ALTRINSIC

October 2020

Altrinsic Global Equity Commentary – Third Quarter 2020

Dear Investor,

Equity markets delivered solid gains during the third quarter, propelled by significant upward revisions to corporate earnings prospects, low interest rates, and a US Federal Reserve policy announcement suggesting that interest rates will be kept low for the foreseeable future. COVID-19 case counts remain elevated and economic conditions generally remain pressured, but recent data has been trending better than consensus expectations. As stock markets appear to be discounting further economic improvement, they continue to be led by a small group of highly-valued "new economy" stocks that are discounting aggressive long-term growth – a reality that may be difficult to achieve.

Perspectives

Three developments have had an overwhelming influence on market performance, valuations, the "growth" versus "value" debate, and the narrow leadership by widely popular and highly priced growth stocks: 1) an orderly decline in interest rates and the resulting duration impact on "growth" equities and riskier assets, 2) a supply/demand imbalance in equity markets with scarcity value accruing to a shrinking number of companies actually delivering attractive revenue growth, and 3) a virtuous cycle in which both passive and active flows disproportionately acquire a small number of new economy "growth" stocks, which represent a large and growing portion of market indices.

Developments involving these underlying forces will have a significant bearing on investors' absolute and relative performance, with a change in market leadership a likely consequence.

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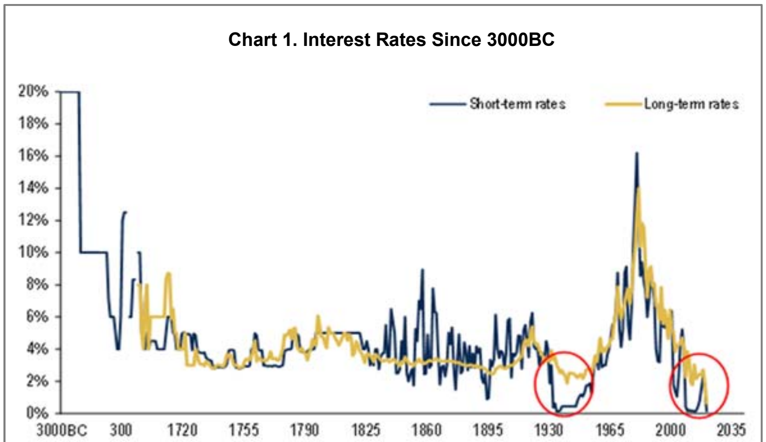
The secular and orderly decline in interest rates has had a prolific impact on equity valuations – especially new economy "growth" stocks. All assets are valued in reference to risk free rates and lower rates increase the present value of future cash flows. Those companies with cash flow generation furthest in the future (longer duration or "growth" equities) are the greatest beneficiaries of low rates. As interest rates (or "discount rates") approach zero, present values theoretically approach infinity. This is the equity market's version of bond convexity.

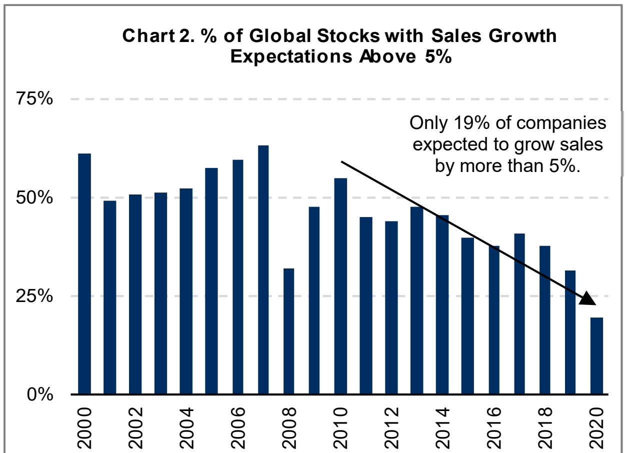


Source: Bank of England, Global Financial Data, Homer and Sylla 'A History of Interest Rates', (2005); Courtesy of Michael Hartnett, Chief Investment Strategist, Bank of America Merrill Lynch.

