SEAFARER®

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Fourth Quarter 2021

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During the fourth quarter of 2021, the Seafarer Overseas Growth and Income Fund returned -1.70%.[1,2] The Fund's benchmark indices, the Morningstar Emerging Markets Net Return USD Index and the MSCI Emerging Markets Total Return USD Index, returned -0.82% and -1.24%, respectively. By way of broader comparison, the S&P 500 Index returned 11.03%.

The Fund began the quarter with a net asset value of $14.42 per share. During the quarter, the Fund paid a distribution of approximately $0.957 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $4.499 per share.[3] The Fund finished the period with a value of $13.23 per share.[4]

During the calendar year, the Fund returned -2.33%, whereas the benchmark indices, the Morningstar Emerging Markets Net Return USD Index and the MSCI Emerging Markets Total Return USD Index, returned -0.33% and -2.22%, respectively.[5]

Performance

Please note: this portfolio review encompasses only the fourth quarter of 2021, 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.

The Growth and Income Fund's performance during the quarter and the year was lackluster: its returns over both horizons were marginally negative. Further, it modestly underperformed both of its benchmark indices over the same periods. I am frustrated by that outcome.

During the final quarter of 2021, and equally throughout the whole of the year, the emerging markets were volatile. The Growth and Income strategy is intended to weather such conditions: experience has led me to believe that a focus on reasonably-priced companies, capable of producing durable cash flow and which pay stable, ample dividends can over time produce results regardless of market gyrations. However, there is no guarantee the strategy will produce its intended result in a given period; certainly execution matters a great deal, as the strategy must be adapted to varying investment conditions over time.

As of 12/31/21 the annualized performance of the Fund's Institutional class was: 1 year -2.33%, 3 year 13.71%, 5 year 8.72%, 7 year 6.87%, and since inception (2/15/12) 6.78%[1]; 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.

Still, I thought the Fund was well-positioned to avoid the primary trouble that rocked the emerging markets in 2021 – a sudden collapse in Chinese stock prices. For many years now, Seafarer's research indicated that large Chinese companies – especially those engaged in technology and internet businesses – suffered costly intrusions by the Chinese state. This finding held true even if such companies were ostensibly "privately owned" (i.e., companies that are publicly listed, but which are owned and controlled by private sector individuals and groups, rather than the "public" state). The government's tendency to intervene in business is nothing new in China, and Seafarer's team has observed it many times before. Yet under the Xi administration, a change seemed to take place: the state's intrusions into the private sector grew more frequent, broad, substantive and unpredictable.

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Observing this change, Seafarer did not seek to ban or limit Chinese stocks within the Fund's portfolio – Seafarer does not make "top down" investment decisions, but rather evaluates the merits of each investment opportunity individually. Instead, we intensified our scrutiny of individual companies, prepared with the knowledge that the state's intervention in the private sector would likely grow more commonplace, costly and oftentimes hidden. We avoided companies that undertook transactions that did not comport with their espoused governance, suspecting the impetus of the state behind such activities; and we ascribed less certainty to the growth for some other companies, in recognition that the state might hamper their prospects through various controls and regulatory actions. Ultimately, Seafarer came to the view that many widely-held Chinese companies were likely far less valuable than their prevailing market capitalizations implied.

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The Fund continued to invest in China – including within the technology sector – but evermore selectively. As a result, the Fund's exposure to China stocks was substantially lower than that of both benchmark indices for some time. This served the Fund well during the final quarter, as Chinese stocks continued the descent begun in the preceding quarter: stocks in the country declined as market participants belatedly realized that the state's intrusions were too large and costly to ignore. It seemed our efforts to invest selectively might bear fruit amid the sell-off.

Yet even as the Fund sidestepped some of the worst trouble, it did not go unscathed. The Fund's holdings in mainland China (notably, **China Literature**) and in Hong Kong (notably, **Pacific Basin** and recent addition **Dairy Farm**) generated substantially negative returns during the quarter. Marginal declines among the Fund's holdings in Brazil and South Korea dragged the Fund's performance a bit lower, while the Fund's limited exposure to companies in Taiwan's technology sector (the lone, exceptionally bright spot within the emerging markets) left it trailing both benchmarks. To have positioned the portfolio correctly against a major, underappreciated risk – based on years of research and against the mainstream view – and yet for performance to fall short is personally and professionally frustrating. We retain confidence in the portfolio's construction, but as ever, we will seek to learn and improve.

