

Platinum International Health Care Fund



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Performance and Changes to the Portfolio (compound p.a.⁺, to 30 September 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	0%	-4%	11%	13%	10%
MSCI AC World HC Index [^]	3%	5%	12%	12%	9%

⁺ Excludes quarterly returns.

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

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

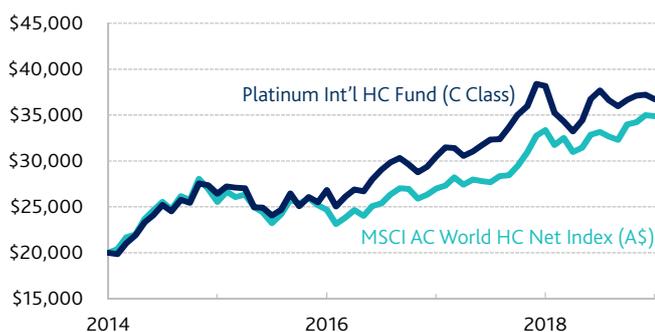
[^] Index returns are those of the MSCI All Country World Health Care Net Index in AUD. Source: Platinum Investment Management Limited, FactSet.

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 September 2014 to 30 September 2019



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.

See notes 1 & 2, page 4.

The Fund (C Class) has delivered a disappointing return over the quarter and the last 12 months. Our European pharmaceutical (pharma) holdings performed well, while a number of our biotechnology (biotech) investments had a dismal quarter and year. The US small biotech index declined by more than 13% over the quarter and is down 20% for the year, while the US medical device index is up 9% for the year, highlighting the dispersion within the healthcare sector.¹

French pharma company, **Sanofi** provided a positive contribution to performance (+12% over the quarter in local currency terms). The company welcomed its new CEO, Paul Hudson during the quarter. As we have witnessed at other pharma companies, such executive change can make all the difference. Sanofi now has a British pharma executive at the helm, a French CFO with a history in the auto industry, and a head of R&D who joined from Roche. The diabetes sales issues are well understood, the company has cleaned-up some of its equity holdings and the CEO is considering the future of the consumer division. In the end, however, the company needs to reinvigorate the R&D engine in order to significantly lift its valuation.

Swiss pharma and diagnostics company, **Roche** (+6%) continued its steady rise, gradually releasing new data for its products and pipeline, while dealing well with competing biosimilar products. The company also highlighted its strength in diagnostics, which will take centre stage in the era of personalised medicine.

SpeeDx (+51%), our Australian-based private diagnostic holding, completed a successful funding round at an increased valuation with a US venture capital fund. The company develops tests to pinpoint resistance to viral and bacterial infections and hence provide a guide to the best treatment. SpeeDx collaborates with American-based molecular diagnostics company, Cepheid (part of Danaher) and recently received CE-IVD Marking (certification that the medical device complies with the European safety and environmental requirements) for the ResistancePlus MG² FleXible cartridge, which uses SpeeDx's technology. In addition, SpeeDx has started selling two custom tests to US LabCorp.

¹ SPDR S&P Biotech ETF and iShares U.S. Medical Devices ETF, respectively

² Mycoplasma genitalium (sexually transmitted disease).

Telix Pharmaceuticals (+27%), another Australian biotech, is gradually making inroads with its targeted radiation portfolio. Radiation has been used in oncology for over a century; the challenge has been to deliver it in high dosages to cancer cells while sparing healthy tissue. Telix uses antibodies that are specifically for a tumour antigen to deliver radiation. These radiation-conjugated antibodies also function as a diagnostic, via a PET scan the cancer can be illuminated, assisting in identifying the size of the tumour, where it is in the body and if it has spread. Telix is progressing its asset to treat prostate cancer, while also gaining commercial acceptance of its diagnostic assets. On a global basis, the Telix valuation is appealing.

The Medicines Company (+37%) and **Alnylam Pharmaceuticals** (+11%) presented positive data on inclisiran during the quarter. In 2013, The Medicines Company licensed inclisiran from Alnylam. Inclisiran is a long-acting small interfering RNA³ (siRNA) that prevents the synthesis of the PCSK9 protease. This protease plays a role in the cholesterol cycle and its inhibition results in lowering cholesterol. Commercially there are two anti-PCSK9 antibodies approved, however pricing has been a stumbling block to date; a long-acting siRNA has the opportunity to disrupt this market.

Apart from the stocks mentioned above, biotechs were generally disappointing over the quarter. The upcoming US election is placing the focus on US drug prices and making investors nervous. We are also seeing more diligent trade regulators delaying the review and approval of acquisition deals and several biotechs have tapped the market for

³ Ribonucleic acid (RNA) is a polymeric molecule essential in various biological roles in coding, decoding, regulation and expression of genes.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
SpeedX Pty Ltd	Australia	Biotechnology	5.5%
Sanofi SA	France	Pharmaceuticals	3.6%
Roche Holding AG	Switzerland	Pharmaceuticals	3.5%
Takeda Pharma Co	Japan	Pharmaceuticals	3.3%
Telix Pharmaceutical	Australia	Biotechnology	2.5%
Gilead Sciences Inc	US	Biotechnology	2.4%
Zai Lab Ltd	China	Biotechnology	2.3%
Almirall SA	Spain	Pharmaceuticals	2.2%
Quanterix Corp	US	Life Sciences T&S	2.0%
Coherus Biosciences	US	Biotechnology	2.0%

As at 30 September 2019. See note 6, 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>.

additional capital. With this backdrop, any biotechs that lack positive newsflow are seeing their valuations decline significantly, which is further amplified by the significantly reduced analyst coverage over the last year for these smaller companies. Several of our biotech holdings fall into this group. In the long term, we believe this will be an advantage for us, but for now, volatility has risen significantly. We have been trimming a number of these biotechs but with some trading below cash levels we do see a lot of value at these levels.

