June 30, 2015

Value Investor INSIGHT

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Well Traveled

Investing in emerging markets requires a keen eye for growth and a sensitive nose for risk, traits Andrew Foster has parlayed into considerable success.

INVESTOR INSIGHT

Andrew Foster
Seafarer Capital Partners

Investment Focus: Seeks companies with seasoned business models and solid – if unexciting – growth prospects in markets where those traits can be unappreciated.

While it's been somewhat of a rough go for emerging-markets investing in the three years since he started Seafarer Capital Partners to do just that, Andrew Foster has no regrets over timing. "When things aren't ideal is exactly the best time to launch," he says.

His investors would likely concur. After a long, market-beating tenure at Matthews Asia, Foster since launching Seafarer in February 2012 has earned a net annualized 9.6%, vs. 1.2% for the MSCI Emerging Markets Index.

With a strategy meant to mitigate some of the volatility inherent in investing in less-developed markets, he's finding opportunity today in such areas as dental benefits, educational publishing, apparel and office equipment. See page 2

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Investor Insight: Andrew Foster

Andrew Foster of Seafarer Capital Partners explains how he walks the line between value and growth in investing in emerging markets, why he cares about dividends, why his tolerance is higher for imperfect political and corporate-governance environments, and why he sees unrecognized value today in OdontoPrev, Xinhua Winshare, Texwinca and Sindoh.

You have taken somewhat of a hybrid growth/value approach to investing in emerging markets. Describe the thinking behind that.

Andrew Foster: The backbone of the idea was that employing a classic Graham-and-Dodd style approach in emerging markets wouldn't work very well. If you're predominantly looking for unrecognized value that has already been created and reflected in a company's balance sheet rather than its future income statement, the problem is that a lot of these places don't have sufficient legal, accounting, stock-exchange, regulatory and even cultural protections in place to support a minority investor sitting patiently and waiting for value to be unlocked. Our strategy tries to find companies that do have a lot of value associated with them, but where new value created by growth is very important as well.

We look for companies with seasoned business models that have proven capable of producing consistent cash flow and cash-flow growth over long periods of time. Quantitatively that tends to mean companies growing revenues at 7% to 15% per year, which is often below what many investors are looking for in emerging markets. I think these markets to a small but important degree structurally overprice high growth and underappreciate sustainable growth, liquidity and solvency. Usually what happens is that investors who have crowded into a company's shares thinking it's going to grow faster than it actually does will then dump it in disappointment. That's often when we get involved.

So we're trying to harness the secular growth we believe exists in the emerging world, but do it in a way that reduces volatility versus the standard, index-like basket. That means finding growth equities trading at lower valuations. It means focusing on companies with healthy balance sheets and that pay dividends. It means investing in less-volatile instruments like preferred stock and convertible bonds. These markets are so volatile that they encourage people to invest at the highs and sell at the lows. We're trying to make them more accessible to the typical investor.

One key change since we last spoke [*VII*, April 30, 2010] is that since I left Matthews and went out on my own I've been applying the strategy not just to Asia, but elsewhere around the world.

ON DIVIDEND PAYERS:

They signal to us that a company is more liquid, more solvent, and more likely to survive difficult periods.

Talk more about the focus on healthy balance sheets and dividend payers.

AF: During times of broad macro-economic growth, companies with highly levered balance sheets often generate flattering profits. When those same companies enter a downturn they lose several degrees of freedom, especially in emerging markets that tend to have shallow and easily disrupted capital markets. I simply look for balance sheets that make companies more likely to survive shocks and actually realize the growth we forecast for them in the first place.

Dividends to us provide tangible proof of a company's ability to translate its earnings into liquidity. That signals that the company is more liquid, more solvent and, again, more likely to survive difficult periods. A portfolio of dividend payers, then, should help mitigate volatility in falling markets.

What share of the portfolio do you assign to preferred stock and convertible bonds.

AF: It's opportunity dependent. They're 10-11% of the portfolio today, but my instinctive sense of the sweet spot would be 20-30%. Often we'll identify an issuer we like and then choose the best instrument in the capital structure based on the risk, return and price. In Korea, for example, we often buy preferred shares because they enjoy superior economic rights in terms of dividends or liquidity preference, but they're less expensive because they don't have voting rights that we may not benefit from anyway because there's a large control party. The overall lower weight today in these types of things is a function of living in a world where instruments of more of a fixed-income nature have very little yield on offer.

