Platinum International Health Care Fund

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Portfolio Manager

Performance

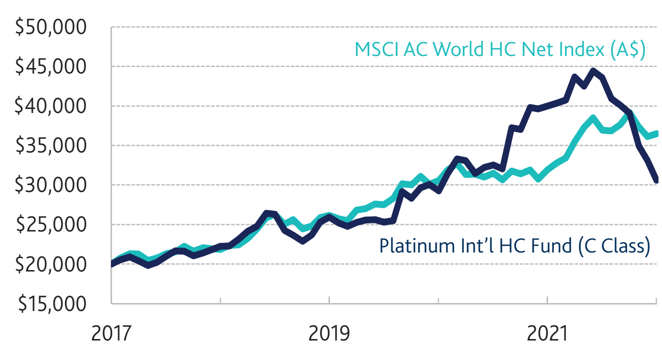
(compound p.a.⁺, to 31 March 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	-22%	-24%	6%	9%	9%
MSCI AC World HC Index^	-7%	14%	12%	13%	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

31 March 2017 to 31 March 2022



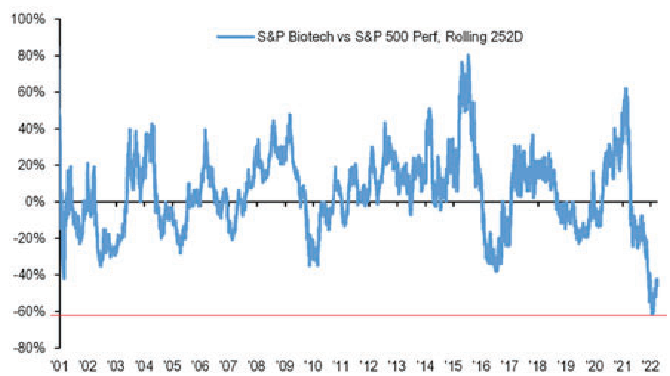
After fees and costs, before tax, and assuming reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 4.

The Fund (C Class) returned -21.7% for the quarter and -23.5% for the year.[1]

The indiscriminate sell-off in biotech stocks accelerated in the March quarter, which had a significant effect on the Fund's performance. In contrast, pharma companies held up well, providing a positive contribution to the Fund's performance.

The SPDR S&P Biotech ETF (XBI) fell -20% over the quarter.[2] The spread between biotechs and the S&P 500 Index now resembles that of the post-genomics bubble in 2001, with the biotech sector lagging the performance of the broader market by around 60% over the past 12 months (see Fig. 1).

Fig. 1: Biotech Back to 2001 Post-Genomics Bubble Level



Source: JP Morgan.

Following a difficult year, many biotech companies are now valued below the cash held on their balance sheets and pipelines are being reprioritised in order to extend cash runways. Large companies with very strong balance sheets remain on the side-lines when it comes to making outright acquisitions, opting for partnerships instead. Given some of the very depressed valuations, it is not surprising that acquisition targets are equally reluctant to sell their businesses and surrender long-term value. New listings have come to a virtual standstill, while we are starting to see private market valuations at least stagnate from the incredible levels reached in 2021.

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

2 The XBI tracks an equal-weighted index of US biotechnology stocks.

The majority of large life science tool companies remain at elevated valuations, while supply chain issues and inflation have added pressure to medical device companies. The escalation in geopolitical tensions has added to the risk-averse sentiment and served to increase investors' focus on energy and commodities.

Key detractors from the Fund's performance were largely in the biotech space. Our Chinese biotech holdings, notably **Genetron** (-64%), **Zai Lab** (-30%) and **Hutchmed China** (-47%), had a dismal quarter, largely reflecting concerns that the US Securities and Exchange Commission (SEC) is looking to delist Chinese companies from US stock exchanges. Our next-generation pharmatech companies also had a tough quarter. Key detractors were **ExScientia** (-27%) and **Recursion Pharmaceuticals** (-58%), with the latter further impacted after announcing the delay of one if its pipeline assets. **Telix Pharmaceuticals** (-46%) had very disappointing performance during the quarter. The company announced a capital raising, sparking a sharp sell-off. The approval of a competing product added further headwinds for the stock. While we didn't participate in the capital raising for valuation reasons, we remain supporters of the company's prospects.