Allocation

The Fund took advantage of volatility during the quarter to make several changes to its construction. It established new positions in **Emaar** (one of the largest property developers in the United Arab Emirates, added to the Fund's Value component) and **Want Want China** (a China-based producer of snack food and dairy products, added to the Core component). 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

Want Want is an experienced operator in China, with high margins and a strong brand. Want Want's balance sheet has ample cash resources for expansion, and the company also pays an attractive dividend. Its share price was depressed through the first half of 2021, ostensibly because the company's growth stalled in recent years. Some pundits believe the company is not sufficiently innovative to produce premium products that will appeal to modern, selective Chinese consumers; our research suggested otherwise.

The Fund established a new position in the Value component by way of corporate action. **Itaú**, a Brazilian bank that is a holding within the Fund's Value component, paid out an extraordinary dividend to its shareholders: shares in **XP, Inc.**, a Brazil-based wealth management company. Itaú purchased a large, non-control stake in XP in 2017. The Brazilian bank eventually decided it would not attempt to combine with XP or increase its stake further. Yet rather than sell off its holding, Itaú determined to pass the shares it held out to shareholders (including the Fund) pro rata. At this time, the Fund has not directly purchased any shares in XP, but it has retained the shares it received via corporate action. In my opinion, Itaú's decision to return its holdings in XP directly to its shareholders helped unlock some of the value latent in the bank's balance sheet – making it a fitting holding of the Fund's Value component.

The Fund also added a new position in **Credicorp**, a Peru-based bank, to its Value component. Please see the Value Fund's fourth quarter 2021 portfolio review[6] for further discussion of the holding.

Apart from the aforementioned stocks, the Fund commenced one additional position in Eastern Europe. That new holding will be disclosed at a later date when fully established by the Fund.

The Fund exited two positions on valuation grounds: **Infosys** (an India-based firm that provides software applications and systems engineering to other business) and **Shenzhou International** (a China-based textile firm). Both positions had been held by the Fund for several years; indeed, the holding in Infosys dated to 2012, the year of the Fund's inception.

The Fund also exited **Ping An** during the quarter. Ping An is one of China's largest multi-line insurance carriers. The company's operations fell materially below our expectation in the past year and a half. Furthermore, our research suggested that the company's ample financial resources could fund enhanced dividends or share buybacks. Instead, the company deployed those excess resources towards dubious ends. During the first half of 2021, the Chinese government seemingly induced Ping An to purchase certain assets from a state-connected enterprise. Though Ping An's management claimed the assets would advance the company's interests, it appeared the primary impetus for the transaction was to provide a financial "bailout" to the distressed seller, a state-linked entity. In other words, Ping An seemed to have suffered one of the aforementioned "intrusions" by the state. Before Ping An was introduced to the Fund during the summer of 2020, our research identified the potential for each adverse outcome: operational underperformance, and misallocation of financial resources for political purpose. However, we did not expect both to occur in tandem. The company's prospects have consequently worsened beyond our expectation; the Fund sold its position and realized a loss to offset taxable gains.

Outlook

As I write this commentary in late January, many stock markets around the world are declining sharply, and some pundits have suggested a market correction or worse might be underway.[7] Contrary to that trend, I am confident about the outlook for the medium term – at least for the Fund, if not the broader conditions in the emerging markets. Why? Generally, stocks in the emerging markets are not expensive, dividend yields are adequately high if not ample, in most cases balance sheets have substantial if not excess capital to deploy, and the forecast for corporate earnings growth in the year ahead (about 6% for the constituents of the MSCI Emerging Markets Index, and 7% for the constituents of the Fund) appears both reasonable and achievable.[8] In my experience, such conditions are favorable for disciplined investors capable of holding steadily for the medium to long term.

Certainly, there are sub-segments of the emerging markets that do not fit this description: Indian companies, while growing rapidly, have stocks that are generally priced at heady valuations. Some pockets of extreme overvaluation exist in China, particularly among Chinese small capitalization stocks engaged in technology industries. The Chinese real estate sector is in decline and buckling under severe financial distress. Yet while these sub-segments of the overall market are problematic, they make up only a portion of the whole. Overall, fundamental conditions among emerging market stocks do not seem stretched.

Obviously, a single anecdote does not itself make the case – but it can be illustrative. With that caveat in mind, one of the Fund's larger holdings is demonstrative of the conditions generally prevalent among emerging market stocks. The Fund has held shares in **Hyundai Mobis** continuously since 2017. The company supplies auto parts, systems and modules to automotive producers around the world (including Hyundai Motor, a related entity). The company is making a rapid foray into providing specialized automotive systems for electric and hydrogen-powered vehicles.

