ALTRINSIC

July 2019

Altrinsic Global Equity Commentary – Second Quarter 2019

Dear Investor,

Global stock markets delivered robust gains thus far in 2019, outperforming all other asset classes. This strength continued during the second quarter as dovish central bank commentary outweighed the preponderance of weak economic data and tariff fatigue. Key developments during the second quarter included aggressive declines in bond yields, continued yield curve inversion in major markets, rallying equity markets led by US stocks, "growth" continuing to outperform "value," disparate performance among commodities, and reduced pricing of risk as indicated by narrowing CDS spreads in most countries. The Altrinsic Global Equity portfolio gained 2.1% during the quarter. By comparison the MSCI ACWI and World indices climbed 3.6% and 4.0% respectively, as measured in US dollars.[1]

From a broad perspective, the greatest sources of positive attribution were derived from holdings in the financial, materials, and consumer staples sectors. Healthcare, consumer discretionary, and energy were the greatest detractors. Detailed attribution analysis highlights the below-market risk embedded in the portfolio and our underweight exposure to US equities, especially popular market-leading growth stocks, as important drivers of relative underperformance. We are well aware of the risk associated with our differentiated positioning and we fully believe in the fundamental underpinning and that the range of outcomes are skewed in our favor. On the other hand, we are disappointed in the performance of a few holdings that weighed on returns during the quarter. Baidu, Nordstrom, Intercept, and BT were important detractors.

Baidu underperformed after the company reported disappointing quarterly earnings and guided to slowing revenue growth. We recognize the challenging competitive dynamics in Chinese search but we see underappreciated value coupled with upside optionality derived from Baidu's interests in travel and online video platforms, its self-driving car initiatives, and its AI assistant (DuerOS) efforts. Additionally, Baidu has a strong balance sheet with 25% of its market cap in cash.

Nordstrom's share price was weak due to competitive retail dynamics and an aggressive move to digital promotions that was not met with consumer acceptance, hurting Q1 sales. Management has since recalibrated and results should improve from here. The company is well-placed among middle- to high-end consumers and has the first-in-class online presence and customer service necessary for success in retail.

Intercept shares came under pressure during the quarter as the FDA announced that they would like to see "outcome" data for all future late stage non-alcoholic steatohepatitis (NASH) trials. Although this does extend the timeline for future Intercept clinical trials in this category, this FDA guidance also reduces the likelihood that future competitors get early approval, further strengthening Intercept's position in mid and late stage NASH markets.

BT reported year-end results that were better than expected, but its shares underperformed as management delivered cash flow guidance that was below expectations and did not commit to maintaining the dividend if the conditions to invest in fiber are appropriate. At current levels, the market underappreciates BT's strong competitive offering and Philip Jansen's (BT's new CEO) ability to improve BT's cost efficiency amidst a regulatory environment showing tangible signs of improvement.

Notable gainers during the quarter included Nintendo, Qualcomm, and Yahoo Japan. Shares of Nintendo performed well as it is set to release a new version of the Switch later this year. This should help to expand its installed base ahead of a strong game release schedule, including Pokémon, Sword and Shield, and Animal Crossing. Additionally, Nintendo is expected to release two mobile games in the coming months, Mario Kart Tour and Dr. Mario World. We see the potential for outsized profit growth as the company better monetizes its hardware platform. Initiatives in mobile gaming could further add to long-term value creation.

Qualcomm shares rose after the company settled a long-running patent dispute with its largest customer, Apple. We sold our shares in the subsequent rally as it reflected the company's leading technology position in a now-mature smartphone market.

Yahoo Japan's majority holder, Softbank, shifted its ownership to a new entity, Softbank KK (Softbank Corp.'s telecom business), which also announced plans to share a much greater portion of the up-front investment in Yahoo Japan's costly mobile payment initiative. During this reorganization, Yahoo Japan repurchased 6% of its own shares, in addition to the 11% it repurchased last year. Going forward, we expect the partnership to accelerate growth in operating profits. Yahoo Japan's shares remain attractively valued on what we consider to be depressed earnings.

