ALTRINSIC

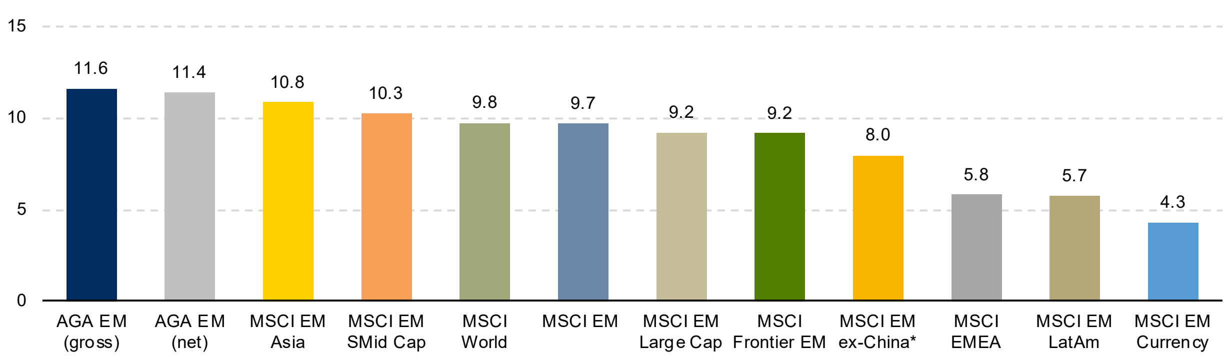
January 2023

Altrinsic Emerging Market Opportunities Commentary – Fourth Quarter 2022

Dear Investor,

Emerging markets are often defined by macro dynamics, but the fourth quarter was especially active on the political and policy fronts. A few key examples include: 1) China's 20th Party Congress (and the eventual surprise unwinding of zero-COVID policies), 2) Brazil's presidential elections (and the social unrest that followed), 3) signs of a peaking US dollar (and its effects on global currency valuations), and 4) easing inflation in the US (which could be followed by a shift in monetary policy with carry-over effects in emerging markets). Despite the unsettled circumstances, emerging market equities (MSCI EM +9.7%) performed in line with developed markets (MSCI World +9.8%) (**Chart 1**). The Altrinsic Emerging Markets Opportunities portfolio rose 11.6%, outperforming the MSCI EM Index by 1.9%, as measured in US dollars.[i]

Chart 1. 4Q22 Performance (USD)[i]



As of 12/31/22; Source: FactSet, MSCI, *Bloomberg. Note: Please see important disclosures in the endnote (i) at the end of this document.

Regionally, Asian stocks (+10.8%) led emerging markets performance, while Latin America (+5.7%) and EMEA (+5.8%) lagged. Across the capitalization spectrum, small and mid cap stocks (+10.3%) continued to outperform both large cap stocks (+9.2%) and the broad EM index (+9.7%). The MSCI EM Currency Index (+4.3%) remained near its all-time high thanks to a broad rally across most currencies, led by the Hungarian forint, Chilean peso, South African rand, and Thai baht.

Perspectives

Emerging markets were not immune to the bouts of intense market volatility and downdrafts in equity markets that defined 2022. Significant global events, including spiking inflation, tightening central bank policies, geopolitical conflict, and continued supply chain issues, weighed on many EM economies.

Asynchronous pandemic recovery cycles created divergent economic situations across emerging markets, and an active political calendar further amplified challenges in certain countries. Many emerging markets are now trading at decade-low valuations, reflecting investor concerns that a hangover may loom – especially in a global downturn scenario. Despite this overarching sentiment, we do not believe there is a hangover in EM. Favorable economic conditions, China's reopening, and GEM's self-reliant nature are great buildings blocks for a possible EM de-coupling from developed markets in the year ahead.

