Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	JUN 2016	MAR 2016
Europe	42%	39%
North America	32%	29%
Japan	3%	4%
Australia	1%	1%
Asia	0%	1%
South America	0%	1%
Cash	22%	25%
Shorts	<1%	-1%

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

Performance

(compound pa, to 30 June 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund	4%	-1%	17%	17%	9%
MSCI AC World HC Index	9%	-2%	21%	22%	9%

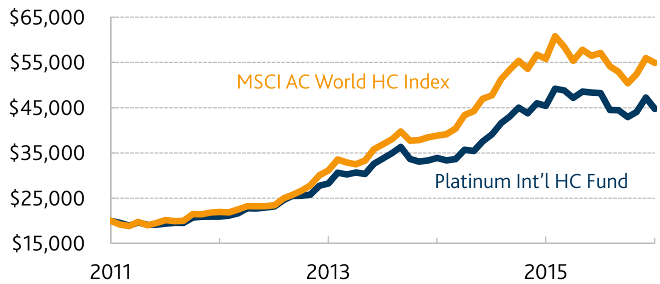
Source: Platinum and MSCI. Refer to note 1, page 4.

This quarter saw mixed performance from biotechs, with medtech and proven winners continuing to be the preferred choice in the US. Besides US biotech being disappointing for the quarter and the year, currency has also been an issue across the Fund's portfolio. In particular, the British pound's sharp fall following the Brexit referendum reduced gains in our UK holdings such as AstraZeneca and BTG.

Our position in Gilead was disappointing (down almost 10% for the quarter) as big biotechs were generally a source of funds this quarter. The company remains focused on getting its next generation HIV portfolio approved as well as introducing new Hepatitis C virus combination drugs. Gilead is interested in acquisitions, just not as rapid as the market wants it to be.

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



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

Elsewhere, some corporate activity occurred, showing the firepower that resides in the big companies. Abbott wants to acquire cardio medtech company St Jude for US$25 billion, while AbbVie spent US$5.8 billion (with another US$4 billion potentially payable in future) on a private biotech. Sanofi remains disciplined in its pursuit for US biotech Medivation, while Pfizer offered US$5.2 billion for dermatology company Anacor. However, the fact that Sanofi remains the only official bidder for Medivation has been a disappointment to the market as it was hoped that there would be a bit more action. Patience is a virtue.

The annual gathering of oncologists in the US was unable to get biotechs excited, given that the data presented was more about pharma, which further confirmed that industry experts have been right in saying that immuno-oncology will progress over time, not overnight, as some analysts wanted to believe. Similarly, the annual diabetes conference showcased some new drugs, but the conference also made clear that there are now plenty of diabetes drugs and competition will remain fierce.

The majority of our European holdings have been major contributors for the year and continue to perform well. At Danish biotech **Lundbeck**, new products are starting to make a difference to the bottom line (for the year Lundbeck's share price advanced 94%). Italian pharma company **Recordati** continues to selectively acquire regional peers at reasonable prices (shares advanced 44% for the year) while the demand for biological manufacturing supplies keeps German company **Sartorius** busy (its share price rose 65% for the year).

Disappointing for the year have been our Chinese holdings which we fully exited during the quarter. Also lagging performance for the year are **Sanofi** and **Qiagen** (down 15% and 11% respectively). Sanofi owned up to price pressure and competition in the diabetes market, while Qiagen has selected R&D investment over earnings at a time of lower sales growth.

We took this opportunity of weak prices to add to Sanofi. During the quarter the company made good progress in addressing its diabetes and oncology pipeline as well as finalising its structural change announced last year. The asset exchange with Boehringer Ingelheim is now a done deal, whereby Sanofi will swap its animal health business for Boehringer's consumer health business, diversifying Sanofi's profile away from being an insulin company.

In the quarter **Stada Arzneimittel** performed well (advancing 35%), as pressure is mounting to implement management and operational change at the company. Stada, a German generics company dating back a hundred years has until now been stubborn to change. This company has a lot to offer in terms of branded products, geographical coverage as well as over-the-counter (OTC) products.

Changes to the Portfolio

The Fund has been adding to a myriad of holdings, but also remained disciplined in trimming good performers, particularly among the EU-based holdings. We also added new companies to the portfolio that to us represent the next crop of biotechs.

We exited **Genmab** this quarter. This Danish biotech has been a significant contributor to the Fund for several years. In 2012, when we first bought Genmab, the company was worth US$550 million. Today, Genmab is valued at almost US$11 billion, thanks to the swift approval of its anti-D38 antibody which is licensed to Johnson and Johnson (JNJ). This investment has been a classic example of what we do. At the time of our entry, Genmab had been through setbacks and had to divest its manufacturing assets. By talking to Genmab management we quickly figured out that the company had a plan and had made the smart decision to focus on its lead asset while recruiting JNJ as a partner. Furthermore, Genmab made sure it kept investing in its antibody platform along the way, attracting partners other than JNJ. Being located in Denmark, it had limited exposure to US analysts who only recently started coverage now that the drug has gained approval and looks to change the way multiple myeloma is being treated. While there may be some more upside to come, we feel that we are better off investing in the next generation of biotechs, particularly as the recent multi-year financing cycle provides opportunity in a new class of companies.

