SEAFARER®

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Fourth Quarter 2022

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During the fourth quarter of 2022, the Seafarer Overseas Growth and Income Fund returned 10.67%.[1,2] The Fund's benchmark index, the Morningstar Emerging Markets Net Return USD Index, returned 9.28%. By way of broader comparison, the S&P 500 Index returned 7.56%.

The Fund began the quarter with a net asset value of $10.45 per share. During the quarter the Fund paid a distribution of approximately $0.223 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $4.840 per share.[3] The Fund finished the quarter with a value of $11.34 per share.[4]

During the calendar year, the Fund returned -11.69%, whereas the benchmark index, the Morningstar Emerging Markets Net Return USD Index, returned -18.29%.[5]

Performance

If you happened to peruse a sample of financial punditry in October of 2022, you would naturally presume that havoc would engulf the emerging markets during the final months of the year. "How a Strong Dollar Hurts Europe and Emerging Markets," wrote *Forbes* in late October.[6] "Xi Leaves China Stocks in Tatters with Record Post-Congress Drop," declared *Bloomberg* about the same time.[7] "EM [emerging market] equities will continue to face pressure from dollar appreciation and weak U.S. equity markets," declared a breathless strategist in another article.[8] Yet for all the dire statements and predictions, the Growth and Income Fund and the benchmark index both performed well during the fourth quarter, as is evident from the performance statistics cited above. Emerging market stocks surged, and emerging market currencies posted substantial gains versus the dollar; the combined effect of rising stocks and currencies meant the benchmark recouped most of the losses it incurred during the third quarter.[9]

Despite such pronounced gains, the emerging markets were not without volatility. The most pronounced gyrations emanated from China. Stocks there suffered a breathtaking collapse in late October amid a political firestorm. Investors widely assumed that Xi Jinping would win a precedent-breaking and controversial third

Please note: this portfolio review encompasses only the fourth quarter of 2022, 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.

This portfolio review addresses the fourth quarter of 2022 (10/1/22 to 12/31/22). As of 12/31/22 the annualized performance of the Fund's Institutional class was: 1 year -11.69%, 3 year 1.77%, 5 year 1.23%, 7 year 5.63%, 10 year 3.94%, and since inception (2/15/12) 4.93%[1]; the gross expense ratio was 0.87%. 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.

term as President and Party Secretary in October. However, they were caught entirely by surprise when Xi also handpicked members of the Politburo, and then stuffed the Standing Committee with loyalists, giving zero voice to alternative political factions within the echelons of power.

Investors dumped stocks on fears that misguided economic, political and health policies would go unchallenged. Yet a challenge arose, albeit from an unexpected source. In a rare instance of mass, nationwide but uncoordinated protest, ordinary Chinese took to the streets to decry the country's draconian "zero Covid" policy and publicly decry Xi's leadership (though the latter only indirectly). Shockingly, the problematic policy was dismantled overnight, apparently in response. Several other of Xi's cherished but maladroit policies were likewise jettisoned only days after he assumed total control over the country. By mid-November, stocks reversed course and soared higher, on hope that China's policymakers had finally regained their sense, and that the country would recover some of its growth and progress.

Amid this volatile environment, the Fund managed to outpace the gains of the benchmark. This was notable, given the Fund's low exposure to China stocks, even as the benchmark's returns were driven primarily by the astonishing gains from China following the retrenchment of its "zero Covid" policy. Indeed, the Fund benefitted from its exposure to a handful of holdings in Eastern Europe, which saw massive gains in stock prices and currencies – and where the benchmark index has almost no exposure any longer, having forfeited the bulk of its European capital earlier this year, which was invested primarily in Russia. The Fund also saw many of its holdings in South Korea surge, and its exposure to the Korean Won also augmented gains. Korea performed well ostensibly because market participants now understand that global economic conditions are stronger than was assumed only a few months ago, and that Korean companies – many of which export their products around the world – will benefit from the incremental growth that might result.

