ValueInvestor INSIGHT
The Leading Authority on Value Investing
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Roads Less Traveled

Experienced emerging-markets investors Andrew Foster, Laura Geritz, Daniel Malan, Scott Thomas and Amit Wadhwaney handicap their diverse opportunity set today and describe why they find – among thousands of choices – Hyundai Mobis, Bajaj Finance, Remgro, GMexico Transportes and Companhia Brasileira de Distribuicao particularly interesting.

INVESTOR INSIGHT

Andrew Foster
Seafarer Funds

"People have cast out the asset class to such an extent that it's arguably under-owned and quite cheap in the aggregate."

It's fairly conventional wisdom at this point that the emerging-market equity asset class had a bang-up first decade of the 21st century, and has more or less been a relative bust in the century's second decade and beyond.

To help discern if that dynamic signals opportunity or risk, we spoke with five experts on the subject: Andrew Foster of Seafarer Funds, Rondure Global Advisors' Laura Geritz, Perspective Investment's Daniel Malan and Mikael Liefferink, Scott Thomas of Wasatch Global Investors and Moerus Capital's Amit Wadhwaney. Among their top finds today: a Korean auto-parts supplier, an Indian finance company, a venerable South African holding company, a Mexican railroad and the top Latin American online travel agency.

You've invested in emerging markets for some time now. Would you say the underlying opportunity they present for investors has evolved at all?

Andrew Foster: I've always thought of it as a privilege to invest in countries at various stages of economic progress and development. Having seen and studied the playbook in developed countries, it's always been motivating to watch that playbook unfold elsewhere, judge the winners and the losers, and then invest against that.

I'm sad to say that some of that enthusiasm has waned, particularly due to events unfolding in China. The country has been the most important test case, where you could see this exciting arc of human progress with rising incomes, greater civil liberties and a thriving economy with dynamic companies everywhere. I fear the Xi administration is bending that arc in the wrong direction, reasserting government control over the economy and the people in a way that will continue to be to China's economic detriment.

I'm also sad to say that it's not just China where the steady train of progress is being interrupted. The war in Ukraine is obviously a setback, and you've seen backsliding in places such as Brazil, Thailand and Turkey. I'm less confident now that the drive for economic prosperity that has produced incrementally high rates of GDP growth in emerging markets – a valuable tailwind for emerging-market investors – is going to be what it was. I fear rates of growth in many cases will be less than they have been, and less than they should be.

Is there some countervailing light at the end of that tunnel for investors?

AF: There absolutely is. Twenty years ago in developing markets you had to navigate a bunch of formerly state-owned companies that had been haphazardly privatized, didn't know what they were doing, and weren't even on solid ground as profit-seeking enterprises. Even 10 years ago the country backdrop was often as important as the individual company story. That's changed today. There are more and more companies that are impressively run and distinguish themselves as competitors, not only in their local markets but often going toe-to-toe with global competitors elsewhere.

These are companies that are able to grow and prosper even against potential top-down headwinds in their individual countries. For a fundamental, active investor, rooting out those companies, identifying winners and losers, and then investing against that is also very exciting and, I think, can be very effective.

I would also point out that people have cast out the asset class to such an extent that it's arguably under-owned in most investment portfolios and is quite cheap in the aggregate. Relative to what investors might be looking at in the U.S. over the next 10 years, I'm quite bullish on investing in emerging markets over that time.

Describe the prototypical company that attracts your interest.

AF: A definitional feature of the developing world is that their capital markets –

the big three being stock markets, bond markets and bank-lending markets – are still underdeveloped. They're not deep or liquid enough and often suffer from too much government control. One manifestation of that is that the equity markets are more feast or famine – overpriced when times appear to be good and underpriced when times appear to be bad – even more so than in developed markets. That in my view makes the opportunity greater to find inefficiently priced stocks.

Much of our focus is on companies that are less dependent on these faulty capital markets. They're typically more mature businesses that are slower growing, but with more predictable and non-cyclical cash flow. They're able to pay a consistent and rising dividend over time. A company with these characteristics may not be as valuable when the tap is on for faster-growth companies – which can make them undervalued – but when the tap goes off, they don't need to depend on the fickle capital markets and tend to take share from less-established rivals that are struggling. We've found that having a portfolio of such businesses increases our chances of outperforming over time.

An example we've long owned is Xinhua Winshare [Hong Kong: 811], a publisher and distributor of primarily educational material and textbooks in western China. The realization that China does not have the investment landscape it once did hasn't deterred us from investing there, but it forces us to more clearly assess risk at the individual opportunity level, specifically with respect to authoritarian government intrusion. We still find companies we want to own like Xinhua Winshare that hold up under that level of scrutiny.

The company has been listed in Hong Kong since 2007 and was part of the wave at the time of formerly state-owned entities that were privatized in the spirit of promoting greater economic efficiency and transparency. Recognizing that the waste and underdevelopment of the economy was in part due to the fact that there wasn't enough market discipline around companies that were state-owned assets, and doing something about it, was an important element in China's economic transformation.

