

Platinum International Health Care Fund



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Portfolio Manager

Performance

(compound p.a.⁺, to 30 June 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	13%	31%	17%	14%	11%
MSCI AC World HC Index [^]	3%	17%	14%	9%	10%

⁺ Excludes quarterly returns.

* C Class – standard fee option. Inception date: 10 November 2003.

After fees and costs, before tax, and assuming reinvestment of distributions.

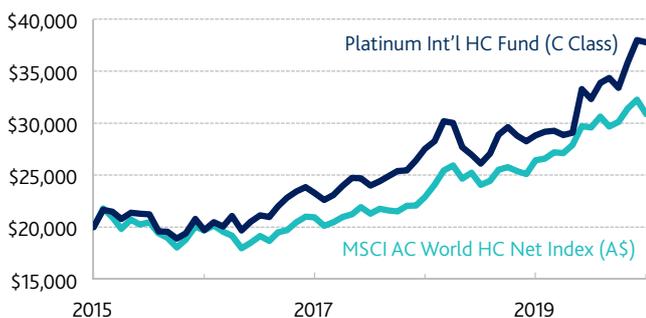
[^] Index returns are those of the MSCI All Country World Health Care Net Index in AUD. Source: Platinum Investment Management Limited, FactSet Research Systems.

Historical performance is not a reliable indicator of future performance.

See note 1, page 4. Numerical figures have been subject to rounding.

Value of \$20,000 Invested Over Five Years

30 June 2015 to 30 June 2020



After fees and costs, before tax, and assuming reinvestment of distributions.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 4.

The Fund (C Class) returned 13.1% for the quarter and 31.0% for the year.¹

The recovery in biotech companies in recent months has been stellar. Working from home has not slowed innovation. To the contrary, many biotechs are meeting their deadlines, new clinical data is being presented at virtual conferences, novel drugs are being approved, new deals are being signed and for us, engagement with company management has never been more frequent.

Biotechs have matured immensely, management teams now have runs on the board and have endured difficult economic situations. Today, biotechs have broader pipelines and are well funded. At the start of the pandemic, many companies had the opportunity (and seized it) to reprioritise their pipeline. A decade ago, that was a difficult task, as many biotechs had just one lead drug and limited pipeline options. We are in a different phase for this industry now, with a steady flow of genuine innovations giving us cause for excitement beyond anti-viral activities.

While SARS-CoV-2 vaccine developers **Moderna** (+114%) and **CanSino Biologics** (+39% to our exit point during the quarter) performed very well, several of our other biotech holdings exceeded the performance of these 'pandemic' companies. **Mersana Therapeutics** (+158% from our entry point during the quarter) released solid data for its targeted antibody drug conjugate in ovarian cancer. **Myovant** (+173%) released several data sets for relugolix, used in the treatment of prostate cancer and endometriosis, putting the company well on track to become a commercial biotech. **Ovid Therapeutics**, which focuses on rare neurological disorders, also advanced nicely (+147%), as investors discovered the company's pipeline is maturing rapidly.

Gilead Sciences (+3%), a long-term holding in the Fund, has remained the biotech laggard, despite the success of remdesivir and various alliances that have expanded the company's oncology pipeline. Rumours that AstraZeneca was interested in doing a deal with Gilead disappeared as fast as

¹ References to returns and performance contributions (excluding individual stock returns) in this Platinum International Health Care Fund report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

they appeared and investors who were looking for a large acquisition by Gilead have realised the management team is focused on a steady rebuild. The company's modus operandi involves forging deep alliances that include equity investments, as evidenced during the quarter with its investment in **Arcus Biosciences** (also a holding in the Fund, which was up 78% this quarter and 211% over the year). Within the next 12 months, Gilead expects to launch its JAK inhibitor for inflammatory diseases and its oncology pipeline is expected to mature. From our perspective, a company that makes steady progress and has significant cashflow, is worth being patient for.

Changes to the Portfolio

We added to many holdings during the early stages of the pandemic. Many biotechs have successfully strengthened their balance sheets and we have seen a very positive initial product offering (IPO) market for new biotechs in the US and China.