No Hangover from 2022

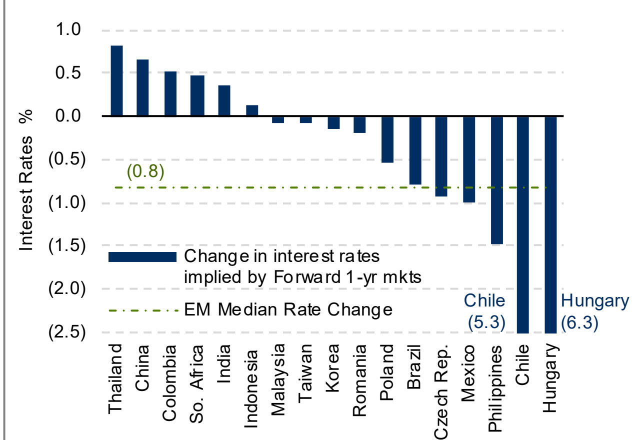
Central bankers across emerging markets did an uncharacteristically good job navigating elevated inflation levels in 2022 – arguably better than the US Federal Reserve. EM interest rates increased rapidly, and forward rates are now discounting average cuts of about 80 bps across EM. On the extremes, Hungary may cut rates by approximately 600 bps, while the Bank of Thailand could hike rates by as much as 75 bps. Expansionary policies are more likely to define most emerging markets over the next year (**Chart 2**).

EM inflation rose sharply in 2022 but appears to have peaked toward the end of the year (**Chart 3**). The average inflation rate for EM overall looks high, but it is skewed by a handful of smaller countries in Central and Eastern Europe and Latin America where policy responses have yet to take full effect. By comparison, leading Asian economies' inflation rates are far lower and well within historical policy ranges.

We expect growth differentials (versus developed markets) to remain very favorable for EM over the next two years (**Chart 4**), supported by inflation, interest rate cycles, and resilient currencies. Growth will not be uniform; we expect Asia to lead the way, with India, Vietnam, and Indonesia hitting targets above 5%. China's reopening should also have a significant impact on its growth, allowing it to join other EM front-runners.

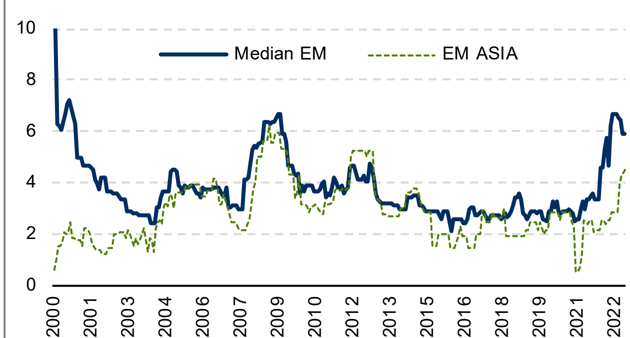
Better growth, lower inflation, and possible interest rate cuts lead to stimulative environments – and also higher valuations.