Are you market-cap agnostic?

AF: Completely, but it's not an accident we end up more in mid-caps – with market caps of $1 to $10 billion – which tend to be 40-50% of the portfolio. The companies that "emerged" first in the emerging world, like commodity firms, telecoms and state-owned banks, often don't have the sustainable growth profiles we're looking for going forward. In small-caps the companies aren't as likely to be seasoned enough to produce the kind of sustainable cash flow we want. Mid-sized firms just more often have the combination of growth and sustainability that appeals to us.

How does a giant company like Samsung Electronics [005930:KS], your second-largest holding as of 4/30, fit the profile?

AF: It meets our standards for growth, until very recently increasing both revenue and cash flow well in excess of 10% annu-

ally for some time. People have been obsessed about the mobile-handset business growing more slowly and becoming less profitable, but the semiconductor business is going from strength to strength and we think overall growth can remain consistent with historical levels. It also has the requisite cheapness embedded in its balance sheet, with nearly 25% of its total market cap in net cash, and the preference shares we own trade at less than 8x earnings, without any adjustment for the cash.

Then we get to a discussion about the control party, the Lee family, which is not famous for the friendliness of its corporate-governance behavior. There is a generational transfer going on from father to son, which recently has been animated by the intervention of a U.S. activist investor, Elliott Associates, which is fighting the merger of two other Samsung Group entities that would help consolidate the Lee family's control over a number of companies under the group's umbrella. Even before Elliott got involved, part of our thesis for Samsung Electronics was that the time had come for the Lee family control to weaken or at least shift toward more generous treatment of minority shareholders. Without being overly dramatic, the outcome here could herald a significant change in corporate governance in Korea, the upside from which we hope to capture in the portfolio.

Is assessing control parties one of the primary aspects of your research?

AF: In the emerging world there are not enough rights and protections afforded minority investors for them to avoid substantial abuse. When regulations, laws and norms are not as well established, you have to compensate by aligning with good actors as control parties, which means in word and deed that they're friendly to minority-holder interests. I'd go so far as to say assessing the control party's intentions are even more important to us than judging the quality of management.

Which is not to say we don't sometimes invest in situations where control parties to a developed-country investor might appear somewhat challenging. For example, we have a position in PGE [PGE:PW], the largest electric utility in Poland. Its stock trades at a free-cash-flow yield of 10% and we believe it's well managed, has the flexibility of an under-levered balance sheet, and operates in a domestic market that appears to have substantial room for demand expansion. But the company is also 60% owned by the Polish government, which from time to time pressures PGE to engage in transactions that support the nation's agenda rather than those of minority shareholders. The good news in this case is that management is often able to get something in return when that happens.

ON COUNTRY RISK:

The transition from a lesser state of existence to a better one is the real growth driver. We try to capture that.

Is it a good rule of thumb to avoid state-controlled enterprises, especially those perceived as "national champions?" Yes. We'll make exceptions when the companies are well run, as with PGE, or the mindset of the control party is changing and we expect the company to be run much better going forward. When that transition actually happens, it can be marvelous for shareholders.

You'll invest in countries that others would deem too risky. How do you think that through?

AF: We want to make sure that the environment surrounding a company is at least not an incredible impediment. One simple decision rule we use is whether or not we're willing to go there. We don't put our investors' capital at risk where we're too concerned for our safety to visit.

I would add, though, that while we carefully consider a country's political environment and governance, we don't aim for some standard of perfection or enlightened governance before we invest. In emerging markets what you're really investing in is progress: people who often are coming from poor and difficult backgrounds who are working hard to improve their living standards. These people often work in countries that have less-than-perfect government regimes and institutional frameworks. So even though the environment may be imperfect, that transition from a lesser state of existence to a better one is what we try to capture in our portfolios. That's the real driver of growth in emerging markets.

By prospectus, we can invest in all emerging markets except Russia. We regularly revisit this, but we've decided to exclude it so far because we see too many challenges – exceeding extreme cases in other parts of the world – with the rule of law, with property rights, and with graft and corruption.

Describe your discipline around generating ideas?