Given the ongoing viral outbreaks, expectations for elective surgery volumes continue to fluctuate and so do share prices of the respective companies selling surgery-related devices. We had opportunistically added some device makers to the portfolio at the low point of the market and trimmed a little upon their recovery. It is our view that SARS-CoV-2 will remain ever-present but hospitals and outpatient surgeries will adapt to the 'new normal' and elective surgeries will return as they are an important income stream for surgery providers.

Commentary

Belgian biotech **Union Chimique Belge** (UCB) is another company that has required patience and belief that the cashflow generated from a long-standing franchise together with the diligent clinical development expertise will generate new products. Indeed, this quarter, UCB's antibody bimekizumab, an antibody targeting Interleukin 17A/F, has shown very competitive data in treating psoriasis.

UCB is not a very promotional biotech, it prefers its own style and thanks to a significant family shareholder, is able to do so. UCB was formed in 1928, when Emmanuel Janssen founded it as an industrial chemistry business with a small pharma division. Over many decades it existed as a mix of pharma and chemicals. Neurology and inflammatory diseases were a focus at UCB and the company developed a number of successful drugs (e.g. Zyrtec in 1987). As with many chemical/pharma companies, separation is inevitable and UCB completely sold its non-pharma business to Cytec in 2005. The previous year, UCB acquired antibody company, Celltech, gaining access to antibody technology as well as an anti-TNF

Disposition of Assets[^]

REGION	30 JUN 2020	31 MAR 2020	30 JUN 2019
North America	39%	37%	36%
Europe	27%	33%	28%
Oceania	10%	10%	11%
Japan	7%	7%	5%
Asia	6%	6%	5%
Cash	10%	7%	16%
Shorts	0%	-5%	-6%

[^] With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations. These changes have been backdated to prior periods.

See note 3, page 4. Numerical figures have been subject to rounding.

Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 JUN 2020	31 MAR 2020	30 JUN 2019
Biotechnology	49%	49%	42%
Pharmaceuticals	26%	29%	26%
Life Sciences Tools & Services	10%	10%	9%
Health Care Equip & Supplies	2%	-1%	1%
Health Care Providers/Services	1%	0%	0%
Other	1%	0%	0%
Health Care Technology	0%	0%	0%
Food & Staples Retailing	0%	0%	1%

See note 4, page 4. Numerical figures have been subject to rounding.

Source: Platinum Investment Management Limited.

Net Currency Exposures⁺

CURRENCY	30 JUN 2020	31 MAR 2020	30 JUN 2019
US dollar (USD)	38%	40%	44%
Euro (EUR)	26%	25%	13%
Australian dollar (AUD)	12%	10%	3%
Japanese yen (JPY)	7%	7%	17%
Chinese yuan (CNY)	5%	5%	4%
Hong Kong dollar (HKD)	3%	2%	0%
British pound (GBP)	3%	3%	7%
Swiss franc (CHF)	2%	4%	8%
Swedish krona (SEK)	1%	1%	2%
Danish krone (DKK)	1%	1%	1%
Canadian dollar (CAD)	1%	1%	0%
Singapore dollar (SGD)	0%	0%	1%
Norwegian krone (NOK)	0%	0%	2%
Korean won (KRW)	0%	0%	-1%

⁺ With effect from 31 May 2020, our currency risk exposure classifications for securities were updated to match the relevant local currencies of the relevant Bloomberg "country of risk" classifications. These changes have been backdated to prior periods.

See note 5, page 4. Numerical figures have been subject to rounding.

Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit <https://www.platinum.com.au/our-products/pihcf>.

antibody for inflammatory diseases. Shortly after, UCB acquired Schwarz Pharma, adding generic drugs as well as additional neurology products (the generics business was divested in 2015). The stage was set for the emergence of a “big” European biotech.