While not all former state entities have thrived, Winshare has. When we first spoke about it [*VII*, June 30, 2015], it had 5.5 billion renminbi in revenues, while today it's almost double that. It has expanded into different media for its content and built a thriving retail and distribution operation well beyond traditional textbooks. That's translated into steady growth in revenues, margins and cash flow.

While the equivalent shares in China sell at a higher price, after adjusting for the value of cash and financial assets on the balance sheet the company's Hong Kong-traded shares [at a recent HK$7.10] are priced today at only 30-35% of book value. They could pay out more, but the current dividend yield is 5.6%. I can't point to a catalyst to correct this rather extreme dislocation in value, but I'm willing to be patient if I'm confident that the upside significantly outweighs the downside. Anything can happen, but in this case it's difficult for me to imagine losing money on this investment from today's price.

ON INVESTOR PERCEPTION:

People have cast out the asset class ... it's arguably under-owned in most portfolios and quite cheap in the aggregate.

Would you point to any geographies where you're particularly active today?

AF: I think India stands out as a really large and diverse economy, where on balance – things aren't perfect – the government seems supportive of providing a physical, legal and regulatory environment conducive to long-term economic development. Valuations are quite high, however, predicated on the faddish idea among investors that India will pick up the baton that China is passing off. That's causing them, as usual, to overpay for growth. That said, our Growth and Income Fund has bought four companies in the last 12 months in India, taking the weighting there from 0% to 7%. There are pockets of opportunity.

For me, South Korea today is the value investor's playground. It suffers generally from weak corporate governance, which often manifests itself in too much cash on balance sheets that depresses returns on capital. But I think that has caused investors to ignore even very successful, profitable and well-run companies competing at a regional or global level. On governance I take a glass-half-full approach, believing that built up cash and financial assets will increasingly find their way to shareholders. At the prices today for many Korean stocks, waiting for that to happen is not an expensive or unprofitable proposition.

Let's talk about one of your top Korean ideas today, automotive supplier Hyundai Mobis [Seoul: 012330].

AF: The company is a diversified supplier of systems, modules and parts to original-equipment automakers. It's part of the Hyundai Group and its largest customers are sister companies Hyundai Motor, in which it owns a 17.5% stake, and Kia Corp., in which Hyundai Motor owns a large stake. The company has also been building what it calls its "non-captive" sales, which last year accounted for about 12% of total revenues. Management's long-term target is for such sales to be at least 20% of the total.

Mobis has been aggressive in building out its product line to serve electrical-vehicle manufacturers, where it's had success in winning business particularly with automakers in China and with General Motors. If I had a concern it would be that they've been moving too fast in the EV direction, not at all that they're unprepared for the transition to EVs coming. One reason net margins have contracted from 6-7% to less than 5% is likely how aggressive the company has been on price to win new EV business. I generally believe that approach makes sense and is something a well-capitalized leader in a market can and should do.

INVESTMENT SNAPSHOT

Hyundai Mobis
(Seoul: 012330)

Business: Manufactures and sells original-equipment and aftermarket automotive parts; primary customers are global Korean carmakers Hyundai Motor and Kia Corp.

Share Information
(@4/28/23, Exchange Rate: $1 = ₩1,338):

Price	**₩217,500**
52-Week Range	₩189,500 – ₩239,500
Dividend Yield	1.8%
Market Cap	₩19.82 trillion

Financials (TTM):

Revenue	₩51.91 trillion
Operating Profit Margin	3.9%
Net Profit Margin	4.8%

Valuation Metrics
(@4/28/23):

	012330	S&P 500
P/E (TTM)	8.0	18.6
Forward P/E (Est.)	6.5	18.9

Largest Institutional Owners
(@12/31/22 or latest filing):

Company	% Owned
National Pension Service	8.8%
Vanguard Group	2.4%
BlackRock	2.3%
First Eagle Inv	1.8%
Samsung Asset Mgmt	1.4%

Short Interest (as of 4/15/23):

Shares Short/Float	n/a

HYUNDAI MOBIS PRICE HISTORY

THE BOTTOM LINE

Investors in Korea seem to be turning a blind eye to world-class companies like this one that should be able to decently grow with sustainable profitability, says Andrew Foster. On his $3 billion estimate of normalized annual free cash flow, the shares after subtracting net cash and financial holdings now trade at a free-cash-flow multiple of less than 2x.

Sources: Company reports, other publicly available information

You can't talk about a Korean stock without asking about corporate governance. How would you rate that here?

AF: I'd say it's a mixed story, leaning toward positive. The company is still significantly overcapitalized relative to its ongoing operational needs, but it does pay a dividend and appears committed to continuing to buy back stock. One positive is that they've actually articulated a policy concerning shareholder return of capital. Are the amounts sufficient? No, but having a policy is at least a step in the right direction.

