SEAFARER®

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Third Quarter 2023

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During the third quarter of 2023, the Seafarer Overseas Growth and Income Fund returned -2.00%.[1,2] The Fund's benchmark indices, the Morningstar Emerging Markets Net Return USD Index and the Bloomberg Emerging Markets Large, Mid, and Small Cap Net Return USD Index, returned -1.66% and -1.97%, respectively. By way of broader comparison, the S&P 500 Index returned -3.27%.

The Fund began the quarter with a net asset value of $12.02 per share. It paid no distributions during the quarter and finished the quarter with a value of $11.78 per share.[3]

Performance

At the outset of the third quarter, stocks in the developing world began with a promising start, promptly gaining about +6% during the month of July.[4] Stocks surged indiscriminately, chasing misplaced hopes that China's government would act decisively to stimulate its stagnant economy. Pundits and strategists did their best to stoke the rally by pushing a "so bad, it's good" argument: they surmised that the Chinese property market had deteriorated to such extent that it would force the hand of government. However, as the summer wore on, it became apparent that no material stimulus or property bailout would be forthcoming; by the 16th of August, the Morningstar benchmark had slumped back to where it began the quarter.[5] (For reference, Seafarer has consistently argued that China has limited fiscal capacity to stimulate, and therefore any prediction of a large-scale stimulus is ill-grounded.)

Unfortunately, emerging equities had not finished their descent. Elevated inflation in the U.S. prompted the U.S. Federal Reserve to undertake another interest rate increase in July, further dampening enthusiasm for emerging market stocks and currencies among short-term traders. However, what weighed most on stocks was decidedly mixed reports of corporate performance. A subset of companies in the developing world continue to report strong profits; yet many more reported poor earnings for the second quarter. Varied factors weighed on earnings, but the most substantial seemed weak demand, especially within China. Stocks continued to slip lower slowly amid such weak conditions, ultimately finishing the quarter about -2% lower, as noted above.

This portfolio review addresses the third quarter of 2023 (7/1/23 to 9/30/23). As of 9/30/23 the annualized performance of the Fund's Institutional class was: 1 year 16.67%, 3 year 3.19%, 5 year 4.30%, 7 year 4.08%, 10 year 4.30%, and since inception (2/15/12) 5.08%[1]; the gross expense ratio was 0.89%. 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.

Amid this broadly weak environment, the Growth and Income Fund's returns paced those of the index. Much like the market overall, the performance of the Fund's holdings was mixed. The Fund's holdings in the Middle East (comprised of three positions in the United Arab Emirates, and one in Qatar) reported strong results, and their stocks shone in the quarter. Conversely, some of the Fund's holdings in Brazil reported weaker results, and their stocks fell. The Fed's rate hike also weighed on the Brazilian Real, which had enjoyed gains versus the U.S. dollar during the first half of 2023. The Fund's holdings in China and Hong Kong largely sidestepped the brief boom-bust cycle that engulfed China during the quarter; yet ebbing demand in that country was nonetheless evident in the corporate reports of some of the Fund's Chinese holdings.

Perhaps most frustratingly, the Fund had a handful of companies report quite positive results, and yet their stocks nevertheless slumped, dragging the Fund lower. **Samsung Biologics**, a contract manufacturer of biological therapies, is one such example: its growth and performance has been very impressive, but the stock slid lower during the quarter. Likewise, **CD Projekt**, a video game studio, released a widely acclaimed extension to an existing title that spurred new sales; yet the stock corrected dramatically (even as it was one of the top contributors to the Fund's positive performance over the past 12 months). Amid this mixed and weak environment, solid corporate performance was not always sufficient to stave off lower stock prices.

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Allocation

During the quarter, the Fund's construction was stable, apart from one new addition: **Hermès**, a France-based luxury brand that is likely familiar to most of the Fund's shareholders. However, if you happen to be unfamiliar with the company: it has led a storied existence for nearly two centuries, producing a wide range of luxe products acclaimed around the globe, including silk scarves and ties, apparel and footwear, and leather goods.

