SEAFARER®

SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Second Quarter 2022

Paul Espinosa
Portfolio Manager

During the second quarter of 2022, the Seafarer Overseas Value Fund returned -6.47%.[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 -11.72% and -11.34%, respectively. By way of broader comparison, the S&P 500 Index returned -16.10%.

The Fund began the quarter with a net asset value of $13.30 per share. It paid no distributions during the quarter and finished the period with a value of $12.44 per share.[3]

Performance

In the second quarter of 2022, the Seafarer Overseas Value Fund – which in the preceding two quarters delivered positive returns while the Morningstar Emerging Markets Index fell – finally succumbed to overall market forces and delivered a negative return.

Fund holdings more sensitive to global growth clearly suffered, as the market shifted its focus from inflation concerns to the impact of higher prices on global gross domestic product (GDP) growth. Nevertheless, the Fund also captured strong company-specific sources of return, delivering a net performance that outperformed the benchmarks with significantly lower capital loss.

Fund holdings that evidenced the risk of a significant global economic slowdown include **Pacific Basin** (Asset Productivity source of value; see Figure 1 for definitions of the sources of value referenced in this review), a dry-bulk shipping company headquartered in Hong Kong; and **PetroVietnam Technical Services** (Management Change and Asset Productivity), a Vietnamese oil services company. The stocks declined following the second quarter downward trajectory of ship charter rates (the BDI Index) in the former's case, and oil prices in the latter's case. The short-term behavior of the BDI Index and oil may be used as gauges of real-time economic activity. Ironically but sensibly, the tremendous appreciation of both rates in past quarters led to their eventual undoing in the second quarter as the market estimated that their elevated levels would

This portfolio review addresses the second quarter of 2022 (4/1/22 to 6/30/22). As of 6/30/22 the annualized performance of the Fund's Institutional class was: 1 year -6.68%, 3 year 4.44%, 5 year 4.03%, and since inception (5/31/16) 6.39%[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.

necessarily result in slower shipping activity (lower economic activity from higher-cost energy would lead to a decline in global trade) and the rationing of energy (fewer economies can afford oil prices at that level), in my view.

The growth concern extended to countries as well, such as Brazil, whose currency depreciated 9.8% during the quarter on account of concerns over imported inflation and general economic weakness. The Fund's Brazilian holdings, **Itaú Unibanco** (Asset Productivity), Brazil's largest private bank, **Ambev** (Structural Shift and Asset Productivity), a Brazil-based brewer in the Americas, and **XP, Inc.** (Structural Shift), an investment management company, ranked among the quarter's top detractors to performance.

The pervasive nature of global macro concerns didn't prevent the Fund from capturing company-specific sources of return. **Giordano** (Structural Shift), a fashion retailer operating in Asia and the Middle East, returned 23.6% (as measured in U.S. dollars) during the quarter as a result of the company's owners making a tender offer for the listed shares. The case of Giordano is reminiscent of previous Value Fund holdings that have been privatized, as discussed in past quarterly reviews. I view these privatizations as evidence that the Fund is indeed identifying value, and as testament to the inefficiency of public equity markets, especially in the emerging markets – thus the opportunity for the Value Fund.

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Another holding that appreciated in the midst of difficult global conditions was **WH Group** (Management Change), a Chinese meat processor and owner of U.S.-based Smithfield Foods. The stock appreciated in response to improving hog supply conditions in China, and an expected volume growth recovery as parts of China slowly emerge from Covid-related lockdowns. WH Group's performance this quarter is a case of industry-specific dynamics having a stronger influence on company earnings than global growth concerns.

It is ironic then, that two of the Fund's Middle East holdings also contributed positively to performance driven by strong growth expectations. **Tabreed** (Deleveraging), a supplier of district water cooling services, appreciated meaningfully on the expectation that the company's drive to grow beyond the United Arab Emirates is gaining traction. Similarly, the appreciation of **Qatar Gas Transport** (Deleveraging), an owner and operator of transport vessels for liquefied natural gas (LNG), relates to the expectation that the company may need to expand its fleet by more than planned given the global energy shortage.

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Allocation

In the second quarter, the Fund introduced **Anheuser-Busch Inbev** (ABI) (Asset Productivity and Deleveraging), a global brewer that derives the majority of its revenue from the emerging markets, as a new holding. While ABI is the parent company of existing holding Ambev, ABI contributes a different source of return and risk profile to the Fund. Neither holding aims to capitalize on the demand for beer globally (ABI) or in the Americas (Ambev) in order to generate an investment return for the Fund. Instead, ABI represents the Deleveraging source of return, while Ambev reflects the Structural Shift (both holdings share the Asset Productivity source of return). As such, I expect ABI to generate an investment return based on changes to its balance sheet over time, while I expect to extract an investment return from Ambev based on an improved market positioning relative to the competition, especially in Brazil. The risk profiles also differ in that ABI has a highly levered balance sheet with a low dividend payout ratio, while Ambev benefits from a positive net cash position and a high dividend.

What ABI brings to the table is the possibility of a strongly rising dividend as the company reduces leverage and recovers profitability after its decline since 2020 due to the pandemic and the rise of commodity prices. Furthermore, the implementation of digitalization initiatives in its distribution channels, which were successfully trialed at Ambev, on a global scale has the potential to lift margins beyond historical and industry norms. Finally, I expect these supply-side operating initiatives to improve the return on the intangibles (goodwill) accumulated as ABI expanded globally, thus lifting the overall return on assets, which has suffered as a result of the company's acquisitive history.

