SEAFARER®

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Second Quarter 2021

Kate Jaquet
Co-Portfolio Manager

During the second quarter of 2021, the Seafarer Overseas Growth and Income Fund returned 4.77%.[1] The Fund's benchmark indices, the MSCI Emerging Markets Total Return USD Index and the Morningstar Emerging Markets Net Return USD Index, increased 5.12% and 5.65%, respectively. By way of broader comparison, the S&P 500 Index returned 8.55%.

The Fund began the quarter with a net asset value of $15.16 per share. During the quarter the Fund paid a semi-annual distribution of approximately $0.213 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $3.542 per share.[2] The Fund finished the quarter with a value of $15.67 per share.[3]

Performance

In stark contrast to the extreme volatility in the first months of 2021, emerging market equities behaved in a relatively calm manner this quarter. The mostly steady upward performance emanated from many sectors, with notable contributions from the financial and information technology sectors, but also meaningful returns from the materials, health care, energy, and consumer discretionary sectors. While it is always tricky to identify the exact reasons for market movements, I think that the broad based nature of stock price increases in the quarter indicates a speculative optimism that the pandemic will eventually subside. While many of our emerging markets are still mired in the pandemic as variants hop continents and vaccination efforts make progress slowly, developed nations offer a roadmap for recovery from the pandemic, and the market appears to be optimistic that companies across many sectors will eventually restore their former profitability. Another factor influencing the positive quarter was the stability and even strength in many emerging market currencies.

I think that the broad based nature of stock price increases in the quarter indicates a speculative optimism that the pandemic will eventually subside.

As of 6/30/21 the annualized performance of the Fund's Institutional class was: 1 year 43.80%, 3 year 14.13%, 5 year 10.44%, and since inception (2/15/12) 8.31%[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.

Against this backdrop, the Growth and Income Fund returned a bit less than the benchmark indices. Fund performance in the second quarter emanated from a diverse range of portfolio holdings, with some of the biggest contributions from the Asian information technology and industrial sectors. One of the Fund's top contributors was **Pacific Basin**, a dry bulk shipping company based in Hong Kong. Pacific Basin was up more than 49% in the quarter as shipping rates hit multi-year highs. One of the largest detractors from Fund performance in the quarter was **Ping An Insurance Group**, one of China's largest insurers. Ping An was down more than 16% in the quarter on news that it will participate in a deal to restructure the business venture associated with the prestigious Peking University. We are sorely disappointed by this development, as this investment is outside of Ping An's core competencies, perhaps indicating some level of suasion by the Chinese authorities. We see no compelling rationale for the deal. It is not an encouraging sign for future corporate governance standards and capital allocation decisions at the company.

Allocation

During the quarter, the Fund undertook two allocative changes: a South Korean position that was established late in the first quarter of 2021 was materially increased, and one new holding was established in Latin America.

The Fund's initial position in **Samsung Biologics** was established late in the first quarter of 2021, but most of the shares that the Fund currently owns were purchased during the second quarter. Now that the position has been fully established, we are pleased to discuss what this holding adds to the portfolio.

Established in 2011 and publicly listed in 2016, Samsung Biologics researches, develops, and manufactures vaccines and other biological medicines for global pharmaceutical companies. Biological medications are an exciting part of the pharmaceutical industry, enjoying a position at the forefront of medical advances, and successfully treating illnesses where no other therapies had previously been available.[4] Biological medicines tend to be more complicated to manufacture than traditional chemical pharmaceuticals, requiring more steps to process, purify, and produce. This is where Samsung Biologics shines as a contract manufacturer, reliably producing a diverse range of biologic drugs and intermediate materials for a global clientele of pharmaceutical companies. Biological drugs currently constitute close to a quarter of the global pharmaceutical market but are enjoying a growth rate of almost twice that of chemical medications. After robust orders from existing and new clients in 2020, Samsung Biologics is building a fourth manufacturing plant to meet demand and evaluating additional options for further growth. We think Samsung Biologics is well placed in the biomedicine market, offering the portfolio exposure to an industry with sustainable long-term growth potential.