Chart 2. EM Implied Interest Rate Changes



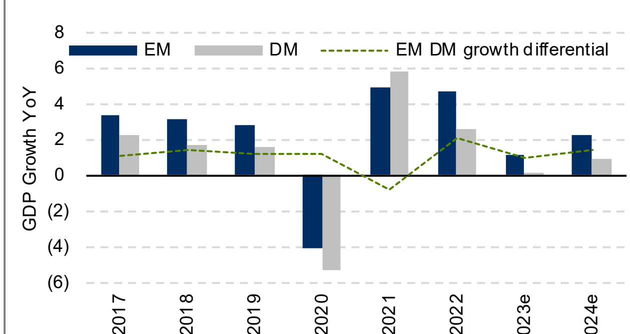
As of 01/10/23; Source: Bloomberg

Chart 3. EM Inflation



As of 01/10/23; Source: Bloomberg

Chart 4. Economic Growth Differentials Remain Favorable



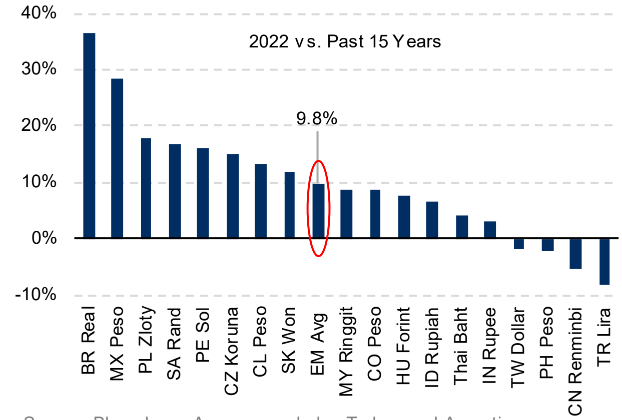
As of 01/08/23; Source: Bloomberg

EM Currencies Demonstrate Resilience

EM currencies in 2022 were the subject of an extraordinary tale. An analysis of several episodes of global monetary tightening and EM currency market volatility over the past 15 years reveals that EM currencies typically depreciate by an average of 17% during such periods.

However, following the most aggressive rate hike cycle by the US Fed in the last two decades, EM FX only declined 7.7% – an outperformance of about 10% relative to history (**Chart 5**).

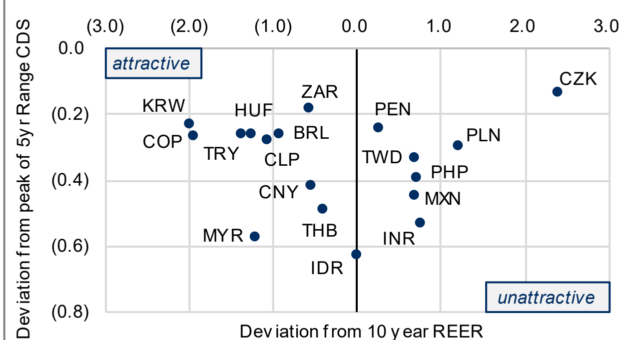
Chart 5. EM Currency Deviation from Historical Peformance During Volatile Periods



Source: Bloomberg; Average excludes Turkey and Argentina

As is frequently the case in emerging markets, currency performance varied widely by region. Latin American currencies including the Brazilian real, Mexican peso, and Peruvian sol demonstrated notable strength despite the highly elevated levels of political "noise" in those countries that is traditionally a source of currency volatility.

Chart 6. EM Currency Valuations



As of 01/09/23; Source: Bloomberg

The relative strength of EM currencies during a period which would have historically presented greater challenges suggests there is no hangover in currency markets either. In fact, EM currencies remain attractively valued. Most are trading nearly one standard deviation below their 10-year real effective exchange rate valuations (**Chart 6**). More support is coming from Credit Default Swap (CDS) markets as well, with most EM currencies trading within 30% of their 5-year CDS peaks, already pricing in many risks.

Year of The Rabbit: China's Reopening Story

The Chinese New Year marks the transition between zodiac signs, and 2023 is the Year of the Rabbit.

To outsiders, the Rabbit's kindness may make them seem soft and weak. In truth, the Rabbit's quiet personality hides their confidence and strength. They are steadily moving towards their goal, no matter what negativity the others give them.[1]

The story of the Rabbit reminds us of China. Over the last year and half, the government-imposed zero-COVID health policy hampered economic growth. China underperformed global emerging markets due in large part to this weaker-than-expected economic activity. Despite these disappointing results, the Chinese government continued mapping out its five-year plan and selectively stimulated key sectors of its economy. Although its borders remained closed to the rest of the world and negative headlines circulated the globe, China remained focused on – and steadily moving toward – its own long-term goals.

