SEAFARER

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

First Quarter 2020

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During the first quarter of 2020, the Seafarer Overseas Growth and Income Fund returned -23.18%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, returned -23.57%. By way of broader comparison, the S&P 500 Index decreased -19.60%.

The Fund began the quarter with a net asset value of $12.34 per share. It paid no distributions during the quarter and finished the period with a value of $9.48 per share.[2]

Performance

The first quarter of 2020 was seared into history by the onslaught of a pandemic, as a novel coronavirus wrought social disruption, economic havoc and death around the world. No stock market went unscathed.

The coronavirus first manifest itself as an epidemic in China. During February, equities in China and East Asia plunged as investors sought to reprice stocks in light of the risks, losses and fatalities wrought by the spread of COVID-19. Asian stocks briefly recovered a portion of their losses on the hopes that China had successfully managed the disease, but by late February it was apparent that the virus had slipped readily across borders.

Over the month of March, financial assets – stocks, bonds, gold and other asset classes – gyrated wildly each day in response to the virus' geometric progression. By late March, stock prices probed new depths, not only because of the virus' direct impact, but also because critical U.S. financial markets began to malfunction – evident in liquidity shortages and wide trading gaps among U.S. exchange-traded funds (ETFs) and U.S. treasury bonds.

Such dysfunction prompted the U.S. Federal Reserve to undertake financial intervention of a scale and breadth vastly surpassing that of the last financial crisis, in 2008. In order to liquify assets that were at least temporarily illiquid, the Fed began to purchase a wide span of assets, including junk bonds, collateralized loan

As of 3/31/20 the annualized performance of the Fund's Institutional class was: 1 year -15.17%, 3 year -4.20%, 5 year -1.15%, and since inception (2/15/12) 2.59%[1]; the gross expense ratio was 0.89%. 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.

obligations, mortgage-backed securities, municipal bonds and "bail outs" of widely-held but dysfunctional ETFs. At the time of this report, the Fed's unprecedented intervention appears to have stabilized markets, but in doing so it has moved beyond its role as a "lender of last resort." It now acts as backstop for a remarkable range of financial assets – essentially the entire U.S. bond market – usurping the role that private market-makers once played. The Fed has become the "direct market-maker of last resort." Despite the vast distortions inherent to the Fed's intervention, equities everywhere leapt higher in response, recovering a portion of their losses before the end of March (stock markets have since marched higher as of the date of this report).

Throughout the quarter, the Fund vied with the benchmark for modest outperformance, but it closed the period ahead of its benchmark by only the slightest margin. The Fund's performance was disheartening on two counts. On the first count: despite the Fund's substantial holdings in companies with cash-rich balance sheets, stable dividends and durable businesses, shareholders in the emerging markets dumped stocks in an indiscriminate manner, sending nearly all stock prices lower. Stocks with stable cash flow, substantial amounts of accumulated cash and attractive dividend yields were not defensive in March's crash. This outcome was in equal parts frustrating and mystifying: it is exactly such businesses that are built and managed to withstand difficult times such as the present, and yet investors dropped such stocks without regard to valuation or viability. Indeed, as I write in mid-April, a handful of companies held by the Fund have reported their first quarter 2020 results, and in my opinion the performance of every one was notable for its resilience amid this crisis; and thus I am mystified by some investors' indiscriminate selling behavior with respect to such durable businesses.

The only evident haven within the emerging markets was among high growth (but often loss-making) technology and software stocks. Such stocks proved remarkably resilient, despite high valuations and poor cash flow – no different, in fact, from the U.S. experience, where the expensive, technology-heavy and yield-poor NASDAQ Composite index performed substantially better than the Dow Jones Industrial Average index. On one hand, the outperformance of such "growth/momentum" stocks is not wholly surprising: in some cases, the companies they track deliver virtual, adaptable and clever services that enjoy rising demand in an increasingly fraught world. Indeed, several companies of this sort have proven remarkably prescient and adaptive in their delivery of virtual services for communication, media, commerce and entertainment – services that can be delivered to an isolated populace amid pandemics, firestorms, floods and other social disruptions. Yet despite such obvious merit, I suspect that this same group of "growth/momentum" stocks in both developed and emerging countries have entered a valuation bubble, one that may yet come undone. With recession and possibly depression looming, will their customers' demand not wane? And for those that make regular and large operating losses: how will they raise the billions necessary to stay in operation? How can the market be so cavalier about such threats?