A one percentage point drop in a company's discount rate, from 9% to 8%, leads to a 36% rise in the present value for long duration growth stocks but only a 17% increase for short duration value stocks. The same one percentage point drop from 8% to 7% results in the present value of future cash flows rising by 53% and 20%, respectively. That's convexity at work.[1]

Many companies have rightly been rewarded for their innovation, but the importance of interest rates is underappreciated. Chart 1 illustrates the historically unprecedented nature of this decline. The future path for inflation and interest rates suggests a skew that will likely be less favorable than in the past. Simply put, this sword cuts both ways.

The supply/demand imbalance within equity markets results in a scarcity value accruing to a declining number of companies able to deliver above-average revenue growth. Global economic growth has been slowing for several years, and competitive dynamics have further weighed on corporate earnings growth. At the same time, market consolidation has led to fewer publicly listed companies. Consequently, the percentage of listed companies with expectations of 5% growth has shrunk from 55% to 19% since 2010, as shown in Chart 2. Scarcity has been rewarded as investors bid up the small number of companies with these characteristics. As valuations and expectations continue to rise, the consequences of disappointment become increasingly asymmetric. Improving economic conditions, rising inflation, changes in interest rates, increasing competition, and/or regulation are possible catalysts for change.



As of 09/30/20; Source: MSCI, FactSet. Note: Sales growth expectations refers to 2-year consensus sales CAGR expectations.

A virtuous, circular, and procyclical dynamic has emerged that will reverse at some point. Assets in US ETFs and index funds reached $7 trillion in 2019, exceeding the amount controlled by active managers. The popularity of, and flows into, these vehicles goes disproportionately to those stocks with the largest weights, regardless of fundamentals or valuations. Adding to this phenomenon are the flows to "growth" strategies which are increasingly concentrated in these same crowded stocks. In the US, the five largest stocks in the S&P 500 (Microsoft, Apple, Amazon, Alphabet, and Facebook) now represent approximately 24% of the total market capitalization (see Chart 3).

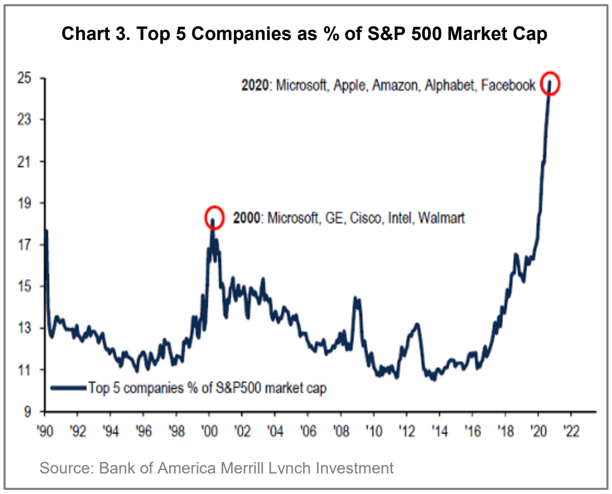


Chart 3. Top 5 Companies as % of S&P 500 Market Cap

Source: Bank of America Merrill Lynch Investment

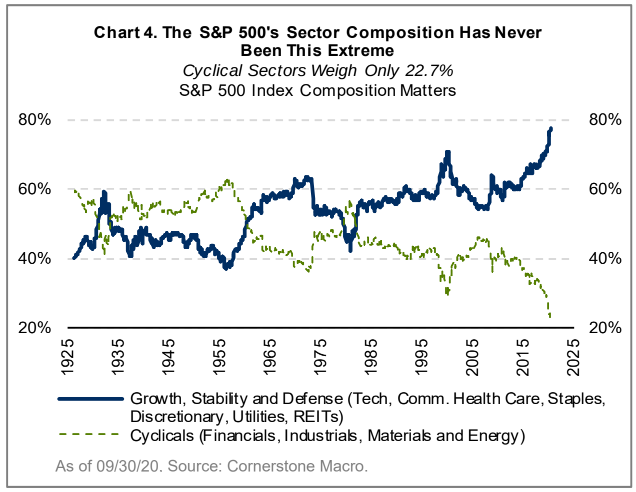


Chart 4. The S&P 500's Sector Composition Has Never Been This Extreme

Cyclical Sectors Weigh Only 22.7%

S&P 500 Index Composition Matters

As of 09/30/20. Source: Cornerstone Macro.