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A final note on China's recent political vicissitudes: we are encouraged by the fact that the Chinese government has abandoned so many of Xi's problematic policies in short order – chief among them, "zero Covid" – albeit chaotically. (China's government has also reversed course on policies for the property and technology sectors; it has initiated fiscal and monetary support for the economy that the government heretofore avoided; and in a shocking turnaround, it has grown markedly more hospitable to Western nations in its foreign policy.) This newfound flexibility may give the Chinese people some ability to recover their lives and livelihoods, and consequently the nation may regain some economic momentum. However, the swift and haphazard reversal of so many of Xi's cherished polices does not suggest good governance or pragmatism. Rather, it smacks of desperation. Investors should be cautious about hype over the potential for economic normalization, as the economy is likely exceedingly weak. Still, with change and flexibility, there is now some room for a limited economic recovery.

Allocation

Your Fund was quite active during the fourth quarter. It entered three new positions in India and one in Mexico; at the same time, it exited three positions in China.

Over the past decade, your Fund has held several positions in India. However, two years ago, it exited its last holding there. Your Fund has not reinvested in the country since, primarily due to concerns over elevated valuations prevalent among most stocks. In general, India remains an expensive and somewhat problematic market; yet it is also a broad and diverse one, with many listed companies that are neither expensive nor problematic. For this reason, Seafarer has maintained its research efforts there during the intervening years. Three new positions came to fruition during the quarter, stemming from those sustained research efforts: L&T Technology Services (LTTS), Computer Age Management Services (CAMS) and Petronet LNG (Petronet).

LTTS is an offshoot of a long-established and well-respected engineering company in India called Larsen & Toubro (L&T). The company is a technology and design consultancy, offering services to larger companies that seek external support for engineering research, development and design projects. LTTS was only publicly listed in 2016; yet the company has already established a diverse set of clients across a wide variety of industries, including energy, health care, industrial automation, consumer electronics, semiconductors, telecommunication and transportation. It has also demonstrated steady growth, as its clients' budgets for research and development appear less prone to industrial cycles. Such relative stability has in turn allowed LTTS to produce attractive profit margins and cash flow, manifest in the payment of a rising dividend since listing.

CAMS is also in the corporate service industry, but its sole clients are Indian mutual funds and other investment vehicles. CAMS is one of the dominant registrars and transfer agencies in India – essentially, it helps fund companies keep track of all things related to investors and shareholder capital. Like LTTS, it became a listed company recently, with an initial public offering (IPO) in 2020. Since that time, its dominance of its field has helped the company enjoy steady growth and offer a rising dividend to its shareholders.

Petronet is a critical company in India's domestic energy industry. It supplies liquified natural gas (LNG) primarily to utilities and industrial companies across India through a network of terminals and pipelines. While the company was established by a coalition of state-backed energy companies, now 50% of the company sits in the hands of private domestic and foreign investors. Demand for energy in India continues to grow with the country's development and industrialization; yet government intrusion in the sector has led to inefficiency and malinvestment, particularly for thermal coal and coal-fired energy plants. However, Petronet sits at the front of burgeoning demand for natural gas in the country, and has little competition given the breadth and quality of its asset base; its criticality has helped reduce the risk of political intervention in its operations or finances. In the meantime, it has steadily expanded – all while paying a generous and rapidly rising dividend.

The last addition during the quarter was **Walmart de México**, a subsidiary of Walmart colloquially known as Walmex. While we imagine that all of the Fund's shareholders are familiar with Walmart, Walmex is an impressive company in its own right. Walmex is Mexico's largest retailer, and while many of its local outlets replicate much of the Walmart store experience found in the U.S., the company has also developed new store formats uniquely suited to Mexico, including a bodega format with specialized branding that is well-received by Mexican consumers. Walmex's profit margins have been impressively steady despite global inflationary pressures, and the company continues to invest (notably in e-commerce) to remain at the forefront of its industry, all while paying a healthy dividend to shareholders.

We believe the new portfolio holdings represent superior replacements for the Fund, given its investment objective to balance capital appreciation with current income.

The Fund exited three positions in China: **China Literature**, a publisher and entertainment media company; **Shangri-La Asia**, a hotelier in greater China; and **Greatview Aseptic**, a company that produces packaging for shelf-stable beverages. All three businesses have performed poorly, impacted not only by the weak economic environment prevalent in China, but also intense competition within their respective industries. None pay a dividend – China Literature has yet to establish one; Shangri-La and Greatview both cancelled theirs under financial stress. While all three Chinese companies retain some investment merit – especially given present low prices for their stocks – we believe the new portfolio holdings represent superior replacements for the Fund, given its investment objective to balance capital appreciation with current income (i.e. dividends).

