SEAFARER

SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Fourth Quarter 2021

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During the fourth quarter of 2021, the Seafarer Overseas Value Fund returned 1.41%.[1,2] The Fund's benchmark indices, the Morningstar Emerging Markets Net Return USD Index and the MSCI Emerging Markets Total Return USD Index, returned -0.82% and -1.24%, respectively. By way of broader comparison, the S&P 500 Index returned 11.03%.

The Fund began the quarter with a net asset value of $13.27 per share. During the quarter, the Fund paid a distribution of approximately $0.463 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $1.867 per share.[3] The Fund finished the period with a value of $12.99 per share.[4]

During the calendar year, the Fund returned 10.04%, whereas the benchmark indices, the Morningstar Emerging Markets Net Return USD Index and the MSCI Emerging Markets Total Return USD Index, returned -0.33% and -2.22%, respectively.[5]

Please note: this portfolio review encompasses only the fourth quarter of 2021, 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

As pleasing as the Value Fund's quarterly and full year outperformance versus the benchmark indices is, I would draw investor attention to the Fund's absolute return figure for the 2021 calendar year of 10.04%. I am satisfied with the Fund's absolute performance because, in my opinion, it delivers what investors need over what they may want. In my estimation, while most investors may be satisfied with tracking the index (judging by the prevalence of benchmarking and the popularity of passive strategies), what they require is something different: the appreciation of their savings in real terms, after the effect of inflation. Please refer to the recent Letter to Shareholders[6] in the Seafarer Funds Semi-annual Report as of October 31, 2021 for a more extended discussion of the topic.

> The Value Fund delivered its total return in a manner that emphasizes stock selection rather than market-related factors.

As of 12/31/21 the annualized performance of the Fund's Institutional class was: 1 year 10.04%, 3 year 11.76%, 5 year 8.15%, and since inception (5/31/16) 7.81%[1]; the net expense ratio was 1.05% and the gross expense ratio was 1.47%. 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.

Thus, rather than simply acknowledging that the Value Fund outperformed the benchmark indices in 2021 and explain said performance with a few "factors," I think two points are significant. First, in a year when the benchmarks delivered a negative return, the Value Fund delivered a meaningfully positive return, even if investors may theoretically have been satisfied with a zero return that would have outperformed the benchmark but would have failed to serve their actual needs. Second, the Value Fund delivered its total return in a manner that emphasizes stock selection rather than market-related factors.

Indeed, the top contributor to the Fund's performance for the full year as well as the fourth quarter of 2021 was as far removed from the beaten path of index membership and financial headlines as one could hope for. **Petrovietnam Fertilizer and Chemicals** (Management Change and Asset Productivity sources of value; see **Figure 1** for definitions of the sources of value referenced in this review) is a Vietnamese fertilizer manufacturer. While the appreciation of urea prices during the year is a market factor that contributed to the stock's performance, in my opinion it served to amplify the return of an extraordinarily cheap stock that the Fund purchased for reasons unrelated to the price of urea: a cash-rich balance sheet, rising production volume from a new plant that manufactures higher value-added products, coupled with an extraordinarily high cash flow yield.

The second highest contributor to the quarter's total return was also far removed from indexes and headlines: **Georgia Capital** (Breakup Value), a conglomerate operating in the country of Georgia. Value realization in the form of an agreement to sell a majority stake in the company's water business during the fourth quarter drove meaningful stock price appreciation. The nature of this price performance is consistent with the Fund's categorization of Georgia Capital as a "Breakup Value" holding.

Similarly, the contribution of **Moneta Money Bank** (Asset Productivity), a bank operating in the Czech Republic, to the Fund's performance during the fourth quarter and the full year was as detached from market growth expectations or country factors as one could wish for. The bank dedicated most of 2021 to the purchase of a local competitor, a process that drove price discovery in Moneta's own shares.

To emphasize the point from the opposite end of the spectrum, detractors to the Fund's annual performance tended to correlate more strongly with market-related factors. The stock price of **Melco International Development** (Breakup Value and Asset Productivity), a Macau casino owner and operator, continued to suffer from persistent travel restrictions to Macau. Recent Fund addition **Dairy Farm International** (Management Change and Asset Productivity), a multi-format retailer operating in Asia, posted weak fourth quarter stock price performance on continued business pressure from the surge in the Omicron variant. Interestingly, the stock price of **Shangri-La** (Breakup Value and Asset Productivity), a hotel owner and operator in Asia, was not as impacted by Covid's resurgence. One might conjecture that the stock price's resilience may be a sign that the market is recognizing value in the name.

