Market commentary

CI Digital Roadshow

ALTRINSIC GLOBAL ADVISORS

Active, Passive, Uber and Opportunity
Summary of a presentation by John Hock, Chief Investment Officer,
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- Active managers have underperformed in recent years during a period of intensifying pricing pressures, regulatory pressures and the growing availability of new and innovative products. It is unclear whether the underperformance of active management is predicative of what is to come, or reactive to what is happening.
- Two main factors affecting active management are cyclical environmental factors and secular pressures.
    - The massive degree of unprecedented policy experimentation in the form of quantitative easing and other measures have inflated the balance sheets of central banks and contributed massive amounts of excess reserve. Money has not flowed into the economy through these policies, instead it has flowed into financial assets. Multiple expansion has led markets, rather than true underlying fundamental earnings power.
    - Altrinsic believes mid-2015 marked a turning point where central banks lost credibility with investors and volatility began to peak upward. We also believe these events have marked the reversal of the underperforming trend of active management.
    - Innovations from low-cost passive and quantitative strategies have proliferated.
    - The investment management industry is being “Uberized.” Investment managers that depend on simplistic approaches and are unable to differentiate from what “big data” can provide may be compromised. This also creates opportunities for managers who put emphasis on the long-term and on companies driven by idiosyncratic factors.
- Examples of our holdings being driven by idiosyncratic factors are Nintendo, Chubb and ING Group.
    - Nintendo is a pioneer in the home video game market and has a significant amount of valuable intellectual property. It also has a history of innovation and a large cash balance. The company remained under the radar after the release of its last Wii console but the first signs of progress have emerged with its popular Pokemon Go game. Most of Nintendo’s success has not been dependent on the economy and Altrinsic believes the company will continue to move independently.
    - Altrinsic believes insurance provider Chubb is misperceived. The company merged with ACE and is in the early stages of earnings per share growth and multiple expansion. It has a long-term track record of shareholder value creation, prudent capital deployment and a true underwriting culture. Altrinsic believes this company will continue to under-promise and over-deliver.
    - After recapitalizing, ING Group has recently gone back to what it originally was, a Dutch bank focused on its home market and a few other neighbouring areas. It has rebuilt capital, disposed of

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bad assets and continues to focus on shareholder returns. The company has an asymmetric risk return profile and is Altrinsic's first more meaningful purchase in the European banking industry, an industry that many have been avoiding.

- Altrinsic believes that opportunities outside of the United States offer better value. The group is significantly overweight non-U.S. equities and significantly underweight U.S. equities.
- Altrinsic's portfolios are currently concentrated in three areas: high-quality blue-chip franchises that are long-term compounders of value; Japan, where Altrinsic is likely the most differentiated from other global managers; and product-specific companies with low-to-modest economic sensitivity.