



SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Fourth Quarter 2023

Andrew Foster
Chief Investment Officer
and Portfolio Manager

Paul Espinosa
Portfolio Manager

Lydia So
Portfolio Manager

During the fourth quarter of 2023, the Seafarer Overseas Growth and Income Fund returned 8.43%.^{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 7.77% and 6.85%, respectively. By way of broader comparison, the S&P 500 Index returned 11.69%.

The Fund began the quarter with a net asset value of \$11.78 per share. During the quarter the Fund paid a distribution of approximately \$0.091 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to \$5.108 per share.³ The Fund finished the quarter with a value of \$12.68 per share.⁴

During the calendar year, the Fund returned 14.31%, whereas the 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 11.54% and 9.50%, respectively.⁵

Performance

After a tumultuous third quarter – tumult that extended into late October – the benchmarks and the Fund surged, racing higher during the final two months of the year. All finished the quarter with substantial absolute gains, as noted above.

I do not definitively know the impetus behind emerging equities' surge. I suspect that the U.S. Federal Reserve may have been the proximate cause: in late October, Chairman Jay Powell intimated that the Federal Reserve was unlikely to raise interest rates further, stating that the Fed had "come very far with this rate hiking cycle, very far."⁶ Markets for financial assets appeared to respond jubilantly to his pronouncement. In knee-jerk fashion, the U.S. dollar weakened, and emerging market currencies leapt higher. I estimate that emerging currency strength accounted for nearly one third of the Fund's gain during the quarter, almost thirty percent of the Morningstar benchmark's return, and again nearly one third of the Bloomberg benchmark's gain.⁷

Yet apart from shared gains in emerging currencies, the sources of return for the Fund and its benchmarks could not have been more different during the quarter.

Please note: this portfolio review encompasses only the fourth quarter of 2023, 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 2023 (10/1/23 to 12/31/23). As of 12/31/23 the annualized performance of the Fund's Institutional class was: 1 year 14.31%, 3 year -0.47%, 5 year 8.22%, 7 year 6.30%, 10 year 4.82%, and since inception (2/15/12) 5.69%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.

The two benchmarks were driven by exposure to Taiwan and India, which together accounted for over half of their gains.⁷ By contrast, the Fund's surge was due primarily to its holdings in South Korea, and also by its exposure to Latin America, generally – Brazil, Mexico and Peru.⁷ Most notably, the Fund eked out a small, collective gain from its holdings in China, whereas China equities delivered a major loss for both of the benchmarks.⁷

In like fashion, the sectors that drove the benchmarks and the Fund were disparate. After leading semiconductor companies signaled stabilization in their industry – an industry that had been beset by a glut of supply over the preceding eighteen months – technology stocks surged, pushing the indices higher.⁷ Financial stocks also boosted gains, presumably due to speculation about declining interest rates in the future.⁷ Conversely, the indices also saw gains in materials and commodities stocks – sectors that are traditionally correlated positively with inflationary pressures.⁷ The Fund profited most from its exposure to financial services stocks, and technology stocks also boosted returns; however, apart from that overlap with the benchmarks, the Fund's sources of return were more diverse, with meaningful contribution from its holdings in consumer stocks (both "staples" and "discretionary" stocks), health care, and industrials.⁷

I believe the Fund's outperformance over both the quarter and the year are best explained by its "fundamentals," not geographical or industrial exposures.

As described above, the Fund's divergent performance can be attributed mathematically to various countries and sectors. Yet I believe the Fund's outperformance over both the quarter and the year are best explained by its "fundamentals," not geographical or industrial exposures.⁸ From the outset, 2023 was marked by decelerating growth and contracting profits: at the beginning of the year, the "consensus estimate" for aggregate earnings in the emerging markets was a contraction of -3%.⁹ Yet as the year wound to a close, poor corporate profitability – especially in China – pushed the 2023 forecast to -9%.¹⁰ Meanwhile, your Fund's holdings appear to be on track to produce, in aggregate, 1% earnings growth in 2023, according to the same consensus estimates.⁷ Admittedly, this represents only a modest expansion; but against a backdrop of utter collapse, I believe such persistence sets the portfolio's holdings apart. I suspect the Fund's outperformance in 2023 was due ultimately to the stability of its underlying profit growth, amid a marketplace caught off guard by weak and falling earnings.

