ALTRINSIC

January 2019

Altrinsic Emerging Markets Equity Commentary – Fourth Quarter 2018

Dear Investor,

The fourth quarter was very difficult for global markets, as prices for most risk asset classes experienced elevated volatility. Investors in emerging markets were faced with shifting growth and risk dynamics due to several macro factors, including an unclear endgame for the U.S./China trade war, decelerating U.S. economic growth, and new post-election reform priorities in Brazil and Mexico. On the policy front, emerging market central bankers and policy makers will have to contend with the transition from synchronized global growth to moderating growth and more inwardly focused decision making by their developed-market counterparts. On a positive note, we welcome the recent broadening of market leadership away from a small group of highly valued Chinese internet names that had become ubiquitous holdings amongst our emerging market peers and had overwhelmingly dictated the asset class's performance since 2016. As we survey the emerging market landscape, valuations now reflect far less-sanguine assumptions about growth. Against this backdrop, we have used the recent volatility to add to names that had fallen to attractive discounts to our estimation of their intrinsic values.

For the quarter, the Altrinsic Emerging Markets portfolio declined 7.3%, slightly outperforming the -7.5% return of the MSCI Emerging Market Index in U.S. dollars.[1] The most positive contributors to relative returns were stocks in the materials and financial sectors, including Kinross Gold (gold miner) and ICICI Bank (Indian bank), while the biggest detractors were securities in the energy and communication services sectors, including Tenaris (oilfield services equipment provider) and Baidu (Chinese search engine). Geographically, our investments in the Philippines and South Korea added the most to relative performance, including Metropolitan Bank (Philippine commercial bank) and Samsung Fire and Marine (South Korean P&C insurer), while those in Mexico and Brazil were the most significant detractors from performance, including Grupo Televisa (Mexican media conglomerate) and Cielo (Brazilian payment processor).

Weak market performance was primarily the result of falling expectations for global growth and uncertainty about the China/U.S. trade negotiations. Although declining energy prices were a boon to oil-importing countries, that benefit was overwhelmed by fears of a global trade slowdown, particularly in China, Taiwan, and South Korea, which are all heavily exposed to trade and collectively comprise 55% of the emerging market index. The fund's positioning was actually well-suited for the environment, but disappointing performance by the above-mentioned stocks kept us from better protecting capital.

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During the quarter, we eliminated eight stocks and initiated positions in three new ones. The fund ended the year with 53 positions, which is a prudent balance of concentration and diversification. Below is a brief synopsis of our new positions:

- Wynn Macau operates integrated gaming resorts in Macau. The shares had performed poorly since mid-year on fears of a consumer slowdown impacting future visitation and gaming trends. However, the Chinese government has ample tools for stimulus, and given the countercyclical nature of gaming, we are confident that any downturn will be short-lived and believe the current valuation compensates us for the near-term risk.
- Bancolombia, Columbia's largest bank, de-rated during the quarter on concerns about ongoing credit losses and poor operating efficiency. After evaluating three specific corporate exposures that are driving a substantial amount of their recent provisioning expense, we concluded that credit costs are approaching a cyclical peak and should normalize at lower levels in 2019. Furthermore, technology investments in their Central American subsidiaries are nearing completion, which will remove a major drag on the bank's operating efficiency going forward.
- Cognizant, a leading Indian IT services provider, historically outgrew the industry due to its commitment to reinvest any margin dollars above its target levels back into growth. After several quarters of disappointing top-line growth, the shares fell to 13x forward earnings on fears that growth would continue to decelerate. Our analysis shows that weak recent growth was related to a handful of client-specific issues and that, even in a slower growth world, Cognizant should be able to re-accelerate its revenue growth and deliver modest margin expansion.

Sales this quarter included the elimination of Bangkok Bank in Thailand and trim of ICICI in India; both holdings had approached our estimation of intrinsic value. We also took action on other stocks that had material thesis changes. We eliminated China Unicom, as it became clear that the ownership reforms enacted earlier in 2018 were unlikely to lead to the significant improvement in its operating efficiency or capital management we previously assumed. In addition, we eliminated Lenta and Magnit, two Russian food retailers, as it became clear that the pace of store openings by the major retailers is poised to accelerate along with aggressive promotional activity, making a satisfactory return on capital less feasible for all industry players.

