ALTRINSIC

July 2018

Altrinsic Emerging Markets Equity Commentary – Second Quarter 2018

Dear Investor,

The Altrinsic Emerging Markets Equity portfolio delivered a -5.4% return during the second quarter, outperforming the 8.0% decline by the MSCI Emerging Markets Index as measured in U.S. dollars.[1] Rising U.S. interest rates, election uncertainties, and escalating trade tensions led to a further market correction and increased volatility. The dominant themes of the last few years – narrow leadership and tight correlation – have started to weaken, allowing stock selection to add relative value. However, absolute returns were well below our expectations as macro forces overwhelmed stock-specific factors. Given the ongoing unwinding of the Fed's stimulus programs, we expect further dislocations in currencies and assets dependent on U.S. dollar-denominated funding. Regarding trade tensions, while a renegotiated NAFTA agreement is likely, intractable issues such as intellectual property protection and level of state intervention in the economy underlie the dispute with China. We are not convinced that meaningful progress can be achieved on these fronts, but the fear of unintended consequences and the U.S. political calendar could eventually lead to a temporary truce. High debt levels, elevated risks from trade tensions, and lofty technology sector valuations contributed to our underweight exposure to China. We are overweight Latin America where we see improving bottom-up fundamentals with strong valuation support.

Stock-specific factors were the primary drivers of outperformance during the quarter, led by holdings in financials (Banorte and Fubon), consumer (Televisa), energy (PetroChina and Tenaris), and industrials (ZTO Express). The greatest sources of negative attribution were derived from materials (Loma Negra) and technology (Cielo). From a geographic perspective, Mexico, China, and South Africa added to the relative attribution due to stock selection, while those in Brazil and Argentina detracted value.

Investment activity during the quarter largely consisted of further concentration among our highest-conviction holdings with proceeds from the sale of eight small positions, which we had reduced in previous quarters. This activity reflects confidence in our positioning, adherence to our sell discipline, and an evolving set of investment opportunities. There were no meaningful changes to the major exposures and risks embedded in the portfolio. The portfolio's positioning is summarized as follows:

- Overweight Brazilian companies, where we see superior risk/return tradeoff
- Differentiated financial exposure to the insurance and payment-processing segments
- Significant overweight exposure to Mexican equities, with a primarily domestic focus
- Large underweight to the technology sector, particularly the hardware industry

We remain overweight Brazilian stocks, where we see a compelling combination of low valuations and opportunities for further improvement in profitability. In the most recent correction, the Brazilian market fell over 26% in U.S. dollars, as investor hopes of an accelerating recovery were dashed by a trucker strike that ground economic activity to a standstill. Additionally, the government's intervention to lower fuel prices, the key objective of the truckers' industrial action, led to investor panic. As we look ahead, business and consumer confidence will be further tested over the coming months, as the upcoming presidential election campaigns hit full swing. While volatility is likely to be the norm, our recent travel through Brazil highlighted the progress that has been made since the impeachment of former president Dilma Rousseff.

During the depths of the crisis, investors were looking for progress on four fronts: (i) lower inflation, (ii) lower interest rates, (iii) lower fiscal deficits, and (iv) political reform. Clearly, Brazil has made progress on all four fronts with inflation and interest rates down dramatically, but the next government's challenge will be to finalize a workable pension reform bill to keep Brazil's fiscal account above water. Our meetings with government officials highlighted the fact that Brazil's institutions have matured through the crisis and politicians, having been through the depths of the crisis, realize the perils of not acting.

From a current macroeconomic viewpoint, meetings with commercial banks, Banco do Brasil and Bradesco, highlighted three key points: asset quality is improving and, in some pockets of their loan books, improving rapidly; the pressure on lending spreads from falling rates is being mitigated by adjusting their loan mix; but corporate/SME (small and medium enterprises) borrowing was mainly for working capital management, not investment or expansion. On the latter point, Bradesco mentioned that capacity utilization in the country improved to 75%, although this is below the 80% point where the bank typically starts to see the kickoff of a capex cycle.

We met with retailers and banks who commented on the resiliency of the higher-end consumer, the budding recovery of SMEs, and improving credit demand. Iguatemi, a high-end shopping mall operator, noted that its target demographics had continued to shop, even throughout Brazil's recession, and the aspirational middle-class shoppers are slowly returning to the malls.

Given the macroeconomic and political reality, Brazilian valuations have come down significantly with a wide dispersion in valuations. The common features within our holdings include healthy balance sheets, dominant market positions, strong free cash flows, and improving margins. In the IT services sector, we own Totvs, a provider of Enterprise Resource Planning (ERP) software to local SMEs, which should see an acceleration in licenses and subscriptions as employment rebounds. Consumption accounts for two-thirds of GDP in Brazil, and the balance of our positioning is geared toward a consumption recovery, including regional brewer Ambev and local payment processor Cielo. In addition, we continue to see margin upside for Telefonica Brazil, the leader in higher value, post-paid mobile subscribers and a provider of high-speed fixed internet services in urban centers.

