ALTRINSIC

April 2020

Altrinsic Emerging Markets Equity Commentary – First Quarter 2020

Dear Investor,

In the ten years since the global financial crisis, emerging markets have faced significant challenges, including a collapse in commodity prices, QE-induced financial market volatility, Russia's annexation of Crimea, and corruption scandals in Brazil. Largely, their people, institutions, and governments rose to meet those challenges and charted a path forward. With this COVID-19 outbreak, East Asian emerging market countries, such as South Korea and Taiwan, are managing the crisis with competence and efficiency. Other nations, with more limited healthcare infrastructure and less stable finances, will be pushed to the edge. While the path ahead is fraught with risks from widening fiscal deficits, rising debt levels, currency devaluations, and lower long-term economic growth, most governments are taking bold measures, which gives us confidence that a worst-case scenario can be avoided. We are finding value in countries where currencies and equities have sharply corrected, reflecting a highly pessimistic outcome, and in sectors such as consumer discretionary, where valuations have tumbled due to near-term demand collapse. We have been adding to industry leaders with strong balance sheets and a demonstrated history of execution through challenging conditions.

The Emerging Markets Equity composite was down 25.9%, while the MSCI Emerging Markets Index declined 23.6% in U.S. dollars.[1] We are disappointed with this performance, given the following attributes of the portfolio going into the crisis:

- Concentrated in companies with strong balance sheets
- Significant underweight to energy, including indirect petro-economy exposure
- Cash and gold (via miners) weighting of 10%
- Underweight India, with most of our holdings in IT service companies, which earn revenues in U.S. dollars

Relative performance lagged as COVID-19 impacted developed economies more severely than most emerging markets, negating some of the defensive attributes of the portfolio. For instance, our Indian IT services holdings, which are usually defensive against economic weakness in India, corrected as investors worried about the financial health of their U.S. customers. In addition, the relative resilience of the Chinese stock market, where we are underweight, negatively affected relative returns, notably the outperformance of key index heavyweights (not owning Tencent and Alibaba impacted relative performance by approximately 230 basis points). Also weighing on performance were our holdings in Brazil and Mexico, as their currencies were among the hardest hit this quarter, and disappointing performance from our bank

holdings in Thailand, South Korea, and South Africa, as valuations fell to lows last seen during the financial crisis. Among the top performers for the quarter were VIPShop, JD.com, and NetEase, which benefited from strength in online shopping and gaming. Top detractors were Ambev (Brazil Beer), Absa (South African Bank), and Bank Negara (Indonesia).

Portfolio trades were concentrated in the financial and consumer discretionary sectors where we saw compelling value emerge. Among the sales were stocks that reached our estimate of intrinsic value (Airtac, Largan, Garanti Bank), stocks that were relatively defensive through the crisis (Fubon), and ones with worsening fundamentals that we previously trimmed (Cielo and Samsung Fire & Marine). Among the new additions were stocks that got hit as consumer discretionary spending came to a halt, including Sands China, a leading Macau casino that focuses on the mass-market segment, and beer producers Heineken and Thai Beverage, both of which get a majority of their sales from emerging countries. We also initiated positions in leading financials such as AIA, the pan-Asia life insurer, and Credicorp, the dominant bank in Peru, as they sold off to compelling valuations, while long-term fundamentals remain strong.

When the imminent threats from COVID-19 begin to recede, changes on the globalization and geopolitical fronts will accelerate. Emerging markets enjoyed tailwinds over the last 20 years from the global sourcing and manufacturing model. The current crisis has highlighted the risks of this integrated global supply chain like nothing before it. The current global model will survive, but there will be important changes. We highlight below a few areas of potential change:

- Leading western companies, which largely built the current system in pursuit of productivity and new markets, will be on the defensive. They will diversify their manufacturing footprint, add buffer inventories to absorb shocks, and add redundancies to their supply chains. This will not be enough in some sectors such as healthcare, which will see a tidal wave of new regulations. We are closely following the Asian pharmaceutical companies, as they also will have to adapt.
- Factory automation and 3D printing will likely get a boost, as companies look to beef up local manufacturing footprints. Taiwanese automation component suppliers should be net beneficiaries. Our long-standing holding in Delta Electronics should benefit from this trend.
- Governments are likely to focus on securing access to key electronic components and materials. While governments have long been aware of risks to these supply chains, till now, the impetus to act was lacking in many cases. For instance, auto companies will be forced to establish local Electric Vehicle supply chains. One of our holdings, Hon Hai, the leading Taiwanese electronic manufacturing company, is looking to capitalize on these changes.
- The recent closure of Smithfield's pork processing facilities in the U.S. highlighted the risk of shortages. While food security was always an area of acute sensitivity for policy makers, supply chains have gotten more integrated in recent years with global M&A. Brazilian and Chinese food protein companies, which have been on a global M&A tear, will likely face greater regulatory costs. We are evaluating the sector to see if returns could improve due to lower competition.#

