SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Third Quarter 2020

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During the third quarter of 2020, the Seafarer Overseas Growth and Income Fund returned 10.22%.[1] The Fund's benchmark indices, the MSCI Emerging Markets Total Return USD Index and the Morningstar Emerging Markets Net Return USD Index, increased 9.70% and 9.01%, respectively. By way of broader comparison, the S&P 500 Index returned 8.93%.

The Fund began the quarter with a net asset value of $11.25 per share. It paid no distributions during the quarter and finished the period with a value of $12.40 per share.[2]

Performance

Stock markets around the world surged for the second consecutive quarter, rebounding from the lows experienced in March after the global onset of the novel coronavirus. The movement in stock prices in the emerging markets was astonishingly rapid, but relatively narrow: essentially all the gains in the MSCI Emerging Markets Index stemmed from only four countries. The gains were heavily concentrated in Chinese shares, which accounted for 53% of the gains during the third quarter, even as they accounted for only 41% of the index's allocation.[3] The remainder of the gains came either from northeast Asia – Taiwan and South Korea accounted for 21% and 15% of the index's upward movement, respectively – or from India, which made a 12% contribution.[3] Nearly all other markets were either listless, created a drag on the index as they fell outright, or were too small to make an impact on the index.

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Against this highly concentrated market backdrop – dominated as it was by East Asia technology and internet companies, primarily of Chinese origin – the sources of the Growth and Income Fund's contributions to performance were far more diversified. South Korea was the single largest source of return, at 32%, followed by China at 30%; but thereafter, the Fund saw notable gains in its holdings in Singapore, India,

As of 9/30/20 the annualized performance of the Fund's Institutional class was: 1 year 10.39%, 3 year 3.01%, 5 year 7.31%, and since inception (2/15/12) 5.75%[1]; the gross expense ratio was 0.93%. The performance data quoted represents past performance and does not guarantee future results. Future returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. View the Fund's most recent month-end performance at www.seafarerfunds.com/performance.

Mexico, Vietnam, and Eastern Europe.[4] A single quarter is far from sufficient to draw any conclusions about the nature and structure of performance – but I am at least pleased that the Fund's portfolio does not seem to be driven by the same, small handful of stocks that dominate the index, or comprise many other investment portfolios.

The Fund's modest outperformance versus the benchmark indices cannot be definitively attributed to a particular cause. However, I suspect that the primary impetus for the Fund's gains was the strong underlying fundamental performance of its holdings: the portfolio's constituents remain on track to generate modest earnings growth for 2020, even as the profits of the MSCI Emerging Market Index's constituents are expected to contract -13% in aggregate this year. Consensus estimates for the Fund's holdings suggest that the portfolio will see 9% growth in earnings, but this includes a single company (**First Pacific**, a conglomerate based in Hong Kong) that is progressing from losses last year (which depressed the basis of comparison in 2019) to anticipated profits this year. The resulting "swing" in the portfolio's aggregate earnings exaggerates the underlying rate of growth; yet it is reasonable to expect that the portfolio might produce 1% to 2% growth once this effect is removed. While this rate of growth is relatively anemic in absolute, it stands out in a year when the broader market is undergoing a material contraction.

The MSCI Emerging Market Index's surge during the quarter represents a substantial expansion in the earnings multiple; the index constituents now trade at 19.2 times 2020 earnings, whereas the multiple for the Fund's holdings was 18.0, when measured at the end of the quarter. (For reference, the MSCI USA Index had a 2020 multiple of approximately 28 at the end of September.) Time will tell if such rapid gains were warranted – all hope rests on a rapid economic and financial recovery in 2021 – but for the moment, the surge in share prices appears dubious, as current conditions remain weak.

Allocation

During the third quarter, stock markets in the developing world were characterized by pronounced volatility and rapid price appreciation. The presence of these two conditions prompted us to opportunistically realize gains in certain positions that experienced rapid price appreciation, particularly during the month of July. In total, four positions were exited altogether, and three positions were reduced substantially relative to their portfolio weightings at the outset of the quarter. Meanwhile, the Fund attempted to take advantage of the same volatility to enter five new positions that experienced depressed share prices amid the market turmoil. With the addition of five new holdings, the exit of four holdings, and the substantial reduction of three existing positions, the Fund's portfolio underwent a great deal more change than is typical for a three-month period.

The Fund's additions include **Ping An Insurance Group**, one of China's largest and best-diversified financial institutions; **China Literature**, a digital publishing firm based in mainland China; **Accton Technology Corporation**, a Taiwan-based manufacturer of networking equipment; **Ambev SA**, one of the largest brewers in South America; and **Itaú Unibanco**, arguably Brazil's finest diversified financial services firm.

The Fund's deletions include **Bao Viet Holdings**, a Vietnam-based insurance group, which was sold in order to fund additional investment in **PetroVietnam Gas**, the country's largest gas transmission utility; **Qualicorp Consultoria**, a Brazil insurance and benefits consultant; **China Resources Beer**, a brewer; and a recently-listed China-based firm that specializes in software to support financial transactions.

