SEAFARER OVERSEAS VALUE FUND

Portfolio Review

First Quarter 2024

Paul Espinosa
Portfolio Manager

During the first quarter of 2024, the Seafarer Overseas Value Fund returned 1.22%.[1,2] The Fund's benchmark indices, the Morningstar Emerging Markets Net Return USD Index and the Bloomberg Emerging Markets Large, Mid, and Small Cap Net Return USD Index, returned 2.22% and 1.39%, respectively. By way of broader comparison, the S&P 500 Index returned 10.56%.

The Fund began the quarter with a net asset value of $13.95 per share. It paid no distributions during the quarter and finished the period with a value of $14.12 per share.[3]

Performance

The forces that dominated the Value Fund's performance during the quarter correspond to two salient characteristics of the Fund: its investment in stocks off the radar of mainstream international investors, and its holdings in China.

> The top two contributors to Fund performance share the Segregated Market category as their source of value.

The top two contributors to Fund performance share the Segregated Market category as their source of value within Seafarer's value classification system. They are both located in the country of Georgia, an "off the beaten path" country for many emerging market investors. The stock price of **Georgia Capital** (Breakup Value and Segregated Market sources of value; see Figure 1 for definitions of the sources of value referenced in this review), a conglomerate operating in the country, appreciated meaningfully during the quarter probably due to a market recognition of long-standing fundamental characteristics: a track record of well-thought capital allocation, low valuation, and an ongoing share buyback program. Capital allocation also drove the share price of **Bank of Georgia** (Asset Productivity and Segregated Market), the largest bank in Georgia, which deployed its excess capital to acquire a leading bank in neighboring Armenia. This all-cash acquisition provides Bank of Georgia with a growth driver beyond its home country without

This portfolio review addresses the first quarter of 2024 (1/1/24 to 3/31/24). As of 3/31/24 the annualized performance of the Fund's Institutional class was: 1 year 9.28%, 3 year 5.59%, 5 year 7.35%, 7 year 6.44%, and since inception (5/31/16) 7.28%[1]; the net expense ratio was 1.05% and the gross expense ratio was 1.18%. 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.

reducing its dividend policy, taking on debt, or diluting shareholders.

Interestingly, even though the Value Fund consciously minimizes direct exposure to commodity prices, natural gas was the common denominator of two other top contributors to performance. **Qatar Gas Transport** (Deleveraging and Segregated Market), an owner and operator of transport vessels for liquified natural gas (LNG), appreciated meaningfully during the quarter following the announcement that it will expand its fleet, thus adding a growth element to its steady dividend stream. Another Fund holding, **Petronet LNG** (Asset Productivity), India's largest LNG import terminal operator, is benefitting from higher capacity utilization and earnings as the global cost of natural gas declines and makes energy imports more affordable to India.

Finally, it's notable that **Samsung C&T** (Breakup Value), a South Korean construction and engineering company and the de facto holding company for the Samsung Group, continued its positive contribution to Fund performance from the fourth quarter of 2023 to the first quarter of 2024. Even though the shareholder activist campaign aimed at improving governance and unlocking the value of the company's asset base had its proposals voted down in a shareholder meeting in March, the company's stock price maintained much of its gains through the end of the quarter, probably on the view that improved corporate governance is forthcoming nevertheless.

The common denominator to the Fund's top performance detractors was China. The country's return to various global supply chain systems impacted by its draconian pandemic lockdown meant that Fund holding **UPL** (Asset Productivity and Breakup Value) – an India-based multinational agricultural chemicals company – suffered from price competition related to the increase in Chinese supply, leading to negative earnings for the fourth quarter of 2023. The profitability of Fund holding **Siam Cement Group** (Asset Productivity and Breakup Value), a Thailand-based industrial conglomerate that operates in Southeast Asia, also declined as Chinese petrochemical production ramped up.

While China's return to the global supply chain reverberated in earnings internationally, the profitability of several of the Fund's China holdings recovered in the first full calendar year following the re-opening of the country in late 2022. The EBITDA of **Melco International** (Asset Productivity and Breakup Value), a casino owner and operator in Macau, as well as the net income of **Shangri-La Asia** (Breakup Value and Asset Productivity), a hotel owner and operator in Asia, shifted from negative to positive, as did the general guidance for future performance. Shangri-La went further by restoring the dividend it had suspended during the pandemic lockdown. Still, the share prices of both companies declined, and ranked among the top detractors to the Fund's performance during the quarter. In my view, this share price behavior, within the context of recovering profitability, is symptomatic of a strong negative country factor influencing the market's valuation of these companies, overriding company-specific fundamentals.