Investment activity was robust as we added new positions in 8 companies during the quarter, including KB financial (Korea), THK (Japan), Fresenius Medical Care (Germany), Cognizant (US), Berkshire Hathaway (US), JB Hunt (US), Lowe's (US), and Siemens (Germany). We sold Dufry (Switzerland), ING (Netherlands), Mitsubishi (Japan), Conduent (US), Alcon (Switzerland), and, as noted above, Qualcomm (US).

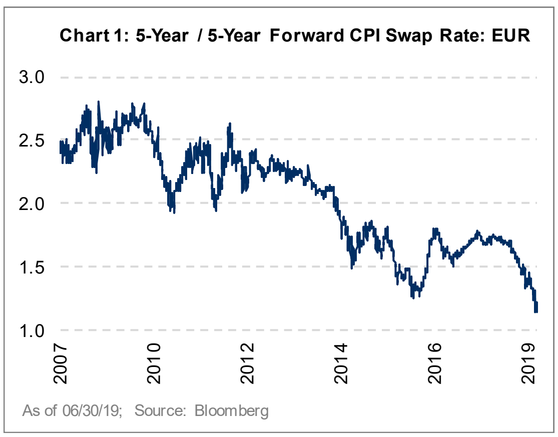
Resulting portfolio exposures are illustrated in the charts and tables in the appendix. Notable sources of exposure and differentiation versus broad market benchmarks include:

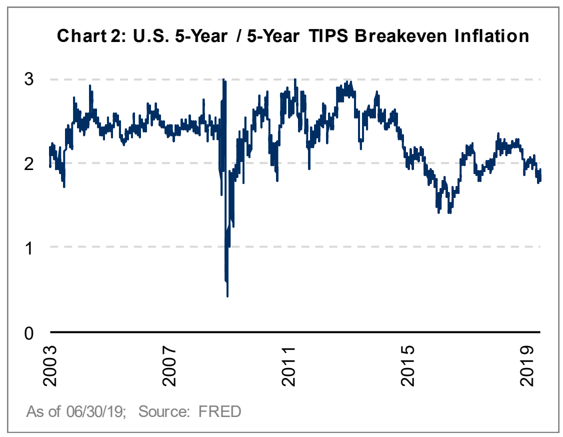
- 35% exposure to US companies, meaningfully below the 64% weighting of US stocks in the MSCI World Index. We see the greatest value and risk adjusted upside in non-US equities.
- Holdings in four industries represent approximately 73% of our invested capital: financials, healthcare, communication services, and consumer staples.[2]
  - Financials – Underweight European and US banks with exposure primarily among capital light insurers and non-bank, cash-flow-driven financials; overweight Japanese financials.
  - Healthcare – Invested in undervalued, established medical device and pharmaceutical companies, complemented by holdings in unique specialty pharmaceuticals, facilities, and other enterprises.
  - Communications – Exposure is among companies with shareholder-friendly management teams, strong balance sheets, and ownership of premier network, technology and/or content assets.
  - Consumer Staples – Meaningful positions in well-capitalized European-based multinational franchises.

- Our direct emerging market exposure is a modest 5%, however, we see a growing number of opportunities following years of EM underperformance and short-term macro uncertainty.
- Macro uncertainty is also leading to opportunities in the industrials and materials sectors. We are spending more time conducting due diligence in these areas and expect to capitalize should further volatility arise.

Market Commentary/Investment Perspectives

Although many investors are taking great comfort in lower interest rates and dovish policy comments, they present a delicate situation with fragile underpinnings. As illustrated in Charts 1 & 2* disinflationary and/or deflationary concerns are prevailing, likely caused by mountainous debt levels, the extended nature of this economic expansion, demographics, globalization, automation, and technological innovation. But, as articulated in previous commentaries, the tug-of-war between these pressures and inflationary forces (including those that could stem from expansive unorthodox monetary policy experimentation) will play out over the medium to long term and be a key source of both interest rate and market volatility in the years ahead.