From today's share price of ₩217,500, how are you looking at valuation?

AF: Translating the numbers into dollars, today's market cap is around $15 billion. There's roughly $6 billion of net cash on the balance sheet and the Hyundai Motor stake is worth about $4 billion. So the enterprise value after subtracting cash and the Motor stake is only $5 billion or so. That's already low relative to the nearly $2 billion in annual free cash flow the business currently produces, and even lower relative to the $3 billion we believe it can produce on a normalized basis within the next few years. On that number today you're paying less than 2x free cash flow.

I don't know exactly what the right valuation should be, but I'm confident it's sufficiently higher than the current level that from re-rating and continued growth we should be able to earn an attractive return over time on the stock. I'm also not worried about catalysts to realize value. I care more about finding companies that can decently grow with sustainable profitability, and whose stocks are cheap enough to make them relatively immune to economic and cyclical risks. If there's sufficient potential for all that to happen, I'm happy to be patient and wait. I don't necessarily need to know how and when it's going happen. VII

Disclosures

Seafarer Overseas Growth and Income Fund
Total Returns as of 3/31/23

	NAV / Index Level (3/31/23)	YTD	1 Mo	3 Mo	1 Yr	Annualized 3 Yr	5 Yr	7 Yr	10 Yr	Since Inception	Cumulative Since Inception	Inception Date	Gross Expense Ratio[1]
SFGIX (Investor Class)	$11.72	3.99%	2.90%	3.99%	-5.30%	12.44%	1.96%	4.87%	3.90%	5.07%	73.28%	2/15/12	0.97%
SIGIX (Institutional Class)	$11.79	3.97%	2.88%	3.97%	-5.18%	12.57%	2.07%	4.97%	4.02%	5.19%	75.49%	2/15/12	0.87%
Morningstar Emerging Markets Net Return USD Index[2]	2880.83	3.55%	2.68%	3.55%	-10.05%	9.88%	0.21%	5.55%	2.67%	2.57%	32.55%	*n/a*	*n/a*

Fund performance is presented in U.S. dollar terms, with U.S. jurisdiction distributions reinvested on a gross (pre-tax) basis. For the Morningstar 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/performance.

[1] Seafarer Capital Partners, LLC has agreed contractually to waive and/or reimburse fees or expenses in order to limit Total Annual Fund Operating Expenses After Fee Waiver / Expense Reimbursements (inclusive of acquired fund fees and expenses, and exclusive of brokerage expenses, interest expenses, taxes and extraordinary expenses) to 1.15% and 1.05% of the Fund's average daily net assets for the Investor and Institutional share classes, respectively. This agreement shall continue at least through August 31, 2023.
[2] The Morningstar Emerging Markets Net Return USD Index is an index that 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. It is not possible to invest directly in an index.

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 may be obtained 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 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.

The Seafarer Overseas Growth and Income Fund seeks to provide long-term capital appreciation along with some current income; it also seeks to mitigate adverse volatility in returns.

As of March 31, 2023, Hyundai Mobis Co., Ltd. comprised 4.7% of the Seafarer Overseas Growth and Income Fund, and Xinhua Winshare Publishing and Media Co., Ltd. comprised 1.1% of the Fund. As of March 31, 2023, the Fund did not own shares in Bajaj Finance, Remgro, GMexico Transportes, Companhia Brasileira de Distribuicao, Hyundai Group, Hyundai Motor, Kia Corp., or General Motors. View the Seafarer Overseas Growth and Income Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ogi/composition. Holdings are subject to change.

The currency for the stock price shown on the "Price History" chart is: KS:KRW (Hyundai Mobis) – South Korean Won (₩**).**

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.

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.

Enterprise Value: the aggregate value of a company as an enterprise. Enterprise value is equivalent to the sum of the capitalization of the company's debt and its equity, less cash and cash equivalents. Enterprise value measures how much a potential acquirer would pay to take over the company.

Free Cash Flow: operating cash flow minus capital expenditures.

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.

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

Net Profit Margin: a ratio of profitability calculated as net income divided by revenues. It measures how much of each dollar earned by the company is translated into profits.

Non-captive Sales: the process of selling products or services to customers who have the ability to choose from multiple suppliers or vendors.

Operating Profit Margin: a ratio of profitability calculated as operating profit divided by revenues.

Price to Earnings (P/E) Ratio: the market price of a company's common shares divided by the earnings per common share. The Price to Earnings ratio may use the earnings per common share reported for the prior year or forecast for this year or next year (based on consensus earnings estimates).

Renminbi (RMB): the official currency of the People's Republic of China.

State-owned Enterprise (SOE): a legal entity that is created by the government in order to participate in commercial activities on the government's behalf. A state-owned enterprise can be either wholly or partially owned by a government.

The Seafarer Overseas Growth and Income 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.