ALTRINSIC

April 2022

Altrinsic International Equity Commentary – First Quarter 2022

Dear Investor,

The Altrinsic International Equity portfolio declined 1.5% during the first quarter, outperforming the MSCI EAFE Index's 5.9% decline, as measured in US dollars.[i] Just as most nations began lifting COVID-related restrictions and returning to normal, tensions intensified amidst surging inflationary pressures, tightening policy measures in the US, lockdowns in China, and Russia's invasion of Ukraine. Corporate earnings have been robust, but we expect these to come under pressure as the year progresses owing to slowing revenue growth, increasing cost pressures, and lofty embedded expectations. Tightening financial conditions and downward earnings revisions could also contribute to growing market volatility. We continue to see the most compelling investment propositions among attractively valued and well capitalized businesses with durable and achievable earnings prospects and among those going through underappreciated efforts to further strengthen their financial productivity.

Performance Drivers and Portfolio Positioning

Sources of outperformance were broad-based and led by investments in the financial, information technology, and consumer discretionary sectors. Positive attribution in the financial sector was led by several property and casualty insurance holdings (Zurich, Chubb, Tokio Marine, Everest Re) that rose in response to improving profit margins, driven by positive developments in competitive dynamics and rising bond yields. Investment income accounts for more than half of most non-life insurance companies' profits and stands to become a tailwind after years of being a headwind. Positive attribution from our technology investments was primarily driven by rebounding revenue growth at Check Point and Cognizant. Our lack of exposure to high-growth technology stocks also contributed to the portfolio's outperformance. Having been oversold during the onset of China's regulatory measures last year, our investments in the consumer discretionary sector (Trip.com, Sands China) coupled with our relative underweight exposure to the sector were additive to relative performance.

Materials and energy holdings were the greatest sources of negative attribution. Within the materials sector, performance was hampered by a combination of our underweight sector exposure and the underperformance of paint producer Akzo Nobel, which is facing significant input cost inflation. Energy majors BP and TotalEnergies climbed 12% and 4%, respectively, but lagged peers due to their Russian exposure.

Investment activity was robust amidst the volatility, as we added four new positions: CRH plc (Ireland), Daimler Trucks (Germany), HDFC Bank (India), and Sekisui House (Japan).

> CRH produces infrastructure materials and building products in the US and Europe. Portfolio changes in recent years have structurally improved the company's earnings resiliency, while continued infrastructure investment in Europe and the US should drive sustainable top line growth throughout the economic cycle.
>
> Recently spun out from Daimler AG, Daimler Trucks is one of the world's largest truck manufacturers. Management has recently started a restructuring program with the goal of achieving best-in-class operating margins.
>
> As one of India's largest banks, HDFC will continue to use its superior cost structure, customer service, underwriting, and technology advantage to gain share from its poorly managed state bank rivals. India's low credit penetration, pent-up credit demand, and low banking product usage provide a favorable macro backdrop.
>
> Sekisui House provides home-ownership related services in Japan, from construction to renovations to apartment real estate management, with a growing focus on net-zero energy efficient solutions. Sekisui is the leader in zero-energy housing, and we expect this highly profitable business to grow strongly given commodity inflation and increased household environmental awareness.

We eliminated four positions – Booking Holdings (Netherlands), BT Group (UK), Credicorp (Peru), and Ericsson (Sweden). Booking shares, purchased during the depths of the COVID-19 crisis, rebounded significantly since that time. Current prices fairly reflect benefits from a travel recovery, improved pricing power, and better competitive discipline in the industry. We sold shares in favor of other opportunities with better risk/reward profiles. We sold BT Group as M&A speculation drove the shares toward our intrinsic value estimates. BT has solid infrastructure assets but valuations underestimate the pension, government, and regulatory hurdles. Credicorp was purchased during a period of political uncertainty and has subsequently rallied sharply, approaching our base case intrinsic value. Finally, Ericsson was sold after continued operational and governance missteps vastly reduced our confidence in the company's management and outlook.

Table 1 provides a summary of our risk exposures to major industry groups and highlights our greatest sources of differentiation.