Fourth quarter detractors to performance were also more sensitive to market-related factors. The stock price of **Itaú Unibanco** (Asset Productivity), the largest privately-owned bank in Brazil by assets, suffered under pressure from the country's continued macroeconomic difficulties, despite the bank's track record of navigating such circumstances and its already compelling valuation. Unlike the case of Shangri-La, my judgment that Itau's valuation and management skill should largely insulate the stock price from market-related factors over time has yet to prove correct.

The case of **Pacific Basin** (Asset Productivity), a dry-bulk shipping company, is different from that of Itaú in that its stock price weakness during the fourth quarter comes after strong performance for the past two years. I would argue that the stock's dearer valuation at this stage made it more vulnerable to the volatility in the Baltic Handysize Index, a measurement of spot rates for chartering small dry bulk sea vessels, which declined in the fourth quarter after reaching a 13-year high in the third quarter. While chartering rates will vary due to the confluence of structural and cyclical factors, the Fund remains invested in Pacific Basin on the view that structural new vessel supply impediments will persist for the next few years, and in anticipation of significantly higher dividends from the company. The Fund originally entered its position in Pacific Basin in 2016 at what we believed to be an unsustainably distressed valuation to the book value of its assets at the time.

Allocation

During the quarter the Fund added **Emaar Properties** (Breakup Value), a property developer and investment company operating primarily in the United Arab Emirates. The Fund established this position in an effort to capture the potential value-unlocking of a group restructuring designed to improve the company's credit profile, the value that may be derived from possible tax law changes in the country, as well as opportunity that may arise due to the difference between the net market value of the company's assets and its market capitalization.

A new position in **Want Want China Holdings** (Balance Sheet Liquidity and Structural Shift), a Chinese snack food and beverage company, is designed to capture an extraordinarily high and secure dividend yield based on steady demand for its brands, a substantial free cash flow yield, and the potential success of initiatives intended to reinvigorate earnings momentum, with all of these attributes backed by an extremely liquid balance sheet.

The Fund's fourth quarter world tour also stopped by Latin America with a new position in **Credicorp** (Asset Productivity), Peru's largest bank. Credicorp represents a classic Gem stock (please refer to the commentary *How the Value Team Finds "Gems" in Emerging Markets*[7]) in that it has a track record of successfully navigating complex macroeconomic and political environments, and its low stock price does not correspond to the high value the bank generates (the bank earns a return in excess of its cost of capital over a full business cycle).

Credicorp represents a classic Gem stock.

Finally, the Fund received shares in **XP, Inc.** (Structural Shift and Asset Productivity) as a distribution from its holding in Itaú Unibanco. XP is a fast-growing, technology-driven investment management company operating in Brazil. Beyond the value-realization for Itaú shareholders derived from the spin-off of XP shares, the business of XP itself holds great potential in a country where savers have traditionally suffered from the crowding out effect of excessive fiscal deficits. In other words, Brazilian savers are starved for investment alternatives to government bonds, and for lower borrowing costs. XP's digital platform holds the potential to address these long-standing needs in a more efficient and effective manner than traditional banks have historically managed.

The Fund did not exit any holdings during the quarter.

Outlook

The Fund's new holdings discussed above bring a different combination of value sources to the portfolio. While the Value strategy may profit from purchasing Emaar's substantial portfolio of revenue-generating properties (long-term assets) at a discount to book value, Want Want offsets this duration risk with a cash balance (short-term asset) that is roughly half of its total asset base. Both are "fallen angels" in that the market de-rated the valuation of these former market darlings. Emaar shot itself in the foot by engaging in a series of poorly-designed subsidiary listings that – instead of releasing hidden value – had the effect of de-rating the parent-company stock. Want Want, like virtually all Chinese consumer stocks, eventually posted lower growth numbers – lifting the veil from the eyes of investors who had to accept that not every Chinese consumer company will grow forever. While Emaar is undergoing a corporate restructuring that will redress its ill-advised group structure, Want Want is deploying its considerable cash flow into research and development to restart growth concurrently with a rising dividend. Finally, Credicorp represents an unusually profitable business combined with the potential to increase its organic growth rate as it attempts to transform a pandemic-subsidized credit program into a long-term recurring revenue base. The future dividend yield of this overcapitalized bank may reach the high single digits.

