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January 2020

Altrinsic Emerging Markets Equity Commentary – Fourth Quarter 2019

Dear Investor,

Global markets ended the year on an optimistic note, as synchronized policy easing and an imminent trade deal between the U.S. and China boosted equities, commodities, and emerging market currencies. Monetary easing and an increasing amount of fiscal stimulus across developing markets boosted cyclical stocks, despite persistent downgrades to global GDP growth expectations. The signing of the phase one deal between the U.S. and China is a positive milestone, but complex, ideological differences between the two countries mean a lot of work lies ahead for subsequent negotiations.

The Altrinsic Emerging Markets composite returned 10.3% during the quarter and 16.5% for the full year, trailing the 11.8% and 18.4% returns by the MSCI Emerging Market Index, as measured in U.S. dollars.[1] Cyclicals led the rally during the fourth quarter, specifically several large-cap, highly valued e-commerce and semiconductor stocks to which we had no exposure. Our investment process led us to an overweight in more attractively valued technology services and consumer staples stocks, which trailed the broader market.

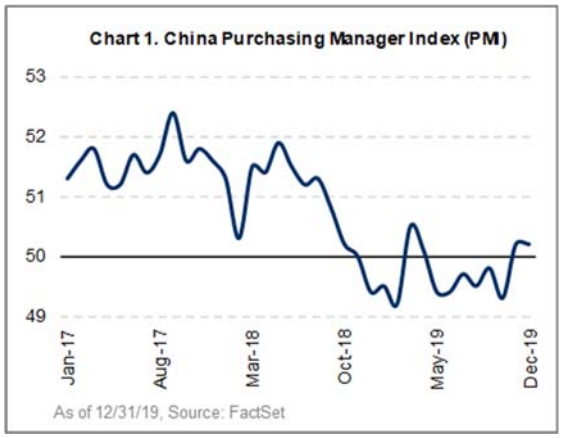
The most positive contributors to relative returns came from holdings in the industrial and consumer discretionary sectors, including Delta Electronics, a Taiwanese maker of factory automation equipment, Vipshop, a Chinese e-commerce platform, and Wynn Macau, a casino operator in the special administrative region of Macau. Detracting from relative performance were the information technology and energy sectors. The fund did not own most of the highly valued technology growth stocks that drove index performance, nor was it exposed to the Russian oil and gas space, which marched higher on the back of rallying energy prices. From a geographic perspective, holdings in South Korea added the most to relative performance, notably Naver, the country's leading internet portal, and Samsung Electronics, the world's largest manufacturer of memory chips. Taiwan and Brazil weighed on the fund's relative returns, as we did not hold Taiwan Semiconductor and Ambev, Brazil's leading brewer, reported disappointing volumes and market share.

Trading activity during the quarter was modest; we added one new position, Infosys, and exited four positions, Komercni Banka, Dish TV, Sogou, and China Mobile. Infosys is a tier 1 Indian IT outsourcing vendor. As the global IT services market has matured, Infosys has charted a path as a solutions provider for its clients' journeys in digital transformation. The company's shares sold off in late 2019 to less than 17x earnings on whistle-blower allegations of irregularities with several recent client wins. After engaging with management on the nature of the allegations and possible outcomes, we were comfortable that Infosys and its external auditors were investigating these complaints objectively and that any impact on the company will be manageable. The sales were executed to make room for other names in the portfolio or because there was a change in the thesis, so that we no longer had a compelling risk/reward outlook on the stock. The portfolio

ended the year with 55 positions, consistent with our aim of concentrating exposure in our highest-conviction investments.

In aggregate, we added modestly to the fund's overall exposure to China but remain significantly underweight at 24% (vs. 34% for the index), as we find more compelling ideas elsewhere. An initial trade deal between China and the U.S. is set to be signed in early January and has led to the suspension of further tariffs on $160 billion of imported products and the partial rollback of prior levies on $120 billion of imports. In return, China has agreed to the resumption and increase of agriculture and capital goods purchases from the U.S., the opening of its financial sector, assurances on intellectual property protection, and curbing forced technology transfers. We are skeptical about the impact and enforcement of most of these concessions, as the latter two have been agreed to before and the opening of China's financial services industry is already well underway.