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At the end of 2021, the company's stock market capitalization was approximately $19.5 billion. While the company has not yet published its financial results for the final quarter of 2021, it will likely generate around $35 billion in sales, and just under $2 billion in operating profits for the previous year. The company's balance sheet has about $6.5 billion in cash and short-term financial instruments (measured net of the company's outstanding debt). The company also holds a substantial stake in Hyundai Motor – about 21% of that company, worth about $7.5 billion based on that company's present market value. The company's financial assets therefore total $14 billion; all but $5.5 billion of the company's capitalization could be attributed to non-operating assets.[9] The implication is that investors have either declined to value the company's financial assets, or that investors have only minimally capitalized the company's operating earnings, or some combination of the two scenarios.

In addition, the company offers a dividend equivalent to approximately 2.6% of the company's stock price, paid in two annual installments. Further, over the past three years, the company has executed a buyback program worth approximately $835 million.[10] It is also widely understood that the company's Executive Chairman, E.S. Chung (grandson of the Hyundai group's founder), is keen to boost his ownership stake in Mobis, as control over Mobis is necessary to gain control over Hyundai Motor. Earlier this year, Mr. Chung raised approximately $500 million by selling other personal assets.[11] Presumably he will direct some of the proceeds toward increasing his Mobis stake, suggesting there is a large and interested bidder for Mobis' shares. I have rarely seen a successful, growing, profitable company with such abundant financial resources so cheaply valued in my entire career, especially with a potential bidder present. Frankly, I find it bizarre.

I am comforted that the Fund can invest at low prices in growing, profitable companies that pay substantial dividends from balance sheets replete with cash.

While Hyundai Mobis' situation is only one instance and not the whole, I believe it is broadly indicative of the investment conditions that exist across much of the emerging markets. Obviously, conditions vary across markets and stocks. Some sub-segments of the emerging markets are expensive, and ripe for correction; others face slowing growth and financial distress that could beget crisis (most notably China). The U.S. Federal Reserve appears intent to increase interest rates several times over the next year, which could exacerbate financial stress for some of the most precarious companies in the developing world. Yet amid global financial markets that have apparently gone a bit mad – awarding enormous valuations to profitless companies that consume substantial capital – I am comforted that the Fund can invest at low prices in growing, profitable companies that pay substantial dividends from balance sheets replete with cash. Disciplined investors that are prepared to hold for the longer term may avail themselves of such favorable conditions, come what may.

I am comforted that the Fund can invest at low prices in growing, profitable companies that pay substantial dividends from balance sheets replete with cash.

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, 2022

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned -1.76% during the quarter.

[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/ogi/performance.

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

[4] The Fund's Investor share class began the quarter with a net asset value of $14.35 per share; it paid a distribution of approximately $0.950 per share; and it finished the quarter with a value of $13.16 per share.

[5] The Fund's Investor share class returned -2.41% during the calendar year.

[6] www.seafarerfunds.com/funds/ovl/portfolio-review/2021/12/Q4#credicorp

[7] Jeremy Grantham, "Let the Wild Rumpus Begin," GMO, 20 January 2022. https://www.gmo.com/americas/research-library/let-the-wild-rumpus-begin/

[8] Sources: J.P. Morgan, "Emerging Markets Equity Strategy Steering Board," 6 January 2022; Bloomberg; Seafarer.

[9] Sources: Bloomberg, Seafarer.

[10] Sources: Hyundai Mobis, Bloomberg.

[11] Source: Seo Jin-woo and Lee Eun-joo, "The Carlyle Group Buys 10% Stake in Hyundai Glovis for $509 mn from Owner Family," Maekyung Media Group, 6 January 2022. https://www.mk.co.kr/news/english/view/2022/01/15331/

Glossary

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

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.

Market Capitalization: the value of a corporation as determined by the market price of its issued and outstanding common stock. It is calculated by multiplying the number of outstanding shares by the current market price of a 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 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. 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 December 31, 2021, China Literature, Ltd. comprised 3.2% of the Seafarer Overseas Growth and Income Fund, Pacific Basin Shipping, Ltd. comprised 1.8% of the Fund, Dairy Farm International Holdings, Ltd. comprised 1.3% of the Fund, Emaar Properties PJSC comprised 2.1% of the Fund, Want Want China Holdings, Ltd. comprised 1.2% of the Fund, Itaú Unibanco Holding SA comprised 2.2% of the Fund, XP, Inc. comprised 0.4% of the Fund, Credicorp, Ltd. comprised 1.1% of the Fund, and Hyundai Mobis Co., Ltd. comprised 5.3% of the Fund. The Fund did not own shares in Infosys, Ltd., Shenzhou International Group Holdings, Ltd., Ping An Insurance Group Co. of China, Ltd., or Hyundai Motor Company. 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.