Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	MAR 2016	DEC 2015
Europe	39%	36%
North America	29%	27%
Japan	4%	3%
Asia	1%	3%
Australia	1%	1%
South America	1%	1%
Cash	25%	29%
Shorts	-1%	-1%

Source: Platinum. Refer to note 3, page 5.

Performance and Changes to the Portfolio

(compound pa, to 31 March 2016)

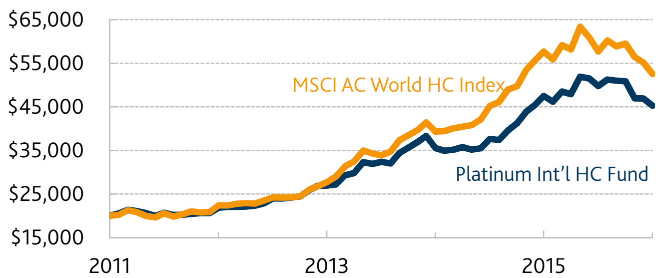
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund	-11%	-5%	19%	18%	9%
MSCI AC World HC Index	-12%	-9%	24%	21%	8%

Source: Platinum and MSCI. Refer to note 1, page 5.

This quarter has been a difficult one. After almost six years of excitement, the healthcare party finally concluded and investors looked for better opportunities outside of the sector. We have been cautious for some time and the Fund's biotech index short position, along with the higher cash position, offered some protection, but could not offset the widespread selling completely. The fundamentals of the sector have not changed and neither have the pressure points, like ever rising healthcare costs. Valuations have been stretched for some time; debt levels at some companies had risen while cashflow generation was deteriorating. For now, the biotech cycle has come to a halt, and generalist investors have focused their attention elsewhere while biotech companies have to realise that last year's lofty valuations are no longer relevant. Once reality sets in, we will see acquisitions pick up and interest in the sector return.

Value of $20,000 Invested Over Five Years

31 March 2011 to 31 March 2016



Source: Platinum and MSCI. Refer to note 2, page 5.

Over recent months we added to several of our holdings (e.g. Sanofi, Incyte, Qiagen, Swedish Orphan Biovitrum, PerkinElmer and Gilead), but also introduced new investments (e.g. in personalised implants and neurology). While a sharp sell-off is naturally difficult to fathom, the fact is we have been here before post 2000. History tells us this was the right time to build positions for the next decade. It won't be without wobbles, but it is clear that there are many well-funded biotechs with exciting new assets. At the same time, external research and development (R&D) is now an essential part of pharma (post 2000 this concept was still very new and business development departments hardly existed) and we have big biotechs looking for new assets as well. We already had one company taken off us in the last quarter – Abbott is in the process of acquiring diagnostics company Alere.

European biotechs have been less volatile and we continue to see great progress. One clear positive signal that the UK is maturing is the merger between UK biotech Vectura (one of the Fund's holdings) and its peer Skyepharma, both of which have a focus on respiratory disease. Many small biotechs have been beavering away in the UK, at times struggling to raise money, but refusing to consolidate. Vectura has gradually increased its royalty income, but struggled to sell its own products. A new CEO was recruited from AstraZeneca last year and progress has now started in earnest.

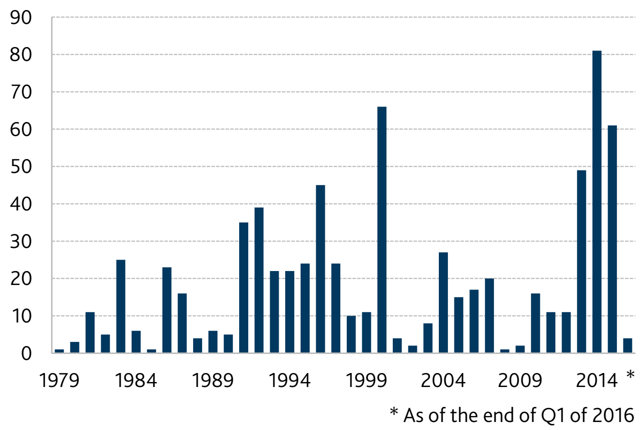
Qiagen has been disappointing this quarter as the company put investment before short-term earnings. Nevertheless, it remains well placed in molecular diagnostics and hence we added to our position.