Before the 20th Party Congress in October, we [shared our concerns]() regarding divergent economic and health policies. President Xi's unexpected reversal of the zero-COVID policy introduces a new and improved

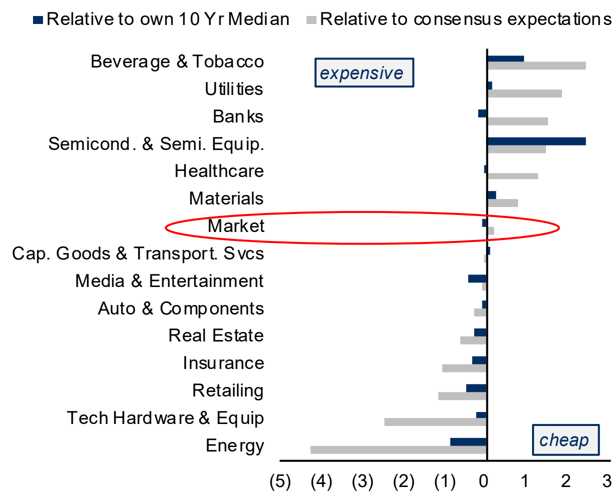
[1] Source: https://chinesenewyear.net/zodiac/rabbit

dynamic for China 2023 and beyond. While temporarily disruptive, the country's COVID "exit wave" will remove bottlenecks and restore a wider array of long-term structural investment opportunities.

As Chinese residents re-acclimate to freely moving about and resuming normal activities, one of the first major tests on the system will be Chunyun. Sometimes referred to as the "Spring Festival travel rush," Chunyun is the largest annual human migration on earth. Estimates suggest that workers and students will make over two billion trips to re-unite with their families during this period[2]. After two and half years of restrictions and lockdowns, this may prove to be the greatest COVID super-spreader event yet. In the short-term, individuals' self-imposed limits (including decisions to stay home) based on health concerns may thwart economic activity. After the country reaches the threshold of herd immunity, however, we would expect a smoother and more vibrant reopening. Unfortunately, the absence of reliable data will make it challenging to determine that inflection point.

Currently, Chinese valuations are not discounting large improvements in cash flow returns, but there is a wide range of expectations across sectors and sub-sectors (**Chart 7**). While it is likely that the first quarter of 2023 will be bumpy given the meteoric rise in COVID cases (tens of millions of Chinese residents are catching the virus daily[3]), the economy will eventually rebound sharply, driven by a resumption of face-to-face activities. This will propel consumption across goods, services, and commodities.

Chart 7. Expected Improvement in Financial Returns
Chinese Industries



As of 01/07/23; Source: HOLT. Note: Measured by Cash Flow Return on Investment.

In 2022, contrary to the rest of the world, China pursued expansionary policies. It cut required reserve rates (RRR) for banks and rolled out various interest rate cuts across the term structure. In 4Q alone, the Chinese government announced nearly 30 measures designed to relax financing conditions for the real estate sector, both on the demand (consumer) side and the supply (property developer) side. This investment and stimulus has yet to make its impact on corporate activity and earnings trends, but we expect this to have positive effects in the near term.

Chart 8. Level of Risk Implied by Valuations
EM Insurance Companies vs. EM Market

As of 01/07/23; Source: HOLT

Our exposure to high-quality real estate operators (China Resources Land, China Overseas Land) offers a unique and contrarian way to capitalize on the resumption of structural trends including urbanization. In addition, we see pockets of value in quality insurance operators including AIA and PICC P&C. Insurance companies previously traded at superior valuations relative to the broader market (**Chart 8**[4]), supported by underlying drivers

[2] Source: https://en.wikipedia.org/wiki/Chunyun
[3] Source: The Economist, "How China's reopening will disrupt the world economy," January 5, 2023.
[4] Chart 8 depicts the relationship between the discount rates implied by today's price on consensus cash flows for the insurance sector relative to the implied discount rates for the overall market. The discount rate is the level of risk embedded. The higher the discount rate the higher the risk.

of high penetration and profitability growth as more complex products were launched. Over the past two years, however, shrinking sales forces and declining agent productivity caused stock prices to stumble. Now that activity is beginning to stabilize, we expect to see secular trends begin to normalize (i.e. auto industry rebound) in the year ahead.

