SEAFARER

SEAFARER OVERSEAS VALUE FUND

Portfolio Review

First Quarter 2021

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During the first quarter of 2021, the Seafarer Overseas Value Fund returned 6.46%.[1] The Fund's benchmark indices, the MSCI Emerging Markets Total Return USD Index and the Morningstar Emerging Markets Net Return USD Index, returned 2.34% and 2.53%, respectively. By way of broader comparison, the S&P 500 Index returned 6.18%.

The Fund began the quarter with a net asset value of $12.23 per share. It paid no distributions during the quarter and finished the period with a value of $13.02 per share.[2]

Performance

The Seafarer Overseas Value Fund's first quarter total return of 6.46% may be considered "good" from an absolute perspective, but the highlight was the relative performance versus the benchmark indices after a long period of underperformance. It is important to note that the positive contribution to total return was spread across most of the portfolio.

I will leave it to others to discuss whether there was "style rotation" in the market to explain the sudden change in the dynamic of relative performance. From my perspective, there were two broad categories of stocks that explain the Value Fund's positive absolute and relative performance this quarter. The first category is stocks that appreciated significantly due to company-specific developments. The second category is companies that did not experience meaningful developments during the period, but which nevertheless appreciated substantially due, in my opinion, to a re-assessment of their company-specific risks.

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As of 3/31/21 the annualized performance of the Fund's Institutional class was: 1 year 51.93%, 3 year 5.00%, and since inception (5/31/16) 8.34%[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.

Among the Value Fund holdings in the first category, **Moneta Money Bank** (Asset Productivity source of value; see **Figure 1** for definitions of the sources of value referenced in this review), a bank operating in the Czech Republic, received a tender offer in January from a Czech conglomerate for 29% of the shares in this 100% float public company. The closing price of Moneta Money Bank stock on March 31, 2021 exceeded the tender offer price, which, in my view, reflected the numerous strategic development initiatives the bank could undertake after a successful tender. I am personally pleased by the synchronicity of this tender offer with my comments on the bank in last quarter's portfolio review[3] where I highlighted that "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."

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The synchronicity per se is not what's pleasing – it's the tender offer by a private investment group that is important. I have discussed in previous portfolio reviews the idea that public equity markets – especially those focused on growth companies, such as the emerging markets – appear to ignore value hiding in plain sight for prolonged periods of time. What is important is that even in the ever-more index-driven "markets" that exist at present, other actors do engage in price discovery – private investors in this instance. A review of past Value Fund quarterly commentaries[4] will reveal other Fund holdings that benefitted from tender offers. While I do not specifically target companies that face the prospect of being fully or partially privatized – and I can certainly not "promise" that other holdings will face the same prospect – the theme of private sector investors realizing value from the public market appears to be a recurring factor for the Value Fund up to the present.

The top contributor to performance this quarter is another company whose stock price appreciated for company-specific reasons: **Pacific Basin** (Asset Productivity), a dry bulk shipping company headquartered in Hong Kong. The stock price of Pacific Basin has traded below book value for most of the last twelve years since the Global Financial Crisis of 2008-09. The stock's 43.45% appreciation in U.S. dollars during the first quarter of 2021 relates to industry-specific dynamics where regulatory changes conflated with supply-side dynamics for the stock to anticipate a sharp increase in profitability.

While Moneta Money Bank's performance this quarter illustrates a case of latent value realization driven by private investors (highlighting that the efficient market hypothesis is what the name says: a hypothesis), Pacific Basin demonstrates at the micro level the profound impact of macroeconomic policy. It took twelve years (and counting) for the industry to digest the oversupply of ships that resulted from the entry of speculators into the shipbuilding business incentivized by what have proven to be perniciously low interest rates in the pre-2008 era.

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To reiterate, the Value Fund's performance in the first quarter of 2021 was well diversified across most of its holdings. Many stocks appreciated considerably despite a lack of meaningful developments at the company level. This second category of positive contributors to Fund performance includes companies such as **Shangri-La** (Breakup Value and Asset Productivity), a hotel owner and operator in Asia, and **China Foods** (Asset Productivity), a Coca-Cola bottler with a franchise territory covering half of China. What these stocks share in common is a direct and negative revenue impact resulting from the pandemic. In my opinion, the stock price appreciation this quarter relates less to the prospect of an imminent revenue inflection toward growth, and more to a re-assessment of the pandemic's financial impact after close to a year of crisis management.

Among the few detractors to performance, the Fund's two Brazilian holdings stand out after ranking among the top positive contributors in the fourth quarter of last year. The stock prices of **Itaú Unibanco** (Asset Productivity and Breakup Value), the largest privately-owned bank in Brazil, and **Ambev** (Structural Shift and Asset Productivity), a Latin American and Canadian brewer, declined. Their share prices were impacted by the 8.49% depreciation of the Brazilian Real against the U.S. dollar, as well as increased sensitivity to company-specific risks after a strong performance last quarter. While Brazil continues to stumble from one political crisis to the next, the market seems focused on the currency's impact on Ambev's profitability (as approximately half of its raw material costs are denominated in U.S. dollars), the possibility of more non-performing loans arising from additional pandemic-induced lockdowns, and a decrease in government social transfers to Itaú Unibanco.

Allocation

During the first quarter of 2021, the Value Fund introduced a new issuer that will be discussed in the next quarter's portfolio review.