Table 1. Sources of Differentiation

	Altrinsic International Equity	Over/(Under) Weight vs. EAFE	Over/(Under) Weight vs. EAFE Value
Non-Bank Financials	25.8	16.8	14.7
IT Software & Services	5.0	1.9	4.1
Health Care	14.2	1.3	5.1
Food & Beverage Franchises	8.6	1.1	2.2
Consumer Discretionary	5.3	(6.1)	(3.5)
Industrials	10.8	(5.1)	(0.9)
Energy & Materials	7.8	(4.5)	(10.3)
Utilities	0.0	(3.4)	(5.9)
Banks	6.3	(2.6)	(8.7)
Communication Services	6.4	1.2	0.5
Real Estate	3.2	0.4	(1.4)
Cash	4.2	4.2	3.8
Other	2.4	(5.2)	0.4

Overweight:

- **Insurance** – Strong outlook for demand and competition; enhanced business mix and cost cutting opportunities
- **Exchanges** – Solid moats with improving prospects for data and clearing penetration
- **IT Software & Services** – Recurring revenues focused on risk and cyber undergoing business model transitions
- **Health Care** – Reduced patent cliff risk, investing heavily in innovative sciences, attractive valuations
- **Food & Beverage Franchises** – Strong category mix with premiumization, reopening, and cost cutting opportunities

Underweight:

- **Consumer Discretionary** – Many companies are expensive on normalized profitability with various disruption risks
- **Industrials** – Many companies are expensive on normalized profitability
- **Energy & Materials** – Less favorable risk/return given commodity price vs. marginal cash cost
- **Banks** – Valuations do not account for risks around disruption, commoditization, and regulation
- **Utilities** – Peak valuations present unappealing risk/reward

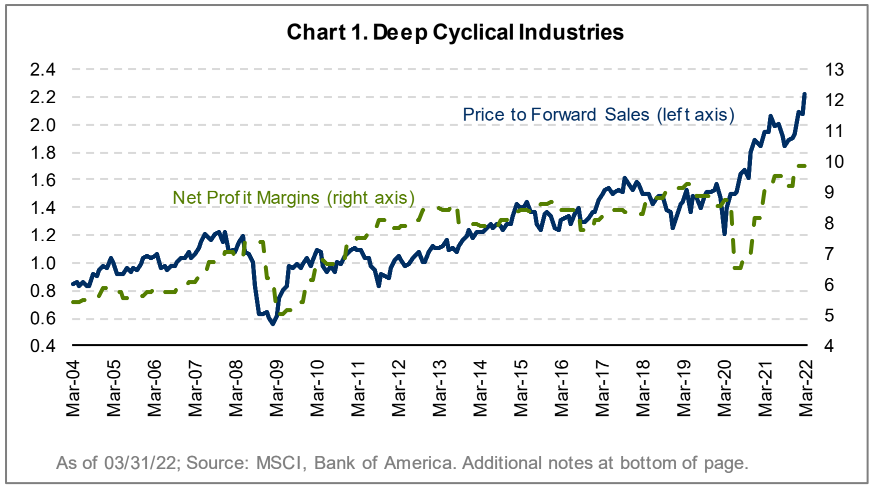
As of 03/31/22, Source: iShares MSCI EAFE Value ETF, FactSet and Altrinsic. Altrinsic sector weights are based upon a representative fully discretionary account with the international mandate. Altrinsic independently analyzes each security recommended for purchase and categorizes it into the MSCI GICS sector that it deems most appropriate. Altrinsic's sector classification may differ from MSCI.

Perspectives

Structural Shifts

The decade-long tailwinds that have supported all asset classes – most notably the riskiest – appear to have made a structural shift that is contributing to market turbulence and weakness in global equities. This has been most evident in long-duration growth "story" stocks. The tailwinds have included the orderly decline in interest rates, quantitative easing, supportive regulatory environments, and easing tax regimes. All have entered a new and less accommodative stage. During the prior macro environment, company valuations carried less weight than the narratives surrounding long-term growth aspirations. Now, these companies' share prices are going through valuation purgatory at varying speeds, either falling to levels that properly reflect underlying business quality or stalling until underlying earnings catch up (think: Cisco post-TMT bubble). Markets are increasingly skeptical of stories, instead assigning value based upon a company's underlying fundamental quality. As Ben Graham famously said, "In the short term, markets are a voting machine; in the long term, markets are a weighing machine." Fundamentals prevail in the long run.