AF: We do a variety of screens, the most basic one identifying stocks trading at less than 2x book value and with a dividend yield in excess of the 10-year Treasury and the local sovereign bond. That's just a basic measure of cheapness and provides a good starting ground. With that we can take our universe, which is roughly 5,000 stocks, down to around 1,000.

We also do more advanced screens that are tailored to finding replacements for what we're looking to sell. We're generally fully invested, but there are five to ten positions at any given time that I've earmarked for replacement, either because they're not performing as we expected or because they've performed exactly as we've expected and the valuation has become expensive. We're not looking so much at replacements from an industry or geographic perspective, but for ideas that when swapped in will improve the valuation, growth and/or risk profile of the overall portfolio.

To digress on this point briefly, one of the things psychologically that can get

you down, especially in value investing, is when you've done all your homework, you know a position is cheap, and then it moves against you. At that point you have to ask yourself whether you made a mistake or whether your work is good and you should buy more or at least hold on for the long term. It helps me simplify things and avoid the psychological traps involved in all of that if I frame it as, "Can I find something better?" All I have to do is make a straightforward decision on whether B is better than A.

One other thing I'd highlight on idea generation is that when we go on a research trip, it's typically for two weeks at a time – I do four of those a year – and we visit 35 to 40 companies. But the impetus for the trip is specifically to see maybe one or two companies, with the rest meant to learn more about an industry, a company or a country. Those incidental visits often lead to new ideas to pursue.

Is there ever a thematic element to your idea generation?

AF: We may identify a theme that warrants investigation – say that a new trade agreement will benefit a given industry – but we'd only test it out based on the tangible impact on specific companies' revenues, costs and balance sheets.

Our biggest overweight from a sector perspective today would be in healthcare, which is only 2% of the index but 11% or so of our portfolio. While all our positions – including OdontoPrev [ODPV3:BZ] in Brazil, Hisamitsu Pharmaceutical [4530:JP] in Japan and Sun Pharma Advanced Research [SPADV:IN] in India – stand on their underlying merits, we generally see a secular tailwind from the fact that healthcare is only 3-4% of GDP in emerging markets, while there's not a rich country in the world that spends less than 7% of GDP on healthcare and most spend in excess of 10%. That supports both the sustainability and magnitude of potential growth.

What's your general approach toward valuation?

AF: We use different valuation tools in different instances, but the one we focus on the most is free-cash-flow yield. There's no set-in-stone rule, but we love to find companies that are able to grow their free cash flow yields from our entry price to at least 10% in our five-year forecast period. The forward free-cash-flow yield of the fund today is about 8.25%, so if I buy something that will grow to over 10%, it will lift the yield of the fund. That's interesting to us.

ON CURRENCY RISKS:

The currency risk in emerging markets does not eventually come out in the wash. It is a negative and structural drag.

We also make intrinsic-value calculations, typically using the Gordon growth model. [*Note*: The Gordon growth model essentially values a company's stock by discounting its estimated future dividends back to the present.] Again, there's no discount-to-intrinsic-value hurdle to make it into the portfolio, but all else equal, if we can sufficiently lower the valuation of the existing portfolio by adding a particular name, we'll look to do so.

You target owning 40 to 60 stocks, although the portfolio recently was near the lower end of that range. Why that level of concentration?

AF: To overcome the emotional and psychological aspects of this business when facing adversity, you have to know your positions well, and that means being relatively concentrated. On the other hand, some level of diversification helps provide liquidity to manage your liabilities, which because I run a mutual fund are on-demand. There are also many risks I can't control that are macro or systematic in nature – ranging from a possible military confrontation with China, to rising interest rates in the U.S., to "Grexit" – so diversification is a defense against the unknown. Our target of 40 to 60 stocks is meant to address all that.

It's very rare that I would allow an individual position to go above 5%. I just can't stomach the volatility that would result if an outsized position collapsed tomorrow when something I didn't envision happened. I'm motivated by fear in this regard.

How do you handle currency risks?

AF: I'll start by saying that even the safest emerging-market currency is risky versus the U.S. dollar. Even more broadly, when one invests in emerging markets the currency risk does not eventually come out in the wash. It is a negative and structural drag on the long-term investor. But it's not terribly large if one is diversified and takes a long-term approach.

