



## SEAFARER OVERSEAS GROWTH AND INCOME FUND

# Portfolio Review

Third Quarter 2021

**Andrew Foster**  
Chief Investment Officer  
and Portfolio Manager

**Paul Espinosa**  
Portfolio Manager

During the third quarter of 2021, the Seafarer Overseas Growth and Income Fund returned -7.98%.<sup>1,2</sup> The Fund's benchmark indices, the Morningstar Emerging Markets Net Return USD Index and the MSCI Emerging Markets Total Return USD Index, returned -7.23% and -7.97%, respectively. By way of broader comparison, the S&P 500 Index returned 0.58%.

The Fund began the quarter with a net asset value of \$15.67 per share. It paid no distributions during the quarter and finished the period with a value of \$14.42 per share.<sup>3</sup>

### Performance

The quarter was a miserable one for both the Growth and Income Fund and the benchmark indexes, albeit for altogether different reasons.

Chinese stocks collapsed during the quarter as the Xi administration enacted major policy interventions across a swathe of industries in a bid to reshape Chinese society according to cherished political objectives. Pundits, caught off guard, sought to describe the interventions as little more than the ordinary activity of a "regulatory cycle." They advised not to think ill of the administration's intent – and they assured that any unwelcome effects would recede, as authorities would surely ease off in a predictable manner in the event of unwanted economic damage.

---

Chinese stocks collapsed during the quarter as the Xi administration enacted major policy interventions across a swathe of industries.

---

What a gross and costly mischaracterization of events! The policy interventions during the quarter bore no semblance to regulation, which is typically the domain of a deliberative rulemaking body, authorized to enact practical governance in accordance with the intent of written law. Rather, the interventions by executive

---

As of 9/30/21 the annualized performance of the Fund's Institutional class was: 1 year 20.06%, 3 year 10.49%, 5 year 7.65%, and since inception (2/15/12) 7.15%;<sup>1</sup> the gross expense ratio was 0.92%. 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](http://www.seafarerfunds.com/performance).

fiat were sweeping and capricious, rewriting the fortunes of selected industries and individual companies overnight. Further, there's been no respite yet, as supposed: the "regulatory" environment in China remains precarious, responsive only to the opaque impulses of the Xi administration.

Amid this volatile environment, the Morningstar China Net Return USD Index fell -17.53% during the third quarter; and as the Morningstar Emerging Markets Index<sup>4</sup> allocated 35% to China at the outset of the quarter, Chinese shares were particularly responsible for the benchmark's retreat.<sup>5</sup>

During the height of the retreat in Chinese shares, the Fund initially performed well on relative basis, declining only marginally at the outset of the policy interventions. For several years now, Seafarer has been wary of the policy environment in China: while we are not "macro" analysts, we have observed increasing and problematic intervention by the state in corporate affairs, manifest throughout many industries within the economy. As such, the Fund has been wary of its exposure to Chinese stocks, with less exposure than the Morningstar benchmark, and little direct exposure to this so-called "regulatory cycle."

However, the Fund was not spared during the quarter. During September, the Fund suffered a rout in its holdings in South Korea – the dominant country exposure of the portfolio – and the Fund finished the quarter with a result no better than its benchmarks. At this time, it is unclear why South Korean stocks collapsed in the final month of the quarter. Possible causes include investors' fear of rate increases (at the end of August, the South Korean central bank raised its policy rate by 0.75%, ahead of the U.S. Federal Reserve), or incipient component and supply shortages that might weigh on future profits. Yet the stock market's movement seems an overreaction, as neither inflation nor shortages have yet posed material problems for the Fund's Korean positions.

## Allocation

During the quarter, the Fund took advantage of the decline in Chinese and South Korean stock prices, accumulating marginal shares in some of its existing holdings, with a notable emphasis on **Jiangsu Hengrui** (one of China's largest and most innovative chemical pharmaceutical companies). Hengrui's shares ostensibly declined not so much due to the aforementioned policy interventions, but rather because one of its key anti-cancer therapies had undergone a scheduled

price renegotiation. Some investors, apparently fearing the worst, sold the shares in anticipation of lower profits.