In aggregate, "growth" stocks have exceeded their historical peak representation, while more cyclical businesses have fallen below previous troughs. While we only have data to show for the S&P 500 (see Chart 4), global markets exhibit similar trends. Risks emanating from this phenomenon are increasingly asymmetric, intensifying the longer it persists.

We continue to believe that equities offer investors the most rewarding opportunity set as we navigate an environment that is very different than past experiences. However, conditions are supportive of an increase in volatility and a change in market leadership as the orderly decline in interest rates has largely run its course and the greatest beneficiaries of this trend have seen their valuations stretched; disruptors have become dangerously large representations in indices (see Chart 5) and priced for perfection.

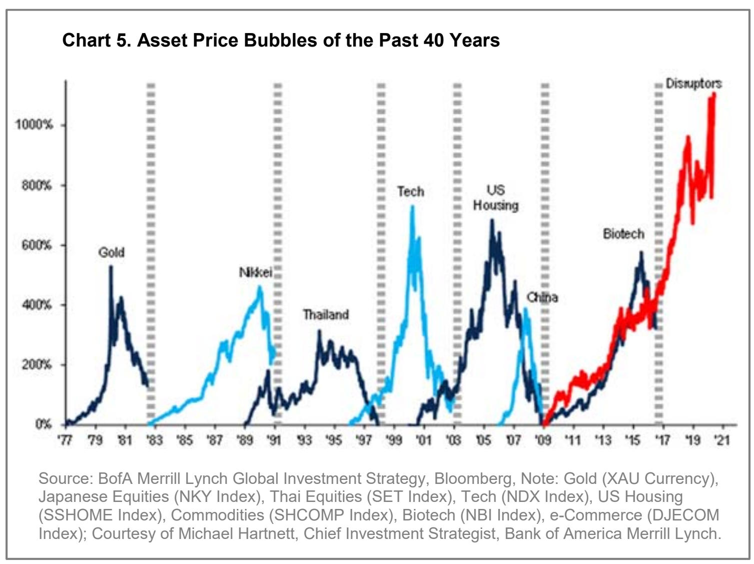


Chart 5. Asset Price Bubbles of the Past 40 Years

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, Note: Gold (XAU Currency), Japanese Equities (NKY Index), Thai Equities (SET Index), Tech (NDX Index), US Housing (SSHOME Index), Commodities (SHCOMP Index), Biotech (NBI Index), e-Commerce (DJECOM Index); Courtesy of Michael Hartnett, Chief Investment Strategist, Bank of America Merrill Lynch.

Performance and Investment Activity[2]

The Altrinsic Global Equity portfolio gained 3.3% during the third quarter, as measured in US dollars, lagging the 7.9% increase by the MSCI World Index. Not following the crowd weighed on relative performance during this period due to our lack of holdings among popular and pricey e-commerce and other "new economy" stocks. Simply not owning Apple, Amazon, Tesla, and Facebook negatively impacted performance by almost 200 basis points. Weakness in health care (Astellas, Glaxo, Sanofi, and Ionis), consumer discretionary (Nordstrom), and financials (Chubb, AXA, Hartford, and Zurich) were also sources of negative attribution.

Health care was the most notable underperformer given the uncertainty around the US presidential election and delayed consumer spending amidst COVID-19 worries. Our position in Astellas Pharma fell 12.9% during the quarter as a recently-acquired gene therapy drug was put on clinical hold, and the company revised operating profit due to COVID-19 headwinds. These issues are temporary, obscuring the fact that its prospects and pipeline are robust – more than making up for pending patent expiries. GlaxoSmithKline reported weak quarterly results as the COVID-19 benefit seen in Q1 consumer health sales reversed and routine vaccine (pediatric, shingles, and travel) sales plummeted. Resolving the uncertainty around the US election and the direction of health care policy should help sentiment toward the sector as key policy proposals still preserve the link between innovation and pricing power.

