



SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Third Quarter 2023

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Portfolio Manager

During the third quarter of 2023, the Seafarer Overseas Value Fund returned -0.51%.^{1,2} The Fund's benchmark indices, the Morningstar Emerging Markets Net Return USD Index and the Bloomberg Emerging Markets Large, Mid, and Small Cap Net Return USD Index, returned -1.66% and -1.97%, respectively. By way of broader comparison, the S&P 500 Index returned -3.27%.

The Fund began the quarter with a net asset value of \$13.73 per share. It paid no distributions during the quarter and finished the period with a value of \$13.66 per share.³

Performance

The Value Fund's third quarter performance showcased the importance of investing broadly in the global emerging markets (EM), as opposed to exclusively concentrating in the largest countries. Indeed, the positive contributors to the Fund's return during the period coalesced around the smaller countries in the EM investment universe: the United Arab Emirates, Georgia, and Vietnam.

In the United Arab Emirates, **Emaar Properties** ([Breakup Value](#) and [Segregated Market](#) sources of value; see [Figure 1](#) for definitions of the sources of value referenced in this review), a property developer and investment company, continued to report strong quarterly financial results and is studying the potential for further regional expansion. In the case of **Tabreed** ([Deleveraging](#) and [Segregated Market](#)), a supplier of district water cooling services, the market seemingly recognized the company's low valuation relative to a newly listed peer, thus leading to a strong share price performance.

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This portfolio review addresses the third quarter of 2023 (7/1/23 to 9/30/23). As of 9/30/23 the annualized performance of the Fund's Institutional class was: 1 year 18.35%, 3 year 12.00%, 5 year 6.30%, 7 year 6.73%, and since inception (5/31/16) 6.87%; the net expense ratio was 1.05% and the gross expense ratio was 1.18%. 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.

country; **Georgia Capital** ([Breakup Value](#) and [Segregated Market](#)), a conglomerate; **PetroVietnam Technical Services** ([Management Change](#) and [Asset Productivity](#)), a Vietnamese oil services company; and **Petrovietnam Fertilizer and Chemicals** ([Management Change](#) and [Asset Productivity](#)), a Vietnamese fertilizer manufacturer. Furthermore, Bank of Georgia and Petrovietnam Fertilizer and Chemicals distinguish themselves through their extraordinarily high dividend yields.

On the negative side of the ledger, Fund holdings in China and Brazil – among the largest countries within the EM investment universe – detracted the most from performance. The stock prices of **Ambev** ([Structural Shift](#) and [Asset Productivity](#)), a Brazil-based brewer in the Americas, and **Odontoprev** ([Structural Shift](#)), a Brazilian dental insurance provider, both suffered from concerns over a potential increase in taxes related to the country's fiscal reform.

In China, the stock prices of **Melco International** ([Asset Productivity](#) and [Breakup Value](#)), a casino owner and operator in Macau, and **Shangri-La Asia** ([Breakup Value](#) and [Asset Productivity](#)), a hotel owner and operator in Asia, were pressured by negative sentiment related to Chinese consumption and a poor economic growth outlook. For the time being, this stock price action ignores the positive earnings momentum reported by these companies in the most recent quarter compared to losses in the same period last year, when China's pandemic restrictions were still in place.

Allocation

During the third quarter, the Fund finished establishing a position in **Salik Co. PJSC** ([Segregated Market](#) and [Management Change](#)), a Dubai-based toll road operator in the United Arab Emirates, which it began buying at the end of the prior quarter. While Salik has operated the toll road gates in Dubai since 2007, it was carved out of Dubai's Road and Transport Authority in 2022 and established as a new corporate entity controlled directly by the Dubai Department

of Finance. Under its new ownership, it was granted a 49-year monopoly concession to operate Dubai's existing eight toll gates as well as the exclusive right to operate any future gates in the emirate. Salik sold a 24.9% stake to the public in its initial public offering (IPO) on the Dubai Financial Market in September 2022 as part of a broader privatization program.

Salik is a unique toll road operator as it owns the physical toll gates, but under its concession agreement, the responsibility for upkeep and investment in the physical roads is borne by its former owner, the Road and Transport Authority. Unlike Salik, global toll road companies must typically invest in the maintenance of existing roads as well as the development of new roads. Salik's low capital expenditure equates to greater free cash flow generation, the majority of which the company seeks to pay out as dividends. Salik offers an above-average dividend yield in a U.S. dollar-pegged currency, while its growth prospects remain underappreciated and undervalued by the market, in Seafarer's view. [Dubai is ascending as a financial hub](#)⁴ thanks to its policies to attract foreign talent, lack of personal income tax, and relative quality of life. Seafarer welcomes the gridlock these policies may bring.

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The Fund did not exit any positions during the quarter.

Outlook

I pondered long for a salient development during the quarter to comment on that would prove useful to the reader. Ironically, I concluded that the only semi-intelligent insight I could arrive at was to realize how little we all know. As icing on the cake, that realization itself is a useful warning to investors who consciously or subconsciously tend to make

investment decisions based on a top-down outlook for the future.

What do I mean by “how little we all know”? For starters, war and geopolitics do not conform to the forecasts of macro prognosticators. Few predicted Russia’s invasion of Ukraine, or that it would continue into a second winter season. Yet another eruption of violence in the Middle East compounds uncertainty in global geopolitics and energy markets.

