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SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Fourth Quarter 2020

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During the fourth quarter of 2020, the Seafarer Overseas Value Fund returned 19.36%.[1] The Fund's benchmark indices, the MSCI Emerging Markets Total Return USD Index and the Morningstar Emerging Markets Net Return USD Index, increased 19.77% and 20.64%, respectively. By way of broader comparison, the S&P 500 Index returned 12.15%.

The Fund began the quarter with a net asset value of $10.39 per share. During the quarter, the Fund paid a distribution of approximately $0.169 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $1.404 per share.[2] The Fund finished the period with a value of $12.23 per share.[3]

During the calendar year, the Fund returned 4.04%, whereas the benchmark indices, the MSCI EM Total Return USD Index and the Morningstar EM Net Return USD Index, returned 18.69% and 18.41%, respectively.[4]

Please note: this portfolio review encompasses only the fourth quarter of 2020, 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.

Performance

In the fourth quarter of 2020 the performance of the Seafarer Overseas Value Fund trailed slightly that of the Morningstar Emerging Markets Net Return USD Index. It is important to highlight that the drivers of performance between the Value Fund and the benchmark index could not be more different. Technology companies headquartered in China, Taiwan, and South Korea continued to lead the index in the fourth quarter, as they did all year long; the Value Fund's primary performance drivers during the quarter were companies that had sold off earlier in the year during the beginning stages of the pandemic.

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As of 12/31/20 the annualized performance of the Fund's Institutional class was: 1 year 4.04%, 3 year 2.98%, and since inception (5/31/16) 7.33%[1]; the net expense ratio was 1.05% and the gross expense ratio was 1.44%. 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.

Canvassing the Fund's top contributors to total return for the quarter reveals a mix of industries (financial services, oil industry services, food packaging, advertising, human resources, and shipping) as well as a mix of countries (Georgia, Brazil, Czech Republic, Vietnam, and Korea, among others). Following up on comments made in previous quarterly commentaries in 2020, the broad categories of small and medium-sized capitalization companies (SMIDs) and higher risk countries such as Georgia and Vietnam, which were laggards earlier in the year, posted strong performance this quarter.

The above observation does not preclude large capitalization companies from ranking among the Fund's top contributors. Indeed, two recent additions to the Fund, **Itaú Unibanco** (Asset Productivity and Breakup Value sources of value; see Figure 1 for definitions of the sources of value referenced in this review), the largest privately-owned bank in Brazil; and **Ambev** (Structural Shift and Asset Productivity), a Latin American and Canadian brewer, both ranked among the top contributors to the Fund's net asset value (NAV) increase during the quarter.

The point of highlighting SMIDs and higher risk frontier markets as strong performers this quarter following news of promising COVID-19 vaccines is to draw attention to the role of risk perception in driving stock prices in 2020. In my opinion, this risk perception extended beyond earnings resilience to the pandemic to other forms of risk, such as liquidity and country risks. Seafarer has used this extension of risk beyond earnings during the year as a window of opportunity to add new holdings to the Value Fund that rarely offer attractive valuations, to which the Allocation sections of each quarterly review attest.

As it relates to Fund performance, this extension of risk beyond earnings resulted in exceptionally low valuations for several Fund holdings, which may explain why these stocks performed so strongly in the fourth quarter. At its lowest share price during the year, **Georgia Capital** (Breakup Value), a conglomerate operating in the country of Georgia, traded at a price to book value ratio of approximately 0.3x. Despite Georgia Capital stock having returned 56.1% during the fourth quarter, the market still values these unique Georgian assets at just under 0.5x price to book value.

Similarly, **Moneta Money Bank** (Asset Productivity), a bank operating in the Czech Republic, returned 37.5% during the quarter after reaching a low point in its price to book value ratio of 1.1x. While not as egregious as that of Georgia Capital, Moneta's price to book ratio is nevertheless out of sync with a well-capitalized bank that generates a return on equity in excess of its cost of equity in a recessionary year.

As one might have expected given the prospect of effective vaccines, stock performance did not correlate with direct business exposure to the pandemic. I have mentioned in earlier portfolio reviews this year that **Shangri-La** (Breakup Value and Asset Productivity), a hotel owner and operator in Asia, as well as **Melco International Development** (Breakup Value and Asset Productivity), a casino owner and operator in Macau, are two Fund holdings whose revenue generation depends on their customers' ability to travel. Yet, news of the vaccines, while positive for the stock price performance of these companies, failed to lift these two stocks to the top tier of contributors to the Fund's NAV appreciation during this period. Rather than a sign of impaired resiliency to the pandemic, I view the lagged stock price reaction of these two companies as a market preference for short-term changes in risk perception and a search for immediate improvement in quarterly results. Melco and Shangri-La will require a few quarters of normalization in economic activity before they begin to show momentum in reported earnings. In my opinion, there is more return potential left in these holdings even after a very strong fourth quarter of 2020.

There were only two portfolio holdings whose share price declined during the quarter, and only one of them had a meaningful impact on the Fund's total return. The stock price of **Giordano** (Structural Shift), a casual apparel manufacturer and retailer in Asia and the Middle East, fell during the quarter as it announced poor sales performance figures marking a continuation of, rather than an inflection point for, difficult trading conditions.

Allocation

During the fourth quarter, the Fund exited **Amvig Holdings** (Structural Shift), a Chinese tobacco packaging manufacturer. I discussed this stock in last quarter's portfolio review[5] when the company received a tender offer by a Chinese private equity firm at a 51.4% premium to the last traded price prior to the announcement. The Fund took advantage of the share price convergence toward the tender price to exit the position and reinvest proceeds in a new holding.

