SEAFARER

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

First Quarter 2022

Kate Jaquet
Co-Portfolio Manager

During the first quarter of 2022, the Seafarer Overseas Growth and Income Fund fell -3.17%.[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 -5.94% and -6.92%, respectively. By way of broader comparison, the S&P 500 Index returned -4.60%.

The Fund began the quarter with a net asset value of $13.23 per share. It paid no distributions during the quarter and finished the period with a value of $12.81 per share.[3]

Performance

The first quarter of 2022 was a volatile one, with the MSCI Emerging Markets Index down more than -16% at one point.[4] The Growth and Income strategy is intended to weather volatile conditions – albeit not the outbreak of war in Europe. Returns were negative, but the Growth and Income Fund did manage to outperform both of its benchmark indices and with markedly less volatility. The Fund enjoyed positive contributions from a broad array of holdings including financial stocks in Latin America and South Africa, as well as an industrial holding in Hong Kong and a real estate company in the United Arab Emirates. Detractors to Fund performance in the quarter included two large positions in China, a South Korean consumer discretionary stock and a Hungarian pharmaceutical stock.

The first quarter of 2022 was a volatile one, with the MSCI Emerging Markets Index down more than -16% at one point.

Markets swooned as Russia invaded Ukraine at the end of February. The Fund managed to avoid some of the losses that ensued, as it has never been invested directly in Russian stocks. While the Russian invasion of Ukraine may have dominated the news headlines, it is worth noting that Russia had constituted a small weighting in the emerging markets indices prior to the military conflict, ensuing sanctions, and deletion of Russian securities from the indices.

As of 3/31/22 the annualized performance of the Fund's Institutional class was: 1 year -8.24%, 3 year 8.46%, 5 year 5.75%, 7 year 5.13%, 10 year 6.04%, and since inception (2/15/12) 6.27%[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.

The larger contributor to market volatility in the quarter was China (not Russia). Chinese securities experienced extreme market movements in the month of March with several large technology stocks down more than -30% over the course of four days. The volatility in Chinese stocks has been ascribed to many factors; among the factors most cited are China's proximity to and cozy relationship with Russia, the growing cost of China's Covid-zero strategy, depositary receipt de-listing headlines, and China's troubled property sector. But I believe that the free fall in Chinese stocks seen in the first quarter is probably more a reflection of growing concerns about the overall health of China's domestic economy (see the Outlook section below for more discussion on this topic). The Fund's underweight position in China benefitted its relative performance.

Allocation

I would like to be clear that the reason the Fund had no holdings in Russia was not because we predicted a military conflict. Seafarer does not employ a macroeconomic or political risk management overlay on funds – rather, our research process is rooted in bottom-up fundamental security selection, with a focus on the identification of control party motivations, the cash flow generation capabilities of individual companies, and valuations across the capital structure.

The reasons that the Fund was not invested in Russia are company specific in nature, primarily related to poor corporate governance standards, manifest in the highly interventionist behavior of the Russian state. Concerns about Russia's poor corporate governance standards are longstanding, especially those related to political connections. Our bottom-up research on Russian companies has consistently uncovered opaque ownership structures, problematic relationships with Russian oligarchs, and companies that appear to be controlled directly or indirectly by the state. Over the years, meeting with Russian management teams, we have learned that some Russian companies are unable to make key staffing or capital allocation decisions without approvals from Moscow. We view Putin's sphere of influence over the economy and corporations as large and problematic. At Seafarer, we aim to invest in companies capable of sustaining their growth over time. Unfortunately, our research on Russian companies usually uncovers serious risks that are likely to compromise the sustainability of corporate cash flows; it is for this reason that the Fund had no Russia holdings.

Amidst the market volatility and geopolitical developments in the quarter, there were not many allocative changes to the Fund, a reflection that we remain confident in our holdings for now. Two allocative changes of note in recent quarters include the addition of a small new position in Eastern Europe and the increased weighting of the Fund's Value component holdings, mostly due to price appreciation.

The new holding in the Fund is **CD Projekt SA**, a Polish company that has been operating in the media and entertainment sector since the 1990s. The Fund initially invested in CD Projekt in the fourth quarter of 2021, but did not build a meaningful position until the first quarter of 2022, as Seafarer has been particularly price sensitive regarding the accumulation of this holding. CD Projekt is a unique addition to the Fund with its focus on the development and distribution of video games. CD Projekt has a clean balance sheet, attractive margins and impressive reach for the games in its portfolio. While it is a small position in the Fund (less than 1% as of March 31), we are optimistic about its growth potential and what it brings to the portfolio.

> CD Projekt is a unique addition to the Fund with its focus on the development and distribution of video games.

