SEAFARER

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Fourth Quarter 2017

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Chief Investment Officer

During the fourth quarter of 2017, the Seafarer Overseas Growth and Income Fund returned 7.16%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, rose 7.50%. By way of broader comparison, the S&P 500 Index gained 6.64%.

The Fund began the quarter with a net asset value of $13.01 per share. It paid two distributions during the quarter, for a total of $0.303 per share.[2] These payments brought the cumulative distribution, as measured from the Fund's inception, to $1.781 per share. The Fund finished the quarter with a value $13.63 per share.[3]

During the calendar year, the Fund returned 26.20%, whereas the benchmark index rose 37.75%.[4]

Performance

As is evident from the performance of the Fund's benchmark, the emerging markets rose yet again in the fourth quarter. Recent gains in stock prices have been remarkable: the last quarter of 2017 was the fourth consecutive quarter in which the index rose over 5%. This has only happened three other times in the history of the index: once in the late 1980s, just after the index's establishment; again in 1993; and the most immediately precedent period fell between June 2003 and June 2004. In my opinion, repeated and automatic gains of this sort imply widespread speculation.

Every major economic sector contributed to the index's rise during the quarter. However, like previous periods, Chinese internet stocks made the single greatest contribution to the benchmark's advance. Financial services companies (banks and insurance firms) also contributed to gains, despite rising speculation that the U.S. Federal Reserve (the "Fed") is likely to raise interest rates a number of times during 2018. It appears that investors in the emerging markets are content that central banks in the developing world will ignore the Fed's cues, leaving local interest rates unchanged due to a lack of inflation; such conditions have fed beliefs that low rates will spur growth among leveraged financial companies, such as banks and insurance firms.

Please note: this portfolio review encompasses only the fourth quarter of 2017, and does not offer a thorough discussion of the entire calendar year. The Fund operates on a fiscal year that concludes April 30; as such, Seafarer offers comprehensive performance reviews for the Fund's annual and semi-annual periods, which are published in the Fund's Shareholder Reports in late June and December, respectively. Previous Shareholder Reports are available in the Archives.[5]

In contrast with preceding quarters, the gains of the index were relatively narrow from a geographical perspective. Most countries contributed to the benchmark's gains, but only four made a meaningful impact on performance: China, South Korea, South Africa and India (in descending order).

Against this backdrop, the Fund's performance was not much different from that of the index, as the same four countries accounted for the bulk of its returns in the quarter. The Fund's long-time holding in South African insurer Sanlam led gains during the period; financial stocks in that country performed well after the ANC, the country's ruling political party, elected a new president. Investors cheered at the prospect of reduced corruption and greater stability in the currency and capital markets, spurring the financial sector higher. One of the Fund's largest holdings, auto part maker Hyundai Mobis, saw its shares recover on speculation that its sales in China would soon improve. Lastly, the Fund's long-time holding in Infosys also performed well, as it installed a new CEO, and as it reported resilient growth despite pessimistic forecasts.

Allocation

During the quarter, the Fund quit one holding and added two new ones.

The Fund quit a relatively large holding in Mexico, the bank Grupo Financiero Banorte ("Banorte"). During the quarter, the bank announced its intent to acquire a smaller bank, Grupo Financiero Interacciones SA, for about $1.4 billion. While the proposed transaction was small in relation to the size of Banorte, its revelation was nonetheless worrisome, as both banks are controlled by the same family. During Seafarer's initial research of Banorte several years ago, we identified this same transaction as a possible but relatively remote risk; its realization, while seemingly compliant with local regulations and law, stoked our long-held concerns. The Fund quit the position immediately upon the announcement of the bank's intention, happily after generating substantial capital gains over the holding period.

The Fund also added two new positions: Orion Corporation, a snack and confectionary business based in South Korea, and Grupo Ser Educacional, a for-profit education provider in Brazil. The former company is mid-sized, and it enjoys a long history in Asia producing and distributing snacks and cakes, with dominant market share in several confectionary categories. The company recently underwent what we believe to be an important corporate restructuring, one in which it shed certain non-core assets. This transition should allow Orion to focus on that which we believe matters most: continued expansion into consumer markets beyond South Korea, particularly China and Vietnam, along with the rest of Southeast Asia. If Orion executes on its regional ambitions, we think it can sustain revenue growth and healthy levels of profitability for many years to come.