> We think Samsung Biologics is well placed in the biomedicine market, offering the portfolio exposure to an industry with sustainable long-term growth potential.

The Fund also added **Coca-Cola Femsa**, a Mexican consumer staples company which manufactures and distributes beverages across Latin America. Coca-Cola Femsa is the world's largest Coca-Cola bottler by volume, and it continues to modernize and expand its product offerings, improve its digital marketing, and overhaul logistics and distribution. We think that Coca-Cola Femsa has an attractive valuation and a bright future after recent acquisitions forced the company to retool its capital allocation discipline.

Ordinarily, the Fund keeps cash on hand that ranges between 0-2.5% of total net assets. We hold cash in order to manage day-to-day opportunities (taking advantage of price movements of portfolio holdings) and deal with frictional liquidity of the Fund (receiving subscriptions and honoring redemptions). During 2020, amid the height of the pandemic-induced market volatility, we observed stressed liquidity conditions (particularly in U.S. markets, and especially U.S. treasury markets). This observation prompted us to hold more cash than is typical over the past year. While we do not believe market conditions, stock prices, or real economic activity have necessarily stabilized, we do think the stressed liquidity conditions we observed have subsided, and thus we are comfortable to revert to typical levels of cash within the Fund's investment portfolio.

> I remain cautious on China's financial sector and concerned about elevated consensus estimates for 2021 emerging market corporate earnings growth.

Outlook

The outlook for the developing world continues to be a complicated one. Much of the emerging markets remains mired in the pandemic, with too many countries going through another wave of infections due to the spread of variants and insufficient vaccinations. I remain cautious on China's financial sector and concerned about elevated consensus estimates for 2021 emerging market corporate earnings growth.

Recent developments at Huarong Asset Management Co. (Huarong), one of China's four national asset management companies (AMCs), illustrate our continued concern about the financial sector in China. China's AMCs were set up two decades ago to dispose of bad loans in China's state-owned banking system – this is why AMCs are often referred to as China's "bad banks." After more than a decade of acquisitions and expansion into other sectors, these AMCs are arguably now a larger problem than the pool of bad loans they were created to fix. Huarong is the biggest and most troubled of China's bad banks, having aggressively expanded into property, insurance, and other sectors. Huarong now has more than 40 billion U.S. dollar-equivalent in bonds outstanding to both domestic and foreign investors and over 220 billion U.S. dollar-equivalent in total liabilities.[5] It is struggling to meet the short-term maturity profile of these obligations and has failed to file year-end financial statements.

As debt fears mount, the prospect of such a large default at an entity majority-owned by the Chinese Ministry of Finance is making it increasingly likely that the authorities will orchestrate a reorganization.[6] Neither certainty, timing, nor details of a reorganization have been disclosed, so investors must wait to see how this large blight in the Chinese financial system will be addressed.[7] Will it be a bail out or a lesson for investors? If the bond markets are any indication (both overseas and domestic bonds are trading at substantial discounts), creditors may share in the pain of a Huarong reorganization. If this happens, it will be a significant step at chipping away at the moral hazard so prevalent in China's financial markets. Historically, investors in risky Chinese companies have often behaved recklessly, trading on the premise that the government would bail out state-connected enterprises, or that private "too-big-to-fail" enterprises would be supported to avert financial panic. Yet the government might opt for a different approach with Huarong, and it may hail an end to an era of reckless risk-taking. As with most things, the devil lays in the details, so this is an issue that I am watching closely.

While I spend most of my time researching individual companies from a bottom-up perspective, when I take a step back and look at the whole of the emerging markets, one problem that I see is that consensus estimates for 2021 corporate earnings growth look overly optimistic. In January, earnings growth estimates for the emerging markets were an impressive +29% for calendar 2021, which made some sense as the global economy recovered from the initial shock of the COVID-19 pandemic.[8] As of July 1st, those same estimates for 2021 had grown to +61% (or 32 percentage points higher than where the estimates began the year).[9] While this massive increase since January may appear eye-popping, this number is somewhat misleading and necessitates explanation.

