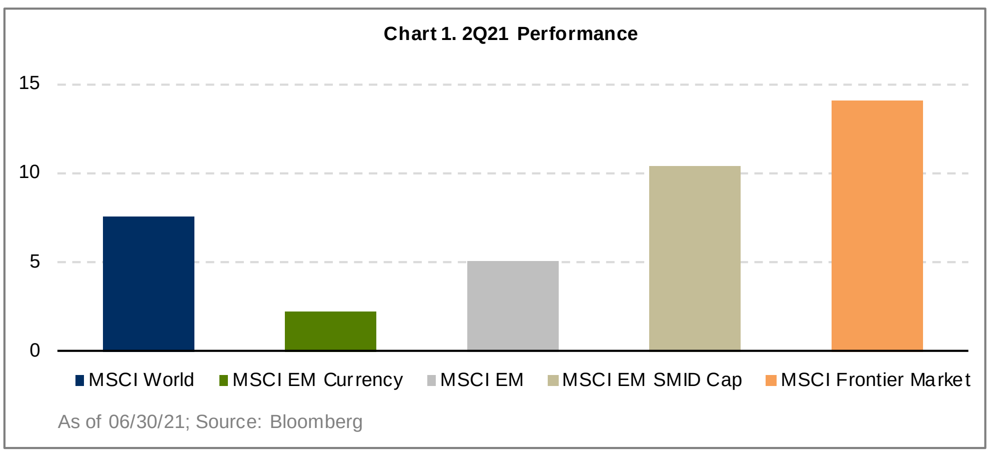
ALTRINSIC

August 2021

Altrinsic Emerging Market Equity Commentary – Second Quarter 2021

Dear Investor,

Emerging market equities trailed developed markets in the second quarter; however, performance varied by individual markets and segments within EM (**Chart 1**). Regionally, North Asian countries' mega cap technology stocks came under pressure from sweeping regulations changes, causing weak performance and offsetting strong performance in Latin America and EMEA. Frontier markets also outperformed. Across the capitalization spectrum, small and mid cap stocks demonstrated strength relative to large/mega cap stocks, outperforming both broad EM and developed markets benchmarks. EM currencies have reached new all-time highs, as exhibited by the MSCI EM Currency Index, with strong performances from the Brazilian real, South African rand, Hungarian forint, and Mexican peso.

