January 2020

Altrinsic International Equity Commentary – Fourth Quarter 2019

Dear Investor,

2019 was an extraordinary year for most asset classes, and global equities in particular, with the MSCI World Index delivering its third best gain in the past 30 years. Markets climbed a wall of worry, receiving a boost from the January reversal of central bank policy coupled with an easing of two significant risk factors faced at the beginning of the year: Sino-US trade tensions and Brexit. International equities delivered solid returns but were outpaced by US equities and highly priced technology stocks, which led the advance. Unlike the poor market sentiment entering 2019, current bullishness has reached six-year highs, while other measures of risk, including credit spreads and volatility (as measured by the VIX index), have reached levels suggesting unhealthy complacency.

The Altrinsic International Equity Composite gained 7.5% during the fourth quarter and 21.8% for the calendar year 2019. By comparison, the MSCI EAFE Index gained 8.2% and 22.0% respectively, as measured in US dollars.[1] Absolute performance exceeded our expectations, but relative performance slightly lagged largely as the result of below-market risk levels embedded in the portfolio (average 2019 beta of 0.84).

The largest sources of positive attribution during the quarter were derived from our investments in the industrial, energy, and communication services industries. Industrials advanced on capital allocation decisions and improved cost management (mainly Babcock, Siemens, and Hitachi), while energy benefitted from our holdings' higher leverage to oil prices (Brent was up 12% in Q4). Lastly, within communication services, Z Holdings (formerly Yahoo Japan) rallied after announcing improved results and value-enhancing capital allocation decisions.

Investments in financials, information technology, and consumer discretionary were the greatest sources of negative attribution. Our financials have less cyclicality and lower sensitivity to interest rates, which rose modestly during the quarter, pressuring our relative performance. Technology performance suffered from our holdings' more defensive nature and our underweight to large technology companies. Consumer discretionary was a drag, resulting from our underweight to this cyclical sector and soft performance from auto parts supplier Continental AG, which was challenged by a weak auto end market and rising investment requirements.

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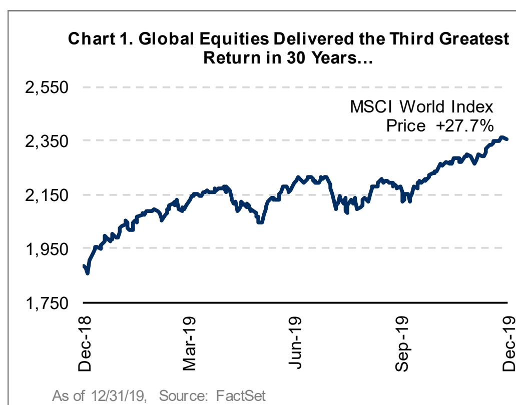
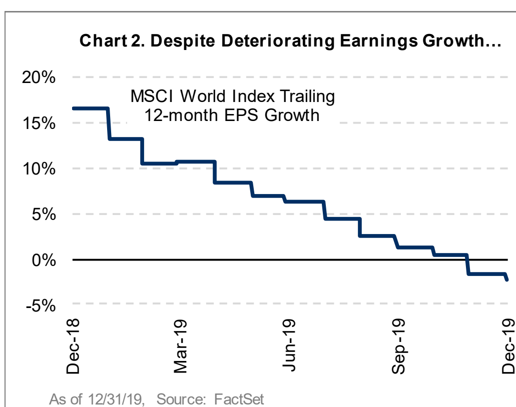
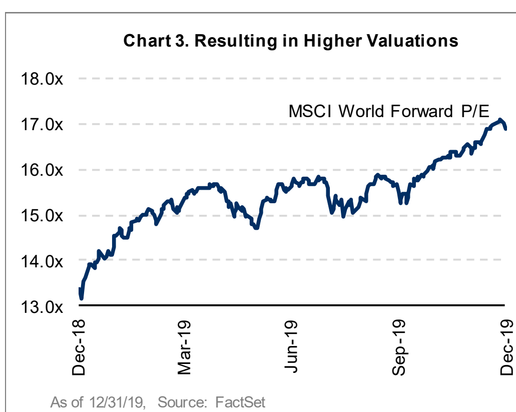
Investment activity largely focused on selling fully valued holdings to further concentrate the portfolio in our highest conviction ideas. During the quarter, we added two new investments, Reckitt Benckiser Group (United Kingdom) and Taisei Corp. (Japan), and we sold three: Grupo Televisa (Mexico), SMC Corporation (Japan), and Turkiye Garanti Bankasi (Turkey).