We have a model that helps us identify currency risks both of a liquidity nature and a valuation nature. It's a crude model and I don't really believe anyone can really predict these risks terribly well, but it helps us grade currencies to four different levels of risk: green, yellow, orange and red. I use it to constrain the amount of capital we put to work in specific currencies where I see the most pronounced risk. Green is unconstrained. Red we won't invest. Yellow I put a target weighting of 10% and a hard cap of 15%. For orange the target weighting is 5% and the hard cap is 7.5%.

This model doesn't always work perfectly, but it's kept me out of trouble more than not. After a trip in the spring of 2013 I had a number of investable ideas in Turkey, but my model on the Turkish lira was flashing orange going to red. I only added one new position rather than the three I probably would have from a purely bottoms-up perspective. When the lira collapsed I didn't bear as much pain as I would have.

Other than this, I don't hedge. I estimate the long-term drag from owning a diversified basket of emerging-market currencies at 1-2% per annum. If I hedged that to neutral, which isn't always even

possible, I'm convinced it would cost well in excess of that.

You mentioned earlier typically staying fully invested. Why so?

AF: We don't use cash as a haven or as a major tool to avoid market risk for three primary reasons. One, we believe our shareholders are paying us to put their money to work, not to sit on it at a high opportunity cost when we believe emerging-market growth will be nicely positive over long periods. Two, I don't have confidence in my ability to consistently time short-term market cycles. Three, we have a broad enough geographical mandate that I should be able to find growth somewhere in the world that is worthy of investment.

I would only maintain a substantial cash balance if I had absolute certainty – or something very close to absolute certainty – that markets were going to fall sharply. For better or worse, I think it's unlikely I'll have such clarity earlier than the overall market.

Brazil has been fairly inhospitable to investors in recent years. Why are you looking beyond that with your position in dental-benefits provider OdontoPrev?

AF: At the margin, we've been paying closer attention to Brazil, where the stock market has declined in tandem with the currency, the Real. We're finding companies that produce steady profits and are capable of sustained growth but, because of the Real's weakness and negativity around the country in general, are trading at what we think are unreasonable valuations. That's particularly true if you look at their worth expressed in U.S. dollars. We don't know when the headwinds abate and the Real stabilizes – our risk indicator on the currency is now yellow, on the cusp of green – but we're confident we can do well in high-quality businesses held with a long time horizon.

We think OdontoPrev fits that profile. It has a unique business model, providing dental-insurance plans to employers and also providing actual dental services through a network of dentists that it supervises. Dentists operate like independent contractors under its umbrella, meeting a variety of service standards that are managed and maintained centrally.

The model allows them to operate like an insurance company, with the float and related margin from that, but they also have much better control over the cost base. It would be like running an auto-insurance business and also managing the auto-repair shops, where through technology and supervisory oversight you can keep costs in check. That results in higher overall margins.

In addition, the company should capitalize on Brazil being at a point in its economic evolution where employers are increasingly interested in providing enhanced benefits to employees as a competitive differentiator. So on top of a strong business model there is also an important secular source of growth. We think that can translate into 8-10% top-line growth for some time to come.

How do you see that translating into upside for the shares, now trading at just under 10.85 Brazilian Real?

AF: This is one of those growth darlings that has been somewhat abandoned because it's not growing as fast as it once did. But it still has solid growth potential, has no debt and generates significant and consistent free cash flow, nearly 100% of which it pays out through traditional and

INVESTMENT SNAPSHOT

OdontoPrev
(Brazil: ODPV3:BZ)

Business: Leading Brazilian provider of dental-insurance plans, mostly to corporate customers, as well as dental-care services through its own network of dentists.

Share Information
(@6/29/15, Exchange Rate: $1 = 3.119 Real):

Price	**BRL 10.85**
52-Week Range	BRL 8.36 – BRL 12.29
Dividend Yield	1.0%
Market Cap	BRL 5.75 billion

Financials (FY2014):

Revenue	BRL 1.16 billion
EBIT Margin	24.6%
Net Profit Margin	16.8%

Valuation Metrics
(@6/29/15):

	ODPV3:BZ	Russell 2000
P/E (TTM)	27.9	80.3

THE BOTTOM LINE

The company should continue to benefit from a unique vertically integrated business model and the secular tailwind of employers offering a wider range of health benefits, says Andrew Foster. Assuming 8% top- and bottom-line growth, a 4% dividend yield and a 10% discount rate, he estimates the shares' intrinsic value at "well north" of 20 Real.