Given the global economy's precarious underlying condition, we would expect to see even more dislocations and distressed assets. However, policy stimulus (24% of GDP) and measures that in many ways nationalized investment-grade credit risk have not only elevated valuations but also kept natural market forces from playing out. This has prevented the global economy from sinking into depression, but we are still in a fragile, quasi-recessionary environment.

Our discipline leads us to less crowded areas of the market. On this path we see greater investment propositions among attractively-valued and often misunderstood businesses with the scope for long-term value creation and improving returns. These opportunities are more challenging to uncover and therefore underappreciated in the public markets. The greatest representation of these ideas is currently in the financials, health care, consumer, technology, communications, and industrial industries. Table 1 provides a cross-sectional view of the portfolio's geographic and industry risk exposures.

Table 1. Altrinsic Global Equity Portfolio

			N. AM		EUROPE		JAPAN		OTHER	
	AGA	Index	AGA	Index	AGA	Index	AGA	Index	AGA	Index
	97.4	100.0	39.9	68.2	43.3	20.5	9.9	7.9	4.3	3.4
Comm Svcs	9.7	8.9	4.1	7.2	3.7	0.9	0.7	0.8	1.3	0.1
Cons Disc	8.3	12.6	5.8	8.9	2.1	2.1	--	1.4	0.4	0.2
Cons Stpls	11.5	7.3	2.4	3.5	8.6	3.1	--	0.6	0.4	0.2
Energy	2.4	2.5	1.3	1.6	0.8	0.8	--	--	0.3	0.1
Financials	25.3	12.1	7.2	7.1	12.1	3.1	4.1	0.7	2.0	1.2
Healthcare	16.2	13.7	5.2	9.1	8.7	3.3	2.3	0.9	--	0.3
Industrials	6.2	10.6	1.8	5.7	2.6	2.7	1.8	2.0	--	0.3
Info Tech	8.4	21.8	5.1	19.4	3.4	1.7	--	0.7	--	0.1
Materials	4.9	4.4	3.5	1.9	1.4	1.8	--	0.4	--	0.4
Real Estate	1.7	2.7	0.8	1.9	--	0.3	1.0	0.2	--	0.4
Utilities	2.7	3.3	2.7	2.0	--	0.9	--	0.1	--	0.1

Portfolio Risk Summary

- Concentration in three areas:
  - I. Quality global franchises
    - –eg., Nestlé, Heineken, Roche, Chubb
  - II. Japanese companies with depressed valuation, improving financial productivity
    - –eg., Sumitomo Mitsui Trust, Tokio Marine, Makita
  - III. Event driven, idiosyncratic, and/or "deeper value" plays across industries
    - –eg., Nintendo, Liberty Global, Grupo Financiero Banorte, Bureau Veritas
- Significantly overweight non-U.S. versus U.S.
- Large exposure to financials. Significantly underweight Western banks.

As of 09/30/20; Source: MSCI World (Net) Index. Sector and regional portfolio weights are based upon a representative fully discretionary account with the global mandate. Please note that fractional differences in the portfolio's totals may occur due to Excel's rule-based rounding. The securities identified above are not necessarily held by Altrinsic Global Advisors, LLC for all client portfolios, and should not be considered a recommendation or solicitation to purchase or sell these securities. It should not be assumed that any investment in these securities was, or will be, profitable.

Following our most active episode ever, during the depths of the COVID-19 meltdown, the pace of new purchases has since slowed but remains healthy. We established new stakes in AutoZone and Cisco Systems and sold our positions in Willis Towers Watson and Baker Hughes.

AutoZone is the largest retailer in the consolidating auto parts aftermarket with a proven track record of industry leading ROIC. The company has a long runway to achieving a compound EPS at a mid-teens rate by simplifying inventory complexity and accelerating commercial sales. AutoZone is a quality compounder with significant optionality on accelerating growth in the auto parts aftermarket.

Cisco Systems is the leading Western networking equipment company. Its products are mission-critical with demand driven by the continued growth in internet usage and bandwidth requirements. The company also has a large installed base that is difficult to displace. Under the leadership of CEO Chuck Robbins, Cisco is transitioning its business to a higher mix of recurring and software-related revenue, supporting margin expansion and a valuation re-rating.