On the second count: I exacerbated the Fund's disappointing performance through my own inaction. I first learned of the novel coronavirus and the burgeoning epidemic in China in mid-January. I was immediately convinced the epidemic would morph into a pandemic: I was certain that the Communist Party's belated and draconian measures would fail to curtail the virus' spread. I did not then understand the virus' rate of transmission, its virulence, its morbidity, or its economic impact; yet even then I suspected it would inflict substantial global damage – widespread economic disruption was already evident in China by late January. In hindsight, I should have moved immediately to build a substantial buffer in cash holdings for the Fund.

Instead, I was lulled into inaction. As a general rule, I place great weight on markets' ability to engage in price discovery: I assume that global investors' surveillance makes nearly all stock prices hyper-efficient in the short-run, reflecting on a probabilistic basis all that is presently knowable, and all that can be reasonably speculated over the next three months to a year. Thus, I marveled as stock markets – in the U.S., and even in China, the epicenter of the crisis – shrugged off the virus' threat, and marched steadily higher throughout February.

I was aware no vaccine existed, but the market's apparent confidence led me to fall back on my general rule: I assumed the market knew more than I did. I speculated the market must know that the virus' transmission could be arrested, or that an effective treatment was on the verge of announcement, or that some other panacea was in the offing. How else could the all-seeing, all-knowing U.S. stock market casually award itself trillions of dollars in additional capitalization during February, even as a pandemic loomed? How else could China's stock indices rapidly reclaim the entirety of their virus-induced losses? My deference to the markets' supposed omniscience proved costly. The markets were myopic and misinformed; investors were complacent; stocks subsequently crashed; bitterly, I failed to steer the Fund towards safety, even as I understood better than most that which would happen next. I will not make the same mistake again (more on this under Outlook below).

With respect to the Fund's minor outperformance versus the benchmark during the quarter: it was attributable chiefly to the portfolio's minimal holdings in the energy sector, and its substantial underweight in the financial services sector – the two sectors hardest hit during the quarter's decline. (View the portfolio composition by sector.[3]) However, the Fund's performance suffered relative to the index for its lack of China software and China internet entertainment stocks, which produced fantastical gains during the quarter, despite the advent of the pandemic.

Allocation

During the quarter, a handful of prospective, new positions were evaluated, but none added. Several existing positions were accumulated to bolster their weights within the portfolio, particularly to take advantage of the lower prices available in mid-March. Notable beneficiaries of this accumulation were

Innocean Worldwide (a recently established position, a global ad agency based in South Korea, specializing in the auto industry); **Hyundai Mobis** (a Korea-based manufacturer of auto parts and systems); **Richter Gedeon** (a Hungary-based producer of pharmaceutical products for global markets); and **PetroVietnam Gas** (Vietnam's leading gas transportation utility).

Three positions were exited during the quarter. Two of those were deleted from the Selected Growth portion of the portfolio: **Dentium**, a small-sized dental appliances company based in Korea, and **Inari Amertron**, a small semiconductor chip-testing company based in Malaysia. (See Figure 1 for definitions of the Fund's Core, Selected Growth, and Value portfolio components.) Both positions were remnants of the portfolio left behind by Ms. Song upon her departure.[4] My colleagues and I re-examined those and other positions in light of new, more stringent criteria that I have applied to the Selected Growth holdings in the Fund; both were found wanting, and thus deleted.

