SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Second Quarter 2023

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During the second quarter of 2023, the Seafarer Overseas Value Fund returned 3.16%.[1,2] The Fund's benchmark index, the Morningstar Emerging Markets Net Return USD Index, returned 1.63%. By way of broader comparison, the S&P 500 Index returned 8.74%.

The Fund began the quarter with a net asset value of $13.31 per share. It paid no distributions during the quarter and finished the period with a value of $13.73 per share.[3]

Performance

While a newfound captivation for the prospects of Artificial Intelligence (AI) helped fuel gains in large U.S. technology stocks and emerging markets semiconductor manufacturers, the Value Fund's performance in the second quarter was driven by a more prosaic set of drivers: idiosyncratic company-specific developments and vacillating shorter-term earnings expectations. Nonetheless, the Fund modestly outperformed its emerging markets benchmark in the quarter.

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The Fund's biggest contributors and detractors to performance were very similar to those in the preceding two quarters. Interestingly, however, their performance impacts this quarter were in reverse. XP, Inc., a Brazilian investment management platform, was the largest detractor to performance in the fourth quarter of 2022 and first quarter of 2023 but proved the single largest contributor to the Fund's positive performance this quarter. Conversely, the Fund's holdings in China that were most exposed to the country's post-Covid economic reopening were collectively the largest source of performance contribution in the fourth and first quarter but the largest drag on performance this quarter. While opposite in their directional movements, the net

This portfolio review addresses the second quarter of 2023 (4/1/23 to 6/30/23). As of 6/30/23 the annualized performance of the Fund's Institutional class was: 1 year 12.26%, 3 year 14.24%, 5 year 5.97%, 7 year 7.40%, and since inception (5/31/16) 7.20%[1]; the net expense ratio was 1.05% and the gross expense ratio was 1.35%. 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.

Figure 1. A Working Definition of Value

Seafarer has identified seven distinct sources of value in emerging markets that may give rise to viable opportunities for long-term, value-oriented investments.

Opportunity Set	Source of Value	
Balance Sheet	Balance Sheet Liquidity	Cash or highly liquid assets undervalued by the market
	Breakup Value	Assets whose liquidation value exceeds their market capitalization
	Management Change	Assets that would become substantially more productive under a new owner / operator
	Deleveraging	Shift of cash flow accrual from debt holders to equity holders
	Asset Productivity	Cyclical downturn following a period of asset expansion
	Structural Shift	Shift to a lower growth regime, but still highly cash generative
Income Statement / Cash Flow	Segregated Market	Productive, cash-generative assets trading in an illiquid public market

Source: Seafarer Sources of value are highlighted in this document using This Style.

Additional information is available in the white paper *On Value in the Emerging Markets* at www.seafarerfunds.com/value-in-em.

impact of these drivers in each of the last three quarters was positive with a coincidental dampening of volatility at the portfolio level.[4]

As discussed in the Value Fund's first quarter 2023 portfolio review,[5] **XP, Inc.** (Structural Shift source of value; see Figure 1 for definitions of the sources of value referenced in this review) fell in the first quarter after the release of a disappointing set of quarterly results. XP's trailing 12-month share price performance to the end of March 31, 2023 reached -60.56%. The Fund took advantage of the lower prices on offer to add to its position at various points in 2022 and the first quarter of 2023. While much can still change, thus far it appears to have been the right call. Market sentiment towards the stock shifted rapidly in the second quarter of 2023; its share price nearly doubled, up 97.64% in the three months ended June 30, 2023.[4]

It is always difficult to ascribe causal relationships to short-term performance. XP's share price volatility appears far more erratic than the changes to its long-term fundamental prospects. However, I would hazard to guess that some combination of the following factors was behind the latest positive shift in sentiment towards XP's shares. First would be a valuation that was just too cheap. As a crude indication of this, the stock traded below ten times trailing earnings (i.e., the earnings produced last year) in the first quarter suggesting a bleak outlook for the business. Second, XP's fundamentals may have proven more resilient than the market was expecting when it released its first quarter results in May. These results demonstrated that XP continued to attract capital to its platform and was able to implement cost-cutting measures to improve profitability. Likewise, management reiterated its yearly earnings guidance range, which some investors may have looked at incredulously in the prior quarter. Lastly, with inflation easing in Brazil, there has been growing optimism that the Brazilian central bank may soon begin cutting its benchmark SELIC interest rate, which remained at 13.75% during the quarter. XP stands to benefit from lower interest rates, which may divert savings from fixed income products towards its more profitable equities segment and could help it attract new client assets to its platform.