Lastly, the Fund dramatically reduced – but did not entirely exit – three positions, all sold due to excessive valuations: a 5.25% reduction in the allocation to **Alibaba**, China's largest e-commerce company, and formerly the largest holding in the Fund; a 1.75% reduction in **Naver**, South Korea's leading internet search and commerce company; and a 2.25% reduction in **Yangtze Power**, the publicly-listed portion of China's Three Gorges Dam project, and the largest listed hydropower asset in the world.

The Fund continues to find worthy investments in China – notably with the aforementioned new holdings in Ping An and China Literature. However, the Fund's portfolio is positioned now with a substantial underweight to the Chinese stock market, and it is notable that for the most part, the search for better-priced shares led the Fund away from the intersection of East Asia and technology – and toward Brazil.

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Outlook

In my view, the prevailing conditions are extremely bifurcated among the stock markets of the developing world. Many stock markets – Brazil, Russia, South Africa, Mexico, many parts of Eastern Europe – have generally seen share prices and currencies decline in tandem, such that valuations in many cases are depressed, perhaps even "cheap." However, the economic conditions in the aforementioned countries are uncertain and possibly unstable, and investors should tread with caution. Meanwhile, a handful of countries in Asia have experienced pronounced gains – India, South Korea, Taiwan – and valuations may not properly incorporate the economic and financial stress induced by the coronavirus.

Apart from all of these stand the stock markets in China, which are now definitively in a bubble. The bubble is neither trivial, nor is it an accident: by a very wide margin, China's economy is larger, broader, deeper, more sophisticated, and has performed far better than any other country that is a constituent of the "emerging market asset class." Its capital markets (i.e. stocks, bonds, and bank lending) are larger, more sophisticated, and more liquid than the rest. China's domestic bond markets – once tiny, illiquid, dysfunctional and shuttered from the rest of the world – have received billions (USD equivalent) in inflows from foreign investors hungry to participate in a growing market, a market newly opened to global participation via concerted efforts at reform. As a consequence, the renminbi has surged, and liquidity is abundant. The nominally "communist" country is on the cusp of conducting the largest initial public offering (IPO) in the history of the world.[5] While China's management of the COVID-19 pandemic was initially inept and destructive, the country's unity has beat back the virus, and now its citizenry enjoys a degree of normality, and its economy is moving forward once more – well ahead of any other major country in the world. China's stock markets have surged so high that as of October 2020, they account for over 44% of the MSCI Emerging Markets Index, and rising. Confidence is running high in China, for clear and comprehendible reasons.

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Yet that surplus of liquidity and confidence has inflated a stock bubble of enormous proportion. China's equities have surged this year, even as economic performance remains tepid in absolute, and as corporate earnings have been generally weak (with notable but narrow exceptions). Stock prices have seen their price to earnings multiples rise by an average of 30% relative to the end of 2019, even as corporate profits have contracted. And this 30% increase masks a wide range of outcomes: consumer, healthcare and technology stocks have surged far, far more (banks, materials and energy stocks have dragged down the average, such that the increase is "only" 30%). Economic growth has laudably improved, but primarily because of a massive increase in fiscal stimulus and infrastructure-related spending. The vaunted "consumer sector" is stagnant, as households appear cautious about spending and consumption in the aftermath of the pandemic.

The locus of China's stock bubble is firmly centered on the stocks of nearly any business that remotely smacks of technology, scientific progress, or domestic consumption. Many such companies are unimpressive: they produce pedestrian growth, generate low levels of profitability, have dubious governance, and in some cases produce staggering losses. Yet investors – mainly domestic Chinese, but plenty of global investors too – have been keen to bid shares higher, betting with confidence that China can successfully decouple its economic, industrial and political fortunes from the misfortunes that plague the rest of the world. The resultant scale and breadth of excess valuation is nothing short of stunning. Wildly profitless companies are soaring; deeply insolvent companies are sustained by a combination of complacent bank and bond markets, goaded by government officials keen to maintain the status quo and avert even a modicum of financial distress.

I do not know when or how the bubble in China will "pop." I believe the bubble may grow more distended than most in history, because China's capital markets are regulated and controlled in a manner that is apt to sustain distortions longer than could occur under conventional conditions. The present bubble could possibly extend for years. Yet I am confident the bubble will eventually deflate: all my experience and understanding in equities underscores that while a country may warrant favor among investors for a moment – and thereby prompt exorbitant valuations – eventually, the fundamental performance of individual companies is the only factor that can sustain share prices over time. Unless and until corporate performance improves mightily, the plausible but grossly overextended bubble in China will decline. When it does, it will not be good news for the emerging market asset class, as China dominates it – economically, financially, and especially as a constituent member of the benchmark indices. I doubt there will be a "safe haven" for investment in the asset class when this event occurs, but I will attempt to steer the Fund in a manner that avoids an excess of exposure to it.

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Thank you for entrusting us with your capital. We are honored to serve as your investment adviser in the emerging markets.

Andrew Foster
Chief Investment Officer and Portfolio Manager

Paul Espinosa
Portfolio Manager

October 30, 2020

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned 10.28% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $11.19 per share; it finished the quarter with a value of $12.34 per share.