Allocation

During the quarter, the Fund added two positions; and shortly after the close of the quarter, the Fund exited one holding in early January.

The Fund added a new holding in **Tata Motors**, a global automotive company based in India. Tata Motors is one of

the largest vehicle producers in India, with substantial share in both passenger and commercial vehicle markets. It also owns Jaguar Land Rover (JLR), having purchased the two marks in the depths of distress

from Ford in 2008. Tata has had a challenging decade, during which ill-fated passenger vehicle concepts flopped; it was sufficiently distracted to have lost substantial share to rivals in India's profitable commercial vehicle market. Meanwhile, after an impressive start in electric vehicles (EVs) with the well-received Jaguar I-Pace in 2018, JLR has struggled with quality concerns and an ultra-competitive marketplace for luxury vehicles – especially EVs. Yet our Value team (led by Paul Espinosa) is convinced that Tata is now refocused on rebuilding share in the domestic market; and at the same time, they expect Tata can drive a revitalization at JLR, spurred by new and higher-quality product offerings resulting from switching Land Rover to an all-EV manufacturing platform. If a recovery of this sort transpires, our team believes Tata Motors' current stock price allows investors to purchase two large automotive companies for the price of one.

The Fund also initiated a position in **Raia Drogasil**, a chain of pharmaceutical stores in Brazil. At present, Brazil's pharmaceutical industry is sparsely populated by small, often inefficiently-run storefronts. After extensive research on Raia, our Growth team (led by Lydia So) has concluded that the company can grow in four distinct ways over time. First, Raia has demonstrated that it can consolidate the industry successfully via acquisition. Second, as Raia consolidates share, it has driven efficiency gains from its greater scale and professionalized management. Third, Raia has grown by steadily expanding the quality, value, and number of products available in each storefront, thereby expanding the sales per store. Fourth, there are simply too few pharmacies in the country relative to Brazil's population, and its rising demand for better health outcomes; Raia can expand simply by opening more storefronts in underserved communities.

The Fund exited one holding in early January, **Coca-Cola Femsa** of Mexico. The Fund first established a holding in the company in May of 2021, and had enjoyed substantial price appreciation (the stock doubled) and dividends (the stock has offered a dividend yield in excess of 4% per annum for much of the interim period).⁷ Our Value team chose to exit the stock in light of its appreciation, and in order to fund the aforementioned position in Tata Motors.

Outlook

The emerging markets are traversing a fragile moment. Ostensibly, growth is quite weak: as noted in the Performance section above, earnings growth is expected to be -9% for 2023,¹¹ and China – the biggest developing country by far – is in a deep economic slump. Yet despite this malaise, analysts have forecast nearly 18% profit growth for 2024.¹² This outrageous forecast has a little bit of underlying merit, if one probes the details behind it: analysts presume that India's growth will keep chugging along, that China's growth will "normalize," and that the semiconductor industry – a dominant driver of aggregate earnings – will experience a

During the quarter, the Fund added two positions.

dramatic recovery from the glut it experienced in 2023. In addition, many other emerging markets apart from China currently enjoy reasonably healthy conditions for growth (e.g., Brazil, Mexico, some countries within the Middle East, and much of Southeast Asia). If all of these things were to occur simultaneously, more bullishness would be warranted.

Personally, though, I think the extreme dichotomy between Wall Street's ebullient forecast and the moribund reality is absolute bunk. I caution investors to ignore any hype that emerging markets are "cheap" based on a price-to-earnings (P/E) ratio: strategists will inevitably highlight the forecast P/E at end of 2024 (which happens to be 11.5); but that low P/E is predicated on the aforementioned 18% growth, a forecast which I find terribly unrealistic.¹² Yet even as analysts have overhyped conditions, I do not think 2024 will be a complete "wash."

Growth is sluggish in the emerging markets because demand is weak. The emerging markets do not have an inflation problem: most all countries (save India) have inflation under reasonable control, and many central banks have begun cutting domestic rates in response to stable prices and weak demand. Interestingly, they have begun doing so in advance of the U.S. Federal Reserve – they also began their rate-hiking cycle in 2020-21 in advance of the Fed too – suggesting that most of the central banks in the developing world no longer take their cues from Fed policy or dollar-based money markets.