On the positive side, key contributors to performance included our pharma holdings **Bayer** (+32%), **Takeda Pharmaceutical** (+12%) and **Neuren Pharmaceuticals** (+6%). **Albireo Pharma** (+28%) was the exception in the biotech sector, rising on increased sales guidance.

Changes to the Portfolio

We have reduced our exposure to Chinese biotechs, as the reimbursement environment in China is difficult to predict and also due to the regulatory uncertainty mentioned above. We are gradually adding to several of our holdings, particularly in the emerging tool space. We have also added to European biotechs **UCB** and **Galapagos**. UCB has made a number of smart acquisitions, which together with new internally developed products, will enable the company to refresh its product offering. Galapagos is one of the best-financed biotech companies globally, with about €4.7 billion in cash on their balance sheet. The company has had various setbacks but fundamentally has highly skilled and experienced scientists. Most importantly, from 1 April 2022, Dr Paul Stoffels will be taking the helm as the new CEO. He has been a key figure at Johnson & Johnson Pharmaceuticals, shaping it into what it is today. He has known Galapagos since its formation in 2002 via a joint venture between Crucell (now a Johnson & Johnson company and a previous investment in the Fund) and Tibotec (now also a Johnson & Johnson company). Stoffels was a co-founder of Tibotec and has deep knowledge of biotechs, a skillset that will allow him to deploy Galapagos' cash wisely for external opportunities.

Disposition of Assets

REGION	31 MAR 2022	31 DEC 2021	31 MAR 2021
North America	39%	43%	34%
Europe	27%	23%	24%
Australia	13%	12%	9%
Japan	5%	4%	5%
Asia	3%	8%	10%
Other	1%	1%	1%
Cash	12%	10%	17%
Shorts	-3%	-4%	-3%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 MAR 2022	31 DEC 2021	31 MAR 2021
Biotechnology	48%	54%	49%
Pharmaceuticals	27%	24%	23%
Life Sciences Tools & Services	8%	7%	5%
Other	3%	2%	2%
TOTAL NET EXPOSURE	86%	86%	81%

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
SpeeDx Pty Ltd	Australia	Biotechnology	6.2%
Takeda Pharmaceutical	Japan	Pharmaceuticals	4.9%
Bayer AG	Germany	Pharmaceuticals	4.2%
Sanofi SA	France	Pharmaceuticals	3.6%
UCB SA	Belgium	Pharmaceuticals	3.2%
ExScientia Ltd	UK	Biotechnology	2.3%
Albireo Pharma Inc	US	Biotechnology	2.2%
Telix Pharmaceuticals Ltd	Australia	Biotechnology	2.2%
Syneos Health Inc	US	Life Sciences Tools	2.1%
Quanterix Corp	US	Life Sciences Tools	2.0%

As at 31 March 2022. See note 5, page 4.
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.

Commentary

Twenty years ago, a steep sell-off ended the hype around genomics and biotechs. Reading the shareholder letters from Genentech from that time highlights how young the industry was back then. Antibody therapies were in their infancy and the setback of Avastin as a treatment for breast cancer left many unconvinced that antibodies would be a credible new therapeutic modality. Realisation that simply having a map of the genome would not miraculously produce new therapies also dampened the investor party. The market sell-off put pressure on companies to be more efficient and focused with their money, however, it did not deter their innovative spirit in the slightest. In the end, Avastin was successful in treating other cancer indications (reaching peak sales in 2019 of CHF 7.1 billion) and Genentech went on to become a very profitable cancer biotech that was ultimately acquired by Roche. Today, antibody therapies are a therapeutic modality we cannot live without, fuelling a contract manufacturing industry along the way. In the tools space, next-generation technology has propelled gene sequencing to ever-new heights and is fuelling the next phase of molecular analysis, namely single-cell analysis and spatial genomics.