Sources: Company reports, other publicly available information

tax-preferred dividends. On a basic Gordon growth model, assuming 8% growth, a 4% yield and a 10% discount rate, we arrive at an intrinsic value for the shares well north of 20 Real.

How do you judge the control party here?

AF: The company is more than 50% owned by a subsidiary of Banco Bradesco [BBDC3:BZ], which combined two of the leading players in the market and put OdontoPrev management in charge. We're very comfortable with Bradesco as a control party, and actually own it separately in the portfolio.

We haven't spoken much about China, your largest country exposure at about 20% of assets. Why are you seeing value there in something like educational publisher Xinhua Winshare [811:HK]?

AF: I could go on for some time about China, but to speak generally first, the country's capital markets are not particularly well functioning. There's a lot of liquidity, but it isn't necessarily well allocated on a risk-adjusted basis at risk-adjusted prices. That very well could lead to a blow up in the housing market or the equity market, causing plenty of short-term pain, but it wouldn't mean the Chinese economy is broken forever and it's all fake. I hesitate to speak in absolutes, but I can guarantee China will be a much larger part of everyone's index portfolio in 10 years' time. That doesn't mean "buy China," but it does mean always be on the lookout for specific stocks.

Most of our Chinese investments are in small and mid-sized companies in the service sector. We have only moderate exposure to real estate and no exposure to commodities, industrial cyclicals or banking, all of which have participated in the recent rally, but which we consider exposed to an economic deceleration and potential financial distress. We try to invest in parts of the market where that exposure is more limited.

Xinhua Winshare is one of the largest publishing and media businesses in western China, focused on education-related products such as official study guides, testing materials and documentary videos. It also has a retail arm, selling its products as well as textbooks both in stand-alone stores and door-to-door.

This is a state-controlled enterprise slowly shedding its centrally-planned past. We spoke earlier about the general dangers of having the state as a control party, but in this case we believe there's tangible evidence that the company is moving from an unfocused, non-profit orientation to one that is far more efficient and run in the interest of minority shareholders. It is selling off non-core assets. It's restructuring operations, like its retail business, to make them much more efficient and competitive. Along the way it's built up a surplus of cash and is increasingly returning capital to shareholders. The current dividend yield is over 4% and the mandate is to increase dividends over time.

To digress briefly, people who are wary of China tend to think companies are listed publicly in order to steal capital from naïve Western investors. This may very well be so with private-sector firms, which are sometimes fraudulent, but when the seller is the state the motivation is often much more positive. There's a recognition of the value in putting state assets under the yoke of public-market supervision and the demand for efficiency that follows. It's an intentional desire to give up control and force companies to improve themselves. Xinhua is a case where I believe that is what's happening.

INVESTMENT SNAPSHOT

Xinhua Winshare
(Hong Kong: 811:HK)

Business: Publisher and distributor in western China of books, periodicals, audio-visual and digital products that primarily focus on school and student target markets.

Share Information
(@6/29/15, Exchange Rate: $1 = HK$7.752):

Price	**HK$9.00**
52-Week Range	HK$4.87 – HK$10.80
Dividend Yield	4.2%
Market Cap	HK$10.22 billion

Financials (FY2014):

Revenue	5.27 billion Renminbi
EBIT Margin	10.2%
Net Profit Margin	11.6%

Valuation Metrics
(@6/29/15):

	811:HK	Russell 2000
P/E (TTM)	12.8	80.3

THE BOTTOM LINE

When there's clear evidence that a state-controlled entity like this company is shedding its centrally planned past, the resulting performance improvement can be "marvelous for shareholders," says Andrew Foster. Assuming just 7% annual revenue and free-cash-flow growth, his dividend-discount model pegs current intrinsic value at HK$12 per share.

Sources: Company reports, other publicly available information

With the stock now at HK$9, how do you see that paying off for shareholders?

AF: We're not expecting high growth, but think revenues and free cash flow can steadily increase at least 7% per year as the company sheds low-growth businesses and modernizes operations where it has been traditionally strong. Our dividend-discount model for the shares arrives at a share value north of HK$12, but this is one where we're probably more focused on our seeing the free-cash-flow yield from today's price steadily increasing to in excess of 10% over our five-year horizon. That's an upgrade to the overall portfolio.

Staying in China, describe the case for Texwinca [321:HK].

