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October 2019

Altrinsic Emerging Markets Equity Commentary – Third Quarter 2019

Dear Investor,

The global economy continued to slow during the third quarter, as trade tensions remained high and geopolitical risks escalated. With limited prospects for a comprehensive trade deal and reacceleration in global trade, emerging market policy makers have been pulling the traditional policy levers to confront stagnating growth. A moderating inflation outlook lowers the risk of capital outflows and downward currency pressure, allowing central banks to join the synchronized monetary easing well underway in the developed world. Manageable government deficits have also cleared the way for more fiscal stimulus and targeted tax breaks to spur domestic consumption. A third front, and one that stands to pay longer-lasting dividends, is the implementation of structural reforms, such as the pension restructuring and state owned entity (SOE) privatization initiatives in Brazil and the income tax overhauls underway in India and Indonesia. Against this backdrop, we have been concentrating the portfolio's exposure to companies with well-fortified balance sheets, steady cash flows, and valuation support.

Falling earnings expectations and weakening local currencies contributed to a 4.2% decline by the MSCI Emerging Market Index, as measured in U.S. dollars. The Altrinsic Emerging Markets Composite declined by 4.4%.[1] Holdings in communications (Naver, Korean search engine) and materials (Kinross, gold producer) added value, while holdings in energy (Tenaris, oil services) and consumer discretionary (Alliance Global, Philippine conglomerate) were among the top detractors to relative performance. From a geographic perspective, stock selection in Brazil and South Korea added relative value, while our holdings in India and Mexico detracted from relative returns.

During the quarter, trading activity was minimal with one new purchase and one sale. We initiated a position in Ctrip, the leading online travel agency out of China; its stock declined on the turbulence in Hong Kong and fears of rising domestic competition. Our research shows that the stock is excessively discounting these near-term concerns and underestimating the long-term travel growth in China. Yandex, Russia's leading internet search engine, was sold as the stock reached our estimate of intrinsic value.

In other activity, we added to an existing position in Tenaris, an oil services tubular pipe producer in Argentina, and in the technology sector, we added to Samsung Electronics in Korea, the global semiconductor leader. Both are high-quality companies with strong management teams and stocks that are excessively discounting near-term demand worries. In the financial sector, we trimmed three stocks, including ICICI Bank (India), BB Seguridade (Brazil insurer), and Garanti Bank (Turkey), that approached our estimates of their intrinsic value. We also added to banking stocks: Absa (South Africa) and PT Bank Negara (Indonesia), which had de-rated due to macro uncertainty.

There is an increasing probability that any near-term accord between the U.S. and China will fall short of providing a comprehensive road map for the future rules of trade. To stabilize their domestic economies, policy makers will need to rely on the fiscal, monetary, and legislative tools under their own control. As we look

ahead, we are seeing pro-growth policies being implemented across many economies and are particularly encouraged by structural reforms underway in several large markets.

Fiscal stimulus has been modest thus far, and we expect governments to keep some policy powder dry until a clearer picture emerges of the side effects from any U.S./China accord. To date, several countries have announced value-added tax (VAT) cuts, boosted tax deductibility for research and development, and subsidized certain key agricultural commodity prices. The current levels of government indebtedness may prevent large scale government-led stimulus in certain countries, notably South Africa and Argentina, but most Asian central governments have the ability to fund counter-cyclical programs as the need arises.

Moderating inflation expectations in most emerging countries has led to historically high real policy rates, which now give central banks further room to ease rates without undue pressure on their currencies. Table 1 shows the current nominal and real policy rates for key emerging markets. Except for Eastern Europe, where policy makers have followed their western European peers into negative real rate territory, most other countries have policy firepower going forward.

Table 1: Emerging market interest rates.
High real rates leaves room for policy easing.

	Policy Rate	3M Chg.	10Y Rate	Inflation (Core)	Real Rates Policy	Real Rates 10Y
Brazil	5.50%	▼-100 bp	6.74%	3.4%	2.1%	3.3%
Mexico	7.75%	▼-50 bp	6.83%	3.6%	4.1%	3.2%
Czech Republic	2.00%	▬ 0 bp	1.35%	2.5%	-0.5%	-1.1%
Russia	7.00%	▼-50 bp	6.58%	4.0%	3.0%	2.6%
South Africa	6.50%	▼-25 bp	8.93%	4.8%	1.7%	4.1%
Turkey	16.50%	▼-750 bp	15.27%	7.5%	9.0%	7.7%
China	4.35%	▬ 0 bp	3.19%	3.0%	1.4%	0.2%
India	5.15%	▼-60 bp	6.47%	3.9%	1.2%	2.5%
Indonesia	5.25%	▼-75 bp	7.15%	3.3%	1.9%	3.8%
Korea	1.25%	▼-50 bp	1.53%	0.5%	0.8%	1.1%
Thailand	1.50%	▼-25 bp	1.52%	0.4%	1.1%	1.1%

As of 09/30/19, Source: FactSet.

Structural reforms are the storyline that we are most excited about across several large economies since the effects can be much longer lasting than one-time fiscal spending. Brazil is close to passing a historic pension reform bill to ensure the sustainability of the system for future generations and alleviate an overhang on government finances. To date, Brazil's economic recovery has been bumpy, but we expect confidence to further improve with the passage of this pension bill. With strong public support for reforms, we believe the government is also likely to make progress on tax reform, privatization, and improving the general business regulatory environment. Brazilian companies, including our holdings, have cut costs and delivered improved profitability in the current subdued economic environment. Our holdings retain a significant upside to an improving economy.