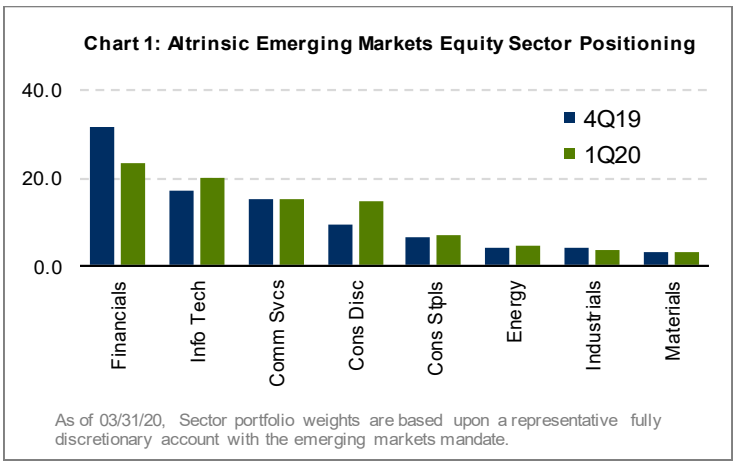
On the geopolitical front, while current alliances were already being tested, the lack of global coordination and western leadership was striking. This will make many Asian countries, such as Indonesia and Sri Lanka, which are already highly reliant on external financing, more willing to accept a greater Chinese role in their economies. The decoupling of the U.S. and Chinese economies in some industry verticals is likely to be

pushed further by regulators. For now, it's too difficult to completely decouple, and both sides have too much to lose by aggressively abandoning all commercial cooperation. China still has the world's most efficient manufacturing base, and western companies want access to China's markets.

Oil has always been a geopolitical commodity, but we never thought we would see the day when a U.S. President would actively push an oil cartel to curtail supply. While OPEC+ reached an agreement to cut oil production, oil markets will remain oversupplied in the medium term. This pandemic has the potential to permanently depress oil prices, but much will depend on the level of investments in renewable resources and the length of the current economic downturn. The portfolio remains underweight the energy sector and petro-economies.

COVID-19 is likely to be highly politicized in upcoming elections globally. The crisis clearly identified the countries that have planned ahead, the ones that proactively adapted, the incompetent ones, and the ones where trust in institutions has eroded. Some political leaders were one-dimensional and focused only on economic growth and did not rise to the challenge. Even as the severity of the crisis became evident, national leaders in Brazil, Mexico, and Indonesia did not adjust priorities, while the leaders in India and the Philippines pivoted promptly. As we look ahead, some countries may not be able to prevent the virus from spreading quickly. The economic impact of such a crisis will depend on many variables (mortality rate, time period of immunity post exposure, availability of vaccine, etc.) that are unknown at this point, and those variables will also dictate the pace and level of the eventual rebound. Given the many unknowns, we only added incrementally to high-quality companies in countries facing higher risks.

Overall portfolio weighting towards consumer discretionary has increased from 9.5% to 14.5% at the end of the quarter, as we added to industry leaders that corrected to attractive valuations. Sources of cash were in the financial sector, where we sold some stocks that reached our estimate of intrinsic value and sold others as we found more compelling names. There were not many changes in the other major sectors, technology and communications. The adjacent chart summarizes the changes in the portfolio's sector exposures during the quarter.



- Technology (20%): Concentrated in IT services companies trading at 11x P/E, which are highly free-cash-flow generative with flexibility to cut costs. Samsung Electronics, the semiconductor and consumer electronics leader, remains the largest position in the fund. The stock remains undervalued at 1.1x P/B and does not capture the value of its dominant position in memory chips.
- Communication (14%): Concentrated in leading internet companies: Naver (Korea, search engine), Naspers (South Africa, social network/other), and Baidu (China, search engine). All have net cash on

their balance sheets, continue to exhibit strong internet traffic trends, are undervalued on a sum-the-parts basis, and should benefit strongly when advertising revenues rebound.

- Financials (22%): Concentrated in South Korean and Southeast Asian banks that trade at very large discounts to intrinsic value, even with modest expectations for near-term growth and elevated credit losses over the medium term. We added new positions at compelling valuations in leading financials, such as AIA (Asian life insurer) and HDFC Bank (leader in consumer lending in India).

Even as we have been deploying capital opportunistically, we are mindful of the myriad risks that lie ahead. While most emerging market countries have debt levels that are well below developed-market peers, Debt/GDP levels have been rising for most countries in recent years and external funding needs look high for most petro-economies, except Russia. On average, currencies depreciated 15% year-to-date with the Russian ruble, Brazilian real, and Mexican peso correcting the most. Brazil and South Africa are already running large fiscal deficits, leaving them vulnerable to a debt crisis as they try to stimulate their economies. At a company specific level, we expect mounting pressure on operators of higher-cost energy assets and real estate owners. Banks, globally, are far better fortified to weather an increase in bad loans than during the financial crisis, but we are closely monitoring our holdings to ensure their provisions and capital buffers don't get depleted more rapidly than can be replaced.

The depth of the downturn and the trajectory of recovery will not be uniform across the developing markets. Countries such as South Korea and Taiwan, with adequate financial resources, strong healthcare infrastructure, and recent experience in managing prior influenza threats, are in a better position than other emerging countries that are still trying to contain the spread of the virus. However, this virus knows no boundaries and the world remains an integrated place. More than ever, the fortunes of the global economy are tied together. As fundamental, absolute-value investors, a foundational element of our investment process is to invest through uncertainty in stocks that are attractively valued, under conservative normalized assumptions. In the current volatility, we are finding many such opportunities with balance sheet strength, strong market positions, and compelling valuations.

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 disclosure.*

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)
2020 YTD	5,890	68	1%	Five or fewer	-25.88%	-26.08%	-23.60%	N.A.1	16.70%	17.12%
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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