



Excerpt from the *Seafarer Funds Annual Report*

Letter to Shareholders

Period Ended April 30, 2019

Michelle Foster

Chief Executive Officer

Nicholas Borst

Vice President and
Director of China Research

Dear Fellow Shareholders,

We are pleased to address you on behalf of the Seafarer Funds. This report covers the Funds' 2018–19 fiscal year (May 1, 2018 to April 30, 2019).

Steady Amid Volatile Market Conditions

The past fiscal year was a volatile one for emerging markets. Buffeted by economic concerns, trade disputes, and a slowdown in corporate earnings, emerging market stocks corrected significantly during the course of the year. Markets have stabilized somewhat in recent months, but substantial uncertainties remain, notably as political and economic tensions between the U.S. and China have begat a so-called “trade war.”

Assets under management contracted at Seafarer Capital Partners, LLC (the Adviser to the Seafarer Funds) during the year. Though that decline was not without challenges, Seafarer continues to manage its finances and resources with care, and consequently the Adviser was prepared for such volatility. The firm continues to invest in personnel and resources in order to better serve the Funds. Over the past year, Seafarer implemented new technology for investment research, trading and operations, liquidity management, information security, and digital collaboration. These systems increase our team's efficiency, while expanding our global research, portfolio construction, risk management, and trading capabilities.

Amid the continued volatility that has characterized emerging markets, we are confident that we have assembled an experienced team at Seafarer that can face the challenges ahead. We remain dedicated to delivering an investment experience to our clients that is founded on long-term performance, low costs, transparent communications, and whenever possible, risk adjusted returns.

We are honored by the trust each shareholder has placed in us, and we will continue to work to earn that trust.

Growth and Income Fund Restructuring

During the fiscal year, Seafarer undertook a restructuring of the Seafarer Overseas Growth and Income Fund, principally by promoting Paul Espinosa and Inbok Song to Lead Portfolio Managers alongside Andrew Foster. Andrew has discussed the rationale for the restructuring in depth in preceding portfolio reviews;¹ it was also addressed in a [Message to Shareholders dated August 2018](#).² The principal objective was to better balance the Fund's portfolio construction, drawing on Paul and Inbok's specialty skills to add new value-oriented and growth-oriented positions to the Fund.

The shift in the portfolio resulted in turnover that was elevated relative to preceding years: 52% for the fiscal year ended April 30, 2019. Andrew has expressed his satisfaction that the modifications to the Fund's management structure and portfolio construction have placed the Fund's strategy on firmer footing, though the merits of the reorganization will only be demonstrated over time. It is important to note that the restructuring did not entail changes to Seafarer's research process or to the Fund's investment objectives. Seafarer continues to utilize bottom-up security selection to construct a portfolio that offers a broad balance between prospective growth and current cash flow. The Fund still aims to offer exposure to the growth potential of the emerging markets along with some current income (typically dividends from common stocks), while seeking to mitigate adverse volatility in returns.

Once the restructuring was completed in November 2018, the Growth and Income Fund's Institutional Class re-opened to new investors. As stated in a [Message to Shareholders](#),³ Seafarer believes the Fund has additional capacity to accept new assets, and also believes that it is in the best interest of long-term shareholders to restore the balance between subscription and redemption activity.

For those shareholders who have persevered in your investment with the Fund through the portfolio restructuring, we thank you for your patience and trust.

Value Fund Approaches its Three-Year Anniversary

The Seafarer Overseas Value Fund was launched on May 31, 2016 under the management of Paul Espinosa. In the white paper [On Value in the Emerging Markets](#),⁴ Paul posited that the value opportunity in the emerging markets is both large and compelling. He identified seven distinct sources of value in emerging markets that may give rise to viable opportunities for long-term, value-oriented investments.

The Value Fund aims to exploit certain long-term structural changes in the developing world – changes that we believe will force various companies to realize a portion of the value that is embedded in their balance sheets. The strategy is founded on the premise that some shares have been overlooked because markets favor rapid growth prospects over balance sheet analysis.