I suspect that 2024 will not be a year of astounding growth, but one of gradual recovery: corporate earnings – which have been beset by economic cyclical, exceptional conditions during the global pandemic, and often problematic domestic economic policy – will finally start to stabilize after nearly five years of disruption. If inflation remains quiescent, central banks will continue to ease rates further, supporting the nascent recovery. If I am correct, earnings will finish the year on much stronger footing than 2023, while still falling well short of an 18% expansion. Absent a negative, exogenous shock, earnings growth could accelerate further in 2025.

Naturally, some might be wary of conditions where central banks in developing countries are cutting rates, and at the

same time, the Fed is set to keep rates "higher for longer" (inflation does not appear entirely under control in the U.S.). Won't this beget terrible weakness among emerging currencies? After all, the dollar is king! Maybe, but I doubt it. Simply put, the data states the dollar is no longer king, and hasn't been for some time. Gold's high price tells you as much; inflation tells you the same in the inverse (the price for goods escalates in dollar terms precisely because the dollar itself is weak).

More astonishingly, but equally true: the dollar has been surpassingly weak when measured against a credible basket of emerging market currencies. Bloomberg produces a specialized index that measures the performance of a representative basket of currencies from the developing world. That index is presently within a short distance of its historical peak value versus the U.S. dollar (it is roughly 2% lower).¹³ See the Bloomberg index in **Figure 1**. Paradoxically, this has occurred even as the Fed has hiked rates more aggressively than it has done in any period since Chairman Paul Volker's era.⁷ As mentioned above, many central banks in the developing world are already cutting rates, and yet their currencies remain resilient versus the dollar.

This counterintuitive outcome was recognized recently by no less an authority than Goldman Sachs. Kamakshya Trivedi, Head of Global Foreign Exchange and Emerging Markets Strategy Research, noted that normally, an "aggressive hiking cycle by the Fed ... and a slowing China ... [should result in] a pretty bad combination of circumstances for EM assets and despite that, EM assets have performed resiliently."¹⁴ One must wonder: does the Fed call the shots any longer? Is the dollar still king?

Why is this happening? Why is the dollar so *weak* versus emerging currencies, even as the Fed has enacted aggressive monetary policy to stem inflation and shore up the dollar? The underlying forces are complicated, and I don't pretend to understand them all. However, I suspect that "decoupling" has played a role. As Americans, we know very well how our country has sought to reorder global trade relationships for the past six years or so, with an intent to "decouple" from the developing world (especially China). However, trade flows are not the only economic activity that has undergone substantial

Figure 1. Bloomberg Emerging Markets Large, Mid, and Small Cap Currency Implied Yield Index (3/31/15 – 12/31/23)



Source: Bloomberg. Past performance does not guarantee future results.

decoupling: certain types of critical capital flows have decoupled as well.

When I began my career in the developing world nearly three decades ago, most emerging markets suffered from grossly underdeveloped domestic capital markets. They had puny, illiquid stock markets; banking markets were stunted, under heavy state suasion or outright control; and domestic, local-currency bond markets were almost non-existent. The lack of local bond markets posed an acute problem for corporations and other institutions: how could they obtain funding for long-term capital projects, such as critical infrastructure or utilities? Without long-term, local-currency bond markets to tap, companies were forced to turn to the only long-term funding markets open to them: offshore U.S. dollar bond markets. Dollar-based markets were the only ones that could provide – at a price – capital in sufficient quantities and tenors. Yet this meant corporations bore terrible currency mismatches, funding locally-denominated projects with foreign money. It also meant that developing countries were highly dependent on the availability of U.S. dollars, and therefore especially beholden to U.S. interest rate policy.

Much has changed since then. Local capital markets have evolved and developed. Now, most of the larger emerging markets enjoy long-term, local-currency bond markets that are traded and funded primarily by domestic investors. As such, most of the emerging markets are far less dependent on the dollar; nor does Fed policy cast such a long shadow over emerging currencies; nor does the Fed seem to dictate the policy settings of local central banks. I suspect this “decoupling” of the capital markets is the single most important reason why emerging currencies have exhibited such counterintuitive strength: the developing world is far less dependent on the dollar than it once was.

