Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	MAR 2015	DEC 2014
Europe	35%	41%
North America	29%	31%
Japan	5%	5%
Asia	2%	0%
Australia	1%	1%
Cash	28%	22%
Shorts	1%	1%

Source: Platinum. Refer to Note 3, page 4.

Performance

(compound pa, to 31 March 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund	15%	34%	30%	20%	10%
MSCI AC World HC Index	16%	47%	37%	22%	10%

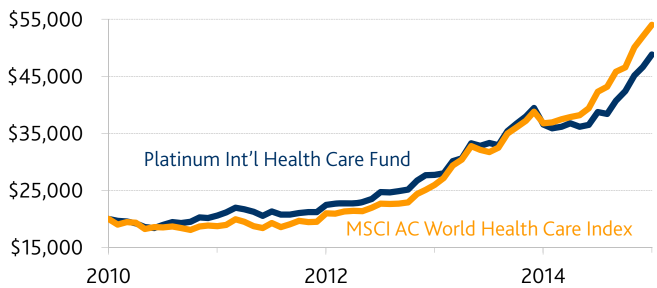
Source: Platinum and MSCI. Refer to Note 1, page 4.

The last few months have seen a continuation of strong share prices for the pharmaceutical and biotechnology sectors: the MSCI All Country World Health Care Index advanced 8% in US dollars over the quarter and a handsome 16% measured in Australian dollars. Growing concerns over a "biotech bubble" were outweighed by steady buying from investors – and unsteady, panic buying by big pharmaceutical companies[1]. In the background, some encouraging trial data is feeding hopes for growing sales in specialised cancer therapies, while on the other hand, market and regulatory mechanisms to counter soaring expenditure on biological drugs are progressing.

1 Few commentators attempted a rational defence of AbbVie's decision in early March to pay US$21 billion for Pharmacyclics, an oncology company with perhaps US$1 billion revenue this year.

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 4.

The Japanese pharma stocks were a particular feature at the top of the performance charts, with **Eisai** advancing 83% after some promising early trial data for an Alzheimer's drug from its partner **Biogen** (intriguingly, investors in Biogen (+24%) were more circumspect in their assessment as the side effects of this promising treatment seem to increase with efficacy at higher doses). **Roche's** partner, **Chugai**, was up 28% for the quarter and PD-1 (immuno-oncology) star, **Ono Pharmaceutical**, advanced another 27% after its partner, **Bristol-Myers**, received a record quick approval from the US Food and Drug Administration (FDA) for use of *Opdivo* as a second-line treatment in squamous non-small cell lung cancer. The drug was approved for use in melanoma in 2014 and is expected to be approved for treatment of several other cancers in the coming years. Elsewhere, the much maligned **Valeant** continued to taunt its critics with the stock up another 50% on the news that it outplayed another "specialty pharmaceuticals" (i.e. growth by acquisition rather than R&D) player, **Endo International**, to successfully acquire the gastro-intestinal drug company, **Salix**, for a "mere" US$11 billion. Valeant unashamedly puts "deal-making" at the centre of its strategy and has apparently done more than 100 transactions since 2008! Investors seem to believe that, despite paying such prices, Valeant can continue to show impressive (perhaps 15% per annum) growth in earnings. The company now has a market value of US$67 billion, not far below that of the venerable[2] **Eli Lilly & Co**.

Perhaps a better illustration of the broad strength of the sector is the scarcity of share price declines so far in 2015. Among the larger companies, **Johnson & Johnson** was down 4%, partly due to the effect of the stronger US dollar on its global business and perhaps more with the threat of "biogenerics" to one of its key drugs (please see below).

The Fund advanced 15% for the quarter, with a solid showing from several of the Fund's European holdings (**Sorin**, **Genmab**, **ICON** and **Recordati** were each up 30-50%) and some strong specific performances elsewhere (Canadian **Trillium Therapeutics** doubled) offsetting the defensive 20%+ cash balance we have held in the Fund over the period.

2 Not really the *vulnerable* Eli Lilly, as that august institution has a very unusual State law protecting it from predation. Otherwise its size and considerable R&D expenditure would surely have it in the cross hairs.

Changes to the Portfolio and Commentary

During the quarter we added a little to the cash balance (which stood at 28% as of the end of March) by trimming positions in some (arguably overheated) biotech names such as **BioMarin**, **Genmab** and **Incyte**. On the other hand, we invested in an interesting Chinese pharmacy chain, which looks well-positioned to benefit from government reforms to the system of medical centre-dominated prescription-filling. Prices at medical centres in China are often inflated relative to high street pharmacies, and there are clear concerns when the medical centre both employs the doctor and sells the prescribed medicine.

German dialysis company **Fresenius** was another source of cash this quarter. We took a position in Fresenius Medical Care last year when it was trading at the bottom of its historic valuation range following several years of being out-manoeuvred by American competitor **DaVita**. Our prognosis at the time foresaw:

i) improving profitability per patient as substitutes to **Amgen's** expensive *Epogen* drug became available;

ii) improving pricing from commercial payers following the renegotiation of contracts in the USA; and

iii) increasing reimbursement for dialysis services in Asia.

The potential for these factors to improve earnings now seems better appreciated by the market and so the Fund reduced its holding following a 50% appreciation in the share price over just six months.

Finally for the quarter, the Fund took a small position in locally listed **Sirtex** following a halving of its stock price when the *SIRFLOX* trial failed to meet its primary endpoint. Sirtex sells radioactive spheres that are used to treat late stage liver cancer (similar to **BTG**, another holding of the Fund). The trial was designed to help expand the potential market by demonstrating efficacy as a first-line therapy for patients with metastatic colon cancer that has spread to the liver. Our assessment was that the trial design was poor. With 40% of the participants having other secondary cancers in addition to liver tumours, it seems the company rushed the trial recruitment. Separate tests targeting patients with primary liver cancer are due to report in 2017 and these have a higher probability of success given the clearer trial design. In the meantime, the company should see sales and profit growth in its currently approved late-stage treatment for several years to come.

Outlook

Prospective profitability of health care companies must – if for no other reason than the health of government budgets – be constrained by regulatory steps to promote generic versions of patented drugs. This process is clear for small molecules, but has taken some time to be put in place for biological drugs. The so-called "biosimilar" *Neupogen* has been sold in Europe since 2008, but only a few weeks ago did **Novartis' Sandoz** unit get full FDA approval to sell this product in America under the Biologics Price Competition and Innovation Act of 2009 (BPCIA). Needless to say, the litigious **Amgen** is appealing that ruling, but it looks likely that the biosimilar version will be for sale imminently. **This is potentially a watershed moment for sector profitability, because for over a decade big pharma has pursued a biologicals drug strategy hoping for monopoly profits well beyond the patent period.**

Johnson & Johnson's *Remicade* (rheumatoid arthritis) has **seen the launch of biosimilars in some European markets** this year and the prospect of a steady erosion of this **huge revenue earner** (US$9 billion last year) is constraining the company's share price now.

There are few companies in which to invest in this biosimilars strategy. The largest player is Sandoz, a core part of **Novartis**, which is among the largest holdings of the Fund.

We continue to search for other plays on these changing market dynamics. Meanwhile, it is hoped that innovative research will be rewarded more than aggressive litigation.

The portfolio manager of the Fund, Bianca Ogden, is currently on maternity leave.
Kerr Neilson is the portfolio manager in Bianca's absence.

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 28 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 March 2010 to 31 March 2015 relative to its benchmark index (in A$) as per below:

   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net Index

   The investment returns are calculated using the relevant Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the benchmark index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

3. Invested position represents the exposure of physical holdings and long stock derivatives.

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