We remain confident that Hengrui has sufficient cost control to substantially blunt the impact of renegotiated prices; and we remain optimistic that Hengrui's therapeutical offerings will eventually advance in clinical trials in the U.S. and elsewhere, in which case Hengrui might be one of the first Chinese pharmaceutical firms to expand globally.

---

Hengrui might be one of the first Chinese pharmaceutical firms to expand globally.

---

The Fund established a new position in **Dairy Farm International Holdings**, a well-established owner and operator of supermarket and drugstore chains throughout South and East Asia. The company stands out for its substantive dividend policy and its ability to generate profits even amid turbulent economic conditions. Dairy Farm is controlled by **Jardine Matheson**, a diversified holding company whose shares were also recently acquired by the Fund.

## Outlook

China underwent a dramatic series of events during the quarter that resulted in a broad-based retreat in stocks. Importantly, though, not all stocks fell during the period: as noted in [the Fund's final portfolio review of 2020](#),<sup>6</sup> there are latent bubbles in corners of China's stock markets, yet to be popped. Some select pockets of stocks barely budged, and still lay claim to outrageous valuations. However, the silver lining of the damage done during the quarter is that many shares in China are now priced more reasonably; a meaningful portion of the bubble we noted has been pricked. Many stocks (if not all) have valuations that at last seem to acknowledge some risk of policy intervention – a risk that has long been apparent to us, but which has been mostly ignored by other market participants until recently.

Nonetheless, the events of the quarter highlighted the mounting risk that China's economy might experience a structural deceleration; the economy could grow substantially slower than its potential, and sharply slower than prevalent macroeconomic forecasts. In our view, that risk has yet to be priced appropriately among most China stocks. Still, and contrary to some of the most extreme views circulated, we believe that China remains "investable," albeit only very selectively – as has always been the case. Among all the countries in the developing world, China remains uniquely qualified to produce more competitive companies capable of

---

We believe that China remains "investable," albeit only very selectively – as has always been the case.

---

succeeding globally – and as long as China remains capable of producing such companies, the Fund will seek to discover and invest in them.

China is by no means the largest bubble in the emerging markets: that dubious distinction now belongs to India's markets, which surged seemingly without basis during the quarter. Certainly, investors appear excited that India has apparently overcome the worst impacts of the pandemic, and that growth continues due to exceptionally loose monetary policy. However, it seems to us that Indian shares have benefitted from a large influx of capital from foreign portfolio managers – managers singed by events in China, desperate to put capital to work in countries still deemed to be "growth"

markets. In response, stocks have risen to precarious heights, and we struggle to find individual stocks that provide acceptable prospective returns relative to their risk. Time will only tell if the great "short China / long India" trade of 2021 will prove durably fruitful.

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 21, 2021

<sup>1</sup>References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned -7.95% during the quarter.

<sup>2</sup>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](http://www.seafarerfunds.com/funds/ogi/performance).

<sup>3</sup>The Fund's Investor share class began the quarter with a net asset value of \$15.59 per share; it finished the quarter with a value of \$14.35 per share.

<sup>4</sup>Morningstar Emerging Markets Price Return USD Index

<sup>5</sup>Source: Bloomberg.

<sup>6</sup>[www.seafarerfunds.com/funds/ogi/portfolio-review/2020/12/Q4/#outlook-china](http://www.seafarerfunds.com/funds/ogi/portfolio-review/2020/12/Q4/#outlook-china)



### 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](http://www.seafarerfunds.com/funds/ogi/performance).

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 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 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 Morningstar China Net Return USD Index is an index that measures the performance of China's equity 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: MSCNUSDN. The Morningstar Emerging Markets Price Return USD Index is an index that 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: MEMM. 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 September 30, 2021, Jiangsu Hengrui Medicine Co., Ltd. comprised 2.9% of the Seafarer Overseas Growth and Income Fund, Dairy Farm International Holdings Ltd. comprised 1.4% of the Fund, and Jardine Matheson Holdings, Ltd. comprised 2.3% of the Fund. View the Fund's Top 10 Holdings at [www.seafarerfunds.com/funds/ogi/composition](http://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](http://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.