There are two factors driving this massive upward revision in consensus estimates for 2021 emerging market corporate earnings growth. First, full-year 2020 earnings (which were finalized in March of 2021) were worse than expected: 17 points of the 32 percentage point jump in 2021 earnings estimates are simply due to a lower base effect from disappointing year-end 2020 results.[10] This leaves roughly +15% of the upward revision due to an anticipated acceleration in growth this year (2021). Surprisingly, investment banking analysts would have you believe that surging earnings from companies in Brazil and Peru are driving the acceleration in growth. We are surprised at these claims because both countries currently remain in the throes of the pandemic. While growth overall should be reasonably strong coming off such a low base, there seems to be a lot of uncertainty behind this +61% growth rate as it is predicated on a rebound and normalization in certain markets that may not normalize any time soon. Investors hoping for a +61% pop in earnings this year might be sorely disappointed. We are seeing a meaningful rebound in earnings in our portfolio holdings, though not to the extent represented by this headline consensus figure.

There are two factors driving this massive upward revision in consensus estimates for 2021 emerging market corporate earnings growth.

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

Kate Jaquet
Co-Portfolio Manager

July 16, 2021

---

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned 4.71% 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 $15.09 per share; it paid a semi-annual distribution of approximately $0.211 per share during the quarter; and it finished the quarter with a value of $15.59 per share.

[4] To name a few examples of biopharmaceuticals that have had success where conventional therapies have failed: Humira for rheumatoid arthritis, Avastin for macular degeneration, Hereptin for HER2 positive breast cancer and HER2 positive metastatic stomach cancer.

[5] Source: Bloomberg. Data as of 31 May 2021.

[6] "The Woes of Huarong Pose Dilemmas for Beijing," The Economist, 24 April 2021.
https://www.economist.com/finance-and-economics/2021/04/22/the-woes-of-huarong-pose-dilemmas-for-beijing

[7] "China Considers New Holding Company for Huarong, Bad-Debt Managers," Bloomberg, 31 May 2021.
https://www.bloomberg.com/news/articles/2021-06-01/china-mulls-new-holding-company-for-huarong-bad-debt-managers

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

[9] Source: J.P. Morgan, "Emerging Markets Equity Strategy Steering Board," 1 July 2021.

[10] Source: J.P. Morgan, "1Q21 Earnings Season Tracker," 6 April 2021.

Glossary

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)

Moral Hazard: a situation where one party to a transaction has a financial incentive to incur extra risk because that party knows (or reasonably guesses) that its counterparty will incur the costs or burdens of such extra risks.

SEAFARER®
seafarerfunds.com

For More Information

Individual Investors
(855) 732-9220
seafarerfunds@alpsinc.com

Investment Professionals
(415) 578-5809
clientservices@seafarerfunds.com

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.

The views and information discussed in this commentary are as of the date of publication, are subject to change, and may not reflect Seafarer's current views. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles. It should not be assumed that any investment will be profitable or will equal the performance of the portfolios or any securities or any sectors mentioned herein. The subject matter contained herein has been derived from several sources believed to be reliable and accurate at the time of compilation. Seafarer does not accept any liability for losses either direct or consequential caused by the use of this information.

As of June 30, 2021, Pacific Basin Shipping, Ltd. comprised 2.3% of the Seafarer Overseas Growth and Income Fund, Ping An Insurance Group Co. of China, Ltd. comprised 1.7% of the Fund, Samsung Biologics Co., Ltd. comprised 3.0% of the Fund, and Coca-Cola Femsa SAB de CV comprised 2.2% of the Fund. The Fund did not own shares in the Coca-Cola Co. or Huarong Asset Management 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.

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.