SEAFARER®

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Fourth Quarter 2020

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During the fourth quarter of 2020, the Seafarer Overseas Growth and Income Fund returned 20.83%.[1] The Fund's benchmark indices, the MSCI Emerging Markets Total Return USD Index and the Morningstar Emerging Markets Net Return USD Index, returned 19.77% and 20.64%, respectively. By way of broader comparison, the S&P 500 Index returned 12.15%.

The Fund began the quarter with a net asset value of $12.40 per share. During the quarter, the Fund paid a distribution of approximately $0.264 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $3.329 per share.[2] The Fund finished the period with a value of $14.71 per share.[3]

During the calendar year, the Fund returned 22.20%, whereas the benchmark indices, the MSCI EM Total Return USD Index and the Morningstar EM Net Return USD Index, returned 18.69% and 18.41%, respectively.[4]

Please note: this portfolio review encompasses only the fourth quarter of 2020, and does not offer a thorough discussion of the entire calendar year. The Fund operates on a fiscal year that concludes April 30; as such, Seafarer offers comprehensive performance reviews for the Fund's annual and semi-annual periods, which are published in the Fund's Shareholder Reports in late June and December, respectively. Previous Shareholder Reports are available at www.seafarerfunds.com/archives.

Performance

Investors should be wary of attempts to attribute stock price movements to a particular cause: markets are rarely so uncomplicated. Nevertheless, stocks in the emerging markets surged during the fourth quarter seemingly for a prime reason: the expectations for corporate profits for the calendar year 2020 improved rapidly during the quarter, and those rising expectations appear to have lifted stock prices along with them.

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For the better part of 2020, and as recently as the end of September, corporate profits in the developing world were expected to contract -13% for the year due to

As of 12/31/20 the annualized performance of the Fund's Institutional class was: 1 year 22.20%, 3 year 7.22%, 5 year 11.21%, and since inception (2/15/12) 7.86%[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.

the global pandemic.[5] However, as companies reported their profits for the third quarter of 2020 in October and November, the results were not as bad as widely feared. Thereafter, expectations shifted rapidly upward, and by year end the consensus expectation was a -8% decline in aggregate profits – still a poor performance, but nowhere near as bad as had been previously suggested.[6] As investors realized that analysts on the "sell side" (professional analysts and strategists employed by large brokerages and investment banks) had overshot in their negativity, stock prices (as measured by the MSCI Emerging Markets Index) leapt approximately 20% in the quarter.

Against this surging backdrop, the Growth and Income Fund produced modest outperformance. This outperformance was particularly welcome, as the Fund is rarely (if ever) positioned to be "aggressive;" the Fund generally eschews stocks with high price momentum, and thus it is not constructed to "sprint forward" even as the broader market might do so. Furthermore, at the end of the third quarter, the Fund held 10% of its assets in cash and equivalents (as it had trimmed and sold several large positions due to rapid price appreciation in the third quarter). Given the Fund's conservative posture, and the potential "drag" due to its large holding in cash, we were pleased that the Fund nevertheless eclipsed the market's pronounced and rapid gains.

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The bulk of the Fund's gains arose from East Asia; notably half of those gains were due to the Fund's South Korean holdings, whereas the MSCI Emerging Markets Index relied on China-based stocks for its performance. Both the Fund and the index benefited most from their holdings in information technology stocks – particularly semiconductor companies; and both also saw important gains from holdings in banks and other financial services companies. Yet beyond these country or sector effects, we are far more interested to populate the portfolio with companies that can produce durable and sustained earnings growth, even amid shocks such as a global pandemic. In that regard, we are pleased to note that consensus estimates for the Fund's holdings suggest the portfolio is on track to produce 4% growth in aggregate earnings for 2020 (versus the -8% contraction for the MSCI Emerging Markets Index).[7] During a year characterized by substantial uncertainty, change and volatility, we suspect the market has rewarded some of the Fund's holdings for the durability of their performance, and this effect likely prompted the Fund's outperformance during the quarter, and indeed the year.