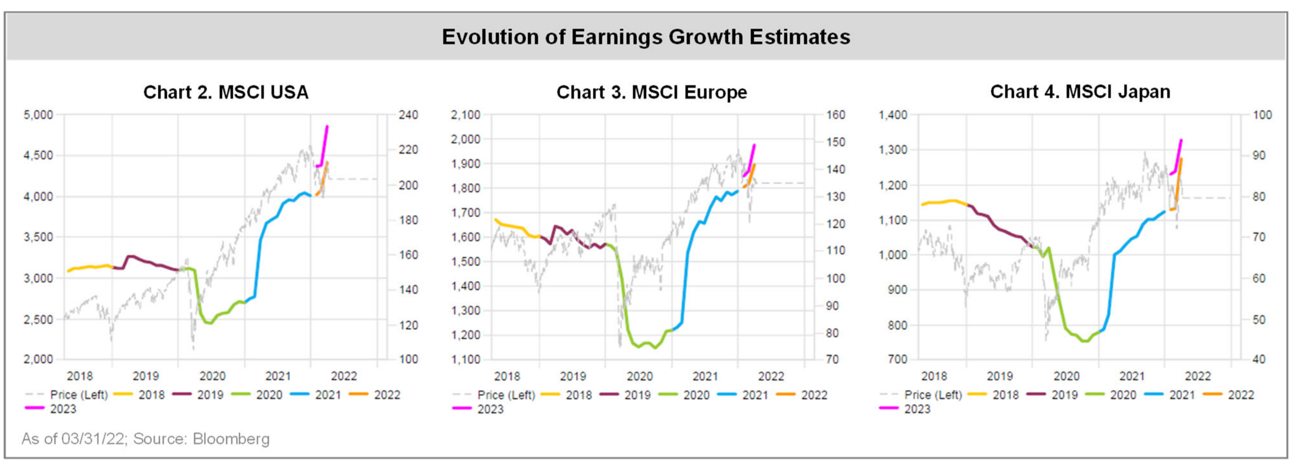
Many market observers are referring to this market development as a "rotation from growth to value." This misses an important nuance. Rather than simply a rotation in market leadership from one category of stocks to another, we view this shift as an overdue and long-lasting broadening out. It has become common to define "value" stocks by



quantitative factors that offer little relevance to their true intrinsic value. For example, a highly leveraged and cyclical business that rarely earns its cost of capital should trade at a low valuation. Many banks, commodities, and low value-add industrial businesses fall into this category. Opportunity can arise in these businesses, but it usually occurs during recessions or episodes when margins and earnings are depressed. Currently, we see more risk than opportunity in these areas given the combination of high valuations, peak margins, and vulnerable earnings prospects (**Chart 1**)[1]. Although we have relatively modest exposure in cyclical industries, we remain deeply engaged, as an uncertain macroeconomic pathway could present opportunities. In the meantime, our greatest absolute and relative exposures remain in health care and nonbank financials. Each has upside potential for sustainable earnings growth, while not being highly dependent on strong economic conditions.

Corporate Earnings Estimates

Corporate earnings have been strong, only recently showing signs of weakness. In fact, much of the decline in stock prices this year was the result of P/E (valuation) contraction, as earnings have held up. This presents one of the greatest sources of risk as this year progresses. **Charts 2, 3, and 4** illustrate the evolution of earnings growth estimates from 2016 through the 2023 forecast season in the US, Europe, and Japan. These snail charts graphically depict the COVID-19 collapse, the recovery to levels far above pre-COVID levels, and current analysts' forecasts for this year and next. We view this as dangerous trend extrapolation given 1) how much demand has already been pulled forward due to COVID-inspired consumption changes and global fiscal and monetary stimulus, 2) high margin levels, and 3) the impact of inflationary pressures on both costs and end demand in many industries.