The Fund's holdings in China that were more sensitive to the post-Covid reopening gave back some gains from the first quarter as expectations for the pace of the country's economic recovery faltered. **Melco International** (Breakup Value and Asset Productivity), a Macau casino owner and operator, and **Shangri-La** (Breakup Value and Asset Productivity), a hotel owner and operator in Asia, were two of the biggest detractors to performance during the quarter. The Fund holds both positions due to their underlying balance sheet value: assets whose liquidation value and long-term cash flow generation appear to be overlooked by the market. However, in recent quarters, both stocks appear to have traded based on short-term growth expectations for the Chinese economy, which waned in the quarter. Interestingly, both stocks seem to show signs of recovery in their individual businesses. Their respective slivers of the Chinese economy are coming off a very low base, albeit a recovery whose pace may be slower than was expected at the beginning of the year.

Beyond these, energy-related holdings stood out as another notable driver of performance. **PetroVietnam Technical Services** (Management Change and Asset Productivity), a Vietnamese oil services company, and **Qatar Gas Transport** (Deleveraging), an owner and operator of transport vessels for liquified natural gas (LNG), both rose in the quarter. Ironically, global oil and LNG prices fell this quarter. PetroVietnam Technical Services appears to have appreciated due to company-specific developments. First, the approval of a new national power development plan appeared to build optimism for the development of some of Vietnam's long-stalled offshore oil and gas fields, which may boost demand for the company's oilfield services. Second, the company was awarded contracts for wind energy projects located off the coasts of Taiwan and Poland. Qatar Gas Transport's positive performance in the quarter is less clear to explain as there was little news and the company's revenue comes from long-term service contracts. The company reported stable quarterly results, which may be supportive of its ongoing steady deleveraging.

Allocation

During the quarter, the Fund established a new position in **Fertiglobe PLC** (Asset Productivity and Segregated Market), a Middle Eastern fertilizer manufacturer. Fertiglobe is one of the largest producers and exporters of ammonia and urea globally with manufacturing plants in the United Arab Emirates, Egypt, and Algeria. It was founded in 2019 as a joint venture between the Abu Dhabi National Oil Company (ADNOC) and OCI N.V., an Amsterdam-listed global chemicals company.

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Our attraction to Fertiglobe comes from its resiliency throughout the commodity cycle as one of the lowest-cost producers of ammonia and urea globally. It has access to low-cost domestic natural gas, the key feedstock input to its products, in each of the countries it operates in. This contrasts with the industry's highest-cost producers in Europe that saw natural gas feedstock prices surge following Russia's invasion of Ukraine; many had to temporarily shut down unprofitable capacity. Fertiglobe's young, state-of-the-art plants also operate more efficiently than much of the global industry. Likewise, the geographic location of its assets on both sides of the Suez Canal enhances its distribution capabilities and lowers its transportation costs. Fertiglobe's record profitability last year may not be repeated any time soon; the stock has sold off from its 2022 peak as fertilizer prices have retreated. While we lack a crystal ball into the future prices of ammonia and urea, we think Fertiglobe's current stock price neglects the company's potential cash flow generation over a wide range of commodity price environments and its ability, afforded by its low leverage, to invest countercyclically.

The Fund also added a second new holding during the quarter. This company will be disclosed at a later date as the Fund is still building its position within the investment portfolio.

Outlook

There are a lot of big unknowns looking at the world from a top-down macro level. While this is always the case, the range of possible short-term outcomes appears perhaps wider than normal. Simple narratives about how the markets and economies should fare this year are failing. A coming recession in the U.S. seemed to be a common expectation at the beginning of the year – a view bolstered by lingering inflation, rising interest rates, and even a few bank failures in the first quarter. Yet the U.S. economy has been stubbornly resilient with enthusiasm for AI supplanting these fears and driving markets higher.

The picture isn't any clearer in the world's second largest economy. Expectations at the start of the year that China's exit from its draconian pandemic lockdowns would rapidly boost its economy and even provide an extra lift to global economic activity have fizzled. China's property sector remains weak, consumer and business confidence appear low, and, thus far, large-scale government stimulus measures, the panacea for China's past economic ills, have been noticeably absent. China faces the prospect of a balance sheet recession; for more on this topic, please see my colleague Nicholas Borst's great series on China's Balance Sheets.[6] Beijing's ability to avoid a Japanese-style lost decade of prolonged low economic growth is being tested. So far transparency has not been a hallmark of such efforts, creating a wide range of possible outcomes in investors' minds.