AF: Texwinca is principally engaged in the production and sale of dyed yarns and knitted fabrics to big customers that have included The Gap, Wal-Mart, Uniqlo and American Eagle. It also manufactures finished garments for others and that it sells in its own Baleno-branded retail stores.

The company had been growing at a high-single-digit to low-double-digit rate, but that has fallen off in the past two years as the retail business got ahead of itself and struggled in certain geographic areas, mostly outside of China. What we like is that management, which is still controlled by the company's founding family, is very hard-nosed and rational and hasn't hesitated to exit areas that aren't working in order to preserve the cash flow of the business. Retail lost money last year, but the latest results suggest that business has stabilized and we think it will improve from here.

The growth we expect in the overall business is a bit below what we typically prefer – 5-6% per year, mainly from organic growth in textiles. What stands out here is the dividend yield, which on a trailing basis is already near 7%. The company has significant net cash on the balance sheet – accounting for more than 20% of today's market cap – and management says it plans to pay out 100% of earnings going forward in dividends. As earnings grow, that would take the dividend yield on today's price even higher.

How inexpensive are the shares at today's HK$8.25?

AF: Based on our Gordon growth model, the shares today trade at a 20-25% discount to intrinsic value. While that's not a huge discount, we think we're conservative in assuming only 5% growth, which likely wouldn't even keep up with GDP growth in China. Even with that lower growth, plus the dividend, shareholders should be well rewarded.

Your investment in Korean office-equipment maker Sindoh [029530:KS] would appear to be even more of a traditional value play. Is it?

AF: I'm glad you asked it that way, because I actually believe the prerequisites for a successful value strategy are slowly but steadily appearing in developing markets. Accounting standards have enormously improved in the past fifteen years, resulting in greater transparency. Legal systems, while still imperfect, enforce greater equality between shareholders than in the past. Local-currency debt markets have grown considerably and in many cases are large enough to efficiently support takeovers and buyouts. Maybe most importantly, large domestic institutional investors – public and private – are starting to get serious about achieving better portfolio returns for their constituents. That has prompted them to demand more

INVESTMENT SNAPSHOT

Texwinca
(Hong Kong: 321:HK)

Business: Producer of dyed yarns, knitted fabrics, casual apparel and accessories. Sold globally at wholesale as well as through company-owned retail stores in China.

Share Information
(@6/29/15, Exchange Rate: $1 = HK$7.752):

Price	**HK$8.23**
52-Week Range	HK$5.90 – HK$9.15
Dividend Yield	6.8%
Market Cap	HK$11.37 billion

Financials (FY2014):

Revenue	HK$9.32 billion
EBIT Margin	6.0%
Net Profit Margin	8.3%

Valuation Metrics
(@6/29/15):

	321:HK	Russell 2000
P/E (TTM)	14.7	80.3

321:HK PRICE HISTORY

THE BOTTOM LINE

The company's management has been "hard-nosed and rational" in addressing issues in its struggling retail business, says Andrew Foster, and has been progressive in returning unneeded cash to shareholders. Including dividends, the shares would deliver a 20% IRR over the next two years if they recovered just to his current estimate of intrinsic value.

Sources: Company reports, other publicly available information

of management in terms of profitability and capital allocation.

We're in the early innings here, but all of that tells us that the time for value has arrived in the developing world. We as a result are increasingly comfortable in looking for the pure value embedded in balance sheets, with Sindoh being an excellent example.

The company manufactures office equipment, including copiers, fax machines and printers. It used to partner with Ricoh, manufacturing products sold under the Ricoh name, but in recent years the companies have slowly parted ways and Sindoh now sells under its own brand name. In an increasingly digital age this isn't a growth business – we expect no better than 2% or so a year – but it has low investment requirements and continues to consistently produce free cash flow.

The story, though, is the balance sheet. Translated into dollars, the company has roughly $500 million in net cash against a current market value of $600 million. On top of that it has two properties, including its headquarters in Seoul, that we believe are worth at least another $200 million. That's a lot of security on the downside.

At the current market price [of 65,600 Won], the stock trades at less than 80% of book value, which we've already established is understated. We think the current cash flow of the business is conservatively worth 20,000 Won per share. Add that 20,000 to the stated book value and the shares would trade in excess of 100,000 Won, 50% above today's price.