Outlook

As noted in the Fund's preceding portfolio review,[10] I am presently optimistic about the merit of long-term investment in the emerging markets, and especially the holdings of the Fund. (By "long term," I mean investments held for about five years, and preferably longer. Even with my present optimism, I always counsel against investment in the asset class if your effective investment horizon is likely to be three years or less.)

My optimism is rooted in four basic conditions: first, profits in the developing world seem to be resilient, despite tenuous global growth conditions; second, emerging market currencies have not been toppled by the Federal Reserve's interest rate increases, nor are they likely to be; third, balance sheets in the developing world are healthy in aggregate, with ample resources for expansion or enhanced shareholder returns; and fourth, valuations are generally accommodative to patient investors, if not outright attractive.

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Regarding the first point: conditions for growth are admittedly not robust at present, with many developed economies struggling with rampant inflation, higher interest rates, and in some cases, energy scarcity. Meanwhile, China's economy is struggling because of a combination of economic mismanagement and disastrous health policy. Still, I am impressed that throughout such conditions, aggregate emerging market profits have held up better than expected. In late December, the consensus forecast for 2022 earnings growth for a prevalent EM benchmark was -8.5%.[11] However, as I write in late January, the consensus forecast has been revised dramatically upward to -1.9%.[12]

The reason for this sharp, sudden improvement is that early reports from corporations – which are only now being disclosed for the fourth quarter – have on balance been positive, surprisingly so. It is still very early within the "reporting season," as most companies will not report their full-year 2022 results until mid-February, or later (believe or not, some will not disclose their official annual reports until April). The results so far have been encouraging. I think there is decent reason to believe that earnings growth for 2022 will prove to be marginally positive, rather than the current expectation of -1.9%.

The holdings in your Fund appear to be experiencing much the same as the overall market: in aggregate, its holdings are forecast to produce -5% growth for 2022, based on consensus forecasts. I suspect the ultimate result for the Fund will be positive. Admittedly, very few holdings have published results as yet, but nearly all that have done so have recorded expansion (with the notable exception of **Samsung Electronics**, which has seen its results decline amid a severe slump in the semiconductor industry). I am pleased that emerging market profits have not been overly hampered by the difficult economic conditions that exist globally; and I would not be surprised if they exhibit somewhat de-coupled and uncorrelated behavior over the next few years, contrary to popular expectation.

Second, emerging market currencies have not been toppled by the U.S. dollar or the Federal Reserve. When the Fed belatedly raised rates to combat inflation – cumulatively over 4% since March 2022 – traders assumed in knee-jerk fashion that emerging market currencies would swoon, and they bet aggressively. They were right, in the narrowest sense: emerging market currencies came under intense selling pressure, and at their nadir declined just over -9% versus the dollar relative to where they began the year.[13] Yet in the fourth quarter, the currencies rebounded even faster than they declined, and those knee-jerk traders have ultimately lost on their bets. As of the end of January, the emerging market currencies have recovered nearly all of their losses versus the dollar, declining as a group only -1.6% from the start of the Fed's actions.[14] The Fed has not had much of a lasting effect at all on developing world currencies – and I do not expect it to, as most currencies are no longer so tightly coupled to the dollar or U.S. rate conditions. I do not know if emerging currencies will be strong or weak next; but I am confident that the Fed's continued rate increases are unlikely to constitute a substantial headwind for emerging currencies, contrary to popular expectation.

Third, balance sheets in the developing world are generally healthy, and replete with excess resources – especially underutilized cash – that can be used to finance either expansion or enhanced returns to shareholders (e.g., dividends or share buybacks). Seafarer estimates that at the end of 2021, aggregate book value for companies in the developing world reached $12 trillion, comprised primarily of retained earnings.[12] Certainly, there are pockets of debt-induced financial distress in the emerging markets (notably in the disastrously run China property sector); but for the most part, balance sheets are healthy, and defaults scarce, especially given the abrupt and substantial change in Fed monetary policy.