Allocation

During the quarter the Value Fund neither added nor exited any holdings.

Outlook

The only match to the recent popularity of Artificial Intelligence as a topic of conversation in and out of the office is China's unpopularity in the financial markets. The juxtaposition of the former topic driving exponential stock price behavior for a select group of stocks with the latter country's underperformance relative to the overall emerging markets inspired some soul searching regarding the nature of investment and diversification. Far from claiming to have answers, I hope the following observations will provoke a thoughtful response from the reader.

A few quick queries on the Bloomberg terminal on a lazy Sunday afternoon yielded the following data points: as of March 29, 2024, the Information Technology sector represented 28.04% of the Bloomberg United States Large, Mid, and Small Cap Net Return Index, whereas China represented 28.92% of the Bloomberg Emerging Markets Large, Mid, and Small Cap Net Return USD Index (Hong Kong would add 0.83% to that figure).

While these numbers are large in absolute terms, investors are accustomed to the idea that one sector can represent roughly a quarter of an index (financials have historically played this role in emerging markets), and China took over the number one spot for largest country in emerging market indexes many years ago.

Where it gets interesting is when one asks how many sectors or countries it takes to account for at least 50% of an index. In the case of the Bloomberg U.S. index, it's only three sectors: Information Technology (28.04%), Financials (13.31%), and Health Care (12.39%). It's a similar case for the Bloomberg EM index, with the top three geographies accounting for 61.40% of the index: China (28.92%), India (17.67%), and Taiwan (14.81%).[4]

Investors have traditionally sought to maximize risk-adjusted returns through diversification, and asset managers have historically defined diversification along country and sector lines. Few would place over 50% of one's portfolio in three stocks; yet the risk tolerance for country and sector concentrations seems at odds with this idea.

In light of the above figures, one could rhetorically ask if any investor would place over 50% of his or her portfolio in three stocks.

I suspect most investors are attracted to passive or index-based investing guided by the belief that diversification adds more value to risk-adjusted returns than bottom-up stock selection. While empirical data may well have justified said belief in the past, I wonder if it would do the same today and going forward, given the benchmark concentrations.

Along the same line of thought, one could also question the objective of the Capital Asset Pricing Model (CAPM), which seeks to diversify away company-specific risk, in order to profit solely from market risk. Is it still in investors' interest to capture the market risk represented by benchmarks? One could further the argument by asking if it is in investors' interest to only capture market risk in their portfolios when global markets have been subject to the influence of historically unprecedented monetary policy for so long?

Beyond offering the foregoing food for thought, I would put forward the idea that while no long-only equity portfolio can completely eschew market risk, it can strive to minimize it. In my view, the Value Fund courts more company-specific risk than market risk by virtue of its stock selection process along the seven categories of value. Time will tell whether this discipline yields superior results to diversification along benchmark or country/sector lines. What I can say, however, is that diversifying investor allocations that have traditionally courted market risk with strategies that pursue returns more dependent on company-specific risk factors appears sensible given the current investment context. Something to ponder on the next lazy Sunday afternoon.

The Value Fund courts more company-specific risk than market risk by virtue of its stock selection process along the seven categories of value.

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 10, 2024

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 1.15% 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 $13.91 per share; and it finished the quarter with a value of $14.07 per share.

[4] Source: Bloomberg.

Glossary

EBITDA: an acronym that refers to "Earnings Before Interest, Taxes, Depreciation and Amortization," calculated as operating revenues less operating expenses (excluding interest, taxes, depreciation and amortization). EBITDA is used as a very rough proxy for a company's ability to produce gross cash flow (cash flow itself being a proxy for a company's profitability). Analysts often utilize EBITDA because it is easy to calculate, and because it is fairly comparable from one company to another. EBITDA is a very superficial, basic measure, and consequently it might not always serve as an accurate guide to a company's long-term profitability; however, one of its chief benefits is that it precludes many of the accounting and financial decisions that a company's management might utilize to influence (or even distort) ordinary operating profits.

SEAFARER®
seafarerfunds.com

For More Information

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

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