

Platinum International Health Care Fund



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Performance and Changes to the Portfolio (compound p.a.⁺, to 31 December 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	12%	24%	15%	13%	10%
MSCI AC World HC Index [^]	9%	23%	16%	12%	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.

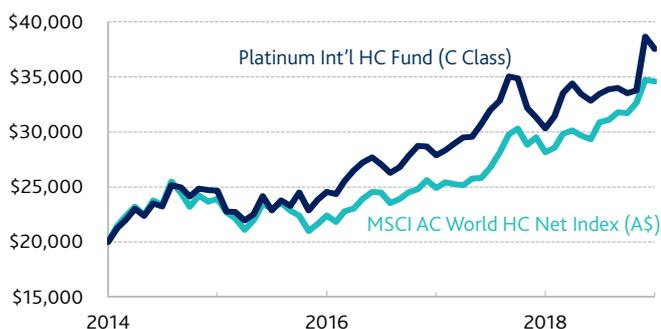
[^] Index returns are those of the MSCI All Country World Health Care Net Index in AUD. Source: Platinum Investment Management Limited, FactSet.

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 December 2014 to 31 December 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) delivered a strong performance for the quarter and year, returning 12.0% and 23.8% respectively.

Overall, it was an exciting year for the healthcare sector, with the first half dominated by politics, while the second half focused on acquisitions, bringing the attention back to the biotech sector.

As we highlighted in our September 2019 quarterly report,¹ the performance gap between biotechs and medtechs was not sustainable. The change in sentiment, helped by acquisitions, only partially explains the Fund's strong performance. More importantly, several of our holdings significantly outperformed on company specific news. Further, throughout the year we have been adding consistently to our holdings when valuation disconnects occurred, adding to performance as the companies worked through their challenges and their shares rebounded.

The news for our holdings was wide ranging, including positive clinical data, new drug approvals, successful money raisings, positive research and development (R&D) days, and acquisitions (or drawing acquisition interest in the case of Qiagen). It was a busy and dramatic quarter for the sector overall, with the US Food and Drug Administration (FDA) approving drugs faster than expected, and companies resurrecting drugs that were previously deemed terminated.

Both small and large companies contributed to the Fund's performance, with Takeda and Sanofi showing investors that they indeed have a commercial portfolio as well as a drug pipeline.

The standout performers during the quarter were **BioNtech** (+138% since its listing on the Nasdaq Stock Market on 10 October 2019, in local currency terms) and **Myovant Sciences** (+198% over the quarter) – two companies that are not as straightforward as investors would like.

BioNtech is labelled as an mRNA² company, and while partly correct, it ignores its antibody and cell therapy activities. The

¹ https://www.platinum.com.au/PlatinumSite/media/Reports/ptqtr_0919.pdf

² mRNA stands for messenger RNA (ribonucleic acid) and is essential in the synthesis of proteins. During a process called transcription, a gene (encoded in the DNA) is copied into RNA language. This mRNA molecule then forms the transcript for the protein synthesis machinery to build proteins. Hence, using mRNA as a drug has the potential to use the patient as the drug manufacturer.

German biotech has a vision of personalised oncology and has strong support from industry partners such as Genentech. There is also the possibility of mRNA disrupting the vaccine industry. This all amounts to much more than just an mRNA company.

Myovant Sciences focuses on women's health and prostate cancer, but is a more complex story with a large shareholder dividing opinions. Myovant was formed in 2016 by Takeda and Roivant, with the aim of developing Takeda's relugolix, an oral non-peptide Gonadotropin-releasing hormone receptor (GnRH) antagonist that was in late-stage testing. GnRH antagonists block the release of hormones, such as testosterone and follicle-stimulating hormones, which play a role in uterine fibroids, endometriosis and prostate cancer. Targeting GnRH is valid and the disease indications are in need of new drugs, however, there is competition, and Roivant's large shareholding in Myovant has been an obstacle for some investors. This was further exacerbated by Roivant opting to sell its stake to a Japanese pharma company, which disappointed those investors who were hoping for a sale of the company. Furthermore, Myovant was likely to raise cash, adding more uncertainty. The share price drifted lower and lower, we kept buying more shares along the way, as we believe the drug has real commercial potential. During the quarter, Myovant reported positive data in prostate cancer and secured funding, which removed some of the market's concerns.

At times, issues unrelated to the asset itself, such as funding overhangs, can distort valuations of biotechs, but they can also offer great investment opportunities. **Agios Pharmaceuticals** also fell into this category, with concerns about competition to its commercial leukaemia drug and a

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
SpeeDx Pty Ltd	Australia	Biotechnology	5.0%
Takeda Pharma Co	Japan	Pharmaceuticals	4.1%
Sanofi SA	France	Pharmaceuticals	3.4%
BioNTech	Germany	Biotechnology	3.3%
Roche Holding AG	Switzerland	Pharmaceuticals	2.9%
Gilead Sciences Inc	US	Biotechnology	2.9%
UCB SA	Belgium	Pharmaceuticals	2.3%
Zai Lab Ltd ADR	China	Biotechnology	2.3%
Qiagen NV	Germany	Life Science & Tools	2.2%
Quanterix Corp	US	Life Science & Tools	2.1%

As at 31 December 2019. See note 6, page 4.
Source: Platinum Investment Management Limited.

potential equity raising pressuring its valuation. During this period of uncertainty, we gradually added to our position in the stock. During the quarter, the equity raising was successfully completed, and the company presented some positive clinical data, helping its share price to rise by 47%.