What does this mean for the investment outlook? I don't have a crystal ball; I don't know what exogenous shocks might occur. I am especially blind as to what shocks might stem from the many sad military conflicts that simmer and rage around our world. However, absent such shocks, I think that over the next two years we will see central banks in the developing world continue to ease monetary policy. This will gradually restore demand, thereby stabilizing growth in 2024, and possibly accelerating it thereafter. Yet even as growth accelerates, I suspect it will occur against a backdrop of emerging currency strength versus the dollar, not weakness, and that such strength will be evident regardless of the policy settings of the Fed.

The developing world is far less dependent on the dollar than it once was.

As I conclude these remarks, I want to thank you for your patience. Ordinarily, I attempt to publish a review for the Fund within the first three to four weeks following the close of the quarter. However, 2024 has proven to be a very busy year for Seafarer, and for me personally. I have been tardy in the publication of this review, and I appreciate your understanding. As always, I thank you for entrusting us with your hard-earned capital. We are honored to serve as your investment advisor in the emerging markets, and we will strive to earn your trust every day.

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| Andrew Foster <i>Chief Investment Officer and Portfolio Manager</i> | with | Paul Espinosa <i>Portfolio Manager</i> |
| February 7, 2024 | and | Lydia So <i>Portfolio Manager</i> |

¹ References to the “Fund” pertain to the Fund’s Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned 8.42% 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 inception date is February 15, 2012..

⁴ The Fund’s Investor Share class began the quarter with a net asset value of \$11.70 per share; it paid a distribution of approximately \$0.083 per share during the quarter; and it finished the quarter with a value of \$12.60 per share.

⁵ The Fund’s Investor class returned 14.23% during the calendar year.

⁶ Powell, Jerome. “[Transcript of Chair Powell’s Press Conference](https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20231101.pdf),” U.S. Federal Reserve, November 1, 2023.

⁷ Sources: Bloomberg, Seafarer.

⁸ By “fundamentals,” I mean the underlying characteristics, financial and operational performance of the portfolio’s corporate holdings.

⁹ Source: J.P. Morgan, “Emerging Markets Equity Strategy Steering Board,” January 5, 2023.

¹⁰ Source: J.P. Morgan, “Emerging Markets Equity Strategy Steering Board,” December 21, 2023.

¹¹ Even though this review has been published in early February, the ultimate outcome for 2023 earnings won’t be known until early April – many companies in the developing world take three months to publish their full-year results. They are often required to publish a brief statistical abstract earlier, but the full earnings results often aren’t released until their annual reports are published – and that process can extend into April in some countries.

¹² Source: J.P. Morgan, “Emerging Markets Equity Strategy Steering Board,” January 4, 2024.

¹³ As of February 8, 2024, the Bloomberg Emerging Markets Large, Mid, and Small Cap Currency Implied Yield Index was 2.6% lower than its all-time high level (which was attained June 10, 2021).

¹⁴ Source: “[Goldman’s Painful 2023 Lesson on China Forces Rethink of Emerging Markets](https://www.bloomberg.com/news/articles/2023-12-26/goldman-s-painful-2023-lesson-on-china-forces-rethink-of-emerging-markets),” *Bloomberg News*, December 25, 2023.

Glossary

Decoupling: the divergence of asset class returns from their expected or normal pattern of correlation.

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.

Price to Earnings (P/E) Ratio: the market price of a company's common shares divided by the earnings per common share. The Price to Earnings ratio may use the earnings per common share reported for the prior year or forecast for this year or next year (based on consensus earnings estimates). (Source: Barron's Dictionary of Finance and Investment Terms, 1995)



SEAFARER
seafarerfunds.com

For More Information

Individual Investors

☎ (855) 732-9220

✉ seafarerfunds@alpsinc.com

Investment Professionals

☎ (415) 578-5809

✉ clientservices@seafarerfunds.com

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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 Bloomberg Emerging Markets Large, Mid, and Small Cap Currency Implied Yield Index is an index that tracks the performance of a representative basket of emerging market currencies relative to the U.S. dollar. The index aims to reflect the performance of deposits in foreign currency accounts, at interest rates determined using the covered interest rate parity relationship and weighted to each currency following the weights of the Bloomberg Emerging Markets Large, Mid, and Small Cap Price Return Index. Index code: EMLSFY. 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 December 31, 2023, securities mentioned in the portfolio review comprised the following weights in the Seafarer Overseas Growth and Income Fund: Tata Motors, Ltd. (0.9%), Raia Drogasil SA (1.0%), and Coca-Cola Femsa SAB de CV (1.5%). 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.

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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