The ambiguous global economic picture has had knock-on impacts on commodity and energy price volatility with far-reaching effects in emerging markets. The war in Ukraine, with its unknowable duration and potential for further escalation, has heightened this uncertainty. Europe muddled through winter with only a fraction of its natural gas supplies from Russia thanks to expensive LNG imports and milder than usual temperatures. Next winter might be different. Add energy-induced recession risk in Europe to the list of possible macro pitfalls. For good measure, also add a strengthening El Niño weather phenomenon to the list and its potential to bring droughts, floods, and erratic weather to agricultural sectors and power utilities around the world.

How does one invest with such a dizzying array of uncertainty and unknowns?

The better question is how these and other macro issues impact individual stocks in the portfolio from the bottom up. The Fund does not invest in countries or themes, but rather individual companies that may feel exogenous pressures to varying degrees differently than the broader economy. China's property sector woes are important, but we consider them through the lens of each company in the portfolio. We consider what a slower-growing economy might mean for the long-term consumption of Coca-Cola products for **China Foods** (Asset Productivity), a China-based Coca-Cola bottler, but we also consider its current valuation as well as the operational improvements the company might achieve to improve its operating margins towards those of other global Coca-Cola bottlers.

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Companies also do not feel exogenous macro pressures in isolation. Rather a company's positioning within an industry matters as well. Companies better equipped to navigate macro turbulence than their peers may even consolidate market share in periods of distress, which in some cases can enhance a company's long-term prospects even if the short-term fundamental impact is negative. **Ambev** (Structural Shift and Asset Productivity), a Brazil-based brewer in the Americas, has faced myriad exogenous pressures over the past decade, ranging from recession, input cost inflation from currency headwinds and volatile commodity prices, and pandemic-related changes to consumption habits. So too has Petropolis, one of its main competitors in its key market of Brazil, which filed for bankruptcy protection earlier this year. The relative resiliency of Ambev's business in the face of macro headwinds may allow it to consolidate market share at the expense of weaker rivals.

Mondi (Structural Shift), a multinational paper and packaging company with a large presence in Eastern Europe, was a beneficiary from Europe's spiking natural gas prices in 2022. Mondi has invested heavily in vertical integration and efficiency at its plants to become a low-cost producer. It reports generating around 80% of its fuel needs internally through biomass sources with only 10% of its fuel from natural gas. This has provided an additional advantage over many of its smaller, gas-reliant European competitors. The longer-term trend in the paper and packaging industry has been one of consolidation as sub-scale players shut down or sell their assets. In this context, the first-order negative impacts of high natural gas prices on the European economy need to be assessed in conjunction with the second-order impacts on Mondi's margins and potential to consolidate its market share.

How stock prices react to exogenous factors in the short-term is anyone's guess. XP and the Fund's China holdings' recent performance highlight the possible volatility. We will endeavor to take advantage of unjustified pricing weakness to buy and likewise will reduce positions if risks are not being priced in as we see fit. However, our focus will remain on company fundamentals and how each company may fare navigating the changing macro winds within its industry. There is much I don't know about what the future holds, but one thing I am confident about: there is opportunity in uncertainty. And we will continue pursuing the value it provides.

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

Brent Clayton
Co-Portfolio Manager

July 14, 2023

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 3.09% during the quarter. All returns are measured inclusive of Fund distributions paid (in relation to Fund performance) or dividends paid (in relation to index performance), reinvested in full (exclusive of any U.S. taxation) on the pertinent ex-date.

[2] 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/ovl/performance.

[3] The Fund's Investor share class began the quarter with a net asset value of $13.27 per share; and it finished the quarter with a value of $13.68 per share.

[4] Source: Bloomberg.

[5] www.seafarerfunds.com/funds/ovl/portfolio-review/2023/03/Q1/#xp

[6] www.seafarerfunds.com/commentary/a-balance-sheet-approach-to-china

Glossary

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)

SELIC Overnight Rate: the Brazilian Central Bank's overnight rate; the interest rate at which a depository institution lends or borrows funds in the overnight market.

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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. It is not possible to invest directly in an index.

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As of June 30, 2023, XP, Inc. comprised 5.1% of the Seafarer Overseas Value Fund, Melco International Development, Ltd. comprised 2.5% of the Fund, Shangri-La Asia, Ltd. comprised 2.5% of the Fund, PetroVietnam Technical Services Corp. comprised 3.0% of the Fund, Qatar Gas Transport Co., Ltd. comprised 3.5% of the Fund, Fertiglobe PLC comprised 1.6% of the Fund, China Foods, Ltd. comprised 2.5% of the Fund, Ambev SA comprised 2.4% of the Fund, and Mondi PLC comprised 3.0% of the Fund. The Fund did not own shares in the Abu Dhabi National Oil Company, OCI N.V., Coca-Cola Co. or Petropolis. View the Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ovl/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 Value 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.