Ser is a smaller company, with a history that dates to the early 1990s. In its earliest organized form, Ser was launched by a professor-turned-entrepreneur in Recife, Brazil; his aim was to provide preparatory courses for examinations for public sector jobs. Over time, the entity gained scale through the acquisition of other educational institutions, and eventually restructured itself as a for-profit college. The company then expanded beyond Recife to a number of cities within the country, though its operations have yet to reach across the entire nation. Therein lies some of the company's promise: it has the opportunity to grow to national scale, through a mixture of organic expansion and the consolidation of its smaller competitors. Brazil's public undergraduate system is well-respected by the nation's citizens, but it is overwhelmed by demand; the country lacks sufficient financial resources and facilities to educate all of its qualified students. The private sector has organized itself to satisfy the residual demand, and Ser has the opportunity to emerge as one of the leaders in the burgeoning education industry.

Apart from the three aforementioned changes, my aim during the quarter was to shift the Fund toward a marginally more "defensive" posture. For reasons discussed in the subsequent Outlook section of this review, I am concerned that stock prices in the emerging markets may suffer a near term correction, or possibly worse. (By "near term," I mean the next one to three years.)

In response, I sought to harvest gains from stocks that have experienced recent and pronounced appreciation. This has prompted the Fund to reduce its stakes in semiconductor stocks (notably, Samsung Electronics preferred shares; Taiwan Semiconductor Manufacturing Company, or "TSMC"; and Vanguard of Taiwan). It has also meant the Fund has dramatically reduced its holdings in small capitalization stocks that have appreciated sharply (notably Hartalega of Malaysia, Odontoprev of Brazil, and Balkrishna and Cyient of India). The proceeds have mostly been allocated to the new holdings mentioned above (Orion, Ser), and to two China positions that were initiated late in the third quarter (China Telecom, Hengan). There is little that unites the four positions that were the primary recipients of new capital, except that none of them are technology companies.

Outlook

To be blunt: the emerging markets currently exhibit speculative characteristics, led by Chinese shares. Valuations across many markets are elevated, and some large capitalization stocks appear grossly over-priced.

Given elevated valuations and widespread speculation, caution is in order. Equities in the developing world are likely susceptible to price volatility over the next one to three years.

To be clear: I lack any ability to predict the future, and my record for timing decisions in financial markets is abysmal. I do not know whether or when markets might decline, and if so, whether the ensuing drop will be shallow or deep (though I fear the latter). I may prefer caution at present, but all forecasts should be met with skepticism. As I write, in early February, it appears some sort of correction might already be underway.

My outlook for the emerging markets is all the more complex because I perceive at least two positive events that could partially offset my concerns. The first event is the ongoing recovery in corporate profits throughout the developing world. That recovery began in the second half of 2016, and it looks as though it will persist in 2018, absent a severe economic or financial crisis. The resulting profit growth, while exaggerated by many over-exuberant pundits and observers, could still provide some basic support to share prices.

The second event is the possibility that the performance of the emerging market asset class might "decouple" from that of the developed world (as discussed in the portfolio review for the third quarter of 2017[6]). If some sort of "decoupling" occurs, it will heighten the diversification benefit of emerging markets within the context of a long-term portfolio (with likely no meaningful diversification benefit over a short-term horizon). To be sure, I do not know whether any meaningful decoupling will occur; yet I can also state with conviction that, for the first time in my career, there is a realistic and meaningful possibility that it might.

Returning to the present, precarious moment in the emerging markets: stock prices are generally behaving in a speculative manner, prompted by momentum, resulting in valuation levels that do not account for the myriad risks that surrounding the developing world. In my view, the emerging markets have ignored any number of events that might trigger financial instability, or a downturn in corporate performance: gathering inflation; rising oil prices; conflict stemming from North Korea or the South China seas; environmental threats that could result in persistent droughts, food insecurity, or the devastation of habitable land; anti-trust action against large technology companies; and the possibility of a financial shock in China. Personally, I have not witnessed such exaggerated conditions since the "technology bubble" that occurred almost two decades ago.

My concern stems in large part from high valuations, but also from the speculative behavior I have observed among investors and companies over the past year:

- Large technology companies now regularly report prodigious rates of revenue growth, arising from brand new markets – market segments that in most cases did not exist ten years ago (e.g., "digital value-added services"). Yet despite such fantastical revenue growth and impressive scale, such companies struggle to produce meaningful cash flow or dividends.