The challenges that UCB faced were always very apparent. Celltech, for example, was a real biotech but there were already many anti-TNF antibodies on the market sold by the likes of Johnson & Johnson, Amgen and Abbott Laboratories. Schwarz Pharma was not exactly a biotech, it had some interesting drugs as well as generics. UCB was not deterred by these challenges. In the end, generic erosion for levetriacetam² was more gradual and the launch of new drugs maintained this epilepsy franchise, that today makes up 38% of sales. The anti-TNF antibody certolizumab pegol (brand name Cimzia) turned out to be quite successful given the clinical development was teasing out disease indications that allowed differentiation to the incumbent products. Today, Cimzia contributes 36% of sales.

However, in biotech that is not enough to keep investors excited, whose investment time horizons are measured in weeks, pipeline news has to emerge and here UCB was more ‘miss’ than ‘hit’. We are a lot more patient than many other investors and have been closely watching UCB’s cashflow, as well as its pipeline. Last year was a crucial turning point, with the company reporting a net cash position and several pipeline products maturing. History tells us that internal as well as external research and development (R&D) will play a role in UCB’s future. Lo and behold, UCB opened their chequebook and acquired Ra Pharmaceuticals, a US biotech that owns zilucoplan, a drug used for autoimmune disease, nicely complementing UCB’s own anti-FcRn antibody, also

² Levetriacetam is marketed under the name of Keppra and is a popular epileptic treatment that was approved over 20 years ago. It has been the flagship product for UCB.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
SpeedX Pty Ltd	Australia	Biotechnology	4.8%
Sanofi SA	France	Pharmaceuticals	4.0%
Takeda Pharma Co	Japan	Pharmaceuticals	3.5%
Bayer AG	Germany	Pharmaceuticals	2.7%
Gilead Sciences Inc	US	Biotechnology	2.6%
Myovant Sciences	US	Biotechnology	2.5%
BioNTech	Germany	Biotechnology	2.5%
Zai Lab Ltd ADR	China	Biotechnology	2.3%
Quanterix Corp	US	Life Sciences Tools	2.2%
Astellas Pharma	Japan	Pharmaceuticals	2.2%

As at 30 June 2020. See note 6, page 4.

Source: Platinum Investment Management Limited.

being developed for autoimmune disease. However, the program that garnered the most excitement during this quarter was bimekizumab for psoriasis. This is an antibody that binds both Interleukin-17A and Interleukin 17F, which is in contrast with current psoriasis antibodies that only target IL17A. UCB’s hypothesis was that by targeting two cytokines (small proteins important in cell signalling), the blockade of the inflammatory response in psoriasis should be deeper and hence an improvement on current therapies. During the quarter, late-stage clinical data is indeed starting to confirm that theory and hence UCB has a very competitive molecule in the offering. Today, UCB has many new products in the pipeline and we know that UCB can withstand competition, as we have seen with Cimzia. So, after a long wait, UCB is really becoming a competitive European biotech.

Outlook

Twenty years ago, the human genome was deciphered, making the headlines in the *New York Times* and biotech had just reached peak excitement. At the time, investing in



biotech was considered akin to a weekend in Las Vegas. Several years followed, that some describe as the dark days of biotech, given capital was difficult to secure, and as always in science, the perils of deciphering the human

genome was slower to attain. Today, the biotech industry through sheer stamina has navigated through these challenges. The pandemic has highlighted the maturity of the sector and has brought generalists back into the fold. We are reminded that science can have a dramatic long-lasting effect. Polymerase Chain Reaction (PCR), a technique used to amplify a segment of DNA, was invented in the early 1980s, underpinning the biotech boom in the late 1990s (and was also the daunting task I had to learn at lab tutorials during my university days). Today, this same technology is at the centre of the testing kits used to detect SARS-CoV-2. In fact, PCR is a standard tool in every molecular biology lab globally.

It is these transformational technologies that make biotech so exciting. We are obviously biased but we believe that biotech companies should be considered alongside technology companies when considering investment opportunities. It is our belief that in the coming decade, biotech will change the way healthcare is provided and have a profound impact on our longevity and quality of life.

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A\$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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