly taken into account lower growth prospects but unfortunately, with the potential of a private equity deal on the horizon, most remain rather expensive.

The Platinum International Health Care Fund remained steady this quarter, and was up 10.9% for the year, while the MSCI Health Care Index returned -3.8% for the quarter and 2.5% for the year. Some of our holdings reported pipeline setbacks, whilst others benefited from the ongoing acquisitions and licensing trend as well as the demand for phase three opportunities.

DISPOSITION OF ASSETS		
REGION	DEC 2006	SEP 2006
NORTH AMERICA	56%	47%
EUROPE	24%	24%
JAPAN	6%	6%
OTHER ASIA (INCL KOREA)	2%	3%
CASH	12%	20%
SHORTS	1%	1%

Source: Platinum



CHANGES TO THE PORTFOLIO

This quarter our focus has been on companies with a particular technology or therapeutic class. Biologicals such as monoclonal antibodies and vaccines have been of interest to us and we added to some of our holdings, also including a new vaccine developer, based in the Netherlands. The company produces a number of vaccines, and has an interesting technology that makes the production of antibodies, as well as vaccines, more efficient. Another holding we added to is a company that has made good progress in the area of RNA interference, a technology to silence genes and consequently suppress their activity.

The rather significant number of pipeline setbacks this quarter and the very severe reaction by the market to these events offered some opportunities, but also made us reduce some of our holdings as valuations have been increasing simply due to anticipation.

COMMENTARY

There is no denying that at present a number of companies find themselves looking for new growth opportunities as old products stand against generic drugs, pipeline products continue to struggle and the concept of me-too products loses its popularity with regulators as well as reimbursement agencies. In some ways, it appears that companies needed these challenges to occur in order to start seriously considering reforms and questioning their sales/marketing paradigm. Current valuations of a number of pharmaceutical, large biotech and medical device companies suggests a rather stagnant outlook or, as some may prefer, a time of "transition". However, the most difficult question, "what will they do?" still remains. Pharmaceutical companies see part of the solution in biological drugs, vaccines and immunotherapies, and sales/marketing approaches are being dismantled.

Vaccines, also a type of "biological", are taking on a new identity with the possibility of use as therapy as well as improved preventative activity. The risk of a pandemic flu outbreak, strong demand for flu vaccines and the successful development of a cervical cancer vaccine further highlights the potential of vaccines. Some pharmaceutical companies are entering the vaccine business, whilst others who have kept an interest in this class of "drugs" over decades, are reinvigorating their vaccinology work.

In the past, the disadvantages of vaccines (the stringent regulatory requirements associated with vaccination of healthy people and the rather costly manufacturing process of vaccines) have resulted in only a small number of companies remaining committed to this class. Today, vaccines are more interesting for a myriad of reasons, including the general trend towards "biological" drugs and the perception that "generic" vaccines do not exist, thus allowing new products to have a long life-cycle. Also, the knowledge learned making "biologicals" has significantly benefited vaccine manufacturing with new types of vaccines emerging as well as the opportunity to use vaccines as a therapeutic for diseases such as cancer. In addition, the sales/marketing infrastructure for vaccines tends to be less costly as vaccination is part of the public-tender market.

The idea of a vaccine is to make sure the immune system is "primed" for the respective pathogen so that upon infection it produces an immune response eliminating the pathogen and/or preventing the infection. Making and finding the "immune primer (antigen)" is key and has become much more sophisticated. The historical approach was based on growing the pathogen in the laboratory and subsequently manipulating it (life attenuated vaccines eg. Chickenpox vaccine), killing it (inactivated vaccine eg. Influenza vaccine) or isolating certain antigens (sub-unit vaccine eg. Tetanus vaccine). Unfortunately, growing the pathogen is quite often impossible (eg. Hepatitis C virus, Human Papilloma virus). More recently, the possibility of simply making the "primer" using recombinant DNA technology

along with the genomic information of a pathogen is being tried. This approach offers a promising option to make new vaccines against pathogens that refuse to grow in the lab and also make better, more characterised vaccines replacing the old ones. The vaccine Gardasil (fights HPV infection, which is associated with cervical cancer) is probably the best known example of this approach. Here the genetic information of particular viral proteins, known to prime the immune system is being inserted into yeast and following fermentation, the proteins are purified and linked to another more ubiquitous immune booster (adjuvant).

The other idea, related to vaccines, is therapeutic immunisation and immunotherapies. In various ways these approaches attempt to influence the activity of the immune system or imitate parts of its activity. Some approaches use tumour/cancer specific antigens to vaccinate cancer patients and hopefully turn the immune system against the tumour. Others use chemical molecules that induce a non-specific immune response against infections caused by the Hepatitis C Virus. Antibodies, effectors of the immune system, can be seen as a form of "passive immunisation". Alzheimer's disease (AD) is one area where antibodies are currently being tested and results should become available over the next 12 months.

So far success has been limited for the therapeutic application of vaccines and, as is often the case with novel approaches, scepticism remains high. In a way, it is similar to the early stages of Monoclonal antibody development as a treatment option. Failures do occur, side effect profiles have to be established and also the way efficacy is assessed needs to be reconsidered. History shows that new therapeutic classes do emerge over time with effort and a lot of tweaking. This time, pharmaceutical, despite being latecomers to the biologics trend, are more adventurous, albeit with the help of biotech alliances. To some extent it feels like pharmaceutical has been waiting on the sidelines, letting biotechs do the groundwork and now, once some hurdles have been overcome, they are proceeding quickly.

OUTLOOK

The complexity of the US health care system along with the discussions about pricing controls will continue for some time, most likely with few definite solutions in the short term. In the meantime, the close interaction between big and small companies will continue and we may see more work for disease indications and drug classes that had been dismissed, back on the agenda.

Biosimilars (cheaper versions of off-patent biologicals) will continue to be an interesting area along with biomanufacturing. So far the development path of this type of "generic" is more product specific and most likely will require a clinical trial program. Given the cost conscious thinking of governments, biosimilars should appeal to them. Outside of the US in particular, this class of drugs has made faster progress and there are a number of opportunities we are looking to explore.

Also of interest to us is the vibrant biotech industry emerging in the EU. Although financial support for early stage companies has been more limited than in the US, some companies, quite often via consolidation, are emerging and are worth more detailed work.

[Bianca Elzinger](#)

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 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 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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