Multiplying Rabbits

Much like rabbits are known to multiply quickly, the effects of the Chinese "Rabbit" will likely spread across the Global South[5], as China's reopening will generate tailwinds for many other emerging markets. China has become the ASEAN region's largest trading partner, and volumes continue to grow.[6] The combination of recent trade agreements and the re-shoring of supply chains will drive a boon for ASEAN businesses.

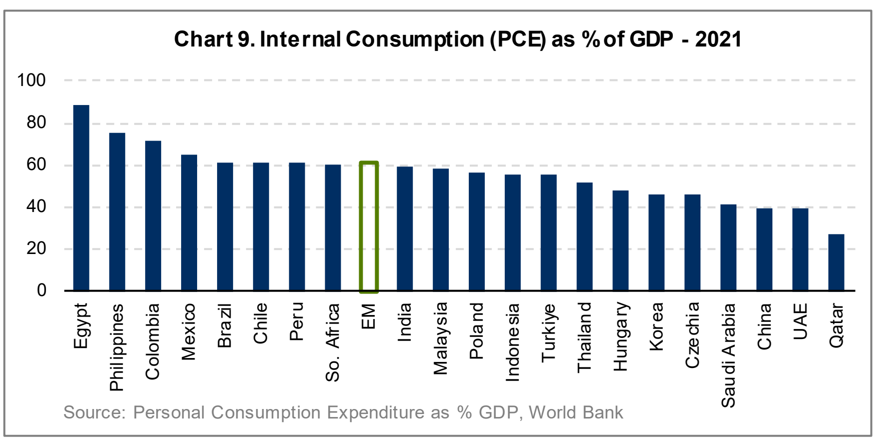
Annual foreign direct investment (FDI) in ASEAN countries is approximately US$50B per year. Over the last decade, Chinese FDI (linked to manufacturing) into the ASEAN region increased from less than US$1B to over US$9B per year.[7] This influx of FDI has fueled the development of more advanced manufacturing capabilities (EVs, semiconductors, etc.). China's reopening will drive increased orders for intermediate goods and services, benefitting many of these newly established ASEAN factories and production lines.

As the investments and increased focus on the Chinese infrastructure and real estate sectors materialize, commodity markets will benefit. This will create positive tailwinds for countries that are heavily reliant on commodity exports, including South Africa, Indonesia, and Peru.

Self-Reliance

For it is in your power to retire into yourself whenever you choose.
- Marcus Aurelius, Meditations

Although we remain confident in a steady and benign growth outlook for EM, we are mindful of the potential risks linked to a global economic downturn. In such a scenario, internally-driven EM economies should deliver more sustainable growth than developed markets more reliant upon external consumption and/or trade.



Historically, internal consumption has always been the key driver of economic activity in EM countries (**Chart 9**). Our on-the-ground due diligence via travel to Mexico, Vietnam, and Indonesia last year reinforced this belief. We pressed management teams to disclose their plans for adverse scenarios in 2023, and most of the discussions centered on a common theme of self-reliance. In 2023, we expect internal demand to be supported by factors like strong FDI inflow and domestic capex cycles.