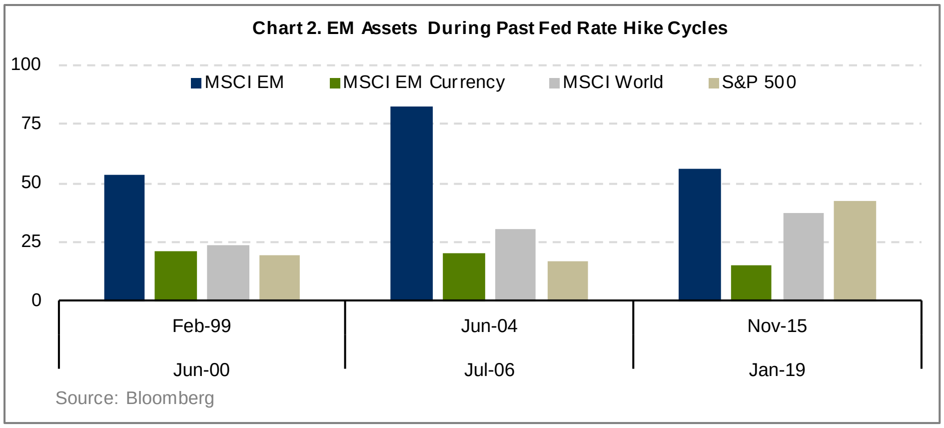


Perspectives

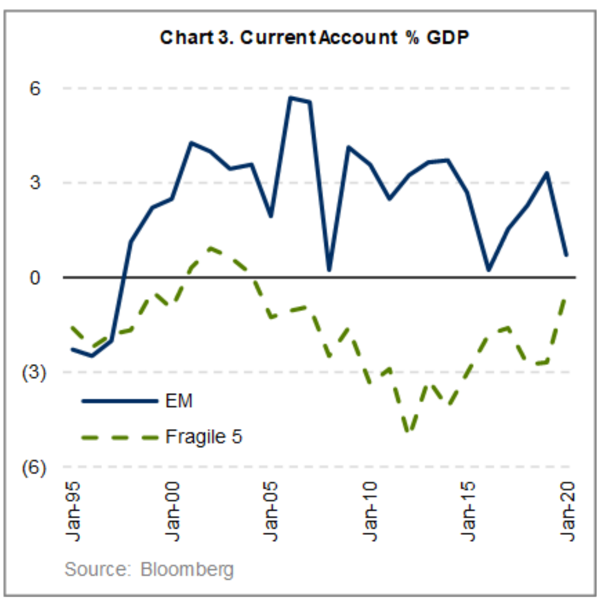
With the Fed telegraphing its normalization process, many EM governments and central bankers are strategizing how to continue accommodative policies to stimulate growth and economic recovery without stoking inflation or currency dislocations that have occurred in past episodes. While the current EM reality is different – and improved – from previous rate hike cycles, we are mindful of key risks including monetary policy, COVID-19 management, tightening regulation, and geopolitical tension.

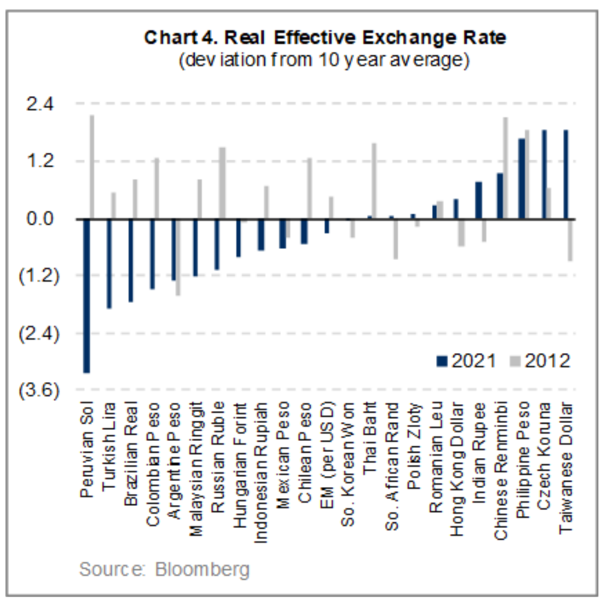
Fed Normalization

Contrary to popular belief, EM assets outperformed during Fed rate hike cycles over the last two decades (**Chart 2**). This was particularly apparent when rate hikes were driven by improving growth prospects.



Fragile 5[1] currencies reacted with pronounced volatility during the Taper Tantrum a decade ago (**Chart 3**). While bouts of volatility are possible this time around, these economies are much stronger, even post COVID-19, with EM currencies mostly undervalued (**Chart 4**). In fact, select EM central banks have anticipated Fed increases and already initiated policy normalization. These include the Czech Republic, Hungary, Brazil, Mexico, and Russia, all of which have hiked rates over the recent quarter. Across most EM countries, policy rates are near decade lows and we expect the pace of interest rate hikes to be measured. Overall current account balances in EM are in a surplus position so the Fragile 5 and most EM economies are not so fragile anymore. Their current account deficits stand at -0.4% versus -5% of GDP back in 2012.





[1] Fragile 5 denotes the economies of Brazil, India, Indonesia, South Africa and Turkey whose currencies suffered a significant bout of volatility as the Fed announced the exit from post global financial crisis quantitative easing in 2013.

We are encouraged by the economic growth expectations across most emerging markets (**Chart 5**). As a region, Latin America stands out, and on a country level, we would highlight the prospects in India and South Africa. In addition, the improving growth outlook and rate hikes from Brazil and Mexico, plus positive signals from Chile, present good prospects for repricing of financial assets sooner than expected. This should fuel a recovery and lead to improved levels of sustainable ROEs for financial services companies. We are positioned to capitalize on that shift with our investments in Bradesco, Banorte, and Banco de Chile, all leading bank franchises within their countries.[2]