The Fund did not exit any holdings during the quarter.

Outlook

Since the inauguration of the new U.S. administration, the financial press has published a plethora of articles focusing on the possibility of inflation rising beyond the 2% targeted by the Federal Reserve (the Fed) as a result of the proposed stimulus program. I find the media's newfound concern for the effects of inflation curious after decades of writing that inflation is beneficial. The implied, but never explicitly stated, message appears to be that inflation below 2% is pernicious (according to innumerable Fed statements), as is inflation above the 2% target (according to myriad recent press articles). This cognitive dissonance is taking place without a single piece of research having ever justified the 2% target itself, as far as I am aware.

The point of the foregoing comment is not to align myself with one camp or another, but rather to point out that economic and financial predictions are extremely difficult, bordering on speculative. The economy is often likened to a machine in that each economic actor may be thought of as a cog in the mechanism. But that's where the similarity ends. It does not follow that if one pulls on a particular lever, say a stimulus program, one can predict the outcome. The reason for this unpredictability, according to Ludwig von Mises and other members of the Austrian school of economics, is that all economic factors are constantly changing, not least because individuals have the capacity for choice, unlike a cog in a machine. An individual who receives a stimulus check may spend it, but may choose to save a second one, and then split a third one into savings and consumption in whatever proportion is suitable to him or her at that specific point in time.

Crossing the bridge from theory to practice, this portfolio review includes a real-world example of the difficulty of predicting inflation outcomes. The Performance section of this review briefly touched on (in order to keep the discussion focused) the travails of the shipping industry since the 2008-09 crisis. The shipbuilding and shipping industries are global in nature – any ship beyond a certain size that operates locally may be relocated to any other part of the world at will – and thus impacted by the policies affecting the global reserve currency of the world: the U.S. dollar. Thus, we have a historical example of an industry mired in deflation (lower prices) for ships over the past decade while U.S. dollar interest rates were very low. This reality coexisted with a very different one where U.S. housing prices are generally acknowledged to have increased in part due to ever-cheaper mortgage rates stemming from the same low interest rates. In other words, we simply do not know what the impact of the stimulus program will be. This doubt may be extended beyond the rate of inflation to other economic variables as well.

Aside from highlighting what I view as an important point in the debate surrounding the proposed U.S. stimulus program and possible inflation consequences, as well as citing two historical examples relevant to Value Fund investors and readers in general, I would like to make a larger and related point about the outlook for the emerging markets.

It would be tempting to make arguments such as: (a) U.S. gross domestic product (GDP) will accelerate as a result of the stimulus program and therefore the S&P 500 will continue to outperform the emerging market universe, or (b) the increased fiscal debt and monetary accommodation by the Fed will lead to a weaker U.S. dollar and therefore emerging markets will outperform U.S. equity markets. These types of arguments are logical within a very constrained set of parameters where all else is equal. As I hope to have demonstrated earlier, nothing is ever the same in an economy or in financial markets. To make predictions of this sort is simply speculation, and making investment decisions based on them amounts to the same thing.

I can already sense reader frustration at my apparent unwillingness to commit to an outlook for the emerging markets given the highly meaningful event of an uncommonly large peacetime stimulus program denominated in the world's reserve currency. Not only do I hope to have shown why refraining from a specific outlook is actually the wiser course of action, but I would go a step further and state that it is not all that necessary either.

Of course, what happens to the U.S. economy and the U.S. dollar is relevant for the emerging markets outlook, especially in light of significant events, such as the proposed stimulus. But it does not follow that one should primarily base investment decisions on said factor. This is precisely one of the reasons why Seafarer constructs portfolios on a bottom-up basis. Selecting stocks that may reasonably be expected to earn a return on equity that may more than compensate for the impact of macroeconomic policy in the local currency – or literally on the other side of the coin, the U.S. dollar – is in my view the key to healthy long-term investment returns.

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

April 13, 2021

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 6.47% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $12.21 per share; and it finished the quarter with a value of $13.00 per share.

[3] www.seafarerfunds.com/funds/ovl/portfolio-review/2020/12/Q4#moneta

[4] www.seafarerfunds.com/portfolio-reviews/?ovl

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.

Free Float (or Float): a company's free float (or float) refers to the portion of outstanding shares held by public investors, as opposed to those that are restricted shares held by company insiders. Stocks with small free floats are generally more volatile because there are a limited number of shares available for trading in the event of major market news.

Gross Domestic Product (GDP): a macroeconomic measure of the value of a country's economic output. GDP includes only those goods and services produced domestically; it excludes goods and services produced abroad, even if such goods and services are produced by factors of production (i.e. companies) owned by the country in question.

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.

Social Transfer: a transfer from one group in a society to another, either in cash or in kind (access to goods and social services).

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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 March 31, 2021, Moneta Money Bank AS comprised 4.6% of the Seafarer Overseas Value Fund, Pacific Basin Shipping, Ltd. comprised 3.6% of the Fund, Shangri-La Asia, Ltd. comprised 4.1% of the Fund, China Foods, Ltd. comprised 4.1% of the Fund, Itaú Unibanco Holding SA comprised 3.5% of the Fund, and Ambev SA comprised 3.4% of the Fund. The Fund did not own shares in the Coca-Cola Co. 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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