Value Investor INSIGHT

The Leading Authority on Value Investing

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Bottoms Up

One key reason to invest with a margin of safety, as Ben Graham wrote, is to compensate for the potential of "worse than average luck." How should Anheuser-Busch InBev shareholders be thinking about that after recent events?

The details of the controversy surrounding Bud Light are likely well known to even casual followers of the news in the U.S.: Representatives of the Anheuser-Busch InBev brand in March sent a personalized can of Bud Light to transgender social-media influencer Dylan Mulvaney, who later commented favorably on the fact on Instagram. The anti-trans backlash that followed led to calls for a U.S. boycott of the brand, which gained enough traction to significantly impact its U.S. sales. A-B InBev's stock, trading in the mid-$60s prior to the boycott taking hold, fell below $54, near where it remains today.

Suffice it to say that this issue was not on Paul Espinosa's mind when the Seafarer Capital Partners' portfolio manager made the case for A-B InBev's stock at the end of last year [*VII*, December 30, 2022]. He saw significant potential for the company to increase margins as it capitalized on its pricing power and also rolled out globally a variety of successful local-market operating initiatives. At the same time he expected the company to continue paying down debt incurred from its 2016 acquisition of SABMiller, shifting future cash flows from debt holders to equity holders and unlocking shareholder value.

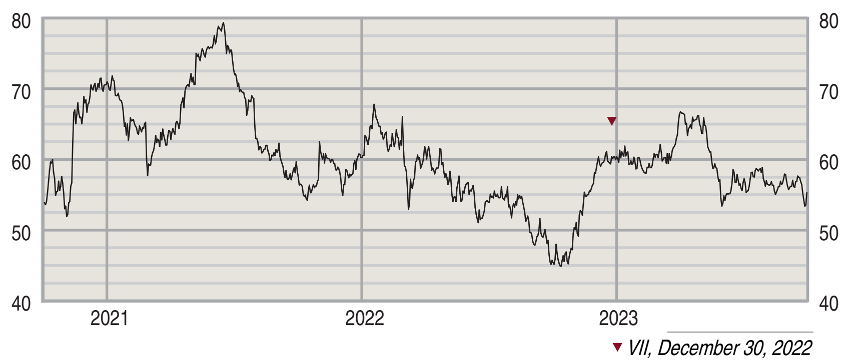
Espinosa says the Bud Light controversy hasn't impacted his view of A-B InBev's stock and will likely prove to be "just a distraction." The company's U.S. results have been impacted – EBITDA in the U.S. was down 24% year over year in the second quarter – but data from the third quarter so far would indicate the impact, while still present, is waning. Even if time doesn't heal much of the recent wounds, he argues the ultimate impact won't be that consequential. Bud Light has declined in importance to the company, now accounting for 7% of global sales volume, down from 15% ten years ago. Drivers of future growth also reside elsewhere. It's telling, he says, that despite the controversy management hasn't changed its overall guidance for 2023, as improved performance in other parts of the world – some 60% of the company's operating profits are earned in emerging markets – has compensated for the travails in the U.S.

At 17x forward earnings, Espinosa believes the shares trade today at an unwarranted discount to many U.S. consumer-

INVESTMENT SNAPSHOT

Anheuser-Busch InBev
(NYSE: BUD)

BUD PRICE HISTORY



Share Information (@9/29/23):

Price	**$55.30**
52-Week Range	$44.51 – $67.09

Valuation Metrics (@9/29/23):

	BUD	S&P 500
P/E (TTM)	18.9	20.0
Forward P/E (Est.)	16.9	19.9

ORIGINAL BOTTOM LINE – December 30, 2022

Paul Espinosa sees upside for shareholders both from continued deleveraging of the company's balance sheet and from higher margins as new operating initiatives started during the pandemic roll out on a global basis. He expects higher earnings and significant capital return to drive a mid-teens rate of return on the shares over the next five years.

NEW BOTTOM LINE

This year's Bud Light backlash in the U.S. is likely to prove "just a distraction," says Paul Espinosa, who believes incremental gains outside the U.S. and continued balance-sheet deleveraging make the shares more attractive today than they were pre-controversy.