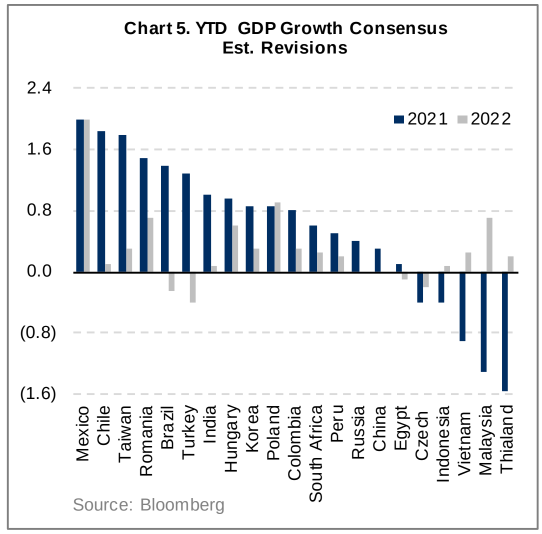


Chart 5. YTD GDP Growth Consensus Est. Revisions

COVID-19 Progress

COVID-19 infection counts continue to escalate throughout the emerging markets, but some improvement is expected due to ongoing vaccination efforts. The quarter started with a second wave of infections in India grabbing the world's attention; at the same time, Brazil was peaking. By the end of the quarter, however, both countries were demonstrating substantial progress with their vaccination drives. Brazil's finance minister, Paulo Guedes, announced a goal of 70% of the adult population being vaccinated by September, relative to the current rate of 40%. In India, despite vaccination efforts kicking off in earnest for the first time in April while being ravaged by a strong second wave of infections, almost 20% of the population[3] had a single dose and 4% were fully vaccinated as of 30 June (**Chart 6**) – relatively rapid progress in just one quarter.

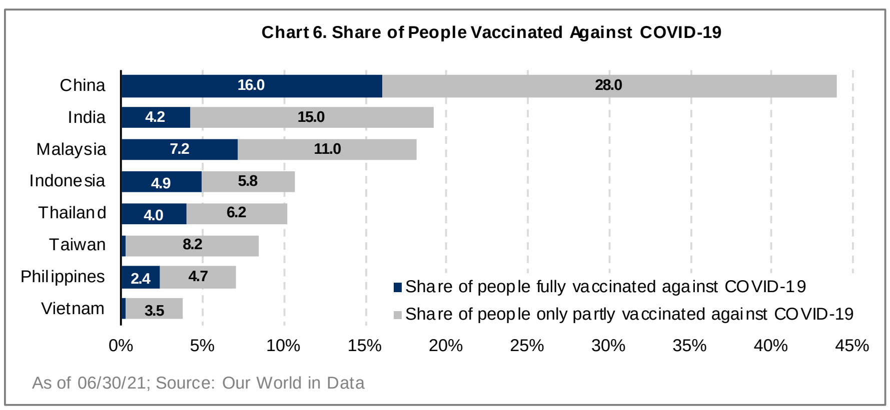


Chart 6. Share of People Vaccinated Against COVID-19

Despite the recent COVID-19 waves, Brazil and India are performing better due to targeted lockdowns with far lower economic impact compared to last year. This progress has contributed to the upwardly revised economic and earnings expectations noted above (reference **Chart 5**). The progress in these two countries, however, does not reflect the realities facing the broad EM universe. In the ASEAN[4] region, for example, a number of economies including Vietnam, Thailand, and parts of Indonesia have re-entered targeted lockdowns amidst new COVID-19 variants.

For many EM countries, especially within Asia, our assessment continues to be that vaccine procurement and inoculation will be very slow and the majority of the population will not be vaccinated until mid-2022. Thailand's economy remains particularly vulnerable as tourism makes up roughly 13% of GDP (and a much

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[2] The outlook and opportunities noted here and 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 important additional disclosures.

[3] India's population is estimated at about 1.4 billion as of 07/01/21, based on projected data from the United Nations.

[4] The Association of Southeast Asian Nations (ASEAN) includes Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

higher percentage indirectly). Nonetheless, we are encouraged to see new vaccination campaigns rolling out across EM countries (**Chart 7**).