Having executed on its long-term transformation, and with its pending acquisition by AON, Willis Towers Watson reached our estimate of intrinsic value and assets were therefore deployed elsewhere. Our small position in Baker Hughes was redeployed to other higher-conviction ideas.

Risk Considerations

Plenty of longer-term market consequences stemming from policy actions will surface over time, but two are notably present and consequential: income inequality and social unrest. The wealth gap between capital and labor has been widening for some time, amplified by the 2008-9 financial crisis and now COVID-19. BCA Research highlights the US as the most consequential example, where technology and health care account for 18% of US jobs but 54% of the S&P 500 Index. Technology stocks have been on a tear, but this sector represents just a small portion of overall employment.

Meanwhile, the biggest pandemic losers (retail, travel and leisure, and energy) account for 47% of jobs but only 10% of the market. These stocks have been devastated and job losses continue to mount. This is a big deal in a socially divided world. The global economy is in difficult shape, supported currently by extraordinary stimulus efforts, but stock markets are reaching new highs, fueled by a concentrated group of stocks, further amplifying the wealth gap.

In addition to income inequality and social unrest, risks continue to emanate from geopolitical matters (US elections, Sino-US tensions, status of Taiwanese independence, and developments in the Middle East), the pace of innovation in developing COVID-19 tests, therapeutics, and vaccines, as well as other unintended consequences of policy measures — most notably inflation and interest rates.

***

Since our inception, Altrinsic has recognized a holistic assessment of business health and future prospects when considering a company for investment. Environmental, Social, and Corporate Governance (ESG) considerations have been incorporated into our investment process and due diligence all along – evaluated at both a company level and within industry verticals. Over the years we have considered signing the internationally-recognized UN Principles for Responsible Investment (UNPRI) several times, but we waited to do so until we were prepared to authentically fulfill the added reporting and operational requirements without encumbering our commitment to clients, culture, and investment performance. We are pleased to announce that as of September 2020, Altrinsic is a confirmed signatory of the UNPRI. Better metrics, tracking, and transparency is good for all.

Closing Thoughts

The miniscule, if not negative, yields offered by most fixed income securities have greatly enhanced demand for equities, particularly those with the most optimistic growth assumptions and longest-duration profiles – namely FAANG+ and other "new economy" stocks. A virtuous cycle has emerged in which these companies have become the largest constituents in major market indices and the most loved by "active" investors, with a combined valuation outweighing entire regional markets. Competition, regulation, social tension, overly optimistic expectations, and changes in inflation expectations are among the possible catalysts for this phenomenon to unwind.

Evaluating the quality of a business is one essential ingredient to successful investing. The price paid is another. The latter has become less relevant in today's market. This creates the opportunity.

Thank you for your interest in Altrinsic.

Sincerely,

John Hock

John DeVita

Rich McCormick

[1]*Regarding convexity: the primary assumptions for the growth equity scenario is 10% short-term growth, 5% terminal growth -- the value assumption is 3% short-term growth, 2% terminal growth.*