The Fund added **Jardine Matheson** (Breakup Value and Management Change), a Southeast Asia-focused conglomerate operating in the real estate, auto, and food retail industries, among others. The company represents an interesting investment case in that it is a fifth-generation, family-owned business – an ongoing concern of uncommon longevity – which speaks to the inter-generational capital preservation / growth mindset of the control party.

Jardine Matheson stock has de-rated (traded at a declining price to book value multiple) over the past decade as its book value per share growth has come to depend more on revaluation gains for its investment properties, than on actual earnings per share growth. This outcome over the past decade appears to be an accident of central banks around the world lowering interest rates without restraint rather than management's design. What is important for the Value Fund is not simply that it is purchasing said capital gains at a discount, but rather that management changes at various levels at the company, including the Board of Directors, provide the opportunity for the continued asset investment over the past decade to yield more meaningful earnings and cash flow growth.

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Outlook

The times are unprecedented not because of the pandemic, but because of investor confusion. Pandemics, wars, debt cycles, and the collapse of fiat currencies are all recurring features of history. If allowed a free hand, economies recover. The real danger for investors these days lies in the re-appearance, by the time scale of history, of central banks as agents for monetizing government debt; and the emergence of a relatively new, again by the time scale of history, investment actor: index funds for bonds and equities. The re-appearance of the former in unprecedented scale has enabled the materialization into reality of what was previously thought to be an impossibility: trillions of dollars of negative yielding debt. The proliferation of passive investment strategies has voided the traditional role of relative debt and equity allocations as a tool of risk management.

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Negative yielding debt not only fails to deliver capital preservation or income, but also fails to deliver low price volatility given the price convexity of bonds. Generally speaking, investors in passive strategies take comfort in the highly diversified nature of these funds, which minimizes stock-specific risk to leave market risk as the primary source of investment return. While the breakout performance of a handful of technology stocks probably exposes passive investors to more stock-specific risk than they are aware of, the more important problem with these strategies is that they behave like central banks: they are price-insensitive buyers that allocate capital based on misguided beliefs. The Outlook section of last quarter's portfolio review[6] discussed the problem with these allocation principles. Suffice it to say that they are economically unsound.

The result of the above dynamic is that investors now hold fixed income with price volatility approaching that of equities, though the principal continues to be safer (even if a loss is assured with negative rates) than in equities. Furthermore, having largely eliminated stock-specific risk, index strategies mortgage their future on the overall market performance, which is increasingly determined by the highly interventionist public policy that dominates newspaper headlines these days, instead of the aggregate decisions of individual private sector actors.

In sum, most investors now hold two broad asset classes that not only face significant price risk due to low or negative yields for fixed income and generally acknowledged high valuations for equities, but whose future performance is increasingly levered to, and equally correlated to, the same public policy decisions.

I would argue that investors need to consider novel ways of thinking about diversification. From my admittedly biased position, increasing the allocation to stock-specific risk (which is what active strategies pursue) would seem prudent in order to balance the exposure to market risk and public policy implied in index strategies. Diversification to non-U.S. dollar assets would also seem prudent in light of the flow of funds to U.S. dollar assets over the past decade of emerging market underperformance. I expect the consequences of the U.S. dollar debasement will eventually catch up with U.S. dollar asset values, prompting a search for alternatives to preserve the real value of savings.

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

January 12, 2021

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 19.31% 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 $10.37 per share; it paid a distribution of approximately $0.160 during the quarter; and it finished the quarter with a value of $12.21 per share.

[4] The Fund's Investor share class returned 3.97% during the calendar year.

[5] www.seafarerfunds.com/funds/ovl/portfolio-review/2020/09/Q3#amvig

[6] www.seafarerfunds.com/funds/ovl/portfolio-review/2020/09/Q3#outlook

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.

Earnings Per Share Growth (EPS Growth): forecast growth rate of earnings per common share, based on consensus earnings estimates, expressed as a percentage.

Frontier Markets: countries with investable stock markets that are less established than those in the emerging markets. Frontier markets generally have lower market capitalizations and liquidity than the more developed emerging markets.

Liquidity: the ability to buy or sell an asset readily and with reasonable volumes without affecting the asset's price. (Sources: Seafarer and *Barron's Dictionary of Finance and Investment Terms*, 1995)

Price to Book Value (P/BV) Ratio: the market price of a company's common shares, divided by the company's book value per share.

Return on Equity (ROE): the amount of net income returned as a percentage of shareholders equity. Return on equity measures a company's profitability by revealing how much profit the company generates with the money shareholders have invested.

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All performance is measured in U.S. dollar terms. For the MSCI Emerging Markets Total Return USD Index, performance is calculated to reflect the reinvestment of dividends, capital gains, and other corporate actions gross of foreign jurisdiction withholding taxes (i.e., such taxes are ignored). For the Morningstar Emerging Markets Net Return USD Index, performance is calculated to reflect the reinvestment of dividends, capital gains, and other corporate actions net of foreign jurisdiction withholding taxes. 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 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 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 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, 2020, Itaú Unibanco Holding SA comprised 4.3% of the Seafarer Overseas Value Fund, Ambev SA comprised 3.6% of the Fund, Georgia Capital PLC comprised 4.1% of the Fund, Moneta Money Bank AS comprised 4.4% of the Fund, Shangri-La Asia, Ltd. comprised 4.1% of the Fund, Melco International Development, Ltd. comprised 3.4% of the Fund, and Jardine Matheson Holdings, Ltd. comprised 2.0% of the Fund. The Fund did not own shares in Amvig Holdings, Ltd. 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.

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