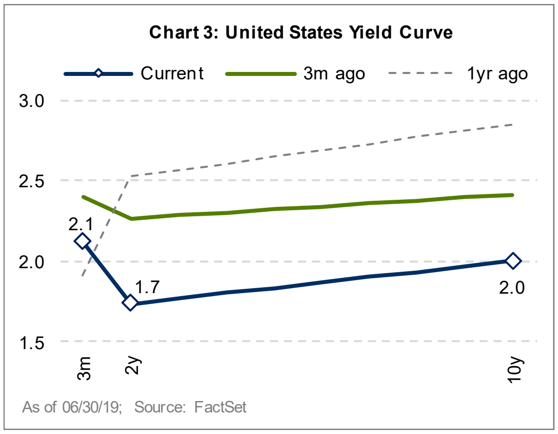


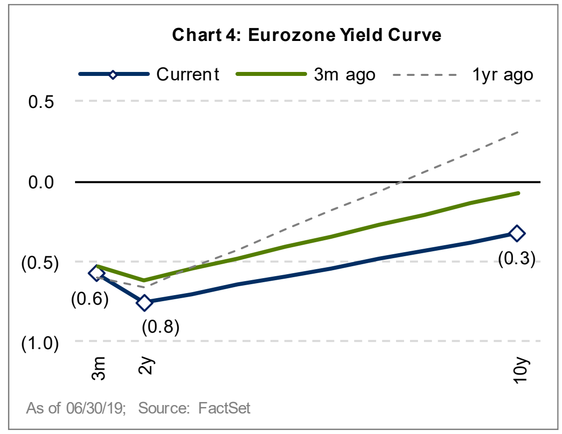


**5 year/5 year forward CPI swap rates and 5 year TIPS breakeven are market proxies for inflation expectations.*

Central bank policy and commentary have further contributed to inverted and flat yield curves as seen in Charts 3 & 4. Speculation swirls around the origin and significance of inverted yield curves, but they have often been a leading indicator of economic weakness or recessions. These conditions are particularly difficult for banks, which have performed terribly for years. Our limited exposure to banks has been primarily in Japan, but we expect opportunities to emerge in the western banks.

Overall, the suppression of interest rates and "extraordinary" stimulus has succeeded in one thing for sure: lifting asset prices. Since the 2008 crises, the big 5 central banks have bought $12.4 trillion in assets. However, the corresponding rise in debt levels (global debt to GDP has climbed from 190% to 235%) and underlying composition created vulnerabilities that could be amplified during an economic downturn and corporate bankruptcies could surprise in magnitude.





China in particular has experienced a significant increase in debt. Recognizing this, officials attempted a deleveraging campaign last year, but deteriorating growth forced them to quickly reverse course, providing additional fiscal stimulus and liquidity in the banking system. Despite these efforts, banking regulators had to bail out Baoshang Bank, the first Chinese bank to default, in May. China has the resources and tools to avoid a full-blown crisis, but the imbalances are significant and will persist for years. Similarly, the government's conflict with the West in areas of trade, intellectual property rights, cyber warfare, and geopolitical influence will be long-lasting.

Despite the swoon experienced during the fourth quarter, the market rally since has led to significant complacency among investors and market observers. Valuations are elevated, particularly for popular "growth" stocks. Risk measures like junk bond spreads and credit default swaps for leveraged countries and companies, not to mention a record $13 trillion of negative yielding bonds highlight major imbalances in global markets. Subdued capital expenditures suggest corporates have been conservative in their outlooks and planning, but their appetite to borrow and increase leverage suggests confidence and/or macro complacency. We have no ability to forecast economic variables, but we believe it is particularly timely and prudent to be conservative in our assumptions for economically sensitive businesses and in our risk assumptions.