[1] Based on MSCI AC World. Deep cyclicals include industries with high historic cyclicality and lower growth. Consumer Finance, Machinery, Hotels & Restaurants, Electrical Equipment, Auto, Transportation, Tech Hardware, Chemicals, Packaging, Trading Companies, Industrial Conglomerates, Paper products, Multiline retail, Construction & Engineering, Communications Equipment, Diversified Financials, Banks. Chart depicts sell side margin expectations.

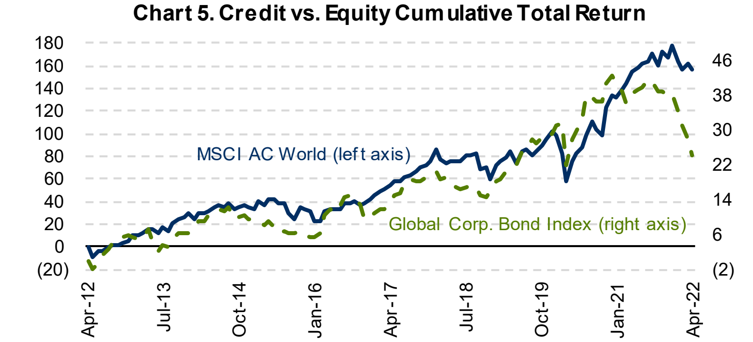
Inflation Renaissance

The risks to earnings and asset prices from policy error is elevated, as central banks attempt to temper inflation while fragile economies carry massive debts and deficits. Most developed markets have not experienced inflation since the 1970s. The current environment is serving as a crash course. There are a multitude of factors contributing to rising inflation; most are unpredictable, but in aggregate they range from short-term/cyclical dynamics (supply chain bottlenecks, war in Ukraine, stimulus and/or COVID-inspired demand shifts) to more lasting ones (underinvestment, malinvestment, regulatory interference, government imbalances, and/or excessive monetary policy). Thus far, most companies have been able to pass on inflationary cost pressures to customers through higher pricing. Many will not be able to continue this, increasingly pressuring margins.

Diverging Signals from Credit and Equity Markets

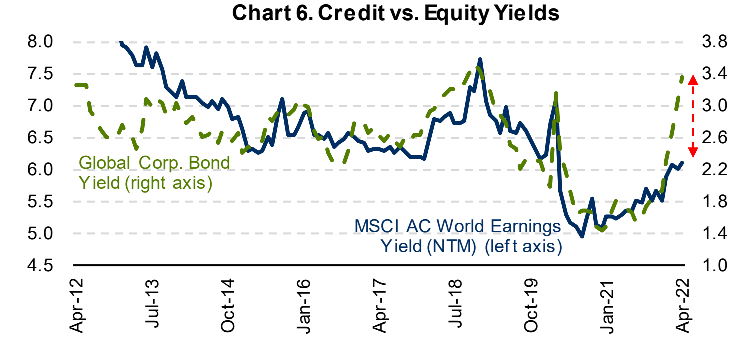
Over the last decade, corporate bond and equity markets have largely moved in sync, but in 2022, the relationship has begun to break down (**Chart 5**). The historically close relationship between these asset classes makes sense. Corporate credit yields are made up of the risk-free rate (used for the equity discount rate) and credit spreads (used as an assessment of risk). Now, however, global corporate bond yields are near decade highs, as credit investors appear more worried about central bank policy and stagflation than equity investors (**Chart 6**).