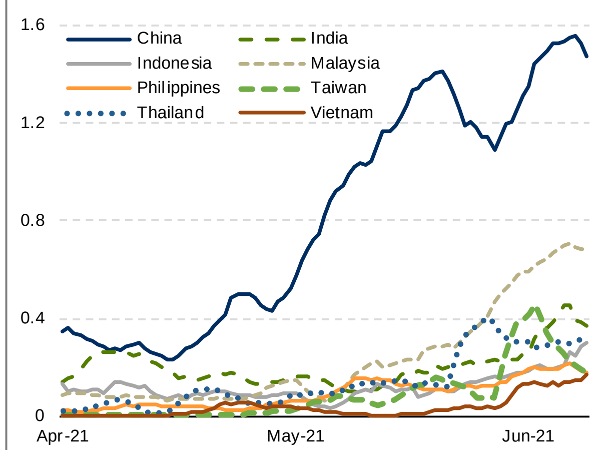


Chart 7. Daily COVID-19 Vaccine Doses Administered Per 100 People

As of 06/30/21; Source: Our World in Data

Our holdings in the ASEAN region have some defensive characteristics with exposure to food and beverage companies like Vietnam Dairy Products (Vinamilk) that provide daily necessities and telecom operators like Advanced Information Services, in Thailand, and PT Telekom Indonesia, where we expect service demand to increase through the lockdowns. Even beyond the pandemic, Indonesia's PT Telekom (TLKM) stands to benefit from rising consumption of digital services. TLKM is one of the most attractively valued telecom services providers in global markets, delivering superior cash flow return on investment that many developed peers would only dream of achieving.

Capex Recovery

Although many emerging markets are inherently driven by domestic consumption, we believe that the next round of pandemic recovery and economic growth will be driven by various government infrastructure programs. We are also starting to see some green shoots in the capex cycle**.**

In India, corporate confidence appears more positive given a visible recovery in capex spending aided by an increase in capital goods imports (**Chart 8**). After India's Gross Fixed Capital Formation fell to decade lows in February, the Federal Union Budget marked a notable shift towards infrastructure spending. Over US$50bn is budgeted in the next four years, largely focused on energy, roads, railways, and urban infrastructure. We are well positioned to participate with our exposure to leading players in engineering and construction (Larsen & Toubro), as well as liquid natural gas operator Petronet LNG and Indraprasthagas, India's leading city gas distributor. In Brazil, the government's privatization and investments programs have been successful (**Charts 9 & 10**). Auctions in 2021 already raised over US$10bn for diverse infrastructure programs including 22 airports and six seaports, as well as railways and subways. Our meetings with local contacts corroborate the long-term investment commitments to address the infrastructure investment gap, leading to higher sustainable growth.

Chart 8. India Capex & Imports

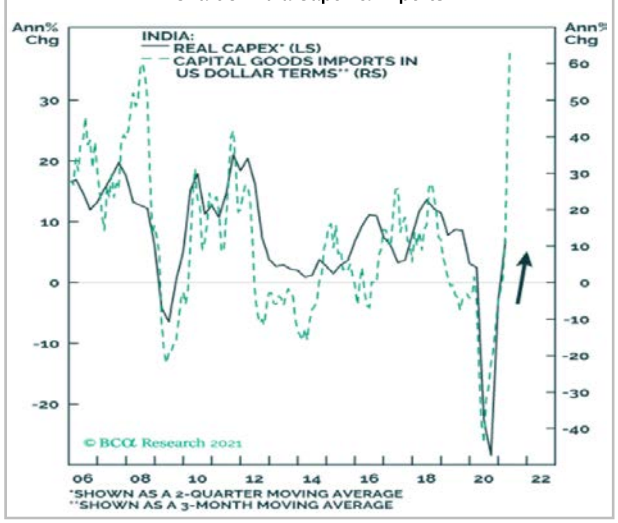
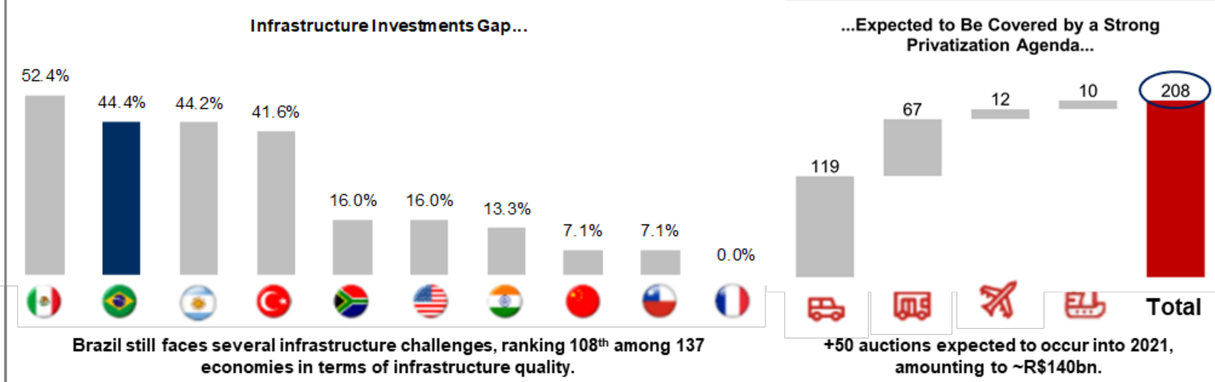