At first, the Fund's acquisition of Hermès may seem a contradiction: a luxury French brand incorporated within an emerging market investment portfolio. Yet a closer look at the company reveals that the company's presence in the developing world is extensive – and arguably contributes the single largest part of Hermès' nearly $200 billion in market capitalization. The company has met with enormous success throughout East Asia, especially in China, such that the region (excluding Japan) comprises nearly half of its overall sales. Other developing countries in South America and Eastern Europe contribute more still, such that over 50% of sales are derived from the developing world.

This critical fact satisfies one of three key tests that Seafarer uses to determine whether potential investments might reasonably fit within the Fund's portfolio: half of sales should be derived from the developing world; or likewise half of the company's assets should be situated there; or it should be "headquartered" in the developing world (i.e., its principal place of business or its primary stock listing should be associated with a developing country). In essence, Seafarer "looks through" Hermès' listing in France, perceiving that its current business and future prospects are predominantly based in the developing countries. To that end, we note that while consumption in China is anemic, we are confident the company's focus on ultra-premium products will insulate it from weak demand. Meanwhile, we expect that Hermès will forge new ground in India and South Asia – geographies that are relatively nascent within its present business – providing the company with the opportunity to produce stable growth for quite some time to come (all the while shifting Hermès' business further toward the developing world). The company's strong brand and savvy digital strategy should help it to tap into younger customers, sustaining its growth and impressive margins – margins that result in strong cash flow and steadily growing dividends.

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For reference, the Fund presently holds four such "developed world" companies that Seafarer deems to be sufficiently exposed to the "developing world" as to be suitable for the Fund: **Hermès**, **Anheuser-Bush InBev** (with key subsidiaries throughout the developing world), **Rohm** (a Japan-based semiconductor company, with sales predominantly directed to South Korea, China and Taiwan) and **Mondi** (a paper and packaging company with operations throughout Eastern Europe, Asia, Africa and South America).

Outlook

To be candid, the immediate outlook for the emerging markets and the Fund is murky. Any number of events continue to weigh upon the asset class: the prospect of further interest rate hikes; the reality of elevated energy prices; the corrosive effects of a correction in property markets, financial strain and weak consumption in China. Most awful of all: as I write in late October – and as I have no doubt every shareholder is exceedingly aware – Hamas initiated a war with Israel, invading the latter and committing unspeakable atrocities. Israel has understandably committed to destroy the terrorist organization; the nation's military is undertaking incursions into Gaza as I write. Sadly, the war promises to produce civilian casualties on both sides; ordinary Palestinians are already displaced and dying in large numbers, caught in the crossfire. Worse still, the war promises to run its course over many months if not years. The human toll is of course the worst cost – but the resulting instability has also cast a pall over global stock markets, especially those in the surrounding region.[6]

I do not wish to be dismissive about such manifold concerns: they are obviously weighing on markets, and the cumulative uncertainty they beget makes it difficult to be enthusiastic about equities anywhere, let alone in the developing world. Yet while I may be reductive in my view, I believe that one issue will supersede present conditions, and eventually come to dominate medium-to-long term outcomes for the emerging markets: earnings growth. In my mind, earnings are the key. Unfortunately, at the immediate moment, the outlook for earnings is not clear, either.

As noted above, reports of corporate profitability were decidedly mixed, both for the market as a whole and for your Fund. The broader market environment is a complicated one: to gauge how volatile and capricious it is, one can examine the forecast for aggregate earnings of the constituents of the MSCI Emerging Markets Index (I refer to this index because it has been long and widely used to track corporate earnings, making it a suitably rigorous and objective gauge for this purpose, even as it is no longer the formal performance benchmark of the Seafarer Funds). The consensus expectation for 2023 growth slipped by -6% between the end of June and the end of September (from about -4% to -10%) – a very pronounced decline for such a short span of time.[7] And yet, even as analysts believe earnings will slide further in 2023, those same analysts project robust growth for 2024, about +19%.[8] It is unclear to me why they would harbor such rosy views of next year, even as they have marked down 2023, with the Chinese economy stagnant, and as two wars rage.