As we consider the prospects for subsequent negotiations, we are concerned that ideological differences on the role of the Chinese state in the economy will prove difficult to reconcile. In particular, the deeply held grievance of the Trump administration, the belief that China unfairly subsidizes its state-owned companies to the detriment of U.S. competition, is neither refuted by China, nor is it a policy China seems willing to negotiate away. The promise of an immediate opening of a second phase of trade negotiations seems destined for more of the false starts that plagued the phase-one discussions over most of 2019. The diminishing trust between the two countries is likely to fortify China's long-term drive toward self-sufficiency, particularly when it comes to critical core technologies for which it is still reliant on the U.S. However, developing indigenous substitutes for U.S. chip designs will take years, if not decades, and acquiring advanced chip technology has been all but categorically banned by U.S. regulators on national security grounds. Therefore, it will be in China's best interest to remain engaged in trade discussions to reduce the risk of another embargo by the U.S. on the export of leading-edge technology to China, akin to the temporary ban on certain components and software sales to ZTE in 2018. After mediocre manufacturing data from China in 2019, we expect the tariff war détente to lead to a modest rebound in 2020 (see Chart 1). The fund's holdings in Delta Electronics and Airtac International, both providers of industrial automation equipment, should be beneficiaries of a Chinese manufacturing recovery.

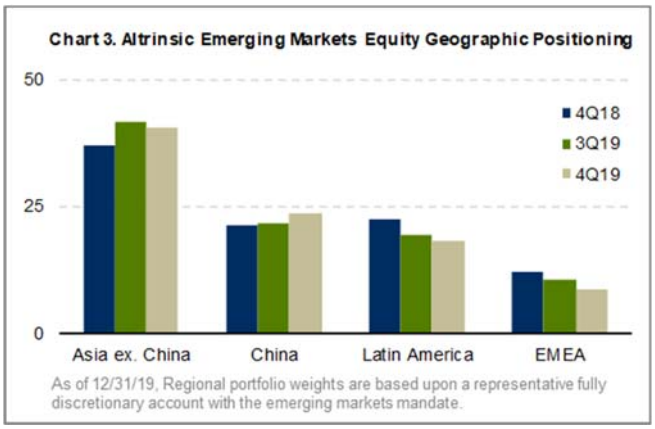


An additional incentive for keeping trade discussions going and the Trump administration's finger off the tariff button is to allow China to focus on domestic issues, including capital market modernization and state owned entity (SOE) reform and de-leveraging. While SOE reform has proceeded with fits and starts under the current five-year plan (2016 – 2020), we see steady progress on other fronts. After a rapid increase following the global financial crisis, corporate debt levels in China have stabilized over the past two years, albeit they are still high by global standards (see Chart 2). In addition, China's financial system, which has historically offered plain vanilla products, has been shielded from competition by regulations limiting foreign entrants to minority stakes with a local joint-venture partner. Those restrictions are being scrapped, and plans

are being finalized for 100% ownership by foreign brokerage and insurance operators. The inevitable increase in competition should be compensated for by incremental demand for more sophisticated, higher-margin services. We believe that Citic Securities, a leading Chinese broker, is well positioned to benefit from these changes, including more robust capital market activity and the opportunity to win lucrative advisory work. Citic shares currently trade at 13x earnings.

Reforms in India over the past several years have proven to be far more disruptive. Centralization of the country's goods and services tax (GST) regime in 2017 has been plagued with cumbersome administration and a consistent failure to deliver the expected tax revenue to the government. The bad debt, which has accumulated in the country's public sector banks and its labyrinth of shadow banks, has constrained credit to key parts of the economy, including housing and vehicle finance. The government has responded with aggressive cuts to the corporate tax rate and further tax incentives for private investments. The Reserve Bank of India cut policy rates for most of 2019, but none of these actions seems to have meaningfully boosted growth. During the quarter, we continued to trim our position in ICICI, one of India's leading private sector banks, as its shares approached our estimate of intrinsic value. We also trimmed Bharti Infratel, the lessor of cellular phone towers. A recent Supreme Court ruling in favor of the government has resulted in massive tax liabilities for the three mobile telecom operators, potentially leading to the exit of one player and leaving the market to operate as a duopoly, threatening a key pillar of Infratel's tower-tenancy growth thesis. We continue to find more compelling value in the Indian IT services sector, where demand for digital solutions (artificial intelligence, cloud migration, etc.) is driving medium-term growth and margin expansion.

More broadly, the fund's largest geographic exposure is to Asia. This includes a large, differentiated concentration in South Korea, where we continue to see compelling value in the banks and a favorable environment for Samsung Electronics. Our research shows a positive demand and pricing environment for memory chips, one of Samsung's key products. We have been modestly trimming our exposure to Latin America. Still, we maintain a non-consensus overweight, as the Brazilian economy continues to recover and our analysis shows that Mexico will return to growth in 2020, after some missteps by the new government in 2019. Positioning in the EMEA region has been decreasing steadily over the past year, as macro and geopolitical challenges continue to create a difficult backdrop for most of the companies in our analysts' farm teams. During the quarter, we trimmed our exposure to Garanti Bank, as it recovered from the depths of the 2018 crisis in Turkey and approached our estimate of intrinsic value. (See Chart 3 for a summary of our geographic positioning.)



