SEAFARER

SEAFARER OVERSEAS VALUE FUND

Portfolio Review

First Quarter 2022

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During the first quarter of 2022, the Seafarer Overseas Value Fund gained 2.39%.[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 -5.94% and -6.92%, respectively. By way of broader comparison, the S&P 500 Index returned -4.60%.

The Fund began the quarter with a net asset value (NAV) of $12.99 per share. It paid no distributions during the quarter and finished the period with a value of $13.30 per share.[3]

Performance

While the Value Fund's first quarter 2022 performance relative to the benchmark indices is pleasing, I would draw attention to the more important fact that the Fund's NAV appreciated in absolute terms. The point is not to diminish the usefulness of benchmarks, but to remind investors that what they need is the appreciation of their savings in real terms, after the impact of inflation, not to "keep up" with a market construct. Please refer to the recent Letter to Shareholders[4] in the Seafarer Funds Semi-annual Report as of October 31, 2021 for a more extended discussion on the topic of investor needs versus wants.

There is no single overriding "theme" or "explanatory variable" to explain the Fund's appreciation during a difficult quarter when the Russia-Ukraine war and myriad concerns regarding China dominated financial headlines, and presumably led to the depreciation of the emerging market indexes.

The top performers represented a diversified set of investment return drivers.

Indeed, the Fund's top contributors to performance are as diversified sectorally as they are geographically. Translating that statement to the Value Fund's language, the contributors to the quarter's positive performance were diversified by source of value. Put differently, the top performers represented a diversified

As of 3/31/22 the annualized performance of the Fund's Institutional class was: 1 year 5.83%, 3 year 8.63%, 5 year 6.84%, and since inception (5/31/16) 7.90%[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.

set of investment return drivers, which relate less to sectors and countries and more to actual sources of stock-specific investment return.

Thus, the Fund's top contributors to performance include **Itaú Unibanco** (Asset Productivity source of value; see Figure 1 for definitions of the sources of value referenced in this review), the largest Brazilian privately-owned bank; **Emaar Properties** (Breakup Value), a property developer and investment company operating in the United Arab Emirates; **Pacific Basin** (Asset Productivity), a dry-bulk shipping company headquartered in Hong Kong; **Petrovietnam Fertilizer and Chemicals** (Management Change and Asset Productivity), a Vietnamese fertilizer manufacturer; and **Credicorp** (Asset Productivity), Peru's largest bank.

It would be easy to explain the performance of these stocks by referencing global factors that shifted meaningfully during the quarter, such as movements in interest rates in the case of banks, or the war's impact on supply chains in the case of shipping companies. However, to do so would be an oversimplification, as it would miss the mark by ignoring Itaú's stellar financial performance through the pandemic, and cheap valuation to begin with. Likewise, it would gloss over Credicorp's unique position within the Peruvian banking industry. Attributing Petrovietnam Fertilizer's performance solely to the rise in urea prices would ignore the fact that this company's input costs increase in tandem with the price of oil – thus clearly there are factors other than the rise of commodity prices embedded in the stock's strong performance. Finally, in the case of Pacific Basin, attributing the stock's appreciation to the war's impact on global supply chains would ignore the company's upcoming extraordinary return of excess cash to shareholders[5] (a testament to the company's strong capital discipline and corporate governance), company and industry fleet dynamics, and valuation.

It is in the Fund's top detractors to performance that the Russia-Ukraine war emerges as a clear driver of investment returns, even if these stocks did not dominate the Fund's overall result for the quarter. The most directly impacted company was **Global Ports** (Asset Productivity and Deleveraging), a Russian port owner and operator. While the attraction of this investment centered around the company's enviable asset base in terms of the strategic location of its ports, my risk assessment focused on how this corporation operated outside of "Putin's sphere of influence." In other words, unlike most of Russia's largest companies in the financial, resource, and industrial sectors, this company did not answer to Russia's president (as far as I could tell), and thus was and would continue to be free of sanction risk by the West. The war upended that risk assessment. Nevertheless, the Fund mitigated said risk through position sizing, with Global Ports comprising 1.1% of the Fund's net assets as of December 31, 2021. Effective March 3, 2022, trading was halted in Russian securities, including this holding. As of March 31, 2022 the Fund retained its position in the stock and it represented 0.0% of net assets.[6]

The only other holding with material operations in Russia was **Mondi** (Structural Shift), a global paper and packaging company that derived 12% of revenue from Russia in 2021. The stock price reaction during the quarter was measured, with a decline of -20.63% from year-end 2021 to March 31, 2022.[7]

The Fund's only other exposure to the conflict was through indirect transmission mechanisms. Specifically, **Georgia Capital** (Breakup Value), a conglomerate operating in the country of the same name which was itself invaded by Russia in 2008, saw its stock price decline in the days following Russia's invasion of Ukraine before regaining most of this decline by quarter-end. The stock price of **Samsung SDI** (Structural Shift and Breakup Value), a South Korean battery manufacturer, fell over questions around the company's ability to pass through to customers the parabolic rise in the price of nickel, a critical battery component.