As we approach the three-year anniversary of the Value Fund, we note that the market environment of the past three years has been exceptionally favorable to growth stocks and correspondingly difficult for value investors of all types. Nonetheless, we believe Paul has selected unique and compelling value opportunities for the Fund. The Fund's performance has displayed little correlation with the overall market, reflecting Paul's distinctive approach to bottom-up stock picking. We look forward to the continued development of the Value Fund.

Emerging Markets Insights

Shortly after Seafarer was founded, Andrew Foster wrote a brief essay on the [firm's goals](#).⁵ In that essay, he noted that our abiding goal as an investment adviser is to deliver superior long-term performance to our clients. However, he also noted three ancillary objectives: to increase the transparency associated with investment in developing countries; to mitigate a portion of the volatility that is inherent to the emerging markets; and to deliver lower costs to our clients, over time and with scale. We continue to work toward these three objectives, and we are pleased to provide an update on progress with respect to the first ancillary goal.

At Seafarer we aim to increase the transparency associated with investment in developing countries by producing high-quality research on the emerging markets and communicating it to our clients with candor and clarity. During the past year, we released two whitepapers: [China's Tech Rush: How the Country's Strategic Technology Campaign is Shaping Markets](#)⁶ and [The Evolution of China's Bond Market](#).⁷ We also launched a new blog, [Prevailing Winds](#),⁸ which tracks the economic and financial developments shaping China. Our investment team shared insights from research trips in "Field Notes" from cities such as [Seoul](#),⁹ [Tbilisi](#),¹⁰ [São Paulo](#),¹¹ [Mexico City](#),¹² and [Manila](#).¹³ Two other communications are worth noting. In [testimony to the U.S.-China Economic and Security Review Commission](#),¹⁴ Nicholas Borst, Director of China Research, described the array of challenges facing the Chinese economy and the structural reforms that would help China achieve sustainable economic growth. And in a [video commentary](#),¹⁵ two members of our trading team discussed how China's Stock Connect program is changing the way foreign investors access the A-share market.

Our research team is pursuing several new areas of inquiry that we will share with you in the future. Current research topics include the evolution of the emerging market index and the reform and opening of China's capital markets. As always, we welcome inquiries from shareholders on these and other topics of interest. Please send your questions and comments to contact@seafarerfunds.com.

Expansion of Seafarer's Team

As noted above, Seafarer continues to invest in its personnel. In early 2019, [Tommy Held](#)¹⁶ joined the firm as the Communications Manager. Prior to joining Seafarer, Tommy researched Asian financial and economic developments at

the Federal Reserve Bank of San Francisco. Previously, he worked as an organizer on political campaigns and taught English for four years in India and China.

We are pleased to welcome Tommy to Seafarer. Tommy works with the investment team to organize and disseminate its market commentaries and Fund-related communications. At Seafarer we don't employ a large marketing team or a team of writers. We are committed to delivering insights directly from the individuals who manage your money. We believe that we enhance the quality and substance of our communications by facilitating direct reports from our investment personnel to our clients.

Expense Ratios and Economies of Scale

As described in the [Letter to Shareholders as of April 30, 2017](#),¹⁷ Seafarer has committed to reduce expenses for the Funds, particularly as time and scale afford greater efficiency.

The scale of the Growth and Income Fund declined during the 2018–19 fiscal year, as noted above; this in turn reversed some of the economies of scale that the Fund enjoyed in the prior year. The operating expense ratios for the fiscal year increased to 0.90% and 0.99% for the Institutional and Investor classes, respectively. For reference, the expense ratios were 0.87% and 0.97% for the respective classes during the preceding fiscal year.¹⁸

If the Growth and Income Fund's assets expand in the future, we expect the Fund will realize greater economies of scale for shareholders, and the Fund's expense ratio will likely decline in accordance with Seafarer's long-term goals.

Compared to the Growth and Income Fund, the Value Fund's smaller scale does not yield an equivalent degree of cost efficiency. However, Seafarer has established the same underlying expense structure for both Funds. Should the Value Fund's assets grow over time, it is expected to achieve similar economies of scale. In the meantime, Seafarer continues to "cap" the Fund's operating expenses via a contractual commitment, such that its net expense ratios remain 1.05% and 1.15% for the Institutional and Investor classes, respectively.¹⁹

Thank you for entrusting us with your capital. We are honored to serve as your investment adviser in the emerging markets.