Sources: Company reports, other publicly available information staples stocks that earn 20x-plus multiples, and he still expects deleveraging to translate into big upside for shareholders. If the company as he expects reaches its target net debt to EBITDA level of 2x within the next three years or so, it will have close to $9 billion in annual cash flow that is now going to pay down debt available to return to shareholders. He says the company could easily triple its $2.4 billion annual dividend payment and spend additional billions to buy back shares. At that point he estimates the dividend yield plus the free-cash-flow yield on the stock would likely translate into a prospective low-teens annual return on the stock. There's upside from there if the shares re-rate to bring down the dividend yield or to more closely match peers. "I was actually hoping the stock would go down more on the Bud Light news," he says. VII

Disclosures

Seafarer Overseas Growth and Income Fund
Total Returns as of 9/30/23

						Annualized					Cumulative		
	NAV / Index Level (9/30/23)	YTD	1 Mo	3 Mo	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Since Inception	Since Inception	Inception Date	Gross Expense Ratio[1]
SFGIX (Investor Class)	$11.70	5.35%	-2.82%	-2.09%	16.57%	3.07%	4.19%	3.97%	4.17%	4.96%	75.54%	2/15/12	0.99%
SIGIX (Institutional Class)	$11.78	5.43%	-2.73%	-2.00%	16.67%	3.19%	4.30%	4.08%	4.30%	5.08%	77.95%	2/15/12	0.89%
Morningstar EM Net Return USD Index[2]	2879.29	3.50%	-2.17%	-1.66%	13.10%	0.56%	2.02%	4.13%	2.96%	2.45%	32.48%	*n/a*	*n/a*
Bloomberg EM Large, Mid, and Small Cap Net Return USD Index[3]	1336.60	2.48%	-2.30%	-1.97%	10.43%	-0.17%	2.23%	4.35%	3.33%	2.87%	38.92%	*n/a*	*n/a*

Seafarer Overseas Value Fund
Total Returns as of 9/30/23

						Annualized					Cumulative		
	NAV / Index Level (9/30/23)	YTD	1 Mo	3 Mo	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Since Inception	Since Inception	Inception Date	Net Expense Ratio[1]
SFVLX (Investor Class)	$13.62	7.75%	-1.38%	-0.44%	18.25%	11.90%	6.21%	6.62%	*n/a*	6.77%	61.66%	5/31/16	1.15%
SIVLX (Institutional Class)	$13.66	7.73%	-1.44%	-0.51%	18.35%	12.00%	6.30%	6.73%	*n/a*	6.87%	62.79%	5/31/16	1.05%
Morningstar EM Net Return USD Index[2]	2879.29	3.50%	-2.17%	-1.66%	13.10%	0.56%	2.02%	4.13%	*n/a*	5.69%	50.04%	*n/a*	*n/a*
Bloomberg EM Large, Mid, and Small Cap Net Return USD Index[3]	1336.60	2.48%	-2.30%	-1.97%	10.43%	-0.17%	2.23%	4.35%	*n/a*	5.83%	51.49%	*n/a*	*n/a*

Gross expense ratio: 1.28% for Investor Class; 1.18% for Institutional Class[1]

Fund performance is presented in U.S. dollar terms, with U.S. jurisdiction distributions reinvested on a gross (pre-tax) basis. For the Morningstar and Bloomberg indices, 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, 2024.

[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.

[3] The Bloomberg Emerging Markets Large, Mid, and Small Cap Net Return USD Index is a float market-cap-weighted equity index that covers 99% of the market capitalization of the emerging markets. Index code: EMLSN. 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. The Seafarer Overseas Value Fund seeks to provide long-term capital appreciation.

As of September 30, 2023, Anheuser-Busch InBev SA comprised a 1.5% weight in the Seafarer Overseas Growth and Income Fund and a 2.0% weight in the Seafarer Overseas Value Fund. View the Seafarer Overseas Growth and Income Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ogi/composition. View the Seafarer Overseas Value Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ovl/composition. Holdings are subject to change.

The currency for the stock price shown on the "Price History" chart is: BUD:USD (Anheuser-Busch InBEv) – United States Dollar ($)**.**

Deleveraging: the act of repaying debt, or the act of becoming less reliant on debt.

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.

EBITDA: an acronym that refers to "Earnings Before Interest, Taxes, Depreciation and Amortization." It is calculated as follows:

*EBITDA = Operating Revenues **–** 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.

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.

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).

S&P 500 Total Return Index: a stock market index based on the market capitalizations of 500 large companies with common stock listed on the NYSE or NASDAQ. It is not possible to invest directly in an index.