Chart 9. Infrastructure Investment Gaps by Country & Chart 10. Brazilian Infrastructure Investments



Source: Brazil Intercement Net Roadshow

China recently signalled a pause in its credit tightening cycle with a cut in its reserve requirements for banks. Looking into the second half of the year, as global economies open up we expect trade and demand for goods to normalize. As such, exports, China's main engine out of the pandemic, would slow. In the first half of this year, relative to already budgeted fiscal spending, local governments in China used less than one-third of their 2021 full-year bond allocations, and we believe they will shift focus toward fixed asset investments. With this in mind, we see attractive opportunities in some of China's old economy stocks like property developers, property managers, and cement, all shunned during the credit tightening cycle. While these companies stand to benefit from a cyclical shift in economic gears, the long-term investment case is supported by secular urbanization trends as well as infrastructure development plans.

Chinese Regulation

China internet regulatory headlines continued to gain momentum in the second quarter, raising significant concerns about potential fines and restrictions on business operations. While the sector has reacted negatively and some of the risks appear priced in, we draw parallels to the gaming regulatory cycle back in 2017-2018. Based on that episode, we know the 'hangover' can last several quarters. Currently we have exposure through our investments in Netease, Tencent, JD.com, Baidu, and Trip.com, but for the most part, we remain on the sidelines as near-term visibility remains low.

Performance and Investment Activity

The Altrinsic Emerging Markets Equity portfolio gained 3.6% during the second quarter, as measured in US dollars, lagging the 5.0% increase by the MSCI Emerging Markets Index. Relative performance was held back by underperformance in health care, energy, and financial services.[5] Holdings in the consumer discretionary, communication services, and utilities sectors added to positive relative performance.

Geographically, our stock selection and relative exposure in South Africa and South Korea, as well our frontier holdings in Vietnam, were the greatest sources of positive attribution. These were offset by our exposure to Taiwan (Zhen Ding Technology), China (Sands China, China Resources Land, Anhui Conch Cement), and

[5] 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. Please see Important Considerations and Assumptions at the end of this letter for important additional disclosures.

Chile (Banco de Chile). Taiwan was a source of negative attribution due to our underweight allocation in semiconductor stocks.

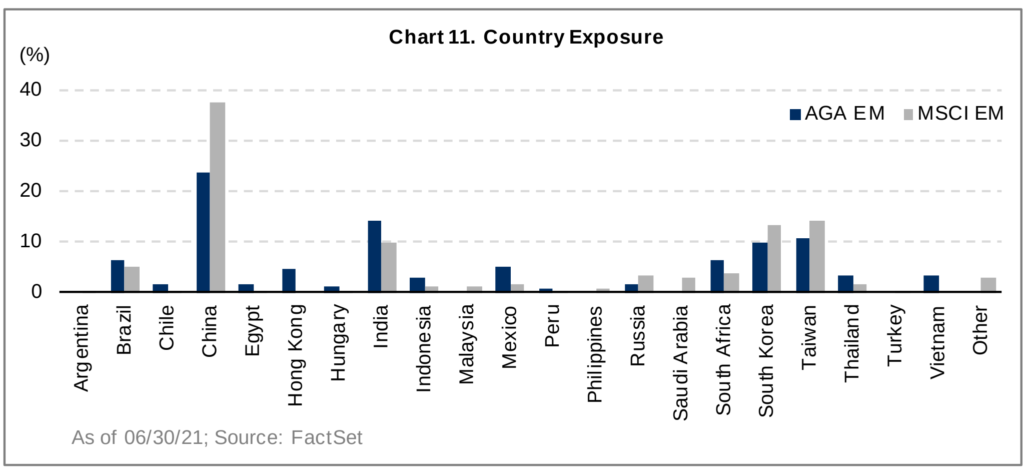
Portfolio activity was relatively low this quarter. Market volatility in the Chinese tech-related segment provided an opportunity to purchase Tencent, the largest online gaming and social media company in the world. The company is well positioned to capitalize on rising gaming adoption globally and fast growing social media advertising. We sold Prosus, a holding company with significant Tencent exposure. Prosus traded at a discount to Tencent, but recent transactions by management increased an already complex structure, leading to deterioration in governance and lower prospects of closing the holding company discount.