Chart 5. Credit vs. Equity Cumulative Total Return



As of 04/13/22; Source: FactSet, MSCI, and Intercontinental Exchange Global Corporate Bond Index

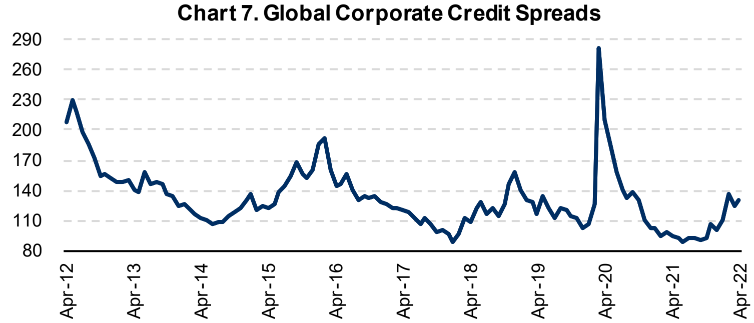
Chart 6. Credit vs. Equity Yields



As of 04/13/22; Source: FactSet, MSCI, and Intercontinental Exchange Global Corporate Bond Index

While the move has been violent, credit spreads have only expanded to 10-year average levels off a very low starting point. As shown in **Chart 7**, spreads could widen much further if economic conditions erode. At the same time, yield curves have flattened rapidly and in some cases have inverted, which can often signal changes in medium-term growth and the potential for a recession. Equity investors should be carefully monitoring these credit market dynamics.

Chart 7. Global Corporate Credit Spreads



As of 04/13/22; Source: FactSet, MSCI, and Intercontinental Exchange Global Corporate Bond Index

We pay close attention to multiple elements of a company's capital structure, including leverage and covenants, but we also watch for messages being sent from credit markets. Who is "right" this time remains to be seen, but it is hard to argue that the multi-decade tailwind of falling rates and low inflation will be repeated and that the structural shift will not have wide-ranging implications. This tailwind disproportionately benefited the two ends of the quality spectrum, namely leveraged deep cyclical businesses on one end and "quality growth" stocks on the other end. We continue to find compelling investments in between these two extremes among companies that have opportunities to improve returns on invested capital through cost efficiency, improving business models, and better capital allocation.

Heightened Influence of Geopolitics

Geopolitics have been playing a heightened role in markets during recent quarters, led by developments in Ukraine and China. Regarding Ukraine, we are shaken by the atrocities taking place and inspired by the country's resolve. Clearly, Ukraine's military was underestimated and Russia botched its invasion. It now appears that this war will persist with a material risk that Russia will deploy a tactical nuclear warhead as it draws from the military playbook seeking to "escalate to deescalate." We have no direct exposure to the affected area, and our indirect exposure (measured as aggregate percent of underlying holdings revenues) is in the low-single digit range. Outside of the devastating human implications, the war has serious implications for energy and food costs. Heavy importers of these commodities, ranging from Western European countries to emerging markets including India, Turkey, and Northern Africa, are already experiencing significant pressure that we can expect to continue while the conflict wages on.

China has been closely observing developments in Ukraine as it weighs its options relating to Taiwan, including a possible invasion. Although unlikely in the near term, future developments in China-Taiwan relations will likely be influenced by how the conflict in Ukraine plays out. On the domestic front, China's aggressive "common prosperity" and zero-COVID policies, alongside rising COVID-19 cases, are weighing on an already pressured economy. The Chinese government has been attempting to avoid falling into a middle-income trap and to address the massive risks in its heavily indebted property markets. Many of these risks are well known and reflected in asset prices, but the transition to a more balanced economy will be delicate. We have modest exposure (approximately 3.9% [ii]) in Chinese companies with attractive and sustainable long-term growth prospects.

Looking Ahead

There is a lot to unpack in global markets this quarter, and this commentary has barely scratched the surface. Suffice it to say, volatility is presenting opportunity and, as exhibited by our investment activity, we are actively pursuing it. However, mindful that Goldilocks tailwinds have shifted direction, we maintain a high regard for downside risk, or "margin of safety" as we refer to it internally. Most of our investments have theses that do not require a robust economic environment as a condition for success; instead, these companies have specific idiosyncratic drivers that will enable them to unlock value.

Thanks for your interest in Altrinsic. We would be delighted to discuss these or other matters of interest.