Allocation

The Fund was quite active during the quarter, exiting three positions (one from the Core component of the Fund, and two from the Selected Growth component), entering three more (one in each component), and deploying some of the excess cash that was on hand at the end of the quarter. (See **Figure 1** for definitions of the Fund's Core, Selected Growth, and Value portfolio components.)

Figure 1: Seafarer Overseas Growth and Income Fund – Portfolio Components

Core Holdings	Moderately underappreciated growth; Moderately elevated current yield
Selected Growth Holdings	Higher growth potential; Lower current yield
Value Holdings	Lower growth potential; Higher current yield

At the end of September, the Fund held an extraordinarily large cash position (approximately 10%). Typically, the Fund holds between 0% and 2.5% cash to manage liquidity risks, handle ordinary shareholder activity, and undertake marginal portfolio transactions. During the pandemic, we have elected to hold a higher level of cash than is typical, around 4% to 5%, to better manage heightened volatility and liquidity risks. Yet at the end of the third quarter, cash levels exceeded this heightened level: rapid appreciation of many of the largest positions of the Fund prompted us to quickly harvest gains. Normally, we have prospective investment candidates ready to absorb the proceeds from exited positions, and thus cash levels do not fluctuate much. However, in the third quarter, the Fund dramatically reduced some of its largest positions (**Alibaba**, **Naver**), and while the Fund added new positions in the third quarter, none were so large as to absorb the resulting proceeds.

Happily, this problem was corrected during the fourth quarter, when the Fund entered three new stocks: **Rohm** (a semiconductor company based in Japan, but which primarily serves customers in the developing countries of East Asia); **Avast** (a global purveyor of antiviral and computer security software, based in the Czech Republic); and **Jardine Matheson** (a holding company with diversified financial and industrial interests across East and Southeast Asia).

At the same time, the Fund exited three stocks: **Alibaba**, China's largest online commerce company; **Voltronic**, a Taiwan-based producer of power backup systems for industrial use; and **Yangtze Power**, the largest publicly-traded hydroelectric utility in the world. The former two companies were deleted from the Selected Growth component, and the last was sold from the Core component of the Fund. All were sold because of elevated (even excessive) valuations, and all were principally reduced during the third quarter, but the final sales of the residual balances took place during the fourth quarter.

Outlook

The entire world has been mired in the travesty of a pandemic for nearly one year. However, vaccines and the promise of herd-based immunity have induced a measure of optimism for 2021: there is growing hope that some sort of "normalization" might occur in the latter half of the year. Everyone looks forward to a time when the health risks recede, and economies, job markets, travel, and especially regular interactions with family, friends, neighbors and the world at large might feel "normal" again.

As hope for normalcy grows, it is tempting to believe that stocks in the emerging markets surged for the same reason in the fourth quarter: surely, corporate profits must be on track for a sharp increase in the year ahead? Indeed, the consensus expectation for growth in aggregate profits in 2021 is approximately 29% – certainly such potential for growth justifies the recent and pronounced gains in stock prices?[6]

Perhaps so, but we are skeptical. It is true that the consensus for growth is 29%, but in our estimation, the uncertainty around this figure has never been higher in the past decade. "Normalization" is unlikely to unfold smoothly or linearly in the emerging markets, especially as many countries will struggle to obtain sufficient vaccine dosages for their populations, let alone administer them widely and efficiently. More importantly, the predicted growth rate appears to be a dodge: this figure has not budged for nearly a year. The figure's stasis suggests strongly that analysts penciled in their 2021 forecasts sometime in the earliest months of 2020, before the pandemic's effect was widely known or understood. Subsequent trivial fluctuations in forecast growth have not occurred because the "sell side" has generated new insight, or done deep research into the likely path of corporate performance; instead, the figure has only fluctuated in response to the shifting expectations for growth in 2020 (i.e. percentage growth has fluctuated because the base year keeps changing, but the future year has not). This may seem like a trivial analytical issue, but I assure you it is not: we are moving blindly into 2021 with consensus forecasts that do not appear to have undergone serious scrutiny since early 2020, with an enormous scope for uncertainty as to how the world might "normalize."