Allocation

The Fund did not add or exit any holdings during the quarter.

Outlook

The Fund's reaction to the plunge in stock prices following Russia's invasion was to add to existing holdings on a selective basis, directed by price action. This approach narrowed the position sizing differentials among Fund holdings by the end of the quarter compared to the beginning. At this juncture, I consider this approach wiser than expressing strong views through markedly different position weights.

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So far, the war has had minimal impact on the research pipeline for potential new holdings. The Value Fund employs a stock-specific investment approach, such that even if it is obviously important to include the macroeconomic context in which a company operates in the evaluation of its financial performance, this quarter's shift in commodity prices, foreign exchange, and other macro variables has not directly influenced the research team's priorities, at least thus far.

As a result, instead of commenting on the investment implications of the Russia-Ukraine war, a subject with no shortage of commentary and analysis elsewhere, I prefer to point readers to a couple of equally important shifts in the foundation of emerging market investing, which in my opinion suffer from neglect in the financial press despite their significance.

I am often asked to assess the prospect for emerging market (EM) investment returns against the backdrop of the U.S. Federal Reserve (the "Fed") raising rates. While the question is reasonable, I would propose a different one to gauge the prospect for EM returns: What are the return implications of sustained negative U.S. dollar real interest rates concomitant with a rising Federal Funds Rate?

The question is significant because (1) it is the U.S. dollar real interest rate that determines the prospects for the EM currencies Seafarer invests in, as opposed to the absolute level of the Fed Funds Rate; (2) should U.S. dollar inflation persist above the Fed's 2% target, it is unknown how close the Fed Funds Rate can approximate inflation (let alone exceed it) before it potentially drives the economy into recession, making the prospect of sustained negative real rates realistic; and (3) while we have lived with negative U.S. real interest rates for several years now, we have done so in the context of declining interest rates and low inflation, not rising rates and high inflation. Yes, this time *is* different, at least relative to financial history since the early days of EM investing at the beginning of the 1990s.

What this means for the U.S. dollar and EM currencies is unclear, but investors should note that the ground is shifting.

The second issue to ponder in the years to come also concerns the U.S. dollar vis-à-vis EM currencies. The advent of quantitative tightening, should it persist, raises the question of who will substitute the Fed in purchasing federal debt.

I do not raise this question for the sake of intellectual curiosity, but because it is highly relevant to EM investing at a time when successive U.S. administrations are attempting to change the trade and investment relationship with China. In other words, China –the largest buyer of U.S. Treasuries in recent history – may not be in a position to incrementally replace the Fed if the country is forced to alter its mercantilist model of economic development.

Once again, while I cannot predict the outcome of this issue, it is nonetheless another critical question that will likely determine the fate of the U.S. dollar relative to EM currencies in the long term.

As I noted in recent quarterly commentaries, change is already afoot: EM central banks have been raising interest rates ahead of the Fed, itself a rare occurrence, and one arguably also forced by the rise of inflation in their respective currencies.

The critical issue for investors to consider is the allocation to U.S. dollar vs. non-U.S. dollar investments. Seafarer's Emerging Markets Briefing[8] has identified this question as part of the key to how investors should integrate the emerging market asset class into their portfolios. The foregoing developments increase the urgency of addressing this issue.

From the perspective of the Seafarer Overseas Value Fund, an answer to the foregoing questions is not necessary in order to successfully invest in the emerging markets. First, the Fund directs its investments using company-specific and price considerations, as opposed to country or sector allocations. Second, the issues identified above will resolve themselves over the coming years, if not decades. As time reveals the resolution to these questions, company financials will do the same gradually, giving the Fund time to adjust as required based on actual information. Finally, and at the risk of sounding self-serving, I would conclude that to the extent that such foundational changes in emerging markets equate to price movements, it spells opportunity for a price-conscious, active fund.

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, 2022

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 2.39% 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 Investor share class began the quarter with a net asset value of $12.96 per share; and it finished the quarter with a value of $13.27 per share.

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

[5] On February 24, 2022 Pacific Basin Shipping, Ltd. declared a dividend. Shareholders of record on April 22, 2022 will be paid a dividend of Hong Kong Dollar 0.60 per share on May 5, 2022. This dividend represented a yield of 17.8% based on the closing price on February 24, 2022. The ex-dividend date is April 21, 2022. Source: Pacific Basin Shipping, Ltd.

[6] For more information, see the Message to Shareholders Regarding the Conflict in Ukraine. www.seafarerfunds.com/mts/2022/02

[7] Source: Bloomberg.

[8] www.seafarerfunds.com/em-briefing

Glossary

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.

Quantitative Tightening: the attempt by a central bank to decrease the amount of liquidity within the economy by reducing the financial assets it holds in its balance sheet.

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