Sincerely,

John Hock
John DeVita
Rich McCormick

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[i] 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 or that any investment in the securities discussed will be profitable. Please see Important Considerations and Assumptions at the end of this letter for additional disclosures. Data sourced from FactSet, MSCI, and Altrinsic research.

[ii] Direct exposure based on a fully discretionary representative account within the Altrinsic International Equity strategy.

GIPS Report – Altrinsic International Equity Composite

	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 EAFE (Net)	Composite Dispersion (Gross)	Composite (Gross)	MSCI EAFE (Net)
2021	10,533	5,548	53%	10	7.22%	6.31%	11.26%	0.12%	16.89%	16.92%
2020	8,763	4,192	48%	8	3.78%	2.90%	7.82%	0.38%	16.96%	17.89%
2019	7,397	3,300	45%	8	21.78%	20.76%	22.01%	0.43%	9.70%	10.81%
2018	6,284	2,381	38%	9	-7.19%	-7.98%	-13.79%	0.45%	9.92%	11.24%
2017	7,259	2,920	40%	10	22.45%	21.43%	25.03%	0.23%	11.35%	11.83%
2016	7,107	3,048	43%	16	8.86%	7.94%	1.00%	0.16%	12.14%	12.46%
2015	8,927	3,307	37%	19	0.16%	-0.69%	-0.81%	0.20%	12.01%	12.46%
2014	11,656	3,453	30%	24	-4.54%	-5.35%	-4.90%	0.12%	12.09%	13.03%
2013	14,261	3,608	25%	22	20.26%	19.26%	22.78%	0.32%	14.27%	16.25%
2012	12,586	3,057	24%	23	13.27%	12.32%	17.32%	0.23%	16.99%	19.37%
2011	10,683	2,671	25%	21	-9.90%	-10.67%	-12.14%	0.49%	18.82%	22.43%
2010	10,621	3,339	31%	19	11.61%	10.67%	7.75%	0.49%	22.25%	26.23%
2009	9,278	2,482	27%	10	29.28%	28.21%	31.78%	1.20%	19.75%	23.58%
2008	5,537	1,584	29%	9	-33.96%	-34.54%	-43.39%	0.28%	16.35%	19.24%
2007	7,582	1,840	24%	9	5.83%	4.93%	11.17%	0.27%	8.45%	9.43%
2006	5,574	947	17%	6	22.13%	21.11%	26.35%	0.13%	9.09%	9.33%
2005	2,563	530	21%	Five or fewer	10.98%	10.05%	13.56%	N.A.[1]	11.64%	11.39%
2004	1,603	262	16%	Five or fewer	23.37%	22.46%	20.25%	N.A.[1]	14.06%	15.43%
2003	871	155	18%	Five or fewer	41.87%	40.84%	38.60%	N.A.[1]	16.31%	17.81%
2002	561	87	16%	Five or fewer	-6.58%	-7.28%	-15.94%	N.A.[1]	N.A.	N.A.
2001	491	22	4%	Five or fewer	-14.74%	-15.39%	-21.45%	N.A.[1]	N.A.	N.A.
2000*	520	29	6%	Five or fewer	-6.56%	-6.91%	-10.53%	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. The composite inception date is 1 July 2000.

Altrinsic International Equity Composite is a diversified (60 – 100 holdings), bottom-up, fundamental, value oriented, Global-ex U.S., all cap portfolio, benchmarked to the MSCI EAFE (Net) Index. The MSCI EAFE is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. Portfolios in the composite may invest in countries that are not in the MSCI EAFE (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 June 30, 2021.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Altrinsic International Equity Composite has had a performance examination for the periods beginning December 8, 2000 through June 30, 2021. The verification and performance examination reports are available upon request.

Altrinsic Global Advisors, LLC is a registered investment adviser. A list of all composite and pooled fund investment strategies offered by the firm, with a description of each strategy, is available upon request. The type of portfolios in which each strategy is available (segregated account, limited distribution pooled fund, or broad distribution pooled fund) is indicated in the description of each strategy.

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. The MSCI EAFE (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 US 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 investments, calculating performance, and preparing GIPS Reports 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 International 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.GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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