Astonishingly, the developing world's $12 trillion in book value exceeds the equivalent figure for U.S. companies – Seafarer estimates that U.S. companies sat on just over $9 trillion in book value at the end of 2021.[12] At a time when interest rates are high and rising, and capital is accordingly scarcer, emerging market companies are sitting on trillions of capital reserves at their disposal.

Fourth, in our view, valuations are attractive to patient, long-term investors. There are many, many ways to assess valuation, and it is not a terribly meaningful thing to do in aggregate, given that each company represents a unique valuation case. Yet we find one basic metric to be consistently telling: dividend yield. It is a limited metric, to be sure – but it is a tangible and comparable one, particularly relative to most standard accounting measures which are not readily comparable across borders. Presently, the gross dividend yield on stocks in the benchmark index was 3.3% at year end, while the Fund was 3.4%; U.S. stocks presently offer 1.8% yield in aggregate.[15,16] We do not know if valuations might fall lower than where they are today; but present prices are accommodative for investors seeking yield and growth, as the Fund does by design.

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

with

Paul Espinosa
Portfolio Manager

and

Lydia So
Portfolio Manager

January 31, 2023

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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 10.65% 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 $10.38 per share; it paid a distribution of approximately $0.214 per share during the quarter; and it finished the quarter with a value of $11.27 per share.

[5] The Fund's Investor share class returned -11.84% during the calendar year.

[6] Simon Constable, "How a Strong Dollar Hurts Europe and Emerging Markets," 27 October 2022. https://www.forbes.com/sites/simonconstable/2022/10/27/how-a-strong-dollar-hurts-europe--emerging-markets/?sh=77a388395005

[7] "Xi Leaves China Stocks in Tatters with Record Post-Congress Drop," *Bloomberg News*, 27 October 2022. https://www.bloomberg.com/news/articles/2022-10-28/china-stocks-in-worst-ever-post-congress-rout-as-gloom-persists

[8] Abhishek Vishnoi, "Emerging Stocks Haven't Had Such a Long Stretch Since Cycle Peak," *Bloomberg*, 3 October 2022. https://www.bloomberg.com/news/articles/2022-10-04/emerging-stocks-haven-t-had-such-a-long-stretch-of-bear-market

[9] The total return for the Morningstar Emerging Markets Net Return USD Index between 6/30/22 and 12/31/22 was -1.58%. Source: Bloomberg.

[10] www.seafarerfunds.com/funds/ogi/portfolio-review/2022/09/Q3/#outlook

[11] This measurement is based on the consensus for aggregate earnings growth among the constituents of the MSCI Emerging Markets Index. Source: J.P. Morgan, "Emerging Markets Equity Strategy Steering Board," 22 December 2022.

[12] Sources: Bloomberg, Seafarer.

[13] This measurement is based on the MSCI Emerging Markets Currency Index, measured between 12/31/21 and 10/25/22; during this period, the aforementioned index declined -9.30%. Source: Bloomberg.

[14] This measurement is based on the MSCI Emerging Markets Currency Index, measured between 12/31/21 and 1/30/23; during this period, the aforementioned index declined -1.63%. Source: Bloomberg.

[15] These measurements are based on the Morningstar Emerging Market Net Return USD Index, the Seafarer Overseas Growth and Income Fund, and the S&P 500 Index, respectively. Sources: Morningstar, Bloomberg, Seafarer. Data as of 12/31/22.

[16] As of 12/31/22 the Seafarer Overseas Growth and Income Fund's 30-Day SEC Yields are: SFGIX 2.50%; SIGIX 2.62%. Source: ALPS Fund Services, Inc.

Glossary

Book Value: the value of an asset as represented in the accounts of a balance sheet. An asset's book value is typically determined by the original cost of the asset, less any depreciation, amortization or impairment costs applied against the asset. The book value of a firm is typically determined by the value of the firm's assets, less its liabilities. In theory, shareholders would be entitled to the firm's book value if the company's balance sheet was liquidated.

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.

Initial Public Offering (IPO): the process of offering shares of a private company to the public in a new stock issuance. Public share issuance allows a company to raise capital from public investors.

Retained Earnings: net profits kept to accumulate in a business after dividends are paid.

South Korean Won (KRW): the official currency of South Korea.

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