SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Fourth Quarter 2019

Paul Espinosa
Portfolio Manager

During the fourth quarter of 2019, the Seafarer Overseas Value Fund returned 5.60%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, returned 11.93%. By way of broader comparison, the S&P 500 Index gained 9.07%.

The Fund began the quarter with a net asset value of $11.64 per share. During the quarter, the Fund paid a distribution of approximately $0.365 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $1.235 per share.[2] The Fund finished the period with a value of $11.92 per share.[3]

During the calendar year, the Fund returned 21.95%, whereas the benchmark index returned 18.88%.[4]

Performance

By any reasonable measure, the Value Fund's 5.60% NAV appreciation during the fourth quarter of 2019 is satisfactory, especially when one considers the drivers of said returns as discussed below. It is only when comparing the Fund's performance against the benchmark's remarkable 11.93% appreciation during the quarter that the Fund's performance appears unsatisfactory.

Thus, this quarterly portfolio review represents an opportune time to engage in a little introspection to challenge Fund investors and the Fund manager alike. Is a 11.93% quarterly return always preferable to a 5.60% return?

As with most things in life, the answer is, "it depends." This portfolio review highlights salient factors I think about when contemplating the quarter. My aim is to provide useful insight for the investor to decide whether the Value strategy or the benchmark better meets the investor's needs.

It is clear to me that the Fund's NAV appreciation this quarter relates to many Fund holdings returning capital to shareholders. This observation is important

Please note: this portfolio review encompasses only the fourth quarter of 2019, 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.

As of 12/31/19 the annualized performance of the Fund's Institutional class was: 1 year 21.95%, 3 year 8.93%, and since inception (5/31/16) 8.26%[1]; the net expense ratio was 1.05% and the gross expense ratio was 1.50%. 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.

Figure 1. A Working Definition of Value

Seafarer has identified seven distinct sources of value in emerging markets that may give rise to viable opportunities for long-term, value-oriented investments.

Opportunity Set	Source of Value	
Balance Sheet	Balance Sheet Liquidity	Cash or highly liquid assets undervalued by the market
	Breakup Value	Assets whose liquidation value exceeds their market capitalization
	Management Change	Assets that would become substantially more productive under a new owner / operator
	Deleveraging	Shift of cash flow accrual from debt holders to equity holders
	Asset Productivity	Cyclical downturn following a period of asset expansion
	Structural Shift	Shift to a lower growth regime, but still highly cash generative
Income Statement / Cash Flow	Segregated Market	Productive, cash-generative assets trading in an illiquid public market

Source: Seafarer Sources of value are highlighted in this document using This Style.

Additional information is available in the white paper *On Value in the Emerging Markets* at www.seafarerfunds.com/value-in-em.

because it contrasts with the benchmark's primary driver: the bidding up of a narrow set of growth companies, namely the same four companies that have led the benchmark since the beginning of the 2016 bull market in emerging markets: Taiwan Semiconductor Manufacturing Company (TSMC), Tencent, Samsung Electronics, and Alibaba.

Rather than deriving returns from changes in future growth expectations in the technology sector, the Value strategy derived investment returns from companies that improved their balance sheet efficiency by returning capital to shareholders. Specifically, **Qualicorp** (Structural Shift source of value; see Figure 1 for definitions of the sources of value referenced in this review), a Brazilian health insurance broker, reduced shareholder equity by paying an extraordinary dividend that equated to a 12% yield on the declaration date. Similarly, **Moneta Money Bank** (Asset Productivity), a Czech bank and holding of the Fund since early 2019, continued to improve its balance sheet efficiency by not only paying a generous dividend that equated to an 11.3% yield for the full year of 2019, but also announcing the acquisition of a mortgage bank that will put Moneta's excess capitalization to productive use. Another strong contributor to the Fund's quarterly performance is **Philip Morris CR** (Structural Shift), the Czech subsidiary of Philip Morris International. This holding's contribution to the Fund's return relates more to its 10.5% dividend yield than speculation about its future growth prospects.

Lest the reader confuse the Value strategy for a dividend yield strategy based on the information above, it is important to point out that both Qualicorp and Moneta Money Bank also appreciated for business development reasons. The sale of a 10% stake in Qualicorp to a strategic shareholder will likely open new growth avenues. Moneta Money Bank's purchase of a mortgage lender also redefines the bank's future growth profile.

The takeaway from the Fund's return profile during the quarter is that it was derived from a balance between return of capital to shareholders and changing growth expectations based on factual events. In contrast, the benchmark's return was driven by speculation around growth expectations in one sector. Furthermore, and equally important, I do not think it is a coincidence that the benchmark's top contributors to performance are also the largest companies in the index by market capitalization.

Without turning this quarterly review into an evaluation of the Value Fund's performance since inception, and at the risk of speculating too much, I would argue that the foregoing differences in deriving investment returns during the quarter are representative of the Fund's experience since inception on May 31, 2016. Expanding from the factual to the conceptual, the Value strategy's stock selection is governed by the choice to emphasize dividends and growth over the single-minded pursuit of growth, as well as the choice to diversify the sources of return across the seven categories of value (as identified in the white paper *On Value in the Emerging Markets*[5]), instead of pursuing diversification primarily based on market capitalization, liquidity, geography, or sector.