Commentary

Reinventing the pharma business again and again takes strength, patience and long-term thinking. **Johnson and Johnson** is a company with such attributes. JNJ traces its roots back to 1886 when it was founded by three brothers. The focus then was on sterile surgical dressings, first aid, wound care as well as baby products. Since then JNJ has kept true to those products, but also reinvented itself frequently, despite having only had seven different CEOs in its 130 year history.

Enduring leadership as well as the ability to reinvent itself are what make this company tick. Over the past 10 years it was the pharma division that had to dig deep and refresh itself, while in the coming years it will be for the medtech and consumer business to follow suit. The Fund has owned JNJ for a while and we recently increased our position as we feel JNJ has a proven recipe for continuous growth which is based on being agnostic to externally sourced products or technologies, while also being decisive in divesting products and divisions.

To make such a culture work requires an entrepreneurial mindset, having a network in place that is out in the field spotting new opportunities and in the end negotiating good deals as well as managing the relationships with respective partners. JNJ has demonstrated all of the above, particularly in its pharma division.

Ten years ago JNJ pharma was facing a steep patent cliff, with almost 50% of the business due to face generics, while its Epogen franchise (another 12% of sales) was also in decline due to higher safety scrutiny. At the time we saw several pipeline opportunities emerge and built a position over time. Today these troubles are history, new products have more than made up for the losses and JNJ's focus on therapy franchises has become stronger, providing leverage for the business. There have been setbacks along the way, but overall JNJ managed its expenses well and generates a very decent cashflow.

This success in pharma has come from acquisitions that date back to 1999 (Centercor was a key acquisition for JNJ) as well as a myriad of licensing deals that occur every year. JNJ's specialty is to license phases 1 and 2 assets and allow its internal engine to manage late stage development. This means JNJ can bring its commercial expertise into the development, including manufacturing as well as regulatory knowledge, which is ever more important in today's healthcare world. JNJ also makes sure that a new asset fits into its franchises[1] or that the purchase provides an instant new franchise (like the purchase of Tibotec which was a quick entry into the HIV market).

It is this external thinking that has been part of JNJ for decades. Today the company has a network of so-called 'embassies' globally. These are scouting offices based in London, Boston, Shanghai and Menlo Park, California. Then there are the 'JLABS' that provide space and technology for start–ups, and for many years JNJ has managed its own JNJ Innovation Fund. The company keeps its finger on the pulse.

Medtech is no different to pharma. While a patent cliff does not exist in medtech, JNJ had to endure competition and safety issues in its very profitable drug-eluting stent business. There were product recalls as well as a lawsuit at JNJ medtech which in the end had an effect on R&D budgets and hence on innovation. Acquisitions are also part of JNJ medtech and some have been more difficult than others. Ultimately JNJ is not afraid of looking outside for opportunities. The company today is working with Google's Verily to develop surgical robotics that fit nicely with its surgical consumables. Again, the thinking is about franchises and how they can be made stronger. Restructuring the commercial setup of medtech has been a focus in the last two years, allowing the company to adapt to today's healthcare challenges. No longer is the surgeon the target customer. It is now the hospital, as more surgeons are employed by hospitals and individual surgeons are no longer the key decision maker.

JNJ consumer also follows a similar playbook today with the focus returning to key JNJ brands and franchises. The product recall and the subsequent multi-year manufacturing clean-up had a big effect on JNJ and the company is slowly emerging from it. This has meant JNJ was happy to divest some brands, but is also happy to add others to the JNJ fold.

Overall there is a lot going on at JNJ which indicate to us that we could be seeing all three divisions once again working in unison.

Outlook

We are in an election year and with that comes volatility and uncertainty, particularly for US biotechs and pharma. Thus far the choice has been to stick with proven winners despite rising valuations. We prefer to look for neglect and make sure that a changing pricing environment is being considered by the respective management teams. The status quo of raising prices may come to an end sooner rather than later. Innovation is key for us and we are also exploring companies that offer services to the industry, be that testing, clinical trial management or manufacturing.

1 For example, Darzalex licensed from JNJ fits with JNJ's haematology franchise which already includes Velcade (multiple myeloma) and Imbruvica (lymphoma).

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified 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 in the 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$20,000 invested in the relevant Fund over five years from 30 June 2011 to 30 June 2016 relative to the relevant benchmark index (in A$) as per below (the "Index"):
   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 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.

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum Trust® Funds (the "Funds"). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or particular needs, and should not be used as the basis for making investment, financial or other decisions.

You should read the entire Product Disclosure Statement for the Platinum Trust® Funds ("PDS") and consider your particular investment objectives, financial situation and needs prior to making any investment decision to invest (or divest) in a Fund. You should also obtain professional advice prior to making an investment decision. You can obtain a copy of the current PDS from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 02 9255 7500 or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

No company or director in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. To the extent permitted by law, no liability is accepted by any company in the Platinum Group or their directors for any loss or damage as a result of any reliance on this information. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

Some numerical figures in this publication have been subject to rounding adjustments.

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.