Sincerely,

Michelle Foster
Chief Executive Officer

Nicholas Borst
Vice President and Director of China Research

May 15, 2019

¹ See the Growth and Income Fund portfolio reviews for second quarter 2018 (www.seafarerfunds.com/funds/ogi/portfolio-review/2018/06/Q2#outlook) and third quarter 2018 (www.seafarerfunds.com/funds/ogi/portfolio-review/2018/09/Q3#allocation).

² www.seafarerfunds.com/message-to-shareholders/2018/08/31/

³ www.seafarerfunds.com/message-to-shareholders/2018/11/13/

⁴ www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets/

⁵ www.seafarerfunds.com/ask-seafarer/#what-are-the-firms-goals

⁶ www.seafarerfunds.com/commentary/chinas-tech-rush/

⁷ www.seafarerfunds.com/commentary/the-evolution-of-chinas-bond-market/

⁸ www.seafarerfunds.com/prevailing-winds/

⁹ www.seafarerfunds.com/field-notes/seoul/2019/Q1/

¹⁰ www.seafarerfunds.com/field-notes/tbilisi/2018/Q4/

¹¹ www.seafarerfunds.com/field-notes/brazil/2018/Q4/

¹² www.seafarerfunds.com/field-notes/mexico/2018/Q4/

¹³ www.seafarerfunds.com/field-notes/manila/2018/Q2/

¹⁴ www.seafarerfunds.com/prevailing-winds/2019/02/china-commission-testimony/

¹⁵ www.seafarerfunds.com/video/2019/05/chinas-stock-connect/

¹⁶ www.seafarerfunds.com/team/?tommy-held

¹⁷ www.seafarerfunds.com/letters-to-shareholders/2017/04/annual#cost-reduction

¹⁸ The Growth and Income Fund's Prospectus (dated August 31, 2018) states that the Fund's expenses are 0.87% and 0.97% for the Institutional and Investor classes, respectively.

¹⁹ 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 each Fund's average daily net assets for the Investor and Institutional share classes, respectively. This agreement is in effect through August 31, 2019.

Glossary

Chinese A-Shares: a class of securitized common stock in Chinese companies, traded exclusively on Chinese stock exchanges (i.e., Shanghai and Shenzhen), and denominated in renminbi, China's currency. Historically, the renminbi was subject to strict controls, such that foreign (i.e., non-Chinese) investors were not able to obtain or use the currency for financial purposes (i.e. savings or investment). Because of this constraint on the currency, A-shares were historically inaccessible to foreign investors, de facto: foreigners could not legally obtain renminbi for portfolio investment purposes, and therefore they could not fund any purchase of A-shares. Beginning in 2002, China liberalized the use of the renminbi for investment purposes, allowing selected, large foreign institutions to apply for Qualified Foreign Institutional Investor (QFII) status. Foreign institutions granted QFII status can legally purchase renminbi under a quota scheme, and that renminbi can be used to fund the purchase of A-shares and other financial assets within China. Beginning in 2014, China launched a second program known as the "Stock Connect;" this program allows foreign investors to purchase selected A-shares on the Shanghai or Shenzhen exchanges.

A-shares are not to be confused with H-shares (Chinese companies incorporated in China, but listed in Hong Kong) and ordinary Hong Kong-listed companies of Chinese origin (Hong Kong incorporated, and Hong Kong-listed, but with substantial economic ties to mainland China).

If a Seafarer Fund is invested in Chinese A-Shares, please note the following: 1) any reduction or elimination of access to A-Shares could have a material adverse effect on the ability of the Fund to achieve its investment objective; and 2) uncertainties regarding China's laws governing taxation of income and gains from investments in A-Shares could result in unexpected tax liabilities for the Fund, which could adversely impact Fund returns.

Portfolio Turnover: a measure of how frequently assets within a portfolio are bought and sold. Measured as the lesser of long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.



For More Information

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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.*