- Investors are now enthralled by the prospective implementation of speculative technologies across all industries – however far-fetched, regardless of whether there is an opportunity for commercial application. Expensive initial public offerings ("IPOs") abound, because bankers perceive that investors are receptive to new listings and the speculative dreams they sustain.

- Rather than expand via investment in ongoing operations, companies across several industries have sought to inflate their capitalizations by spinning off newly formed business ventures and subsidiaries. With limited operating histories and scant profits, those spinoffs now sometimes lay claim to valuations worth billions (or tens of billions) of dollars.

- Leading companies have announced vague plans to enter new markets or launch new technologies. Investors have responded by lifting their capitalizations by billions of dollars, as if the company's vague plans had already been achieved, and as if market dominance was possible through mere utterances.

- Other companies often follow suit, announcing vague plans of their own to enter the same markets or launch competing technologies. Analysts at investment banks publicly cheer them on, making thin and abstract cases for higher share prices. Investors reward all companies indiscriminately, as if every new entrant could capture a dominant share of future profits – every company must be a winner! – when in reality, rising competition ensures that few companies will even survive, let alone prosper.

- Low-quality, highly-indebted companies enjoy mysteriously high valuations after their shares tripled or quadrupled during the preceding year, for no particular reason. Those same companies have sought to capitalize on their luck by quickly raising billions from eager investors, ostensibly to repair their broken balance sheets – or, perhaps they will use the proceeds to expand ever more recklessly.

- A growing subset of investors suffer from misplaced expectations about risk and return, with severely truncated investment horizons. Gains of "only" 2% or 3% per month are deemed pedestrian. Expectations for performance have shrunk to nonsensical periods – weeks, months, maybe one quarter.

- Lastly, several pundits known for their permanent bearishness (and poor timing) have at last fallen silent. Attention has been given over to assessing the magnitude of the "melt-up" that is supposedly around the corner. Fear seems absent from markets for the first time since 2008. Over-enthusiastic analysts project unrealistic rates of growth for corporate profits. Complacency abounds.

My view is that investors should prepare for volatility ahead; those that are not willing or able to hold their positions for the medium-term (an absolute minimum of three years; ideally at least five years) should re-examine the exposure and risk they are willing to bear in the interim. I have attempted to make the Fund's portfolio allocation more defensive at the margin, but I do not know whether my efforts will prove sufficient.

Please accept my apology for the tardy publication of this portfolio review. I appreciate your patience, your ongoing interest, and the trust you have placed in Seafarer.

Andrew Foster
Chief Investment Officer
Seafarer Capital Partners, LLC

February 5, 2018

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[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) gained 7.12% during the quarter.

[2] The Fund's inception date is February 15, 2012.

[3] The Fund's Investor share class began the quarter with a net asset value of $12.97 per share; it finished the quarter with a value of $13.59 per share.

[4] The Fund's Investor share class returned 25.98% during the calendar year.

[5] www.seafarerfunds.com/archives/#shareholder-reports

[6] www.seafarerfunds.com/funds/ogi/portfolio-review/2017/09/Q3#decoupling

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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/ogi/performance.

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.

The S&P 500 Total Return Index is 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.

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As of December 31, 2017, Sanlam, Ltd. comprised 5.5% of the Seafarer Overseas Growth and Income Fund, Hyundai Mobis Co., Ltd. comprised 6.0% of the Fund, Infosys, Ltd. ADR comprised 5.2% of the Fund, Infosys, Ltd. comprised 0.6% of the Fund, Orion Corporation comprised 2.5% of the Fund, Grupo Ser Educacional comprised 1.2% of the Fund, Samsung Electronics Co., Ltd. comprised 3.7% of the Fund; Taiwan Semiconductor Manufacturing Co., Ltd. comprised 2.3% of the Fund, Taiwan Semiconductor Manufacturing Co., Ltd. ADR comprised 0.6% of the Fund, Vanguard International Semiconductor Corp. comprised 1.9% of the Fund, Hartalega Holdings Bhd comprised 0.7% of the Fund, Odontoprev SA comprised 2.3% of the Fund, Balkrishna Industries, Ltd. comprised 0.8% of the Fund, Cyient, Ltd. comprised 0.9% of the Fund, China Telecom Corp., Ltd. comprised 2.6% of the Fund, and Hengan International Group Co., Ltd. comprised 2.8% of the Fund. The Fund had no economic interest in Grupo Financiero Banorte or Grupo Financiero Interacciones. View the Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ogi/composition. Holdings are subject to change.

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.