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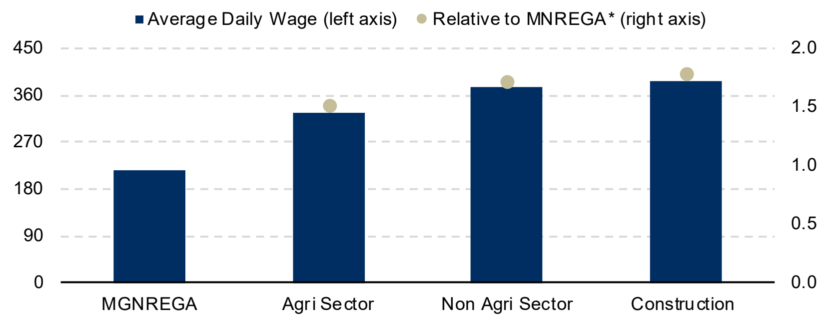
[5] Source: South–South cooperation (SSC) is a term historically used by policymakers and academics to describe the exchange of resources, technology, and knowledge between developing countries, also known as countries of the Global South.
[6] Source: Association of Southeast Asian Nations, https://asean.org/our-communities/economic-community/integration-with-global-economy/asean-china-economic-relation/
[7] Source: Same as above.

FDI – Beyond the structural shift of supply chains from North Asia (China, Korea, Taiwan) to ASEAN, FDI has also been fueled by the development of the green industry, supporting global carbon transition plans. Over US$36B worth of EV announcements have been made in the last four years in the region. The launch of new projects, and the job creation that follows, leads to wealth creation and greater consumption. Our investment in Bank Mandiri, one of the largest universal Indonesian banks, should allow us to capitalize on strong demand for financial services and credit growth in Indonesia.

Chart 10. Sustained Capex Projects Increase Rural Wages in India

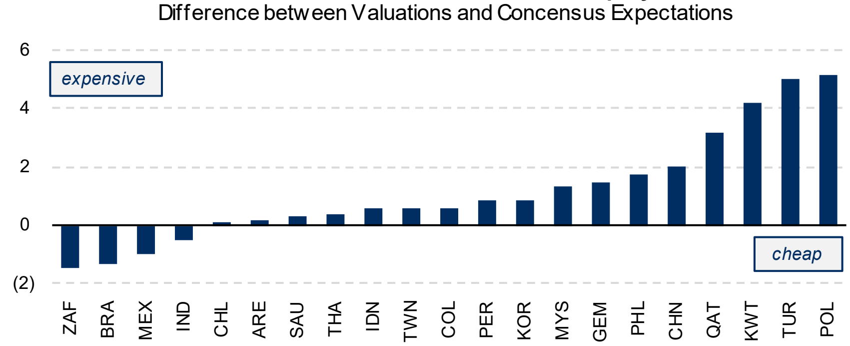


Source: CEIC, UBS. Note: Average daily wage is computed using the average wage given during January 2022-October 2022. *Mahatma Gandhi National Rural Employment Guarantee Act 2005 or MNREGA, earlier known as the National Rural Employment Guarantee Act or NREGA, is an Indian labour law and social security measure that aims to guarantee the 'right to work'.

Domestic Capex Cycles – In India, large infrastructure projects and manufacturing Production Linked Incentive (PLI) schemes[8] will generate more construction jobs, increasing the earning potential for rural workers (**Chart 10**). Wages within the construction industry are notably higher than those available within agriculture, the typical form of employment for many rural citizens.

While our investment in Larsen and Toubro, a large engineering company with headquarters in India, has direct exposure to those capex projects, we are also seeking to capitalize on the ensuing rural consumption wave through investments in targeted financial services companies. Both HDFC Bank and Axis Bank are focusing a large component of their growth strategy on rural expansion and greater services penetration.

Chart 11. GEM Banks - Return on Equity
Difference between Valuations and Concensus Expectations



As of 01/23/22; Source: HOLT Lens

From a 30,000-foot view, Indian market valuations look expensive. Rather than follow the herd into the typical and incredibly expensive consumer discretionary and staples companies, we seek to capture consumption in a differentiated manner. As an example, high quality private banks in India continue to trade at attractive valuations within the Indian market and relative to their GEM peers. These institutions offer improved balance sheets and superior ROEs (**Chart 11**) – both reflecting and enabling structural consumption growth.