RNA therapeutics also received a lot of attention in the past few months. Novartis announced the purchase of **The Medicines Company** for US\$9.7 billion, another holding in the Fund that we mentioned last quarter. This acquisition will add inclisiran to Novartis' cardiovascular franchise. Inclisiran is a long-acting small-interfering RNA (siRNA) that prevents

Disposition of Assets

REGION	31 DEC 2019	30 SEP 2019	31 DEC 2018
North America	33%	31%	33%
Europe	31%	26%	26%
Australia	13%	14%	14%
Asia	7%	7%	3%
Japan	7%	6%	3%
Cash	10%	16%	21%
Shorts	-2%	-4%	-7%

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

Net Sector Exposures

SECTOR	31 DEC 2019	30 SEP 2019	31 DEC 2018
Health Care	89%	80%	70%
Consumer Staples	0%	0%	1%
TOTAL NET EXPOSURE	89%	80%	71%

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

Net Currency Exposures

CURRENCY	31 DEC 2019	30 SEP 2019	31 DEC 2018
US dollar (USD)	45%	45%	49%
Euro (EUR)	19%	12%	19%
Australian dollar (AUD)	14%	4%	0%
Japanese yen (JPY)	7%	18%	15%
British pound (GBP)	6%	7%	10%
Swiss franc (CHF)	4%	7%	6%
Hong Kong dollar (HKD)	3%	2%	0%
Danish krone (DKK)	2%	1%	1%
Swedish krona (SEK)	1%	1%	2%
Norwegian krone (NOK)	0%	2%	0%
Korean won (KRW)	0%	0%	-2%

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>.

the synthesis of the PCSK9 protease. The protease plays a role in the cholesterol cycle and its inhibition results in lowering cholesterol. Inclisiran has just completed late-stage development. It was originally identified by **Alnylam Pharmaceuticals** (also held in the Fund, +43% over the quarter), and will accordingly receive royalties for the drug. Alnylam also held a very interesting R&D day during the quarter, and received approval for its second siRNA drug.

These events have now firmly placed RNA interference (RNAi)³ on the drug modality map, and after 17 years, Alnylam itself has shown its RNAi engine is humming nicely. We owned Alnylam when it started out a decade ago and added it back to the Fund earlier this year, when investors were worrying about the conclusion of the alliance with Sanofi.

Investing in the healthcare industry is a long-term endeavour. It is a journey rather than a short-term excursion. Along that journey, there will be challenges that represent great opportunities to invest more in particular stocks, and there will be times when things go exceptionally well and everyone says this is the place to be. Often that is precisely the time to explore other great areas and opportunities.

With that in mind, during the quarter, we added to our neurology holdings and redistributed money from solid performers to companies that have been left behind.

Commentary

During the quarter both Takeda and Sanofi held their R&D days. There was great anticipation leading up to their respective events, with both managing to avoid disappointment. All pharma companies encounter challenges, which are often attributed to their R&D engine failing and requiring an overhaul. Hence, these R&D updates offer a glimpse of potential changes and what the future may hold.

Takeda has been working on its changes for a couple of years with a non-Japanese management team in charge; while Sanofi recently appointed a new CEO (the CFO and Head of R&D are also relatively new). Both companies are no strangers to acquisitions and have had tremendous success in diabetes in the past. The future however, for both companies, will not feature diabetes, opting to prioritise other diseases instead. This again shows how pharma companies are not afraid to change course, which inevitably involves acquisitions, but also significant divestments – with the latter often overlooked by investors.

Takeda's recent acquisition of Shire is accelerating its much-needed transformation. The company had become very stale. Its last global drug launch before the launch of its successful inflammatory bowel antibody Vedolizumab for the treatment of ulcerative colitis and Crohn's disease in 2014, was its diabetes drug, Actos in 1999. That is a stunning 15-year gap. This fact alone highlights the need for a serious R&D overhaul and indeed that's what has and continues to occur. Today, Takeda resembles a truly global operating biotech company, embracing external partnerships and global product launches, rather than product launches for different geographic regions. Via Shire, Takeda now has a plasma-derived therapy business that will finally receive a serious budget. Innovation is coming through and there are acceleration opportunities.

Sanofi has launched new products, however there haven't been enough of them. There have been restructuring attempts in the past, but they failed to go far enough. At its recent R&D day, Sanofi indicated that changes would be more far reaching this time, announcing it is exiting diabetes and cardiovascular R&D - two areas that have been the commercial backbone of the company. The Consumer Healthcare business is now managed separately; while there is also talk of divesting older products. The head of R&D is making his mark as well, with the acquisition of a US biotech called Synthorx, while a CFO from the automotive industry will keep the spending habits of scientists in check.

Overall, while the impact will not be immediately felt in the sales numbers, both companies are putting structures in place that will allow for new products to have a bigger impact. Valuations for both companies are reasonable and in the end, it comes down to the right commercial infrastructure when launching innovative drugs.

Outlook

We always focus on the big picture and the changes occurring within the healthcare industry. We see tremendous opportunities in the coming years. Innovation is thriving and the focus on disease prevention and detection before a disease shows any tangible symptoms will change the way healthcare is delivered. We believe that technology and healthcare will converge and our priority will be on that journey, rather than being caught up with the latest obsession. Challenges along the journey are part of this industry and we see them as opportunities. Pricing pressure in healthcare will always be a popular news subject; however, as we have seen many times, innovation and persistence are what counts. We will continue to investigate cutting-edge technologies - be that within a large conglomerate like Johnson & Johnson or a small local biotech.

³ RNA interference is a biological process in which small interfering RNAs target the mRNA for degradation.

Notes

- 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.
- 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.
- The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the market value of the Fund's positions, the Fund's effective exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices. "Shorts" relates to the effective exposures to short securities and short securities/index derivative positions.
- 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.
- 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.
- 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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