Disposition of Assets

REGION	30 SEP 2019	30 JUN 2019	30 SEP 2018
North America	33%	37%	35%
Europe	26%	27%	29%
Australia	14%	11%	12%
Japan	6%	5%	3%
Asia	5%	5%	2%
Cash	16%	16%	19%
Shorts	-4%	-6%	-1%

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

Net Sector Exposures

SECTOR	30 SEP 2019	30 JUN 2019	30 SEP 2018
Health Care	80%	77%	79%
Financials	0%	0%	1%
Consumer Staples	0%	1%	0%
TOTAL NET EXPOSURE	80%	78%	79%

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

Net Currency Exposures

CURRENCY	30 SEP 2019	30 JUN 2019	30 SEP 2018
US dollar (USD)	45%	50%	41%
Japanese yen (JPY)	18%	17%	4%
Euro (EUR)	12%	10%	18%
Swiss franc (CHF)	7%	8%	5%
British pound (GBP)	7%	7%	9%
Australian dollar (AUD)	4%	3%	19%
Norwegian krone (NOK)	2%	2%	0%
Hong Kong dollar (HKD)	2%	2%	0%
Swedish krona (SEK)	1%	2%	3%
Danish krone (DKK)	1%	1%	1%
Canadian dollar (CAD)	0%	0%	1%
Korean won (KRW)	0%	-1%	0%

See note 5, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

In the tool space (i.e. companies that supply the technologies and instruments for drug discovery and diagnostics), **Quanterix** conducted a capital raising, putting pressure on its valuation. We were trimming our position but believe that the company has valuable biomarker technologies and hence added to our position at this level.

During the quarter, we closed our Korean biosimilar short positions. When we opened these positions, the thesis was that the biosimilar market in Europe is much more competitive and hence the highly valued Korean biosimilar companies will struggle. This has played out, valuations have fallen, but the next step down may not be as easy given the US biosimilar market behaves differently to Europe.

During the quarter, we added to our Japanese pharma holdings. On a global basis, these companies have attractive valuations, while at the same time we are seeing new global products emerge from their pipelines.

Commentary

The pharmaceutical industry in the US is an easy target when it comes to elections. US drug prices are optically the highest in the world and the US healthcare system is not easy to decipher. Pharmacy benefit managers sit between drug developers and patients negotiating access to medicines, and then there is Medicare/Medicaid and the rebate system to grasp. Widely quoted US drug prices refer to so-called 'list prices', while real prices are a fraction of these and kept confidential. One pharma executive labelled the system "the vortex that is the US healthcare system". It is a fitting description of a system that has many layers but at the same time 'finances' innovation like no other country.

A dramatic change to the US system is not straightforward and neither is the impact on the bottom line of drug developers. These companies are agile and know that their success depends on new drugs and what some underestimate, new geographies.

China is rapidly updating its medicine cabinet and new drugs are gaining approval much faster, but more importantly have the opportunity to gain access onto the national reimbursement lists. This access means lower drug prices but this is far outweighed by the volume. Roche's most recent quarterly sales growth in international markets (now 19% of its pharma sales) was 16% higher than the same quarter last year, while its overall pharma sales growth was 11%. For AstraZeneca⁴ China is even more important, as it is now 20% of product sales with exceptional (and we doubt to be continued) 44% growth in the recent quarter. For

comparison, 33% of product sales at AstraZeneca are in the US, with 16% growth recorded in the recent quarter. While pharma companies have invested in their China infrastructure, local biotechs are not sitting back. Various local cancer antibodies are now approved, and Chinese biotechs are actively licensing US biotech drugs.

Zai Lab is an example of a Chinese biotech company that has a strong team who understands both the changes in the Chinese market and how to license drugs from Western biotechs. The team around chairman and CEO of Zai Lab, Samantha Du, realised early on that the Chinese regulators are starting to accept foreign clinical data and hence drugs will be introduced faster without having to repeat clinical trials. Given Du's link to the pharma sector, venture capital as well as the biotech industry, she set out to license new drugs that already had good data or, in the case of Zejula⁵ were already commercially available outside of China. This year, Zai Lab started to sell Zejula and Optune⁶ in Hong Kong/Macau with mainland China approval to follow soon. The Chinese healthcare sector is in its infancy, but it is catching up quickly, and the European pharma companies in particular are not letting this opportunity pass by.

Outlook

US election chatter will continue, but at the same time biotech valuations following recent share price weakness will start to attract corporate interest. We closely track the number of biotechs that trade below their cash levels and this indicator rose during the September quarter.

Medical conferences are also on the agenda for the coming quarter, as are company R&D days. In November, Takeda will hold its first R&D update since the Shire acquisition, while Sanofi's new CEO will preside over his first R&D day in December, making for an interesting quarter.

⁵ Zejula is a PARP inhibitor that has been developed by Tesaro for ovarian cancer. Last year GSK acquired Tesaro (the Fund had a position in Tesaro).

⁶ Optune is a wearable treatment for Glioblastoma, a type of brain cancer.

⁴ AstraZeneca used to be a top 10 holding in the Fund, we have trimmed this holding in recent months but kept a small holding.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (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 fees and costs, are pre-tax, and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee.
The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. For the purpose of calculating the "since inception" returns of the MSCI Index, the inception date of C Class of the Fund is used. Where applicable, the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. Fund returns are provided by Platinum Investment Management Limited; MSCI index returns are sourced from FactSet.
Platinum does not invest by reference to the weightings of the Index. 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. Index returns are provided as a reference only.
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.
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.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices. In the case of the Platinum Unhedged Fund, the Fund does not undertake any short-selling. Its net exposures are therefore the same as its long exposures.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. 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 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. 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.

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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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