[3] Sources: *Bloomberg*, MSCI.

[4] Sources: *Bloomberg*, Seafarer.

[5] Ant Financial is anticipated to raise $35 billion in capital through an initial public offering in early November 2020. If successful, Ant's IPO will be the largest in the history of the world. The company received subscriptions of over $3 trillion for its $35 billion offering. Source: Jeanny Yu and John Cheng, "Jack Ma's Ant IPO Lures $3 Trillion of Bids in Retail Frenzy," *Bloomberg*, 30 October 2020. https://www.bloomberg.com/news/articles/2020-10-29/the-biggest-ipo-in-world-history-is-stoking-an-investor-frenzy

Glossary

Initial Public Offering (IPO): the process of offering shares of a private company to the public in a new stock issuance. Public share issuance allows a company to raise capital from public investors.

Liquidity: the ability to buy or sell an asset readily and with reasonable volumes without affecting the asset's price. (Sources: Seafarer and Barron's Dictionary of Finance and Investment Terms, 1995)

Price to Earnings (P/E) Ratio: the market price of a company's common shares divided by the earnings per common share. The Price to Earnings ratio may use the earnings per common share reported for the prior year or forecast for this year or next year (based on consensus earnings estimates). (Source: Barron's Dictionary of Finance and Investment Terms, 1995)

Renminbi (RMB): the official currency of the People's Republic of China. The name literally means "people's currency." The yuan (sign: ¥) is the basic unit of the renminbi, but is also used to refer to the Chinese currency generally, especially in international contexts.

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All performance is measured in U.S. dollar terms. For the MSCI Emerging Markets Total Return USD Index, performance is calculated to reflect the reinvestment of dividends, capital gains, and other corporate actions gross of foreign jurisdiction withholding taxes (i.e., such taxes are ignored). For the Morningstar Emerging Markets Net Return USD Index, performance is calculated to reflect the reinvestment of dividends, capital gains, and other corporate actions net of foreign jurisdiction withholding taxes. The performance data quoted represents past performance and does not guarantee future results. Future returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. View the Fund's most recent month-end performance at www.seafarerfunds.com/funds/ogi/performance.

The MSCI Emerging Markets Total Return USD Index, Standard (Large+Mid Cap) Core, Gross (dividends reinvested), USD is a free float-adjusted market capitalization index designed to measure equity market performance of emerging markets. Index code: GDUEEGF. The Morningstar Emerging Markets Net Return USD Index measures the performance of emerging markets targeting the top 97% of stocks by market capitalization. The index does not incorporate Morningstar's environmental, social, or governance (ESG) criteria. Index code: MEMMN. The S&P 500 Total Return Index is a stock market index based on the market capitalizations of 500 large companies with common stock listed on the NYSE or NASDAQ. The MSCI USA Index is an index designed to measure the performance of the large- and mid-capitalization segments of the U.S. market. Index code: MXUS. It is not possible to invest directly in an index.

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As of September 30, 2020, First Pacific Co., Ltd. comprised 1.7% of the Seafarer Overseas Growth and Income Fund, Ping An Insurance Group Co. of China, Ltd. comprised 2.7% of the Fund, China Literature, Ltd. comprised 3.5% of the Fund, Accton Technology Corp. comprised 2.1% of the Fund, Ambev SA comprised 2.0% of the Fund, Itaú Unibanco Holding SA comprised 1.9% of the Fund, PetroVietnam Gas JSC comprised 2.1% of the Fund, Alibaba Group Holding, Ltd. comprised 1.9% of the Fund, Naver Corp. comprised 0.9% of the Fund, and China Yangtze Power Co., Ltd. comprised 0.4% of the Fund. The Fund did not own shares in Bao Viet Holdings, Qualicorp Consultoria e Corretora de Seguros SA, or China Resources Beer Holdings Co., Ltd. View the Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ogi/composition. Holdings are subject to change.

ALPS Distributors, Inc. is the distributor for the Seafarer Funds.

Investors should consider the investment objectives, risks, charges and expenses carefully before making an investment decision. This and other information about the Funds are contained in the Prospectus, which is available at www.seafarerfunds.com/prospectus or by calling (855) 732-9220. Please read the Prospectus carefully before you invest or send money.

Important Risks: An investment in the Funds involves risk, including possible loss of principal. International investing involves additional risks, including social and political instability, market and currency volatility, market illiquidity, and reduced regulation. Emerging markets are often more volatile than developed markets, and investing in emerging markets involves greater risks. Fixed income investments are subject to additional risks, including but not limited to interest rate, credit, and inflation risks. Value investments are subject to the risk that their intrinsic value may not be recognized by the broad market. An investment in the Funds should be considered a long-term investment.

The Seafarer Overseas Growth and Income Fund is not sponsored, endorsed, sold, or promoted by Morningstar, Inc. Morningstar, Inc. makes no representation or warranty, express or implied, to the shareholders of the Fund or any member of the public regarding the advisability of investing in the Fund or the ability of the Morningstar Emerging Markets Net Return U.S. Dollar Index to track general equity market performance of emerging markets.