I hope the preceding observations will help to answer the question of whether an 11.93% total return in one quarter is always preferable to a 5.60% total return.

Allocation

During the fourth quarter the Value Fund added **Innocean Worldwide** (Balance Sheet Liquidity) as a new position. Innocean is a South Korea-based marketing and communication services firm that operates worldwide. In my opinion, the market probably attaches a low valuation to this company for two reasons: one, the business is dependent on Hyundai Motor and Kia Motors (collectively, the Hyundai Motor Group) for approximately 80% of its gross profit; and two, the company does not share the cash it generates with minority investors. As of September 30, 2019, Innocean has $571 million of cash on its balance sheet with a negligible level of debt. This cash balance equates to 37% of total assets, or 48% of its market capitalization.

In contrast to the market, I see a company that is gradually liberating the value embedded in its balance sheet. Its most important asset is not the substantial amount of cash it holds, but the marketing skills developed as a captive business of the Hyundai Motor Group, which grew sales from approximately $22 billion in 1995 to $137 billion in 2018. It's not the purely quantitative scale factor that has the most value, but the fact the Hyundai Motor Group accomplished a multi-decade leap in the quality of the cars it manufactured and did so on a global basis. Few companies worldwide have managed this feat, and fewer still have originated in what we refer to as the emerging markets. Present day Innocean has value not only because it was responsible for the evolving sophistication of its marketing and communication services and operations in-line with the growing quality of Hyundai and Kia cars, but because the company is gradually deploying those talents outside of the Hyundai Motor Group to customers such as Heineken, Jack in the Box, and the California Lottery. I expect the company will derive an increasing proportion of its gross profit from third party clients over the coming years.

Mergers and acquisitions will form part of the transition to an increasingly globally competitive and diversified business, which, together with a rising dividend, will gradually substitute productive capital and return to shareholders for unproductive cash at the company. This liberation of intangible and tangible value sitting on the balance sheet accompanies a cyclical exposure that strongly relates to an evolving product range at Hyundai Motor and not simply the auto sales cycle.

Outlook

I began this quarterly review with a challenge to think about Fund performance in terms that do not relate to the benchmark – conveniently, one might argue, because the Value Fund underperformed the index in the quarter. For the sake of balance, and not convenience, I will now make the same point with the opposite data point: for the full calendar year of 2019, the Fund returned 21.95%, whereas the benchmark index returned 18.88%.

The leading contributors to the index return for the full year are the exact same ones as for the fourth quarter, namely growth-oriented companies. And yet, the Seafarer Overseas Value Fund outperformed the benchmark in a "growth year."

The intent of this observation is not to make a statement about Seafarer, but to challenge the traditional investor mindset of "growth versus value." While the reason for this distinction is understandable, 2019 proved that one "style" does not negate the other. It is not a zero-sum game, and therefore the common perception that one must allocate to one or the other in any given year is a false choice. The reason the approaches perform differently is that in the case of value, one cannot predict when value will be unlocked. The investor may subjectively recognize it and purchase it, but its realization hinges on a company's own internal dynamic.

Food for thought until the next quarter.

Thank you for entrusting us with your capital. We are honored to serve as your investment adviser in the emerging markets.

Paul Espinosa
Portfolio Manager
Seafarer Capital Partners, LLC

January 17, 2020

---

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 5.56% during the quarter.

[2] The Fund's inception date is May 31, 2016.

[3] The Fund's Investor share class began the quarter with a net asset value of $11.62 per share; it paid a distribution of approximately $0.359 during the quarter; and it finished the quarter with a value of $11.90 per share.

[4] The Fund's Investor share class returned 21.69% during the calendar year.

[5] www.seafarerfunds.com/value-in-em

Glossary

Mergers and Acquisitions (M&A): the consolidation of companies or assets. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

Net Asset Value (NAV): a fund's net asset value per share; for an open-end mutual fund, the net asset value is equivalent to the fund's price per share. A fund's net asset value per share is calculated by summing the fund's assets (including portfolio securities and cash), netting off the fund's liabilities, and then dividing the residual balance by the number of fund shares outstanding..

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/ovl/performance.

The MSCI Emerging Markets Total Return 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, 2019, Qualicorp Consultoria e Corretora de Seguros SA comprised 5.7% of the Seafarer Overseas Value Fund, Moneta Money Bank AS comprised 3.4% of the Fund, Philip Morris CR AS comprised 3.9% of the Fund, and Innocean Worldwide, Inc. comprised 0.6% of the Fund. The Fund did not own shares in Taiwan Semiconductor Manufacturing Co., Ltd., Tencent Holdings, Ltd., Samsung Electronics, Co., Alibaba Group Holding, Ltd., Philip Morris International, Hyundai Motor Co., Kia Motors Corp., Hyundai Motor Group, Heineken N.V., or Jack in the Box Inc. View the Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ovl/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.