Other notable buys include our initial positions in Vietnam – Vinhomes and Vinamilk. Vinhomes is the largest real estate developer in Vietnam with unmatched land bank access. It stands to benefit from a favorable economic backdrop with rising foreign direct investment (FDI), a young population with rising disposable income, and a lagging modern housing stock. Vinamilk is the leading dairy producer in Vietnam with over 40% market share, vertical integration, and access to cow farms and the largest domestic network. We believe the company's astute management will continue to manage high and stable returns on invested capital.

We reduced exposure to UPL Limited after a significant rally narrowed the discount, and added to stocks impacted by technical flows and pressure of index re-balancing (Commercial International Bank of Egypt).

Portfolio Positioning

Overall, our portfolio is well diversified and positioned to take advantage of the variable recoveries happening across emerging economies. **Chart 11** (next page) provides an overview of Altrinsic's geographical weighting relative to the MSCI EM Index.[6]



Below are a few highlights of the specific positioning in various regions.

Asia: Asian exposure is well diversified across North Asia and both ASEAN and frontier markets. With about 50% of the portfolio in North Asia, we find consumption plays in domestic appliances (Coway, Hangzhou Robam), chip and tech supply chain manufacturers (Samsung, Tripod, Parade), and cyclically unloved property plays (China Resources Land, A-living, Anhui Conch). In ASEAN and frontier markets, we seek to capitalize on secular consumption trends through exposure to telecom services (PT Telekom, Advanced Info Service) as well as real estate (Vinhomes).

[6] Please note that Altrinsic independently analyzes each security recommended for purchase and categorizes it into the MSCI GICS sector and or country that it deems most appropriate. Altrinsic's sector and country classification may differ from MSCI.

India: 14% of portfolio is in India, with exposure to various secular trends including services consumption (Reliance, Axis Bank, ITC) and infrastructure development (Larsen & Toubro, Petronet LNG, Indraprashta Gas), as well as global industry leaders from IT services (Infosys, HCL Technologies) and agrichemical industries (UPL).

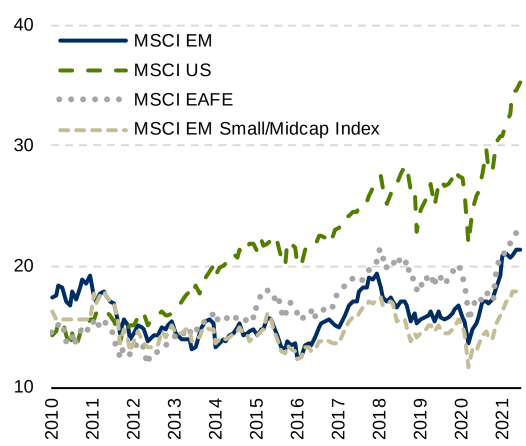
Latin America: Latin America represents 13.6% of the portfolio, with exposure to superior banking franchises (Credicorp, Banco de Chile, Bradesco), established offline retail players capitalizing on e-commerce growth avenues (Walmex, Renner) and travel plays (Grupo Aeroportuario Pacifico).

EMEA: 11% of the portfolio is in the EMEA region, with a large exposure to South Africa and unique companies across other countries. Within South Africa we find opportunities in the consumption of services, from telecom (Vodacom) to financial (Sanlam) to retail (Mr Price, Clicks), but also leverage to industrial services post pandemic recovery (Bidvest). Exposure in this region also includes overlooked and attractively valued holdings in Egyptian banks (Commercial International Bank of Egypt) and Hungarian pharma (Richter).

Closing Thoughts

Overall, valuations remain attractive for emerging markets relative to developed markets and also within the asset class when looking at the outperforming pockets – small and mid cap companies as well smaller EM countries and frontier markets (**Chart 12**). Despite some clear risks in front of us, including a resurgence of COVID-19, persistent inflation globally, taper tantrum-like reactions to policy normalization process, and further geopolitical and economic tensions, we remain disciplined in our process looking for mispriced quality companies that are able to come out in leading positions beyond the pandemic recovery. We believe that our notably diversified positioning relative to the benchmark's heavy concentration within certain countries and stocks will be rewarded as the COVID-19 vaccination process rolls out in the smaller EM countries, unleashing economic activity and paving the way toward a full recovery.

Chart 12. Long Term Price Earnings Ratio



As of 06/30/21; Source: Bloomberg

Thanks for your interest in Altrinsic.

Sincerely,

Alice Popescu