While we recognize the significant issues facing investors, we believe that public equities are well-suited to deliver favorable absolute returns over the long term and outperform most other asset classes. This will come with volatility, as seen last year, and there will be winners and losers. While the pace of innovation is accelerating, well-managed companies can adapt to evolving economic and competitive environments, innovate, enter new markets, and allocate capital to enhance shareholder value. A few large tech companies have been generating significant buzz surrounding their innovation and market dominance, but beneficiaries are spreading across all industries. We believe some of the greatest surprises will come in healthcare, where focused management helps catalyze and harness scientific innovation. We are also encouraged by the greater alignment with shareholder values, not only in economic terms but regarding important environmental, social, and governance issues as well.

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On a final note, we are pleased to inform you that we have repurchased National Australia Bank's minority interest in our firm.

Trends in asset management have led many participants to exit the industry, consolidate via mergers and acquisitions, and/or pursue other defensive strategies as they confront skepticism towards active management and threats from passive, low-cost "factor oriented solutions." To the contrary, we believe there is no better time to invest in ourselves.

We will continue to work closely with NAB's wealth management arm, MLC, in the Australian marketplace where we manage the Altrinsic Global Equities Trust and other offerings. Under the new leadership of Geoff Lloyd, we are confident that MLC's wealth management business will continue to positively distinguish itself in the local marketplace.

This purchase will enable us to further incentivize the next generation of talent while even more deeply aligning our interests with those of our clients. We have been partners for 19 years and have since surrounded ourselves with a terrific and diverse team of younger professionals who are playing important roles at Altrinsic. With this transaction, the team will eat even more of its own cooking.

We launched Altrinsic in 2000, as the TMT bubble was unraveling and the cognoscenti were calling for the "death of value investing." Many value investors did capitulate during this period given short-term relative performance pressures, the prolific leadership by a narrow group of high-priced "growth/momentum" stocks, and emotions throughout the industry food chain. Sound familiar?

Benjamin Graham famously said, "An intelligent investor gets satisfaction from the thought that his operations are exactly opposite to those of the crowd." The confidence we had in 2000 is outweighed by the confidence we have today.

We are humbled by the challenge, exhilarated by the opportunity, and could not be more excited for what lies ahead.

Sincerely,

John Hock
John DeVita

[1]*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.*

[2]*Industry/Sector/Regional portfolio weights included here and throughout this letter are presented as of June 30, 2019. 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. These percentages are based upon a representative fully discretionary account.*

Altrinsic Global Equity Composite

Quarterly Report as of June 30, 2019

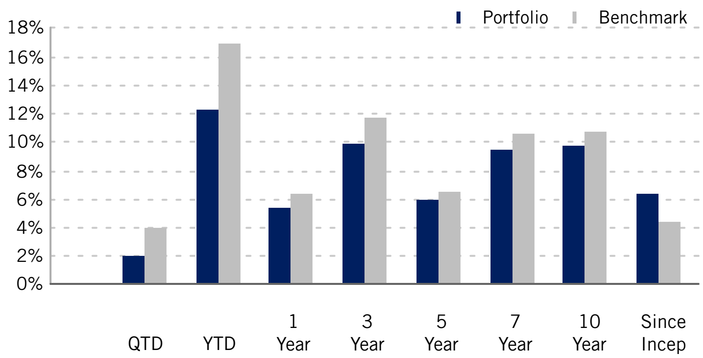
Benchmark: MSCI World

Currency: USD

Inception Date: 6/30/2000

Performance (%)

