

Platinum International Health Care Fund



Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	DEC 2012	SEP 2012
Europe	39%	37%
North America	27%	27%
Japan	4%	5%
Asia	1%	1%
South America	1%	1%
Australia	1%	1%
Cash	27%	28%
Shorts	2%	4%

Source: Platinum

Performance and Changes to the Portfolio

The Platinum International Healthcare Fund advanced 1.8% for the quarter, with the MSCI World Healthcare Index increasing 1%. For the year, the Fund was up 19.6% versus the Index which advanced 16.3%.

It was a good year for biotechs and pharma alike. New drug approvals were at high levels for the second year in a row. Judging by the flow of new data throughout the year, innovation is set to continue for years to come. On the agenda for the coming year are: oral combination drugs for the Hepatitis C virus; a change of guard in respiratory disease; new classes of cancer drugs; oral drugs for Multiple Sclerosis and Rheumatoid Arthritis; and if that is not enough, we may finally see new Alzheimer drugs. In summary, the outlook is good.

Value of \$20,000 Invested Over Five Years

31 December 2007 to 31 December 2012



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

Sanofi has been a good performer for the Fund and continues to be well-positioned in emerging markets. At Sanofi, these markets are “companies” in their own right. Take Latin America for example, a region that is home to 8% (600 million) of the global population and according to Sanofi, over 30 distinct markets. Sanofi generates over €3.3 billion in this region, has 10 manufacturing sites and employs over 10,000 people. There is a lot of growth to come and from a recent analyst day held in Brazil, Sanofi has done its homework, hiring local knowledge and acquiring local champion brands. We believe, and have done for some time, that emerging markets are a serious opportunity for pharma companies and will play a crucial role in the re-emergence of these companies.

Several of our biotech holdings more than doubled this year. Infinity Pharmaceuticals was our best holding. The company reported good data for its PI3Kinase inhibitor. There has been a lot of excitement for this drug target but so far medicinal chemists were struggling to hit this kinase in the right way. We liked the medicinal chemistry expertise at Infinity and after a number of setbacks, Infinity now has a very sought-after asset in its pipeline.

PerkinElmer also did well during this year. The company is a gradual performer; slowly growing its sales while improving returns. It specialises in technologies and equipment that allows testing of a wide range of things such as detection of disease in newborns, detection of contaminants in water, air and food, as well as helping scientists to test new drugs. Over recent years, PerkinElmer has gradually expanded globally and added new technologies along the way. We believe the company has a lot more to offer than it is given credit for and we added to our holding.

Europe is a region where we are seeing a lot of biotech and pharma promise, despite all the headlines about doom and gloom. Thrombogenics has done well for the Fund, doubling over the past 12 months. During the quarter we trimmed some of our winners and added a number of new companies. One company has a strong antibody expertise, something that is a highly desirable asset. The other newcomer is an old acquaintance who has battled with patent expirations but has now reset its portfolio of drugs for the central nervous system.

Commentary

Respiratory diseases are on the rise globally. While targeted therapies have made steady inroads in treating cancer, the situation for Asthma and Chronic Obstructive Pulmonary Disease (COPD), the two big respiratory ailments, has been less exciting. Scientists have been deciphering the cellular and molecular signalling pathways that lead to respiratory issues but available animal models and biomarkers are not ideal making the clinical development path more unpredictable.

No doubt progress will be made in years to come but for now the focus remains on better control of symptoms and preventing the disease from getting worse, and it is here that things are about to get very interesting.

For the past decade a handful of drugs and companies have dominated this area but those incumbents are about to face competition. COPD is now a clear focus. This is different to 1999 when COPD was labelled the most underfunded disease in relation to the global burden of diseases.

There are over 200 million COPD sufferers globally. The disease develops over time and is characterised by chronic inflammation of the airways that lead to irreversible destruction (emphysema). Lung function declines rapidly and ultimately leads to premature death. Smoking, pollution and poor diet all play a role in COPD, often called “smoker’s disease”.

The mainstay of treatment for COPD are bronchodilators that open up the airway. There are two classes; long-acting muscarinic antagonists (called LAMA¹) and long-acting beta agonists (LABA²). The gold standard and only approved LABA is Boehringer Ingelheim’s Spiriva (sold in alliance with Pfizer with global sales of over \$4 billion). The other COPD drugs are LABAs combined with corticosteroids (GSK’s Advair and AstraZeneca’s Symbicort). Both drugs are well-known Asthma therapeutics, Asthma drugs Advair (GSK) and Symbicort (AstraZeneca).

¹ LAMA: blocks nerve endings and causes airway smooth muscle cells to relax, making breathing easier.

² LABA: activates a receptor on smooth muscle cells resulting in airway smooth muscle cell relaxation.

These three drugs combined generate almost \$10 billion in COPD sales; a nice portion of sales that other companies now want to participate in. Indeed the race is now on to develop LABA/LAMA combinations and ultimately one molecule that combine the activities of LABA/LAMA (so-called MABAs). This will be a significant step in managing COPD.

Novartis and Forest (with partner Almirall) are the COPD newcomers. Novartis has assembled a solid line up of new drugs. Its once-a-day LABA is now available (albeit at lower doses in the US) and can compete with Spiriva, as well as being given in combination with Spiriva. This is a nice start for Novartis to build its presence and pave the way for its LAMA and LABA/LAMA combination, as well as the LABA/corticosteroid combination in Asthma over the coming years.

Forest (in alliance with Spanish Almirall) is the underdog. A US biotech with no prior COPD exposure and obviously less financial resources than pharma. Its LAMA was approved in 2012 but has to be taken twice a day, not ideal commercially. The LABA/LAMA combination could be available by 2015. This is the crucial asset and AstraZeneca may take notice as the LABA component is from AstraZeneca's Symbicort.

Similarly, AstraZeneca may also watch closely what Pearl Therapeutics, a small private US biotech is doing. Pearl is also combining Astra's LABA with its own LAMA. This private company is quite conspicuous for its activity in launching earlier respiratory drugs.

GSK and Boehringer Ingelheim have their own combinations but their commercial positions are unclear. GSK (together with biotech Theravance) has accelerated the filing of its new LABA/LAMA combination to beat Novartis to the US market. Neither drug components are approved making this a risky strategy. Boehringer should have its own LABA approved in 2013 but it is nearly two years behind with a Spiriva/LABA combination.

These are interesting times for COPD and a big opportunity for pharma to use their clinical development and marketing strength to expand this market.

We see Novartis having put together a solid clinical program and line-up of drugs. We see the company gradually becoming a force to be reckoned with in COPD, while Forest may have to consider seeking help from the likes of AstraZeneca to compete effectively.

COPD reminds us of diabetes several years back when we successfully invested in US Merck. The company was new to diabetes but had the right new asset (DPPIV inhibitor) and clinical development program, while the incumbents (GSK was one of them) were behind. Today, Merck has a solid position and its diabetes franchise generates \$5.5 billion in sales. There is no reason to believe that a similar scenario will not play out in COPD, a market that will expand given its current dynamics.

Outlook

We continue to look for such new disease themes in healthcare. Emerging markets are a key ingredient for growth and for us a priority to understand and be exposed to. Biotech will continue to feature in the Fund as will personalised diagnostics; all assets that are part of long-term healthcare globally.

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 31 December 2007 to 31 December 2012 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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