INVESTMENT SNAPSHOT

Sindoh
(Seoul: 029530:KS)

Business: Korea-based manufacturer and distributor of office equipment, including copiers, multifunction printers and facsimile machines sold under the Sindoh brand name.

Share Information
(@6/29/15, Exchange Rate: $1 = ₩1,120):

Price	**₩65,600**
52-Week Range	₩64,600 – ₩78,000
Dividend Yield	2.3%
Market Cap	₩661.25 billion

Financials (FY2014):

Revenue	₩480.04 billion
EBIT Margin	1.0%
Net Profit Margin	3.6%

Valuation Metrics
(@6/29/15):

	029530:KS	Russell 2000
P/E (TTM)	37.7	80.3

029530:KS PRICE HISTORY

THE BOTTOM LINE
The company is an excellent example of the type of traditional value play that is becoming more viable in emerging markets, says Andrew Foster. Add the ₩20,000 per share in value he ascribes to the company's current cash flow to its understated per-share book value and the stock would trade at more than ₩100,000, 50% above today's price.

Sources: Company reports, other publicly available information

How do you expect things ultimately to play out here?

AF: In the past I would have avoided something like Sindoh as a value trap, with tons of value on the balance sheet but not enough growth to ensure we'd come out OK in the event the control party refuses to restructure the assets to reward minority shareholders. I'm taking a risk, but I think the backdrop is changing in Korea and that the pressure will build for value to be unlocked. Maybe the next generation of the family that controls the company will seek to divest. Maybe there's a change-of-control transaction. At the discount we're getting, we should be able to be patient.

We're assuming you had a good thing going at Matthews. Why did you decide to start your own firm?

AF: Most of it was just wanting to be part of a manager-owned partnership that I could create on my own. Part of it was also wanting to redefine my circle of competence. I had developed a regional specialty in Asia, much driven around China, but as early as 2009 the writing to me was on the wall that China – despite the seeming consensus at the time – was structurally slowing. There would still be plenty of opportunity, but I didn't want to limit myself to that. I thought the strategy would travel well and wanted to put that into practice.

Your wife Michelle is a co-founder and President of the firm. Had you talked for some time about working together?

AF: She didn't want to put any extra pressure on me, so Michelle said not a word about wanting to work together until the business was just getting started. I was very honored when she said she'd like to join. Earlier in her career she worked at Barclays and while she was there launched an exchange-traded product that competed directly against one of the funds I managed at Matthews. It's nice now to be on the same side. VII

Disclosures

Seafarer Overseas Growth and Income Fund
Performance as of 6/30/15

						Annualized		Cumulative		
	NAV / Index Level (6/30/15)	**YTD**	**1 Mo**	**3 Mo**	**1 Yr**	**3 Yr**	**Since Inception**	**Since Inception**	**Inception Date**	**Net Expense Ratio[1]**
SFGIX (Investor Class)	$12.08	10.85%	-1.80%	2.08%	5.23%	9.79%	8.73%	32.60%	2/15/12	1.25%
SIGIX (Institutional Class)	$12.10	10.94%	-1.78%	2.18%	5.43%	9.94%	8.88%	33.22%	2/15/12	1.05%
MSCI Emerging Markets Total Return Index[2]	1980.54	3.12%	-2.52%	0.82%	-4.77%	4.08%	0.42%	1.44%	*n/a*	*n/a*

30-Day SEC Yield (unsubsidized): SFGIX 1.57%, SIGIX 1.75% (6/30/15)
Gross expense ratio: *1.66%* for Investor Class; *1.51%* for Institutional Class[1]
All performance is in U.S. dollars with gross (pre-tax) dividends and/or distributions reinvested. *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. For current month-end performance, call (855) 732-9220 or visit www.seafarerfunds.com.*

[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 (excluding brokerage expenses, interest expenses, taxes and extraordinary expenses) to 1.25% and 1.05% of the Fund's average daily net assets for the Investor and Institutional share classes, respectively. This agreement is in effect through August 31, 2015.
[2] The MSCI Emerging Markets Total Return 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. It is not possible to invest directly in this or any index.

ALPS Distributors, Inc. is the distributor for the Seafarer Overseas Growth and Income Fund.