Commentary

Drug development is inherently risky. Drugs fail in development, demanding companies to be adaptable and change direction overnight. Funding cycles come and go in the industry, forcing biotechs to be vigilant with their cash. Similarly, "hype" is part of this industry as are consolidation phases, which we are now entering. This is a sector that is used to reinvention which makes it exciting and one that investors should not be afraid of.

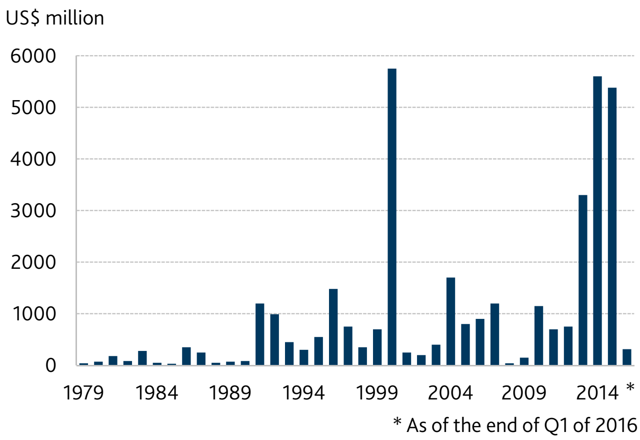
Over 20 years ago biotech was a small industry with only a small number of approved drugs. At the time it was all about pharma and the golden era of small molecule drugs. Drug approvals were at a record high and "Hillarycare" was the headline of the day. Coinciding with the stellar performance of pharma was the "genomics" promise that was expected to change drug development. Anything remotely linked to "genomics" had easy access to financing and in 2000 IPOs were at a record high. Then the bubble burst and hope faded for both biotech and pharma. The ensuing period was a time of consolidation, patent expirations, withdrawal of Vioxx, pipeline setbacks (approval numbers reached a bottom in 2005-7) and reworking of R&D engines. Fast forward to today and it feels like we are back to post-bubble times. Hillary Clinton is back, drug approvals last year reached levels close to 20 years ago, in 2014 new biotech listings beat the number of IPOs in 2000, and money raised in the past three years outstripped historical levels (see charts below for IPO numbers and money raised). The buzz word of this cycle was "immuno-oncology". Anything with a link to the immune system was selling well. A reset finally happened and the

Number of US IPOs (1979 – 1Q16)