Similarly, who could have predicted that strength in the U.S. dollar, as tracked by the U.S. Dollar Index, would be compatible with an exponentially rising cost (approaching \$1 trillion for 2023) of servicing U.S. federal government debt?⁵ This phenomenon is further perplexing considering that it is taking place at a time when the U.S. fiscal deficit is at a historical peak and shows no sign of restraint.

Based on the foregoing, could an investor predict that corporate profitability pressures from inflation, higher energy costs, and higher future taxes (stemming from the fiscal imbalance and unprecedented debt servicing cost) would be compatible with the S&P 500 Index delivering positive performance thus far in 2023, while hovering not far from its all-time high level?

I will end by pointing out that it is also unusual for the emerging markets to deliver positive equity returns (3.50% year-to-date, as of September 30, for the Morningstar Emerging Markets Net Return USD Index) during a period of global turmoil and U.S. dollar strength. Equally, for all the doom and gloom dominating the discourse around China, stock prices there appear to be finding some tentative stability, albeit after having underperformed since early 2021.

Every action has an underlying motivation. Every outcome has a cause. Attempting to explain the foregoing observations would be relatively easy with the benefit of hindsight, but it

would undermine the point I made at the beginning of this commentary. The point is precisely to realize that on an ex-ante basis, the observations above appear counterintuitive, and very few investors could have envisioned our present financial reality, much less on a repeatable basis, and fewer still could have reliably capitalized on it.

The take-away from these observations is that historical economic and financial relationships are in flux. In my humble opinion, it stands to reason that the pursuit of future investment returns is better served by pursuing stock-specific insight over macro views based on historical, and not always relevant, relationships. The Outlook sections of the Value Fund’s [first quarter 2023](#)⁶ and [second quarter 2023](#)⁷ portfolio reviews explained how the Fund navigates macro volatility by focusing on stock fundamentals.

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As of September 30, 2023, the Value Fund’s gross portfolio yield⁸ was 4.8% and its price to book value⁹ ratio was 1.2x (please refer to the [Value Fund’s Overview page](#)⁹ for more information).¹⁰ These statistics and the associated stock fundamentals of the Fund’s holdings – not any presumed global macro insights – give us confidence in the future.

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

Paul Espinosa
Portfolio Manager
October 16, 2023

¹ References to the “Fund” pertain to the Fund’s Institutional share class (ticker: SILVX). The Investor share class (ticker: SFVLX) returned -0.44% 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 \$13.68 per share; and it finished the quarter with a value of \$13.62 per share.

⁴ www.seafarerfunds.com/field-notes/uae/2023/Q1

⁵ Federal Government Current Expenditures: Interest Payments. FRED, Federal Reserve Bank of St. Louis. Data accessed October 16, 2023. <https://fred.stlouisfed.org/series/A091RC1Q027SBEA>

⁶ www.seafarerfunds.com/funds/ovl/portfolio-review/2023/03/Q1/#outlook

⁷ www.seafarerfunds.com/funds/ovl/portfolio-review/2023/06/Q2/#outlook

⁸ Calculated as a harmonic average of the underlying portfolio holdings.

⁹ www.seafarerfunds.com/funds/ovl/overview

¹⁰ Sources: ALPS Fund Services, Inc., Bloomberg, Seafarer.

Glossary

Dividend Yield (Trailing 12-Mo): a measure of the sum of the dividends paid per share during the trailing 12 months divided by the current share price.

Dubai Financial Market: a stock exchange located in Dubai, United Arab Emirates.

Free Cash Flow: operating cash flow minus capital expenditures.

Gross Portfolio Yield: gross yield for the underlying portfolio, estimated based on the dividend yield for common and preferred stocks and yield to maturity for bonds. This measure of yield does not account for offsetting Fund expenses and other costs, and consequently it should not be construed as the yield that an investor in the Fund would receive.

Harmonic Average: a harmonic average is the reciprocal of the arithmetic mean of the reciprocals. Harmonic averages are generally preferable to weighted averages or other techniques when measuring the fundamental characteristics (e.g., earnings per share, book value per share) of a portfolio of securities. For more information, see the presentation Index Calculation Primer, by Roger J. Bos, CFA, Senior Index Analyst at Standard & Poor's, 17 July 2000.

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.

Price to Book Value (P/BV) Ratio: the market price of a company's common shares divided by the company's book value per share.



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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 Bloomberg Emerging Markets Large, Mid, and Small Cap Net Return USD Index is a float market-cap-weighted equity index that covers 99% of the market capitalization of the emerging markets. Index code: EMLSN. The U.S. Dollar Index is an index that tracks the performance of developed market currencies relative to the U.S. dollar. Index code: DXY. 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 September 30, 2023, securities mentioned in the portfolio review comprised the following weights in the Seafarer Overseas Value Fund: Emaar Properties PJSC (3.2%), National Central Cooling Co. PJSC (Tabreed) (2.7%), Bank of Georgia Group PLC (2.3%), Georgia Capital PLC (2.7%), PetroVietnam Technical Services Corp. (3.3%), Ambev SA (2.0%), Odontoprev SA (2.4%), Melco International Development, Ltd. (2.5%), Shangri-La Asia, Ltd. (2.6%), Salik Co. PJSC (3.0%). View the Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ovl/composition. Holdings are subject to change.

Source: ALPS Fund Services, Inc.

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.

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