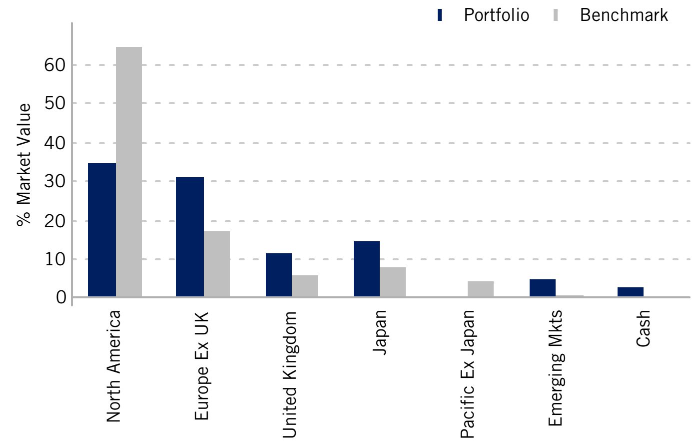
	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Year	Since Incep
			Annualized					
Portfolio	2.1	12.3	5.5	9.9	5.9	9.5	9.8	6.4
Benchmark	4.0	17.0	6.3	11.8	6.6	10.6	10.7	4.4
Excess	(1.9)	(4.7)	(0.9)	(1.9)	(0.7)	(1.1)	(0.9)	2.0



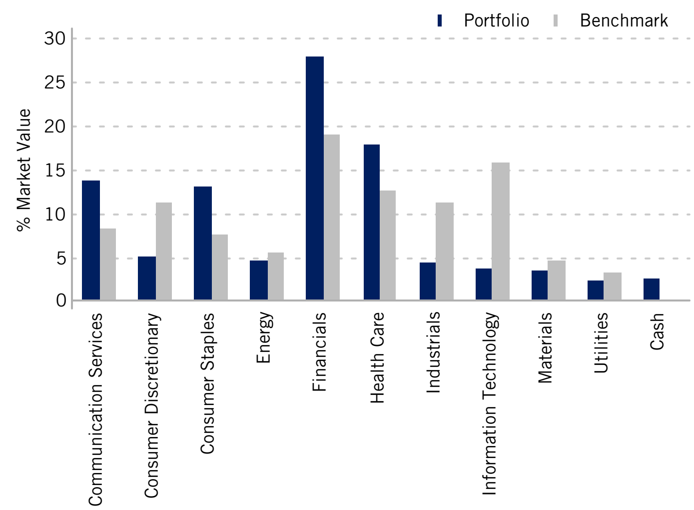
Top 10 Positions

Security	Sector	% Market Value
Comcast Corp.	Communication Services	3.0
Chubb Ltd.	Financials	2.8
Zurich Insurance Group AG	Financials	2.8
Willis Towers Watson PLC	Financials	2.7
Sanofi	Health Care	2.7
Astellas Pharma Inc.	Health Care	2.6
GlaxoSmithKline plc	Health Care	2.4
Aon plc	Financials	2.3
Heineken NV	Consumer Staples	2.1
Hartford Financial Services...	Financials	2.0
		25.5%

Region Weights



Sector Weights



Positions Initiated/Eliminated (2nd Quarter 2019)

Initiated	Eliminated
THK Co. Ltd.	ING Groep NV
KB Financial Group Inc.	Conduent Inc.
Cognizant Tech Solutions-A	Qualcomm Inc.
Fresenius Medical Care AG	Dufry AG
Berkshire Hathaway Inc.-CL B	Mitsubishi Corp.
J.B. Hunt Transport Services, ...	
Siemens AG	
Lowe's Companies, Inc.	

Characteristics

	Portfolio	Benchmark
Market Cap		
Weighted Average (USD M)	68,204	167,380
Median (USD M)	34,997	13,164
Portfolio Count	78	1,655
Dividend Yield	2.6%	2.4%
Price to Earnings	16.6x	18.5x
Price to Book	1.8x	2.4x

Performance is presented gross of management fees but net other fund expenses. Gross returns will be reduced by the investment advisory fee. The report reflects the composite inception date and performance. Individual client inception dates and since inception returns will vary. The portfolio may invest in countries, sectors and securities not included in the noted index. All investments involve risk of loss. Past performance is not indicative of future results. Due to rounding, numbers presented may not add up to the totals provided.