The other portfolio shift of note is the size of the Value component. The Value component represented 40% of the Fund's net assets as of March 31, 2022, compared to 33% one year prior. Some of this increase is due to new Value holdings added to the Fund (see the Fund's fourth quarter 2021 portfolio review[5]), but most of it is due to price appreciation in several of our high conviction Value holdings. 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

Outlook

This was certainly a quarter that underscores the merits of disciplined active management and why you should not let index providers do your risk management for you. Furthermore, Russia's financial market chaos and elimination from emerging markets indices illustrate why acronym investing is a terrible idea. The "BRICS" (Brazil, Russia, India, China, South Africa) has turned out to be a deeply flawed concept. BRICS was coined by Goldman Sachs economist Jim O'Neill in 2001 as a way to group together some of the larger emerging economies with high growth potential. It was in vogue until investors realized that these economies in fact have little in common, and that each have divergent growth trajectories, different opportunities, and distinct challenges. While the Russian equity market appeared "cheap," now it is apparent why it traded at such low prices, and meritedly so. Now Putin's military aggression (along with the coordinated sanction response from the West) has made it un-investable, sadly.

The emerging market landscape has changed and not just because of Russia. We have seen significant changes in the composition of the MSCI Emerging Markets Index recently.

As shown in **Figure 2**, over the course of just one year, index weightings by country have shifted meaningfully: China's weighting decreased by more than 7%, Russia has been eliminated, and India, Taiwan and Saudi Arabia experienced meaningful increases. This evolution of the index is healthy in my opinion, with less weight on one single country and riskier countries reduced or eliminated.

Figure 2: Changing Composition of MSCI Emerging Markets Index

	As of 3/31/2021	As of 3/31/2022	12-month Change
China / Hong Kong	37.9%	30.2%	-7.7%
Russia	3.0%	0.0%	-3.0%
India	9.6%	13.6%	+4.0%
Taiwan	13.7%	15.9%	+2.2%
Saudi Arabia	2.7%	4.2%	+1.5%

Source: Bloomberg.

Russia's war in Ukraine obviously has important consequences for other emerging markets. Many developing countries are now facing new shocks which, on the back of the pandemic, are causing real economic stress. Skyrocketing oil, grain and fertilizer prices are putting importing economies under pressure. The outlook remains uncertain for these economies, and we are closely monitoring these risks.

The largest risk, as I see it, is the overall health of the Chinese economy, especially considering the strict citywide lockdowns occurring in Shanghai (and other major cities) and the economy's dependence on the largely state-controlled banking sector. When China has run into speed bumps in the past, it has been quick to stimulate the economy through a variety of measures, largely with success. This time, I find myself wondering where the stimulus is. Is it that Xi Jinping *will not* enact stimulus – or that he *cannot* enact it? I worry it is the latter, as I see problems brewing in the property sector, which will impact the finances of state and local governments. The Chinese economy looks far from healthy to me, and the 5.5% gross domestic product (GDP) growth target for this year overly optimistic. Recent announcements that the Chinese authorities are trying to put a floor on the nation's slumping stock market do not instill confidence.[6] These are all risks to the Chinese economy that we are aware of and monitoring closely. One silver lining may be a pause in regulatory interventions while Xi focuses on the economy. Despite all the risks, we think that China remains investable; success in that market requires more work, more in-depth research and an active hand. The Fund remains invested in China, but with heightened selectivity.

> The emerging market landscape has changed and not just because of Russia.

The outlook for the emerging markets remains uncertain, and much obviously hinges on a resolution to Russia's war in Ukraine. Having said that, it is still possible to find compelling and sustainable investment ideas across the emerging markets. Our investment team is staying the course, we have several research projects underway, and we continue with what we have been doing for over a decade now: pursuing lasting progress in the developing markets.

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

April 13, 2022

---

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned -3.19% 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 Investor share class began the quarter with a net asset value of $13.16 per share; and it finished the quarter with a value of $12.74 per share.

[4] Source: Bloomberg. From December 31, 2021 to March 15, 2022 the MSCI Emerging Markets Index fell -16.47%.

[5] www.seafarerfunds.com/funds/ogi/portfolio-review/2021/12/Q4/#allocation

[6] "China Limits Sales by Some Funds as Stocks Slide Again," Bloomberg News, 11 April 2022. https://www.bloomberg.com/news/articles/2022-04-11/china-said-to-limit-sales-by-some-funds-as-stocks-slide-again

Glossary

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

Depositary Receipt (DR): receipt for the shares of a foreign-based corporation held by a bank. The receipt usually entitles the shareholder to all dividends (excluding withholding) and capital gains. Depositary receipts (DRs) can be offered in many countries and are labeled according to the country where trading occurs, such as American Depositary Receipts (ADRs). DRs make it easier for investors to purchase the shares of foreign companies by reducing the administration and duty costs that would otherwise be levied on a cross-border transaction.

Gross Domestic Product (GDP): a macroeconomic measure of the value of a country's economic output. GDP includes only those goods and services produced domestically; it excludes goods and services produced abroad, even if such goods and services are produced by factors of production (i.e. companies) owned by the country in question.

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 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 March 31, 2022, CD Projekt SA comprised 0.7% of the Seafarer Overseas Growth and Income Fund. The Fund did not own shares in Goldman Sachs. 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.