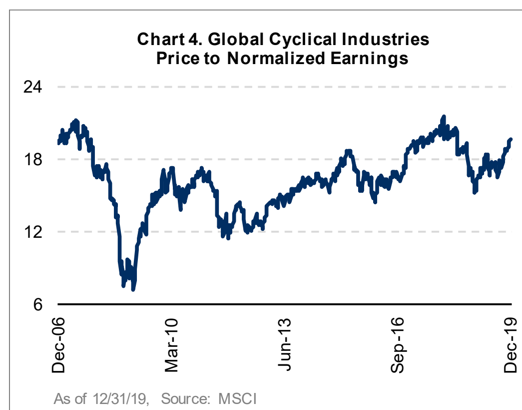
Market Commentary

Some of the greatest stock market gains in the last 30 years were delivered in 2019 despite a lackluster economic backdrop, tepid underlying earnings growth, and mountainous debt levels. The well-publicized improvements in the Brexit process and Sino-US trade tensions were important developments. However, the resurgence of stimulatory central bank policies was the decisive factor. Beginning in January, the US Fed reversed course, announcing three successive interest rate cuts. Later the Fed began buying $60 billion in treasuries per month and injecting further liquidity, as the important REPO rates spiked to 10%. As shown in Charts 1, 2, and 3, the resulting market gains and lack of earnings growth has led to a further elevation in valuations (PE multiples). Entering 2020, underlying fundamentals, margin sustainability, and corporate earnings will be important determinants of equity market performance. Beneath the headline numbers, there is a healthy debate about the value, or lack thereof, among the more cyclical areas of the markets. In general, we believe the headline "value" in many cyclical or low-quality areas is currently misleading.

From a global perspective, corporate profitability has been robust since emerging from the ashes of the financial crisis and earnings per share have been flattered by the effective use of share buybacks, low tax rates, and increased balance sheet leverage. From current levels, it is much more challenging to grow earnings, with profit margins near historical peak levels, high debt levels, trough tax rates, and deteriorating returns on capital. Stimulus from China and/or a general increase in corporate capital expenditures is essential to sufficiently lift aggregate earnings.

Cyclical industries generally struggled in 2019, with slowing activity and higher wage inflation pressuring profitability and leading to an average 14% downgrade to 2020 EPS consensus estimates. Despite the disappointments, their share prices rose an average of 32%, as investors appear willing to look through near-term weakness in the hope of better days ahead. We remain on the hunt for cyclical companies with sensible management teams, structurally sound business models, and discounted valuations, but many of the companies we reviewed offer poor risk/return. This bears out in high-level data and with global

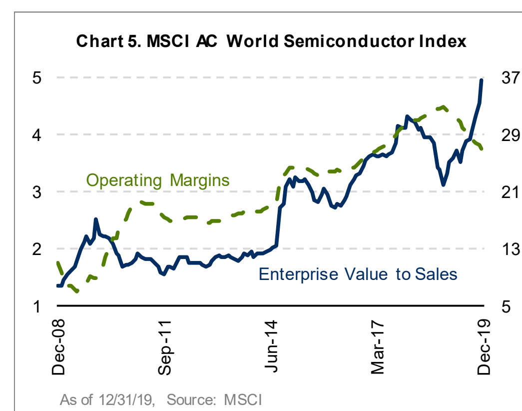
cyclicals that now trade near their peak on price to normalized earnings (see Chart 4), our preferred valuation metric, as it uses long-term profitability rather than a potentially peak headline figure. Those cyclical industries that screen as "cheap," such as the auto food chain or ex-US banks, carry some level of structural risk or cost pressure that must be accounted for.