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This challenge might not be so great if stocks were priced cheaply, or at least reasonably, in response to such uncertainty. Yet the opposite is true: at the end of the year, the aggregate price-to-earnings ratio for emerging markets stocks was 20 (when measured relative to 2020 earnings).[6] This valuation metric is admittedly simplistic and does not capture the nuance across many stocks and market conditions, and yet many stocks enjoy very high valuations, rather than the lower prices that one might normally associate with an economic contraction and high uncertainty.

Nowhere are valuations more problematic than in China, where wide swathes of the stock market are engulfed in an extreme financial bubble. To be clear: not all stocks in China are in a bubble – the market is vast, with thousands of listed companies, and consequently it is possible to find many stocks that are reasonably priced, and some that might be favorably priced. Yet most technology stocks (software, semiconductors, internet, online services and media) and consumer stocks (food, beverages and many discretionary goods) are now priced beyond perfection. The fallacy that currently prevails is that most every stock in these industries is a long-term "winner," and that many companies will emerge as "champions" for the nation – even as many produce tepid growth and mediocre financial performance (and some are loss-making). Certainly, a few winners will emerge over time in China, some might even be competitive enough to expand abroad, and thus some will one day deserve the "champion" moniker. Yet picking such stocks out from the rest now is exceedingly difficult, and so investors appear to have given up on the attempt: they have priced stocks in these sectors as if they were all dominant, long-term winners and champions, even though such outcomes are mutually exclusive. Investors have spun a giant bubble, where unworthy companies lay claim to valuations worth tens and hundreds of billions of dollars, in a fit of hubris and an excess of liquidity.

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Similar, albeit smaller bubbles exist among technology stocks throughout the developing world, particularly among software companies and internet-based firms. The present bubble is pronounced and severe. It will be disruptive when it bursts. Unfortunately, I do not know when it will pop, or what event will precipitate its pricking. While we are not prone to sweeping judgments about which regions and sectors to avoid, or which to favor – rather, we prefer to appraise the opportunities and risks presented by individual stocks without such "macro" biases – we are nonetheless cautious about the Fund's ongoing exposures to the Chinese market, particularly in the aforementioned industries.

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Yet not all stocks in the emerging markets are caught up in the present fervor. Outside of China, and outside of technology, stocks appear priced far more reasonably, if not outright favorably. The Growth and Income Fund intends to search closely for such opportunities in the year ahead.

In light of the uncertain path to "normalization," high prices on stocks generally, and a pronounced bubble in large swathes (but not all) of China, we advise that investors tread very cautiously in the emerging market asset class.

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

January 26, 2021

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[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned 20.80% during the quarter.

[2] The Fund's inception date is February 15, 2012.

[3] The Fund's Investor share class began the quarter with a net asset value of $12.34 per share; it paid a distribution of approximately $0.257 per share during the quarter; and it finished the quarter with a value of $14.64 per share.

[4] The Fund's investor share class returned 22.15% during the calendar year.

[5] Source: J.P. Morgan, "Emerging Markets Equity Strategy Steering Board," 1 October 2020.

[6] Source: J.P. Morgan, "Emerging Markets Equity Strategy Steering Board," 7 January 2021.

[7] Source: Bloomberg.

Glossary

Current Yield: a security's annual income (interest or dividends) divided by its current price.

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)

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

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As of December 31, 2020, Naver Corp. comprised 1.8% of the Seafarer Overseas Growth and Income Fund, Rohm Co., Ltd. comprised 3.7% of the Fund, Avast PLC comprised 1.4% of the Fund, and Jardine Matheson Holdings, Ltd. comprised 2.0% of the Fund. The Fund did not own shares in Alibaba Group, Voltronic Power Technology Corp., or China Yangtze Power Co. 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.

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