[2]*Performance is presented gross of management fees for the composite 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 GLOBAL 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 World (Net)	Composite Dispersion	Composite	MSCI World (Net)
2020 3Q	7,401	629	8%	6	-9.20%	-9.78%	1.70%	N.A.1	15.08%	16.69%
2019	7,397	808	11%	7	24.51%	23.47%	27.67%	N.A.1	9.81%	11.14%
2018	6,284	650	10%	6	-6.11%	-6.90%	-8.71%	N.A.[1]	9.66%	10.38%
2017	7,259	1,153	16%	7	16.71%	15.74%	22.40%	0.25%	9.92%	10.23%
2016	7,107	1,116	16%	8	11.91%	10.98%	7.51%	0.24%	10.82%	10.92%
2015	8,927	1,523	17%	13	-0.97%	-1.81%	-0.87%	0.16%	10.78%	10.80%
2014	11,656	2,295	20%	18	2.37%	1.51%	4.94%	0.19%	11.00%	10.23%
2013	14,261	3,069	22%	20	24.40%	23.37%	26.68%	0.29%	13.53%	13.54%
2012	12,586	3,128	25%	21	12.95%	12.00%	15.83%	0.32%	16.37%	16.74%
2011	10,683	2,361	22%	18	-5.49%	-6.29%	-5.54%	0.30%	18.85%	20.15%
2010	10,621	2,087	20%	12	13.55%	12.60%	11.76%	0.35%	22.52%	23.72%
2009	9,278	1,524	16%	10	29.80%	28.72%	29.99%	0.42%	20.24%	21.40%
2008	5,537	1,553	28%	13	-32.19%	-32.78%	-40.71%	0.27%	16.34%	17.02%
2007	7,582	2,437	32%	17	1.17%	0.31%	9.04%	0.30%	8.26%	8.10%
2006	5,574	1,918	34%	16	17.02%	16.04%	20.06%	0.08%	8.05%	7.64%
2005	2,563	321	13%	8	8.61%	7.70%	9.49%	N.A.[1]	10.82%	9.66%
2004	1,603	242	15%	Five or fewer	19.48%	18.60%	14.72%	N.A.[1]	14.29%	14.74%
2003	871	162	19%	Five or fewer	46.75%	45.69%	33.10%	N.A.[1]	15.80%	17.46%
2002	561	77	14%	Five or fewer	-12.51%	-13.17%	-19.88%	N.A.[1]	N.A.	N.A.
2001	491	135	28%	Five or fewer	-10.15%	-10.83%	-16.82%	N.A.[1]	N.A.	N.A.
2000*	520	175	34%	Five or fewer	-0.87%	-1.24%	-10.91%	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 2000 represent partial period performance from July 1, 2000 through December 31, 2000.

Altrinsic Global Equity Composite is a diversified (60 - 100 holdings), bottom-up, fundamental, value oriented, Global, all cap portfolio, benchmarked to the MSCI World (Net) Index (accounts have the ability to invest in 144A stocks). The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. Portfolios in the composite may invest in countries that are not in the MSCI World (Net) Index. Additional information is available upon request. The minimum account size for this composite is $5 million. Prior to January 1, 2004, the minimum account size for this composite was $10 million. Returns include the effect of foreign currency exchange rates. Prior to April 1, 2006 the exchange rate source of the composite was Bloomberg 4pm New York close and the exchange rate source of the benchmark was WM Reuters 4pm London close.

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, 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 Global Equity Composite has been examined for the periods beginning December 8, 2000 through December 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. Beginning July 1, 2005, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 40% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite after the first full month under management if fully invested. Additional information regarding the treatment of significant cash flows is available upon request. 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 World (Net) Index deducts withholding tax by applying the maximum rate of the company's country of incorporation applicable to non-resident institutional investors. The normal characteristics of the transactions in the Altrinsic Global Equity Composite include the purchase and sale of forward currency contracts using a foreign exchange credit line(s) secured by the underlying assets. 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 0.85% applied monthly. Prior to January 1, 2005 the highest management fee applied was 0.75%. 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 0.85% on the first $25 million, 0.60% on the next $50 million, and 0.50% on the remainder. Some accounts may pay incentive fees. Actual investment advisory fees incurred by clients may vary.

The Altrinsic Global Equity Composite was created January 1, 2004. Performance presented prior to December 8, 2000 occurred while the Portfolio Manager was affiliated with a prior firm and the Portfolio Manager was the only individual responsible for selecting the securities to buy and sell.

Important Considerations and Assumptions

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Past performance is not a guide to or otherwise indicative of future results. Any investment results and portfolio compositions are provided for illustrative purposes only and may not be indicative of the future investment results or portfolio composition of any account, investment or strategy managed by Altrinsic.

Disclosure of Risk Factors

An investment in any account, investment or strategy is speculative and involves a significant degree of risk, which each prospective investor must carefully consider. Returns generated from an investment in any account, investment or strategy may not adequately compensate investors for the business and financial risks assumed. An investor in any account, investment or strategy could lose all or a substantial amount of his or her investment. Before making an investment, prospective investors are advised to thoroughly and carefully review any disclosure documents with their financial, legal and tax advisors to determine whether and investment is suitable for them.

Additional Performance Disclosure – Use of Benchmarks

Benchmarks are provided for illustrative purposes only. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from the accounts, investments or strategies managed by Altrinsic. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

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