Platinum International Health Care Fund

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Portfolio Manager

Performance and Changes to the Portfolio

(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	8%	18%	11%	17%	10%
MSCI AC World HC Index	6%	9%	5%	15%	9%

Net of accrued fees and costs. Refer to note 1, page 4.
*C Class – standard fee option. Inception date: 10 November 2003.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

REGION	30 JUNE 2018	31 MAR 2018	30 JUN 2017
North America	39%	37%	33%
Europe	34%	39%	36%
Australia	10%	11%	6%
Japan	4%	4%	4%
Asia	2%	<1%	0%
Cash	11%	9%	21%
Shorts	-1%	<1%	-1%

Source: Platinum Investment Management Limited. See note 3, page 4.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
AstraZeneca PLC	UK	Health Equip & Serv	3.5%
Roche Holding AG	Switzerland	Pharmaceuticals	3.3%
Sanofi SA	France	Pharmaceuticals	3.0%
Gilead Sciences Inc	USA	Biotechnology	2.7%
Johnson & Johnson	USA	Pharmaceuticals	2.5%
Daiichi Sankyo	Japan	Pharmaceuticals	2.5%
MorphoSys AG	Germany	Biotechnology	2.4%
Swedish Orphan Biovitrum	Sweden	Pharmaceuticals	2.3%
Unum Therapeutics	USA	Biotechnology	2.0%
Galapagos NV	Netherlands	Biotechnology	2.0%

As at 30 June 2018.
Source: Platinum Investment Management Limited. See note 4, page 4.

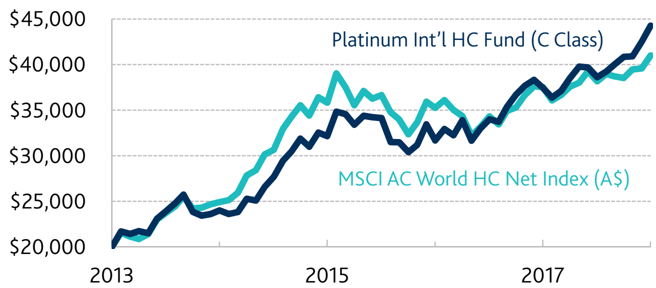
For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pihcf.

The pricing debate in healthcare is an ongoing issue that is widely written about. However, what is not receiving enough attention is the unprecedented level of innovation in the industry.

The Fund continues to invest in those innovative companies which have contributed significantly to performance. We are very cognisant about valuation and the crowding in certain areas of healthcare. Patience is a very important attribute in biotech. While we may strongly believe that gene therapy will be part of tomorrow's therapeutic arsenal, the valuations of many typical gene therapy companies have become stretched, hence we wait our turn. Nevertheless, the Fund has an investment in gene therapy manufacturing that has done very well (up 150% for the year).

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 4.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Often the herd mentality of chasing the next shiny new thing, along with the short-term focus, offers a myriad of opportunities elsewhere. **Foundation Medicine (FMI)** has been one of those investments. This quarter Roche acquired FMI for a total value of US$5.3 billion, paying US$137 for each of the shares it did not already own. Roche first took a majority stake in FMI in January 2015 at US$50 a share. Shortly after that, the market began to worry about the reimbursement rates for FMI's oncology tests as well as competition, and many analysts reiterated that the Roche alliance was "in the price". To us, these were short-term worries and missed the point that FMI was becoming an integral part to Roche's oncology R&D organisation. Furthermore, FMI's pan-cancer test was becoming more and more valuable and we were unable to see any competitors keeping up. It delighted us that FMI's share price more than halved from the US$50 that Roche had paid within a few months. Such a low valuation, in our assessment, did not nearly reflect FMI's prospects if indeed this company provides Roche with precision data plus a pan-cancer diagnostic test. Hence, FMI became one of our core holdings from late 2015.

Tool companies are, in our view, a crucial part of healthcare, as are certain service offerings. Drug therapeutics are becoming more complex to manufacture, hence better methods and services are required. Oncology is all about profiling the cancer and the environment it lives in, respiratory is all about profiling the inflammatory situation in the lungs, and neurological disorders are all about creating precise molecular profiles of the disease state that the patient finds himself or herself in. The more detailed real-time data one has, the better tailored the therapies will be (though targeted medicine isn't quite here yet, and many companies are working towards it). Hence the portfolio has a number of companies in the tool space.

Two other holdings have also either been acquired or are in the process of being acquired during the quarter. **ARMO Biosciences**, a US immuno-oncology biotech, has been acquired by Eli Lilly while Japanese pharma company Takeda is looking to acquire UK/US biotech **Shire**. The ARMO acquisition is all about the pipeline, while Shire is about Takeda making a bold move to become a global biotech.