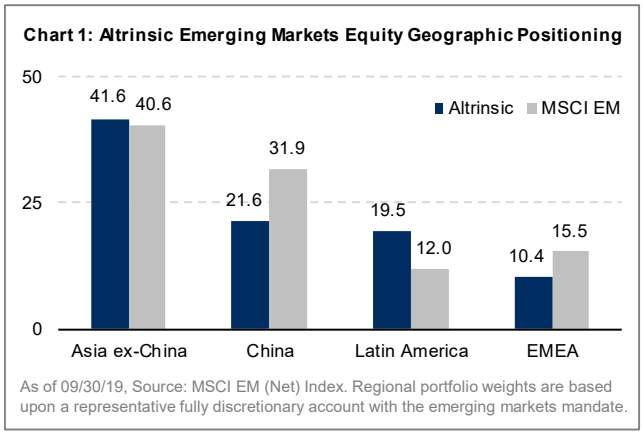
In India, Prime Minister Modi's government made commendable progress on reforms in its first term by passing a uniform sales tax and modernizing the antiquated bankruptcy system. However, the economy never got the anticipated boost because of a funding squeeze across India's ubiquitous shadow banking system and the failure of several non-banking financial companies (NBFCs) with exposure to underperforming infrastructure projects. Recently, the government took a major step forward to revive the economy with a large corporate tax rate cut (from 35% to 25% and 17% for new manufacturing plants). The government also announced the consolidation of 10 public sector (PSU) banks into four along with capital infusions. Over the past two years, 27 PSU banks have been merged into 12 more competitive entities. These steps should help improve confidence and potentially lead to a revival of a long-delayed private sector investment cycle. A

majority of our holdings in India have idiosyncratic theses that are not solely reliant on macroeconomic improvements. On recent weakness, we have been adding to holdings such as Zee Entertainment, a leading producer of entertainment content that will benefit from the loosening of credit. Zee's stock further de-rated this quarter as its promoters made disappointing progress on deleveraging at the promoter group level. At the company level, Zee has a strong balance sheet with net cash and its revenues are growing strongly, unaffected by promoter group issues. We expect the share overhang to be resolved soon, as regulatory bodies and lenders are exerting pressure and the government is working to ease the credit crunch. Zee trades at an attractive 8x EV/EBITDA.

Reforms in China have followed a less linear path with the positive effects of the restructuring of state owned enterprises (SOEs) overshadowed by trade tensions with the U.S. and regulatory overreach. The low valuation multiples applied to energy and telecom players reflects the need for greater clarity around future reorganizations. Meanwhile, growth expectations for private companies have moderated due to tariff uncertainty as well as regulatory actions in the gaming, education, and healthcare sectors. However, we are seeing positive signs on several fronts. Companies such as Petrochina are finalizing the sale of midstream assets, regulatory pressure in the gaming sector is easing with faster game approvals, and there has been positive movement on the trade negotiation front. With domestic pressures building for President Xi, in the form of violent protests in Hong Kong, and for President Trump, on the impeachment front, the likelihood of a trade deal, albeit a limited one, seems to be rising. Even a limited deal could alleviate uncertainty around Chinese companies' access to the U.S. equity and debt markets and lead to greater stability in the yuan and other Asian currencies sensitive to trade with China. Investment decisions, which have been postponed due to tariff and supply chain uncertainties, will have to be made very soon, given that demand is exceeding capacity levels for critical technology components. These disruptions have also had a pronounced impact on the neighboring South Korean and Taiwanese economies, which are heavily reliant on the technology sector. With an increasingly data-intensive global economy and new demand drivers emerging from 5G communication upgrades and foldable smartphones, an eventual pickup in technology demand will improve the economic prospects of China and its neighbors. The portfolio has direct exposure to these areas through Samsung Electronics and to technology supply chain automation through Airtac and Delta Electronics in Taiwan.

The fund's positioning is presented in Chart 1 and can be summarized as follows:

- 42% in Asia ex-China. We continue to find compelling opportunities, particularly in the technology and financial services space. Key positions include Samsung Electronics (S. Korea), Shinhan Financial (S. Korea), Siam Commercial Bank (Thailand), and Delta Electronics (Taiwan).
- 22% in China. This is a meaningful underweight, but we have seen value emerge as a result of a slowing domestic economy and uncertainty around the endgame of the trade dispute with the U.S. Key positions include China Construction Bank, Baidu, and PICC Property & Casualty.
- 20% in Latin America. We've taken a non-consensus view that industry leaders in Brazil and Mexico will be able to navigate the changing political and economic



environment. This exposure is overweight and includes positions in Ambev (Brazil), Banorte (Mexico), and Telefonica Brasil (Brazil).

Mindful of the ongoing imbalances that exist in the global economy, we are reassured by the firepower that policy makers in many emerging markets have at their disposal and excited by the significant reform efforts underway in several important economies. The attractive valuations that exist and the compelling fundamentals support a growing number of companies. The portfolio is concentrated in high-quality names with robust cash flow dynamics, strong balance sheets, and that trade at compelling discounts to our estimate of their intrinsic value.

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

Thank you,
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 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)
Q3 2019	7,072	84	1%	Five or fewer	5.58%	4.83%	5.89%	N.A.	13.10%	13.84%
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 March 31, 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 March 31, 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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