Performance Drivers and Portfolio Positioning

The Altrinsic Emerging Markets Opportunities portfolio outperformed the MSCI Emerging Markets Index in the quarter, driven by stock selection within financials (Commercial International Bank of Egypt, AIA, BB

[8] Wikipedia: Production Linked Incentive (PLI) scheme of the Government of India is a form of performance-linked incentive to give companies incentives on incremental sales from products manufactured in domestic units. It is aimed at boosting the manufacturing sector and reducing imports.

Seguridade, Axis Bank), consumer discretionary (Trip.com, Sands China, Minth), and energy (Tenaris, PTT E&P). Communication services (PT Telekom), materials (Hoa Phat Group), and real estate (Vinhomes) detracted from relative performance.

Geographically, the greatest sources of outperformance came from our stock selection and overweight exposure to India (Axis Bank, HDFC Bank) and Egypt (Commercial International Bank of Egypt), as well as our lack of exposure to the Saudi Arabian market. Outperformance was marginally offset by our overweight allocations to Brazil (Lojas Renner, Banco Bradesco) and South Africa (Bidvest Group Limited, Vodacom Group Limited), as well as stock selection in Indonesia (PT Telekom).

Portfolio activity was low this quarter, selling just one investment and adding to a few existing positions. We sold our remaining position in Naver, a leading Korean internet platform, after a costly acquisition broke our investment thesis. Capitalizing on market volatility, we added to our positions in China (Shenzhen Transsion, China Resources Gas, JD.com, AIA, Airtac) and Brazil (Lojas Renner, Vamos, Banco Bradesco).

Closing Thoughts

We are expecting healthy growth across emerging markets in 2023, led by Asia. Peaking inflation and the possibility of interest rate reductions create a stimulatory environment. China's reopening and the ensuing economic recovery will reverberate through the Global South. While these tailwinds could be advantageous for many countries, internal consumption will continue to be the key driver of success for most emerging markets. Just as a tiger cannot change its stripes, internal consumption is deeply embedded in the DNA of emerging markets countries. As a result, these regions could fare better than developed markets in a global economic downturn. In sum, we believe that many of the building blocks necessary for an EM de-coupling from developed markets in 2023 are in place.

Leveraging our on-the-ground, local EM perspective, we see broad value – but not necessarily in the areas one might expect. Our bottom-up investment process leads us to be…[9]

- **Off the beaten path** (investments in highly differentiated companies and overweight exposures to smaller countries including Chile and Indonesia)
- **Contrarian in nature** (overweight exposures to India and Peru)
- **Pushing new frontiers** (overweight in Vietnam)

Thank you for your support and interest in the Altrinsic Emerging Markets Opportunities portfolio. We would be delighted to discuss these or other matters of interest.

Sincerely,

Alice Popescu

[9] Statements re: exposures are relative to the MSCI EM Index.

[i] Performance is presented gross and net 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. Net of fee performance was calculated using the highest applicable annual management fee of 0.95% applied monthly. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. 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, Bloomberg, and Altrinsic research.

GIPS Report – Altrinsic Emerging Markets Opportunities 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 EM (Net)	Composite Dispersion (Gross)	Composite (Gross)	MSCI EM (Net)
2022	8,440	10	0%	Five or fewer	-8.56%	-9.44%	-20.09%	N.A.[1]	N.A.	N.A.
2021	10,533	72	1%	Five or fewer	-2.85%	-3.54%	-4.72%	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 2021 represent partial period performance from April 1, 2021 through December 31, 2021. The composite inception date is 1 April 2021.

The Altrinsic Emerging Markets Opportunities Composite is a diversified (typically between 60 - 90 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. The Altrinsic Emerging Markets Opportunities Composite invests in all capitalizations with no stated caps on small and mid-cap companies. 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, 2022.

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 Emerging Market Opportunities Composite has had a performance examination for the periods beginning April 1, 2022 through June 30, 2022. 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. 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 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 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 0.95% 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 investments, calculating performance, and preparing GIPS Reports 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 Opportunities Composite was created and incepted April 1, 2021

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