Significant funding rounds tend to go hand-in-hand with stretched valuations in this industry. History shows that the 'digesting' phase, which follows such funding and market exuberance, is the time when medical advances occur that will only be fully comprehended in years to come. Cell and gene therapy is in such a digestion phase currently. Cell therapies are based on using cells, either from the patient, donor, or derived from stem cells (also from donor). Often the cells are modified for a specific purpose. In contrast, pure gene therapy is about transporting a gene using a delivery vector such as a virus or lipid nanoparticles. Cell and gene therapy is a whole different field to small molecules and antibodies, it requires new manufacturing capacity and is far more complex. To assess how cell and gene therapies interact with a person requires different analytical assays. Often, clinical data will be in a small patient set and the upfront investment required is significant.

For the past year, valuations of many cell and gene therapy companies have declined significantly and we have remained mostly on the side-lines. Our main investments in cell and gene therapy are in Bayer, Takeda, Gilead Sciences, Immatics, Sangamo and Bit.Bio, while our investments in Bio Rad, 908 Devices, Alpha Teknova and Merck KgaA provide tools to cell and gene therapy companies. Bayer and Takeda are particularly interesting, as neither receives a lot of credit for their cell and gene therapy efforts. Bayer, via its venture arm LEAPS by Bayer, founded BlueRock Therapeutics in 2016 alongside Versant Ventures. BlueRock engineers stem cells for neurology, cardiology and immunology. In 2019, Bayer acquired BlueRock in full, and in 2020, it also acquired Asklepios BioPharmaceutical. AskBio is a gene therapy biotech that focuses on viral delivery using Adenoviral vectors (engineered viruses). The engineered virus shuttles the gene of interest into the target cell, the challenge lies in developing viruses with the correct tissue selectivity, which is something that AskBio has been focusing on. In addition, the company also offers contract manufacturing services. This gives Bayer a good foundation for these emerging therapeutic modalities.

Takeda's recent partnering and acquisition activities have also focused on cell and gene therapy for different disease indication, ranging from oncology to rare diseases. In addition, the company is investing in manufacturing capacity for these types of therapies and is working with biotechs on non-viral delivery technologies for gene therapy.

The field is in its infancy, but we are seeing gradual progress similar to what we saw 20 years ago in the antibody space. Given the acquisition activity and progress made to date by Bayer and Takeda, we expect both companies to play an important role in cell and gene therapy in the future.

Outlook

Investing in biotechs is not for the weak-hearted. It is an easy ride when everyone is on board and in the mood to simply follow a theme, but the sentiment changes quickly when there is a string of negative clinical trial announcements, coupled with geopolitical instability, not to mention the fact that the previous years have been a biotech boom. However, that is often exactly the time to invest. The fundamentals of this sector have not changed in our view, biotech is crucial to the development of new therapeutics and enhancing our quality of life. Last year, 33 out of 50 new drug approvals in the US originated at a biotech company.[3]

Today, many investors are expecting gloomy times ahead for biotech companies, as financing is harder to come by. This, however, will also bring discipline back into the sector, weeding out companies with weaker projects. We will see consolidation in the biotech sector but that alone will not change long-term sentiment, the crucial factor will be product approvals and sales growth with earnings acceleration to follow. We launched the Platinum International Health Care Fund in 2003, when biotech was out of favour and in the doldrums. Today is no different in our view, and presents a good opportunity to make great investments valued way too cheaply and increase our exposure to this exciting and innovative sector.

3 Source: https://www.fda.gov/drugs/new-drugs-fda-cders-new-molecular-entities-and-new-therapeutic-biological-products/novel-drug-approvals-2021

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 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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