Besides these targets for acquisitions, several of our European holdings also did nicely this quarter and for the year. We have mentioned German antibody company **MorphoSys** before. The company listed in the US this quarter and is now preparing for a commercial launch of its blood cancer antibody.

We continue to add new companies to the portfolio and have exited a number of positions this quarter. Among the companies sold, some have run into challenges that will take time to resolve while others simply got too expensive.

Commentary

A prominent biotech venture capitalist said in a recent interview that a pharma CEO and board who think buying another pharma company is the right way forward should all be "marched out of the door immediately" as they obviously are missing the unprecedented innovation and changes that are occurring elsewhere. Indeed, innovation is plentiful in healthcare today. For example, there is a growing focus on early detection. Prevention of diseases, rather than late stage disease therapies, will hence become an increasingly important aspect of healthcare.

We have always argued that biotechs are the engine room of healthcare, and hence for a healthcare company to be successful it must establish an integrated business development department, rather than just write one cheque after another.

Some companies are better than others at external sourcing. The less enlightened ones are no different to investors who license or buy something out of fear of missing out. However, biotechs (small medtech companies included, but the big innovation leaps are done at biotechs) are the future, not share buybacks or large scale mergers. We indeed are seeing big drug developers changing.

We are seeing deconsolidation in the sector. AstraZeneca over time has divested a number of assets and refocused the organisation. Novartis has been restructuring itself for some time, divesting vaccine and consumer healthcare divisions to GlaxoSmithKline (GSK), while buying GSK's oncology division and now divesting Alcon, the ophthalmology division it fully acquired in 2010. In essence, Novartis is shrinking itself albeit their capital allocation efforts have been unconvincing so far. At other peers, management changes have occurred and teams are in the process of retooling.

Changes are happening not only at these big drug developers. The tool and diagnostic sector is also stepping up to the challenge.

Siemens has spun off its healthcare division (Healthineers) and GE has announced plans to do the same in due course. Here, healthcare does not mean drug development. In Siemens' case it means diagnostics, while for GE Healthcare it means diagnostics, manufacturing and life science tool assets, which will become a standalone company.

These changes happen as the dynamics of global healthcare are changing and the status quo is being challenged, be that clinical development approaches, pricing models, manufacturing or distribution. Products/therapies that were dismissed as "uneconomical" not long ago are now commercially available and viable.

Biotechs in particular are not afraid to challenge inertia. Often they have optionality in their portfolios and with that comes a positive attitude to failure. Failure is part of the nature of this industry, and as the same aforementioned venture capitalist says, "failure should be celebrated in the same way drug progress is celebrated". Money has been plentiful in the sector and, more importantly, tools have become easier to use and more precise, drilling deeper and deeper into the pathology of diseases.

While a decade ago it used to be an advantage if a company had an antibody platform, these days any biotech can "order" a PD-1 antibody by simply paying an antibody supplier to make one. The skill now lies in figuring out how to progress the antibody through the clinic and what drug to combine it with.

Gene and cell therapy, along with gene editing, complex multi-specific antibodies (or derivatives thereof) and personalised vaccines, are the exciting areas. They require significant molecular engineering and manufacturing know-how, and are the focuses propelling the next wave of biotechs.

Similarly, while immuno-oncology is now a well-known topic with the popular press, there has been far less coverage on the progress made in neurological diseases which is just as interesting, if not more.

Early detection and preventative medicine, together with precision medicine, are where the opportunities are. This means diagnostic tools will be paramount. These modern tools will reshape healthcare and we are in for exciting times in this sector.

Outlook

Significant money has flown into the smaller biotechs and medtech continues to attract investors despite high valuations. Amazon drew attention again this quarter, acquiring online pharmacy PillPack and leaving no doubt of its interest in healthcare. While we are very excited about the various fronts of innovation taking place in the industry, valuation has to be taken into account and there are pockets of the market exhibiting stretched valuations. Fortunately, the crowding in certain areas also means that other areas are being overlooked, creating opportunities for investors with a longer view. We continue to find new ideas, but will be selective about our investment choices.

Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be 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.

   Index returns are in Australian dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the Fund has been used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from FactSet.

   Platinum does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only. A Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the index that is used as its reference benchmark.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the specified Fund over the specified period relative to the specified net MSCI index in Australian dollars.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the Fund and represent the combined income and capital returns of C Class over the specified period. Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be 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.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the Fund's effective exposures to the relevant countries/regions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions (stocks and indices).

4. The table shows the Fund's top 10 long stock positions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

5. The table shows the Fund's effective net exposure to the relevant sectors as a percentage of the Fund's net asset value, taking into account direct stock holdings and both long and short derivative positions (stocks and indices).

6. The table shows the Fund's effective exposures to the relevant currencies as a percentage of the Fund's net asset value, taking into account stocks holdings, cash and the use of derivatives.

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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.

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