Table 1. Altrinsic Emerging Market Equity Regional Positioning

	Latin America	EMEA	China	Asia ex-China
AGA EM	**21.9**	**12.3**	**22.0**	**36.9**
MSCI EM	12.2	14.5	30.4	42.9
Relative	9.7	(2.2)	(8.4)	(6.0)

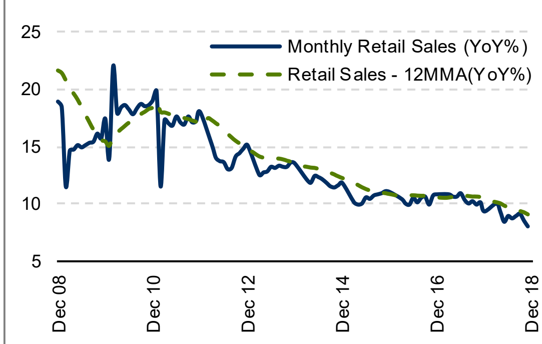
Preliminary as of 12/31/18; Index source: MSCI. Regional portfolio weights are based upon a representative fully discretionary account with the emerging markets mandate.

In aggregate, as seen in Table 1, the fund's positioning at quarter-end included a significant overweight to Latin America, where two elections during the quarter provided clear economic pathways forward. Now, Brazil's President-elect Jair Bolsonaro must deliver on his campaign promises of zero tolerance for crime and corruption as well as fiscal reform. Most importantly, revamping the country's outdated pension system, an increasingly unsustainable liability for the government, will be the first test of his sway over Congress. Although Bolsonaro's Social Liberal Party holds fewer than 10% of the seats in Congress, its coalition partners seem to be unified in their commitment to getting this legislation over the finish line. Brazil is the fund's second largest country weighting at 12%, and most of our exposure is in domestic consumer, technology, and financial services companies that have strong distribution advantages and should continue to enjoy an accelerating economic recovery after Brazil's deep recession. We have very little exposure to the country's exporters, as most listed companies sell hard commodities for which demand and pricing are likely to be weak as the global economy slows. We acknowledge that there is still risk of policy implementation delays or missteps, but we've added to our positions in Brazil as valuations discounted a far worse outcome than our analysis revealed, and we view Brazil's economic growth as poised to accelerate at a time when most other countries are decelerating.

Brazil's economic roadmap, which includes fiscal discipline and the privatization of various state entities, stands in contrast to policy direction in Mexico. President-elect Andrés Manuel López Obrador (AMLO) was officially inaugurated on December 1 and swiftly enacted several controversial measures. The most visible was his cancellation of a new airport in Mexico City, despite the several billion dollars already spent on its construction, and the launch of an economically dubious oil refinery in his home state. While these were both well-choreographed during AMLO's campaign speeches, the surprise announcement by a Senator from his Morena party that certain banking fees were to be abolished led to a broad selloff. Several discussions with Banorte, a leading Mexican bank and longtime holding in the portfolio, lent support to our own analysis that the worst-case impact of fee cuts and credit losses from contractors working on the terminated airport were manageable. Banorte sold off to 7x our estimate of forward normalized earnings during the quarter and, in the face of consensus bearishness, we elected to take a different view, adding to our position. The bank maintains prudent provisions of 130% of non-performing loans and a 14% Tier 1 capital ratio, so we feel there is adequate protection if credit quality degrades beyond our conservative base-case scenario.

Although border-wall rhetoric and the final fate of the revised USMCA trade pact may create headline risk, we are confident that amicable relations between the U.S. and Mexico will endure. From a geopolitical perspective, the two countries maintain a strategically-aligned relationship. The trade war between the U.S. and China, however, is partially rooted in the belief professed by the China hawks in the Trump administration that China represents a rising global challenge to the post-World War II rules-based order that the U.S. has promoted for over 70 years. Starkly differing ideological views make it difficult to predict the short- and long-term shape of the relationship. Despite the ninety day "cease fire" agreed to between the two countries at the G20 summit, subsequent discussions haven't yielded any clues to a future roadmap. China has stated its intention of improving access to its market, cutting tariffs on certain U.S. imports, and cracking down on intellectual property theft and forced technology transfer, but it's not clear what the U.S. is willing to accept or offer in return.