Investors should consider the investment objectives, risks, charges and expenses carefully before making an investment decision. This and other information about the Fund is 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 Fund involves risk, including possible loss of principal. International investing involves additional risk. These include risks related to social and political instability, market illiquidity, and currency volatility. Investing in foreign securities may involve certain additional risks, exchange-rate fluctuations, limited liquidity, high levels of volatility, 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. Given the potential increased volatility of the Fund, an investment in the Fund should be considered a long-term investment.*

Diversification does not eliminate the risk of experiencing investment losses.

The views and information discussed by Andrew Foster are as of the date of publication, are subject to change, and may not reflect his current views. All information is historical and not indicative of future results and subject to change. It should not be assumed that an investment in the securities mentioned was or will be profitable in the future. This information is not a recommendation to buy or sell.

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 Fund invests primarily in the securities of companies located in developing countries. The Fund invests in several asset classes including dividend-paying common stocks, preferred stocks, convertible bonds, and fixed-income securities. The Fund seeks to offer investors a relatively stable means of participating in a portion of developing countries' growth prospects, while providing some downside protection compared to a portfolio that invests only in the common stocks of those countries.

As of June 30, 2015, Samsung Electronics Co. Ltd., Pfd. comprised 3.8% of the Seafarer Overseas Growth and Income Fund, PGE Polska Grupa Energetyczna SA comprised 2.5% of the Fund, Odontoprev SA comprised 2.7% of the Fund, Hisamitsu Pharmaceutical Co., Inc. comprised 2.2% of the Fund, Sun Pharma Advanced Research Co., Ltd. comprised 2.3% of the Fund, Banco Bradesco SA comprised 2.5% of the Fund, Xinhua Winshare Publishing and Media Co., Ltd. comprised 2.8% of the Fund, Texwinca comprised 2.9% of the Fund, and Sindoh Co. Ltd. comprised 2.0% of the Fund. Holdings are subject to change.

The currencies for the stock prices shown on the "Price History" charts are as follows: ODPV3:BZ (Odontoprev SA) – Brazil Real (BRL); 811:HK (Xinhua Winshare Publishing and Media Co.) – Hong Kong Dollar (HK$); 321:HK (Texwinca) - Hong Kong Dollar (HK$); 029530:KS (Sindoh) – South Korea Won (₩).

Book Value – the book value of an asset is its value 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.

Discount Rate – a financing rate that measures the prospective time value of money; it can also account for the risk or uncertainty associated with future cash flows. The discount rate is typically used in a discounted cash flow analysis to determine the present value of future cash flows: one dollar of cash flow further in the future (i.e., five years hence) is deemed to be worth less, in present-day terms, than one dollar of cash flow that is nearer in the future (i.e., three years hence); both of these future cash flows are deemed to be worth less still than one dollar of cash flows at the present time. The discount rate is applied to each future cash flow in order to make it comparable (financially equivalent) to a present-day cash flow, controlling for time, risk and uncertainty.

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.

EBIT – an acronym that refers to "Earnings Before Interest and Taxes." It is calculated as follows:

EBIT = Operating Revenues – Operating Expenses (excluding interest and taxes).

EBIT is sometimes referred to as "operating earnings" or "operating profit," and it is often used as a basic measure of a company's "core" profitability. EBIT cancels the effect of different capital structures on profitability: differing capital structures can give rise to differing levels of financial income and expense, and taxation. By referring to EBIT in lieu of net profits, investors might be in better position to gauge a firm's "core" profitability, and to make cross-company comparisons.

EBIT Margin – a measurement of a company's operating profitability. It is calculated as EBIT (Earnings Before Interest and Taxes) divided by operating revenues.

Free Cash Flow – operating cash flow minus capital expenditures.

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.

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.

Intrinsic value – the fair value of an asset (such as a company) based on a comprehensive estimate of all aspects of the asset, including both tangible and intangible factors. An asset's intrinsic value may differ from its current market value. Typically, the intrinsic value of an asset cannot be observed with absolute certainty; often, it must be estimated with some error. As a consequence, it is possible for various market participants to hold differing perceptions of an asset's intrinsic value. Value investors use a variety of analytical techniques in order to estimate the intrinsic value of securities in hopes of finding investments where the true value of the asset exceeds its current market value.

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.

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).

Russell 2000 Index – an index that measures the performance of the small-cap segment of the U.S. equity universe. It includes the 2,000 smallest companies in the Russell 3000 Index. It is not possible to invest directly in this or any index.