Our second area of concentration is an overweight exposure to banks in Southeast Asia (ASEAN) and insurance companies in North Asia. Our bank positions in ASEAN includes exposure to Thailand, Indonesia, and the Philippines. We continue to focus on well-capitalized, sensibly managed franchises, in which near-term economic or competitive uncertainty has created excessively cheap valuations. A recent addition to the portfolio was Siam Commercial Bank (SCB), a leading Thai bank. SCB is trading near all-time low valuations due to concerns around its increased technological investment and potential losses on its loan book. We believe the bank's extremely high capital buffer can weather most economic storms, and while technology investments may hurt earnings in the

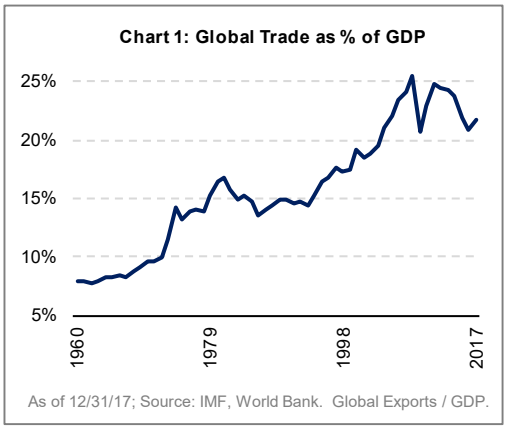
short-term, it improves the bank's ability to cross sell services and offer a better overall customer experience. Our positioning in the insurance space includes property and casualty carriers PICC P&C in China and Samsung Fire & Marine in South Korea. Both are executing well in their core auto segments, delivering stable underwriting margins and improving returns on equity. The share prices of both insurers assume a dramatic fall in their return profiles that we think is unlikely given their operating discipline and prudent risk pricing.

The third source of differentiation consists of our positions in Mexico. Stock market volatility over the past year has been driven by election fears and trade tensions. However, the Mexican economy has continued to perform well with real wage growth, consumer banking activity, and foreign worker remittances – all in positive territory. Additionally, Mexico's President-Elect Andrés Manuel López Obrador (AMLO) has openly endorsed NAFTA, and he seems to have been a catalyst in recent discussions with U.S. officials. While further hiccups are always possible, a successful conclusion to NAFTA 2.0 seems likely, allowing for the current environment of moderate growth to continue against a backdrop of manageable inflation and stable monetary policy.

The portfolio's two largest holdings in Mexico are Grupo Televisa and Grupo Financiero Banorte. Televisa is entering a period of accelerating free cash flow generation, as cable capex moderates and prospects for its advertising division are improving due to better ratings from a refreshed programming slate. Banorte is well positioned to benefit from the tailwind of widening lending spreads as well as improving efficiency after several years of investments in technology.

In the last group of stocks within technology, we retain a cautious positioning given elevated valuations. We sold out of our long-held positions in SK Hynix, the Korean DRAM memory manufacturer, HCL Technologies, the Indian IT services company, and JD.com, the Chinese e-commerce company, as the discounts to our intrinsic value narrowed and we found better investments elsewhere. We initiated a position in VIP.com, the Chinese e-commerce company in which both JD.com and Tencent, the Chinese social media giant, recently invested. We have long followed VIP.com, but our view was that it did not have a large enough customer base to support its infrastructure investments. Its new partners should give it access to newer customers and share logistics and warehousing infrastructure. The stock trades at an attractive 13x forward earnings, despite growth being poised to accelerate.

Looking ahead, emerging markets have greatly benefited from the rising tide of globalization and trade, measured as a percentage of GDP as shown in Chart 1. This is likely to subside given prevailing trade initiatives and protectionist policies in a growing number of nations. The erosion of the current rules-based system and deterioration of trust among participants could weigh on growth, margins, and efficiencies given the interdependency of global supply chains and networks.



With the recent selloff, we are seeing value appear in regions that would be impacted the most by a reversal of globalization trends. Korea and Taiwan's mid-cap market darlings, which benefited from China's capex investments, have corrected quickly to reasonable valuations. Also, Brazil has quickly gone from an investor favorite to a region of concern. We are evaluating a number of attractive companies with strong products that should be able to navigate the evolving global landscape. The investment environment is transitioning, following a multiyear period of cheap credit and narrow leadership. Our portfolio is well suited for these changing times with

idiosyncratic drivers, attractive valuations, healthy balance sheets, meaningful portfolio concentration, and differentiated positioning.

We appreciate your interest in Altrinsic. If you have any questions, please feel free to contact us.

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. 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)
Q2 2018	6,851	88	1%	Five or fewer	-8.00%	-8.45%	-6.66%	N.A.	15.55%	15.82%
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 December 31, 2017.

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 December 31, 2017. 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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