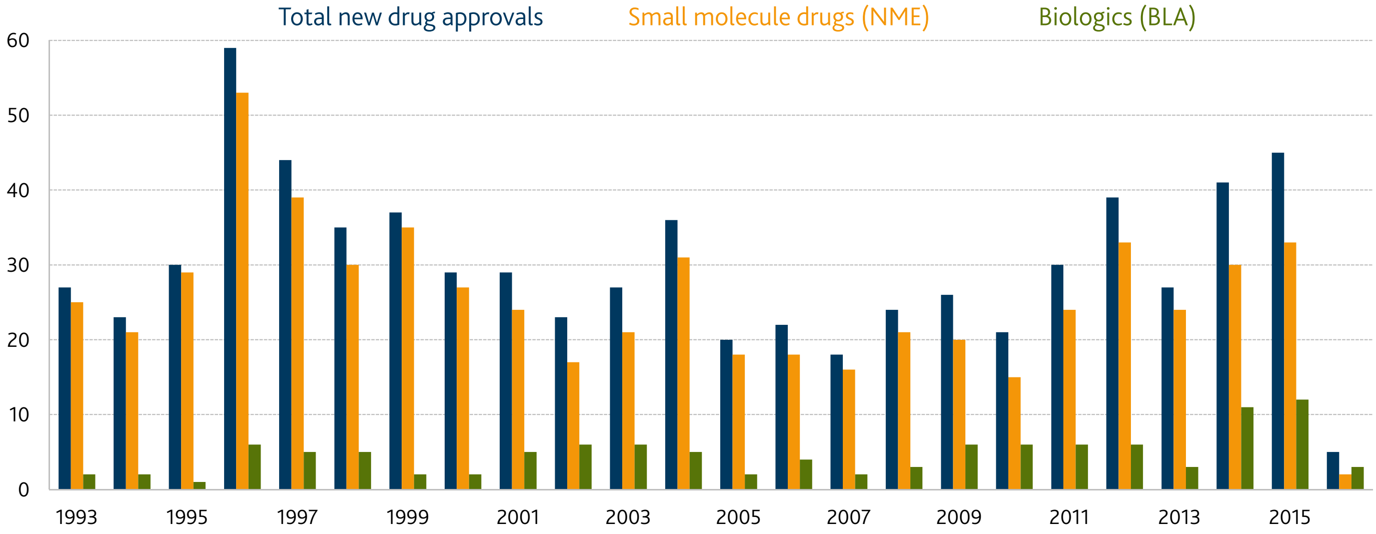
Source: Stelios Papadopoulos; Evercore ISI; Platinum.

Amount raised from US IPOs (1979 – 1Q16)



Source: Stelios Papadopoulos; Evercore ISI; Platinum.

US Drug Approvals (1993 – 1Q16)



Source: US Food and Drug Administration (FDA); Platinum.

next chapter together with the next crop of new technologies and drugs has now started. It has been a tremendous decade in drug development, expanding beyond the humble small molecule pill. A lot has been about the rise of the biologic drug (drugs that are manufactured in living cells) and the focus on rare diseases. In 2015, 13 biologics were approved in the US versus one in 1995 and two in 2005.

Almost 50% of new drugs approved in the US last year were for rare disease indications (e.g. Actelion's Selexipag was approved in December 2015 for pulmonary arterial hypertension), compared to five new drugs in 2006.

Biologics are now a firmly established drug class, which is made up of antibodies (e.g. Roche's antibody drug Herceptin for Her2+ breast cancer was approved in 1998) and protein drugs (e.g. enzyme replacement therapies produced by companies like BioMarin). These drugs are set to continue their remarkable journey as they penetrate additional disease indications (e.g. into cardiovascular and respiratory diseases[1]) and become better, easier to use drug entities. Antibody and protein engineering is allowing ever more sophisticated modification of these molecules, again, advancing the standard of care. As has happened to the small molecule class, generic drug for biologics will arrive and function as a release valve for the rising costs of this drug class. The US just saw the first approval of a generic antibody.

This does not mean the humble small molecule drug will retire. This drug class remains very relevant as some targets are best served by medicinal chemistry (take the Hepatitis C virus as an example).

The past 10 years have been an expansion of our "tool box", which is set to continue. Today's drug developer no longer has small molecules as the only option. There is now a growing armamentarium to choose from.

Ribonucleic acid interference (RNAi) is an example of a new drug class with the first commercial product on the horizon. Here small RNA molecules are used to inhibit gene expression of the drug target. Ten years ago RNAi was recognised with the Noble Prize for work that was done in the mid-1990s. It took a while to work out appropriate delivery technologies, but progress is now being made. Sanofi has a close relationship with Alnylam who has been one of the pioneers in RNAi in the clinic.

Besides new drug classes, the past decade has also been about rare diseases, understanding their pathogenesis, developing drugs accordingly and finding the patients. First, biotechs focused on rare diseases. Today, pharma is gaining a foothold as well (Sanofi's Genzyme division has been a leader in the field).

