Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	DEC 2013	SEP 2013
Europe	47%	45%
North America	24%	25%
Japan	7%	5%
Australia	2%	3%
South America	1%	2%
Cash	19%	20%
Shorts	2%	2%

Source: Platinum

Performance and Changes to the Portfolio

(compound pa, to 31 December 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Int'l HC Fund	10%	46%	23%	17%	8%
MSCI AC World HC Index	14%	58%	26%	11%	7%

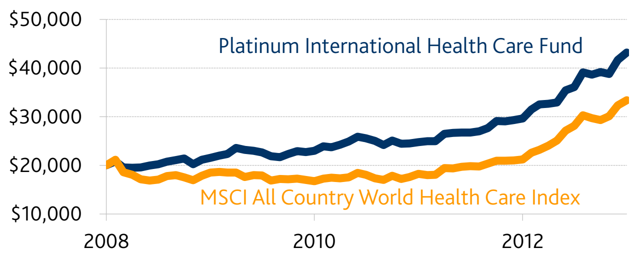
Source: Platinum and MSCI. Refer to Note 1, page 4.

The past year has been about US biotechs. Innovation has been strong and new approvals have been steady. At the same time, acquisitions have been plentiful, at times for a high price, keeping the excitement alive. More recently things have slowed and it is now more difficult to make the valuation argument without including very early stage assets.

We have been more cautious for a while on the US biotech market and the Fund today is heavily exposed to non-US companies, which this quarter have started to generate news of their own. Two of our UK holdings, Vectura (up 26%) and British Technology Group (BTG) (up 51%) have received approval for their respective new drugs. Vectura's partner, Sandoz, is now allowed to sell Vectura's respiratory drug/device in Europe, while BTG gained approval of its anti-varicose vein injectable 'bubbles' in the US.

Value of $20,000 Invested Over Five Years

31 December 2008 to 31 December 2013



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

Both companies have been around for a while; Vectura has strong expertise in the formulation of respiratory drugs, while BTG started life as the British intellectual property commercialisation company. Both companies have been receiving royalties for some time (e.g. BTG for MRI technology) but for BTG in particular, as it is finally selling its own developed product. For Vectura, the new era of respiratory drugs also means a lot more royalty income to expand its own business.

Our US holdings have mostly done well. Approvals have been forthcoming for Gilead and we have been reducing our position as our investment case has played out nicely.

Commentary

Gilead's valuation has been steadily rising with the company now capitalised at over $115 billion, which is 50% more than AstraZeneca. We find this intriguing and feel that AstraZeneca deserves a lot more. There is no reason why the company cannot do what Gilead has done over the past two years. In 2011, Gilead was capitalised at $30 billion and its pipeline was seen as limited, though there were hints of a strong hepatitis C virus (HCV) product but the market dismissed that. We believed in the pipeline and we also identified strong HCV executives who wanted to lead the HCV field. In late 2011, Gilead made a bold, though calculated move, and spent $11 billion on Pharmasset and its HCV drug (at the time the deal was labelled too expensive). Today this drug will transform the treatment of HCV patients. This is an example of how focus (Gilead's virology focus), a clear strategy (combination therapy) and some courage, combined with solid due diligence can make all the difference.

AstraZeneca is different but the new CEO (having joined in October 2012) is applying a similar approach. He has been busy focusing the company on its biologics assets, reinstating scientific focus and making sure expectations are realistic both within and outside of the company. Patent expirations will reduce earnings temporarily but AstraZeneca has a number of assets that in the right hands will do well. Merger and acquisition is part of the equation and so far purchases have been based on sound reasoning and at reasonable prices.

This year we also added Danish biotech, Lundbeck. This biotech currently endures significant patent expirations; profits have been wiped-out but despite this, research and development investment continued and new products are now being launched. Lundbeck is investing more than ever in diseases of the central nervous system. Many other pharma companies have been reducing their budgets for anti-depressants and anti-psychotics as it is a different ballgame to oncology. Clinical endpoints are more subjective requiring large clinical programs and a deep understanding of the area. Lundbeck is not doing it alone; the company has two Japanese partners that are both very committed to this area.

The valuations and pipelines of Japanese companies has been attracting our interest lately, and we have added Daiichi Sankyo and Ono. Daiichi has been struggling to bring order to its majority-owned Indian drug maker, Ranbaxy, and their oral anticoagulant is being dismissed as being too late to market. We believe that over time this new class of drugs will become the standard-of-care and there is room for several contenders. We also know that smart marketing accounts for a lot in this area.

Ono is one of our immunotherapy holdings. Several years ago this company, together with Kyoto University, identified PD1 as having a crucial role in the regulation of the immune system. Since then Ono, together with Medarex (now part of Bristol-Myers Squibb), developed an anti-PD1 antibody which today is in late stage testing and has the lead in immunotherapy for cancer. Just prior to year-end, the company announced that it had filed for Japanese domestic approval. We also own other investments that develop other immunotherapies.

We have been busy looking at new approaches and technologies; one area we are interested in is cancer stem cells (or stem cells in general). Drug therapy in oncology has indeed come a long way but patients still relapse or cancer cells spread to other sites of the body (metastasis).

Scientists have identified a sub-population of cells, so-called cancer stem cells (or CSC) which essentially represent the 'seeds' of the tumour. CSCs tend to be dormant, resistant to current drug therapy and possess the capacity for self-renewal; meaning they can restart tumour growth and more importantly these cells have the ability to split off, relocate and start a second tumour.

Several molecular pathways have now been identified and profiled that orchestrate metastasis. We believe this will be an area of great pharmacological importance. Drugs are now emerging that specifically target these pathways and in combination with current standard-of-care should improve the treatment of cancer. The Fund has invested in two companies that have anti-CSC drugs in development and we will provide further updates in future quarterly reports.

Outlook

With several high profile drugs now approved, the focus is on finding the next wave of innovation and technologies. Pharma will become a market favourite again as several companies are emerging from their patent cliff. In the US, Obamacare will gradually overcome its issues and we should see more stable health care markets in the emerging world now that companies have adjusted their operating models.

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$20,000 invested in the relevant Fund over five years from 31 December 2008 to 31 December 2013 relative to their Index (in A$) 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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