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Against this backdrop, and in contrast with the overall market, our measurement of the consensus forecast for earnings growth in 2023 for the constituents of your Fund has accelerated by about +7% (from -3% at the end of June to +4% at the end of September).[9] This is obviously a welcome shift, but unfortunately it belies underlying complexity. Like the market overall, a subset of the Fund's holdings has presented strong corporate performance, lifting the Fund's aggregate rate of growth. Examples include long-term holding **Sanlam** (a pan-African property, casualty and life insurance conglomerate), **Samsung Biologics**, **Rohm**, **Alibaba**, **Hyundai Mobis** (an auto parts, systems and repairs company) and **Singapore Exchange** (the leading stock exchange in Southeast Asia). Yet many other holdings are seeing a modest deterioration in expected performance, like the market overall, but their deterioration has been masked within the aggregated growth rate estimate.

Furthermore, we have been confounded by the recent disconnection between corporate performance and stock price movements. We've seen a subset of companies produce impressive results against the weak and uncertain economic backdrop, yet watched their share prices slip nonetheless. Still, even as market conditions are murky, we remain confident in the sustained growth of your Fund's holdings over time. Over the past year we have introduced new holdings to the Fund – holdings with strong brands, pricing power and superior distribution. These attributes should help the Fund independently derive growth rather than be dependent on broad-based macroeconomic conditions – especially vital when demand remains weak and the general outlook uncertain. For reference, the consensus expectation for growth for the Fund's holdings in 2024 is +17% (versus +19% for the MSCI Emerging Markets Index).[10]

> We have introduced new holdings to the Fund – holdings with strong brands, pricing power and superior distribution.

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

October 30, 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 -2.09% during the quarter. All returns are measured inclusive of Fund distributions paid (in relation to Fund performance) or dividends paid (in relation to index performance), reinvested in full (exclusive of any U.S. taxation) on the pertinent ex-date.

[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 $11.95 per share; it finished the quarter with a value of $11.70 per share.

[4] Between 6/30/23 and 7/31/23 the Morningstar Emerging Markets Net Return USD Index rose +6.1%.

[5] Between 7/31/23 and 8/16/23 the Morningstar Emerging Markets Net Return USD Index declined -6.1%. Between 6/30/23 and 8/16/23 the same index returned -0.3%.

[6] As of September 30, 2023, the Seafarer Overseas Growth and Income Fund held four positions in the Middle East: Qatar Gas Transport Co., Ltd. in Qatar; Emaar Properties PJSC, National Central Cooling Co. PJSC (Tabreed), and Salik Co. PJSC, all three of which are located in the United Arab Emirates.

[7] Sources: J.P. Morgan, "Emerging Markets Equity Strategy Steering Board," June 29 and September 28, 2023.

[8] Source: J.P. Morgan, "Emerging Markets Equity Strategy Steering Board," September 28, 2023.

[9] Sources: ALPS Fund Services, Inc., Bloomberg, Seafarer.

[10] Sources for Seafarer Overseas Growth and Income Fund: ALPS Fund Services, Inc., Bloomberg, Seafarer. Source for MSCI Emerging Markets Index: J.P. Morgan, "Emerging Markets Equity Strategy Steering Board," September 28, 2023.

Glossary

Brazilian Real (BRL): the official currency of Brazil.

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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 Bloomberg Emerging Markets Large, Mid, and Small Cap Net Return USD Index is a float market-cap-weighted equity index that covers 99% of the market capitalization of the emerging markets. Index code: EMLSN. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance of emerging markets. Index code: MXEF. 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.

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As of September 30, 2023, securities mentioned in the portfolio review comprised the following weights in the Seafarer Overseas Growth and Income Fund: Samsung Biologics Co., Ltd. (3.0%), CD Projekt SA (1.4%), Hermès International SCA (1.4%), Anheuser-Busch InBev SA ADR (1.5%), Rohm Co., Ltd. (3.0%), Mondi PLC (2.0%), Qatar Gas Transport Co., Ltd. (1.6%), Emaar Properties PJSC (2.3%), National Central Cooling Co. PJSC (Tabreed) (1.8%), Salik Co. PJSC (1.2%), Sanlam, Ltd. (3.3%), Alibaba Group Holding, Ltd. (2.7%), Hyundai Mobis Co., Ltd. (4.7%), and Singapore Exchange, Ltd. (2.3%). View the Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ogi/composition. Holdings are subject to change.

Source: ALPS Fund Services, Inc.

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.

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