As we contemplate risks in the year ahead, rising tensions in the Middle East are front of mind, with the possibility of actions by global and regional powers leading to disruptions in the energy markets, among other consequences. The confrontation between the U.S. and Iran may become even less predictable as we approach the U.S. presidential election in the fall. In addition, decelerating global growth and an unclear outcome for future U.S./China trade negotiations will make private investment decisions all the more complicated. A less-imminent threat, but one that we will be monitoring diligently in the quarters and year ahead, is the unabated rise in debt levels across emerging markets.

Markets have responded positively to the recent de-escalation of the tariff war between the world's two largest economies. Policy makers and central bankers have stepped up to help backstop growth and employment, but our analysis points to slowing growth in the year ahead. The portfolio is positioned for this modest growth environment with limited cyclical exposure and conservative estimates used in our models. In addition, we seek out companies with strong balance sheets and financial flexibility, which helps position the portfolio to take advantage of market and industry disruptions during periods of volatility.

We appreciate your interest in Altrinsic and welcome your questions or comments.

Sincerely,
Srinivas Polaki
Chip Powell

[1] *Performance is presented gross of management fees and includes the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Past performance is not indicative of future results. The outlook and opportunities noted throughout this letter are the opinions of Altrinsic as of the date of this letter. There is no guarantee that we will be successful in implementing investment strategies that take advantage of such perceived opportunities. Please see Important Considerations and Assumptions at the end of this letter for additional disclosures.*

ALTRINSIC EMERGING MARKETS EQUITY COMPOSITE
FULL DISCLOSURE PRESENTATION

	Total Firm	Composite Assets			Annual Performance Results				Ex-Post Standard Deviation (3 Yr Annualized)	
Year to Date	Assets (millions)	USD (millions)	% of Firm Assets	Number of Accounts	Composite Gross	Composite Net	MSCI EM (Net)	Composite Dispersion	Composite	MSCI EM (Net)
2019	7,397	92	1%	Five or fewer	16.45%	15.36%	18.42%	N.A.1	13.21%	14.17%
2018	6,284	79	1%	Five or fewer	-17.05%	-17.84%	-14.58%	N.A.[1]	13.31%	14.60%
2017	7,259	97	1%	Five or fewer	30.24%	29.03%	37.28%	N.A.[1]	14.81%	15.35%
2016	7,107	78	1%	Five or fewer	13.75%	12.69%	11.19%	N.A.[1]	15.98%	16.07%
2015	8,927	34	0%	Five or fewer	-14.82%	-15.64%	-14.92%	N.A.[1]	N.A.	N.A.
2014	11,656	48	0%	Five or fewer	-2.72%	-3.64%	-2.19%	N.A.[1]	N.A.	N.A.
2013	14,261	50	0%	Five or fewer	-1.13%	-1.83%	-1.00%	N.A.[1]	N.A.	N.A.

N.A. - Information is not statistically meaningful due to an insufficient period of time.

N.A.[1] - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

*Results shown for the year 2013 represent partial period performance from April 1, 2013 through December 31, 2013.

The Altrinsic Emerging Market Equity Composite is a diversified (typically between 50 - 80 holdings), bottom-up, fundamental, value oriented, Emerging Market focused portfolio, benchmarked to the MSCI Emerging Markets (Net) Index. The MSCI Emerging Markets (Net) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of emerging markets. Portfolios in the composite may invest in countries that are not in the MSCI Emerging Markets (Net) Index. Additional information is available upon request. The minimum account size for this composite is $5 million. Returns include the effect of foreign currency exchange rates.

Altrinsic Global Advisors, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. Altrinsic Global Advisors, LLC has been independently verified for the periods from December 8, 2000 through June 30, 2019.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Altrinsic Emerging Markets Equity Composite has been examined for the periods beginning April 1, 2013 through June 30, 2019. The verification and performance examination reports are available upon request.

Altrinsic Global Advisors, LLC is a registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Withholding taxes may vary according to the investor's domicile. Composite returns represent investors domiciled primarily in Australia, United States, and Canada. The MSCI Emerging Markets (Net) Index deducts withholding tax by applying the maximum rate of the company's country of incorporation applicable to non-resident institutional investors. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance was calculated using the highest applicable annual management fee of 0.95% applied monthly. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule is 0.95% on the first $25 million, 0.85% on the next $50 million, and 0.75% on the remainder. Some accounts may pay incentive fees. Actual investment advisory fees incurred by clients may vary.

The Altrinsic Emerging Markets Equity Composite was created April 1, 2013

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