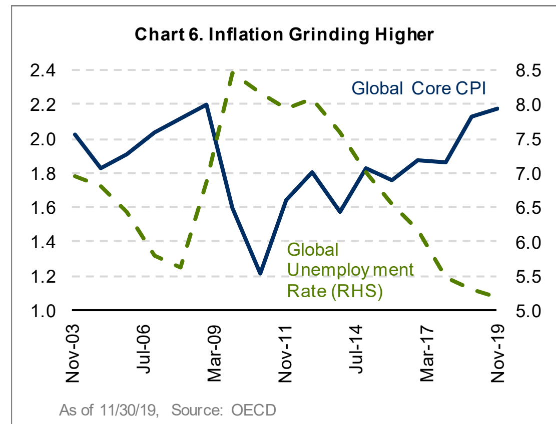
The automotive industry faces cyclical and structural risks. Global auto sales are set for their worst growth rate since the financial crisis. China, the chief engine of global auto sales expansion over the last decade, remains particularly weak, while US auto sales have been anemic for nearly five years. Global auto sales have been boosted by aggressive lending practices, such as lower borrower credit quality, extended loan terms, and higher loan-to-value. In the US, auto loan delinquencies are rising sharply, and our channel checks tell us that developed market banks are now tightening lending standards, potentially pressuring already weak demand.

While many auto stocks look cheap on trailing measures, they are less attractive when normalizing for volume pressures, rising wages, electric vehicle investments, and evolving emission standards, to name a few. We do own one company exposed to the auto industry — Continental, an auto-parts manufacturer focused on increased content per vehicle and structurally sound tire subsectors. The OEMs are more disciplined than in the past, as many players are focused on better capacity utilization and increased price discipline, but significant risks warrant conservatism and patience. We remain fully engaged within the auto industrial complex and hope to increase our exposure should conditions warrant.

Investors paid lofty prices for companies deemed "quality" cyclicals in 2019. The most extreme examples can be found in semiconductors, technology hardware businesses, and machinery automation, which were each up over 50% in 2019. We purchased two companies in the automation food chain (SMC and THK) earlier in the year, given discounted valuations and compelling structural demand stories, but sold SMC in December as its shares had reached our estimate of intrinsic value. During the last cycle, the semiconductor industry has shown improved competitive dynamics and has a strong foundation for structural growth, but it remains highly cyclical. Global sales fell a sharp 13% in 2019 due to weak broad-based demand, but this did nothing to dent investor optimism as semi stocks rallied to above previous peak valuations. Metrics such as enterprise value-to-sales are now double their long-term averages and well above 2017's bubble, implying a new normal for growth and profitability (see Chart 5). We fully expect volatility to return, as the industry attempts to offset a long-term slowdown in its core business (smart-phones) with new business lines (5G, auto content, and artificial intelligence). We will remain on the sidelines of this cyclical industry and wait until risk/return dynamics become more favorable.



Market participants appear to have lost their fear of the inflation boogeyman. Central bankers around the world eased in 2019 while further expanding balance sheets via aggressive bond market purchases. Despite global core inflation rising 2.2%, a 17-year high (see Chart 6), Central bankers seem to be compromising on their stated mandate of "price stability." While today's inflation is still manageable and the massive global stock of debt is inherently deflationary, the combination of easy money, multi-decade-low global unemployment, rising tariffs, and potentially higher fiscal stimulus could produce some inflation surprises in 2020 and beyond. Investors should be braced for greater volatility in interest rates, and this will directly affect asset prices.



Our portfolio is focused on businesses with a greater degree of control over their cash flows and management teams that are incentivized to work in the best interest of the shareholders. Currently, that means the portfolio has below-market risk. This is not an economic call but the result of sensible long-term analysis and conservative business cycle assumptions. The last five years have seen sharp bouts of volatility, and we expect more during the next five. As always, we will remain nimble but disciplined when volatility once again presents opportunities.

Thank you for your interest in Altrinsic Global Advisors. We welcome your comments and questions.

Sincerely,

John Hock

John DeVita

Richard McCormick

[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.*

ALTRINSIC INTERNATIONAL EQUITY COMPOSITE
FULL DISCLOSURE PRESENTATION

Year to Date	Total Firm Assets (millions)	Composite Assets: USD (millions)	% of Firm Assets	Number of Accounts	Annual Performance Results: Composite Gross	Composite Net	MSCI EAFE (Net)	Composite Dispersion	Ex-Post Standard Deviation (3 Yr Annualized): Composite	MSCI EAFE (Net)
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.

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, 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 International Equity Composite has been examined for the periods beginning December 8, 2000 through June 30, 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 the United States and Canada. 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 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 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.

Important Considerations and Assumptions

This presentation has been prepared solely for informational purposes and nothing in this material may be relied on in any manner as investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you.

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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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