Chart 1: China Retail Sales

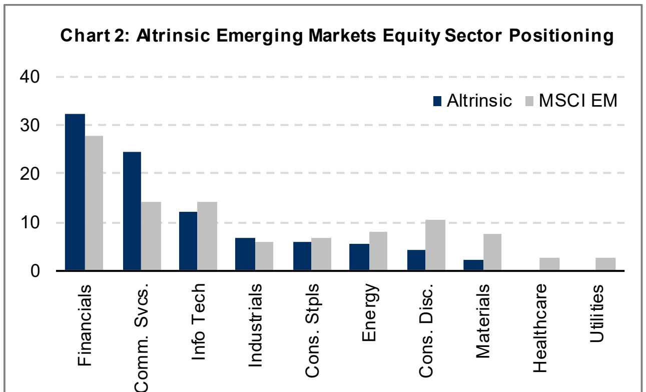


As of 12/31/18; Source: China National Bureau of Statistics, FactSet

Setting aside the trade war headlines, the more pressing near-term concern for the Chinese government is how to counteract the rapid deceleration of the domestic economy. While the threat of new tariffs from the U.S. has undoubtedly impacted consumer sentiment, we see the government's policy actions to curb shadow banking, reduce local government and state owned entity (SOE) debt levels, and rein in property prices as the main source of the current slowdown. As Chart 1 shows, retail spending has been in decline for two years and is now at a level that threatens China's growth targets. Higher debt at most levels of the economy and the much larger size of the economy itself since the global financial crisis make it unlikely that China can reuse the 2009 playbook. However, there are still numerous policy tools that Beijing is likely to employ, including fiscal stimulus from already announced tax cuts and expediting domestic infrastructure projects, further cuts to banks' reserve requirements, and loosening of property restrictions.

Whatever combination of policies Beijing pursues, there will invariably be a degree of back-pedaling on the de-leveraging crusade and a healthy dose of prodding the large state banks to extend credit to the small and medium enterprises (SMEs) that historically have been overlooked by the big lenders. We remain very cautious on the risk of policy missteps or a negative credit event in China, but we believe the medium-term course of the economy is well within the government's ability to manage. In addition to the portfolio's new position in Wynn Macau, we also added to an existing position in China Construction Bank (CCB). Chinese banks are a subject of perpetual debate internally given their unofficial mandate for national service and skepticism about their low-reported levels of bad debt. However, CCB is well-capitalized, maintains provisions at 180% of reported bad loans, and the Chinese central bank should continue to ensure ample liquidity to counter the slowing economy. The shares trade at 5.5x forward earnings and a 33% discount to our assessment of intrinsic value.

The fund's positioning is as presented in Chart 2:



As of 12/31/18, Source: MSCI EM (Net) Index. Sector portfolio weights are based upon a representative fully discretionary account with the emerging markets mandate.

Although value is starting to emerge amongst the well-known Asian internet and technology stocks, our discipline has led us to more overlooked investments, and we have been finding the most attractive opportunities in the financial sector as well as differentiated ideas in the technology and communications services space. These three sectors now comprise ~70% of the fund's exposure and can be summarized as follows:

- Telecom operators with credible margin expansion strategies and predictable free cash flow generation
- Technology equipment manufacturers in higher-value parts of the supply chain

- Financials with valuations that we believe discount a worse operating environment than our analysis indicates and maintain conservative capital buffers to absorb unexpected asset quality deterioration or higher claims experience

As the global economy transitions from a world of synchronized growth and cheap money to one of moderating growth, unwinding monetary stimulus, and more insular policy, volatility is likely to remain high. The short- and long-term outcomes of the trade dispute between the U.S. and China will likely have unintended consequences for both countries and their various supply chain partners. Against this backdrop, we expect the dispersion of returns across the emerging market stock universe to be broader than in prior years. Our rigorous research process forces us to think about a wide array of scenarios and evaluate how they affect the range of outcomes for a stock. We feel this fundamental discipline is well-suited for the environment we are likely to encounter going forward.

Thank you for your interest in Altrinsic. We welcome your comments and questions.

Sincerely,
Srini 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 opinion 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)
2018	6,284	79	1%	Five or fewer	-17.05%	-17.85%	-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, 2018.

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, 2018. 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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