The Value Fund seeks to generate a return by aggregating sources of profit specific to each company.

The point of this Outlook section reformulating the attributes that new Fund holdings contribute to the strategy is to reinforce the idea that the Value Fund seeks to generate a return by aggregating sources of profit specific to each company. It does not seek to generate a return by buying "market growth" or "country growth" or "industry growth" at any price, or even at a "reasonable price." Furthermore, the Fund lays bare the idea that, contrary to most market commentary, growth is not the only way to generate an investment return.

I find it important to emphasize the idea in this quarterly review because the ground does appear to be shifting under investors' feet: China's arbitrary new regulation of after-school tutoring and internet companies, among others, arguably forced a reassessment of equity risk in the country during 2021. The central banks of Mexico, Brazil, the Czech Republic, Poland, South Korea, and other emerging markets raised interest rates ahead of the U.S. Federal Reserve, a rare occurrence. Extending the context beyond the emerging market cost of equity, the Federal Reserve signaled this month that it is likely to increase the risk-free rate (the Federal Funds Rate) this year as well. In short, there is no shortage of excuses to make equities an unpopular topic.

Thus, dear reader, as you assess your investment allocations for 2022 and beyond, I would humbly suggest asking not just what equity and fixed income asset allocation is appropriate for you, but also *how* the funds under your consideration generate returns. In my opinion, the latter question is as important as the former.

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 6, 2022

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[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 1.35% during the quarter.

[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/ovl/performance.

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

[4] The Fund's Investor share class began the quarter with a net asset value of $13.24 per share; it paid a distribution of approximately $0.455 per share during the quarter; and it finished the quarter with a value of $12.96 per share.

[5] The Fund's Investor share class returned 9.90% during the calendar year.

[6] www.seafarerfunds.com/letters-to-shareholders/2021/10/semi-annual/

[7] www.seafarerfunds.com/commentary/how-the-value-team-finds-gems-in-emerging-markets/

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.

Cash Flow Yield: cash flow generated by an asset during an accounting period divided by the price of said asset.

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.

Federal Funds Rate: the interest rate at which U.S. depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight, on an uncollateralized basis.

Free Cash Flow Yield: a basic evaluation measure for a stock that examines the ratio of free cash flow per share to the share price. Some investors regard free cash flow (which takes into account capital expenditures and other ongoing costs a business incurs to keep itself running) as a more accurate representation of the returns shareholders receive from owning a business, and thus prefer free cash flow yield as a valuation metric over earnings yield.

Market Capitalization: the value of a corporation as determined by the market price of its issued and outstanding common stock. It is calculated by multiplying the number of outstanding shares by the current market price of a share.

Price Discovery: a free market process by which consenting buyers and sellers discover the price at which they agree to exchange an asset.

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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 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 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 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. The Baltic Handysize Index is the spot rate at which small dry bulk sea vessels may be chartered. Index code: BHSI. 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, 2021, Petrovietnam Fertilizer & Chemicals JSC comprised 2.5% of the Seafarer Overseas Value Fund, Georgia Capital PLC comprised 4.8% of the Fund, Moneta Money Bank AS comprised 4.7% of the Fund, Melco International Development, Ltd. comprised 2.7% of the Fund, Dairy Farm International Holdings, Ltd. comprised 1.9% of the Fund, Shangri-La Asia, Ltd. comprised 3.9% of the Fund, Itaú Unibanco Holding SA comprised 2.7% of the Fund, Pacific Basin Shipping, Ltd. comprised 3.2% of the Fund, Emaar Properties PJSC comprised 3.1% of the Fund, Want Want China Holdings, Ltd. comprised 1.5% of the Fund, and Credicorp, Ltd. comprised 1.7% of the Fund. 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.

The Seafarer Overseas Value Fund is not sponsored, endorsed, sold, or promoted by Morningstar, Inc. Morningstar, Inc. makes no representation or warranty, express or implied, to the shareholders of the Fund or any member of the public regarding the advisability of investing in the Fund or the ability of the Morningstar Emerging Markets Net Return U.S. Dollar Index to track general equity market performance of emerging markets.