1 Sanofi and Regeneron's PCSK9 antibody was approved in 2015. This antibody reduces LDL cholesterol levels.

While we have seen investor interest wane, the industry itself is well financed and in good shape to enter the next decade. It does take patience in this industry, as the following long-term chart of Incyte highlights.

Incyte started as a genomics company in the early 1990s and transformed itself from 2001 into a medicinal chemistry biotech. The first attempt of getting a licensed HIV drug approved failed, but within 10 years of the directional change Incyte was able to get a drug approved (Jakafi for certain types of blood disorders). Incyte now sells Jakafi in the US, while Novartis takes care of sales and marketing activities outside the US. A second drug (JAK inhibitor for Rheumatoid Arthritis, licensed to Eli Lilly) is also close to getting approval, while the pipeline has grown to a decent size, including immuno-oncology. In biotech there are times of slow progress that will set the scene for reward later on.

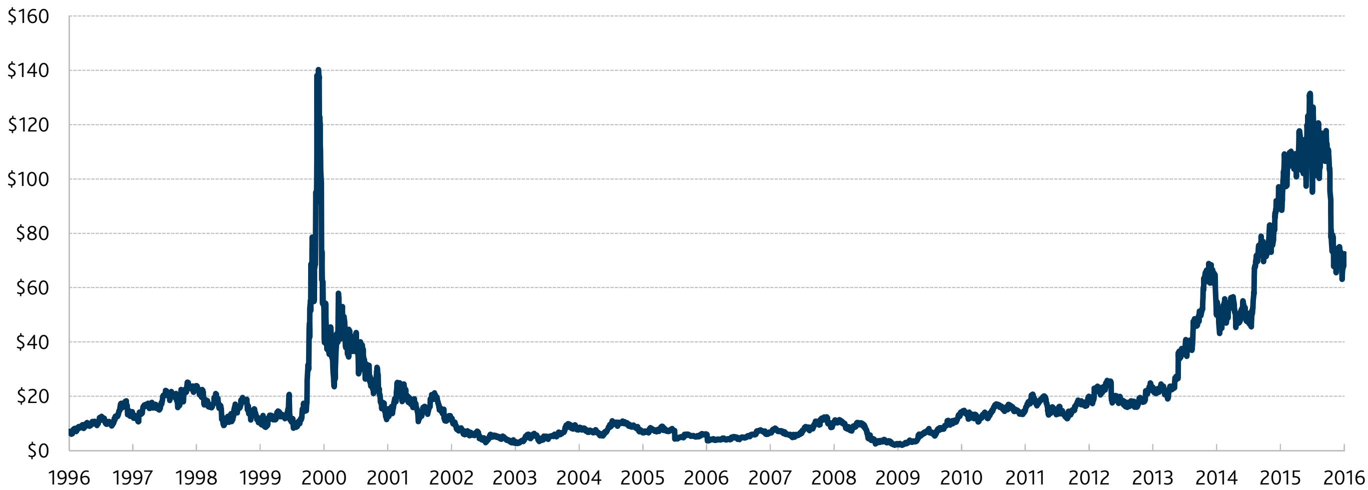
All this activity confirms to us that this sector offers investment opportunities despite many investors, temporarily, turning their back to the area.

Outlook

In the US the smaller biotechs are at historical low valuation levels (price to cash flow) and we will see mergers and acquisitions return this year. Immuno-oncology is no longer the new kid on the block. It will have to show it can live up to expectations. The complexity of clinical trial is rising, making clinical research companies more important collaborators. Similarly, the tool companies are an interesting area to revisit.

There are plenty of data points for a number of drugs and diseases and over time excitement will return to the sector.

Incyte Stock Price (29 March 1996 – 31 March 2016)



Source: Bloomberg

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$20,000 invested in the relevant Fund over five years from 31 March 2011 to 31 March 2016 relative to its benchmark index (in A$) 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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