> In the second quarter, the Fund introduced Anheuser-Busch Inbev.

The second notable allocation change was a meaningful increase to the position in **XP, Inc.** (Structural Shift), a Brazilian investment management platform company. The Fund previously owned a small position in XP, which it received as an in-kind dividend from its stake in Itaú Unibanco in the fourth quarter of 2021. The Fund took advantage of weakness in XP's share price during the second quarter of 2022 to establish a full position in a company that may be best described as the Charles Schwab of Brazil. While this comparison may already provide an intuitive sense of the growth potential for said business in an emerging market, what is unique for this business in Brazil is that the country suffers from a textbook case of the crowding out effect.

In other words, Brazil's government has long "crowded out" the private sector as its heavy fiscal deficits absorb a disproportionate share of the national savings, and raise the cost of capital for the private sector, thus limiting growth for corporates and the country. In the context of the investment management industry, this dynamic translates to fixed income and bank savings products dominating capital markets in Brazil, at the expense of stock ownership. XP's long-term growth prospects would shift from high to extraordinary should the country structurally transition to a lower interest rate regime on improved governance at the country level, which would equate to funds flowing from fixed income to equity markets. The opportunity to purchase a high growth company at a valuation consistent with a value discipline is equally extraordinary.

> The Fund has a supply-focus, which has always been relevant, but ever more so in the brave new world the global economy is entering.

The Fund did not exit any positions during the second quarter.

Outlook

We are all macro analysts now. The consequences of over a decade of coordinated global debt accumulation are threatening to turn my people – company-focused investors – into an endangered species.

I see the consequences of an incentive structure biased in favor of virtually unconstrained debt buildup through the lens of the balance sheet management of the companies we avoid investing in (though there are exceptions). I also see the consequences of irresponsible debt accumulation at the national level through the inflation, demand swings, and lower sustainable economic growth that the Value Fund holdings are forced to overcome.

In my view, governments and central banks created the present investment environment based on the fundamental error of equating prosperity with GDP growth, together with a lack of understanding of the salutary process that an economic recession represents. As such, fiscal expenditures (debt) rise in order to maintain expenditure (GDP) without consideration for the negative consequences of excessive debt, the draining of savings, and the perpetuation of malinvested capital.

What is important for shareholders of the Seafarer Overseas Value Fund to understand is that policymakers created the present investment context in their attempt to manage demand. The Fund, by virtue of its company-focused, bottom-up approach to portfolio construction, effectively invests primarily on the basis of supply-side economics. The seven sources of value, which the fund uses as a discipline to guide its investment decisions, is testament to the Fund's focus on supply (operations and capital productivity) over growth considerations to generate the investment return.

It is in this sense that I am optimistic about the prospects for the Value Fund – not because value as an investment style may come back in vogue and outperform growth once again, or because rising interest rates necessarily lower the present value of companies with cash flows in the distant future, but because the Fund has a supply-focus, which has always been relevant, but ever more so in the brave new world the global economy is entering.

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

July 15, 2022

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned -6.48% during the quarter. All returns are measured inclusive of Fund distributions paid (in relation to Fund performance) or dividends paid (in relation to index performance), reinvested in full (exclusive of any U.S. taxation) on the pertinent ex-date.

[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 $13.27 per share; and it finished the quarter with a value of $12.41 per share.

Glossary

Dividend Payout Ratio: the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company.

Goodwill: an intangible asset of a company such as its established reputation, brand recognition, and proprietary or intellectual property. These assets are not easily quantifiable but are represented by the excess of the purchase price of a company over its fair market value.

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.

Imported Inflation: a general and sustainable price increase due to an increase in the costs of imports.

Net Cash: a company's cash position, calculated by subtracting the company's total debt from its total cash.

Return on Assets (ROA): the ratio of annual net income to average total assets of a business during a financial year. Return on assets is one means to measure efficiency of a business in using its assets to generate net income. It is an indicator that simultaneously conveys productivity and profitability.

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For More Information

Individual Investors
(855) 732-9220
seafarerfunds@alpsinc.com

Investment Professionals
(415) 578-5809
clientservices@seafarerfunds.com

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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 Dry Index is an index of shipping rates paid for the transport of dry bulk materials across sea routes. Index code: BDI. It is not possible to invest directly in an index.

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As of June 30, 2022, Pacific Basin Shipping, Ltd. comprised 2.7% of the Seafarer Overseas Value Fund, PetroVietnam Technical Services Corp. comprised 2.2% of the Fund, Itaú Unibanco Holding SA comprised 2.8% of the Fund, Ambev SA comprised 2.5% of the Fund, XP, Inc. comprised 2.5% of the Fund, Giordano International, Ltd. comprised 2.8% of the Fund, WH Group, Ltd. comprised 3.2% of the Fund, National Central Cooling Co. PJSC (Tabreed) comprised 4.3% of the Fund, Qatar Gas Transport Co., Ltd. comprised 4.4% of the Fund, and Anheuser-Busch InBev SA/NV comprised 3.0% of the Fund. The Fund did not own shares in Charles Schwab Corp. or Smithfield Foods, 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.

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