Figure 1: Seafarer Overseas Growth and Income Fund – Portfolio Components

Core Holdings	Moderately underappreciated growth; Moderately elevated current yield
Selected Growth Holdings	Higher growth potential; Lower current yield
Value Holdings	Lower growth potential; Higher current yield

One other position was exited from the Value component of the Fund: **Xtep**, an athletic apparel manufacturer, marketer and retailer within China. Mr. Espinosa chose to exit the position because of the control party's casual decision to issue new equity, with seemingly little appreciation for the cost of capital, in order to finance a prospective acquisition.

Outlook

The time has come to be frank.

I aim to be clear and direct in all public communications. Shareholders deserve as much. Still, I reserve my most pointed views for three reasons: first, to the extent I have any professional capability, it is that of a "stock-picker" in the emerging markets, not as a holistic "wealth planner." The former is a niche skill with narrow applicability, perhaps akin to a surgeon with an obscure sub-specialty; the latter role is closer to that of a general practitioner. For most complaints, the advice of the latter is preferable: the generalist is well-versed in a breadth of practical knowledge that readily spans the narrow domain of the specialist. Second: I know next to nothing about individual shareholders' financial situations. I do not know your income, your savings, the current composition of your portfolio, your risk tolerance, your liabilities, or your investment horizon. Any advice I might render without such knowledge is so general as to be useless, and possibly counter-productive. Third: I put no faith in my ability to predict the future with any accuracy or precision. Beware of all forecasts and of all those that offer them.

Yet an extreme circumstance demands an extreme response. With full reliance on the preceding caveats: during my career, I have not observed a larger discrepancy between the valuation of stock markets and underlying fundamental conditions.[5] As of the date of this report, stocks have largely recovered from their recent lows – and some fashionable stocks again enjoy extreme valuations – even as every reasonable outlook for companies' performance in the aftermath of the pandemic is weak, possibly dismal. In my inexpert opinion, the disparity is particularly acute in the U.S. stock market, and considerably less acute – but still present – in the emerging markets, especially China. I suspect the discrepancy exists because the Fed, recognizing material and pervasive liquidity dysfunctions in the U.S. financial system, flooded nearly all markets with unprecedented amounts of liquidity. Investors reflexively pushed stocks higher in late March and early April in response, mistaking abundant liquidity for a presumptive recovery in fundamental conditions. The People's Bank of China (that country's central bank) reacted in similar fashion, with similar results, though its measures were somewhat less invasive than those of the Fed. I think this gross disparity will not end well for most stock prices, particularly those most directly under the Fed's influence (i.e., U.S. markets).

What should you do, given my alarm? If you consider my caveats, nothing: my warning is not worth the time you took to read it, and my advice will invariably prove wanting. Still, what I encourage you to do now – which I encourage always, and the present moment is no exception – is to review your portfolio carefully, with an emphasis on the risks that reside within it. Ensure you have ample diversification and maintain enough personal liquidity so that you are not forced to sell your financial assets when you least wish to do so. Above all, ensure that you are prepared to hold your long-term financial assets – including this mutual fund – over a commensurate horizon, come what may (imagine five years, or longer). If you cannot unequivocally commit to the long-term, consider paring the risks in your portfolio, and if necessary, exit some assets altogether.

What will I do, based on my alarm? I will attempt to steer the Fund to greater safety, to mitigate risk if markets perform poorly. I will not defer to the markets' quiescence a second time. In practice, this means I will likely hold more cash in the portfolio than is typical, and I will likely seek to further diversify its construction. However, do not mistake: the Seafarer Overseas Growth and Income Fund is an investment vehicle, meant to hold stocks for the long-term, with the objective of generating long-term capital appreciation and some current income; it is not a comprehensive wealth planning vehicle, one which might tactically allocate a substantial amount of its portfolio to cash on behalf of its shareholders. In plain English: the Fund's strategy, and my job, is to invest at all times, even amid difficult circumstances. In practice, the Fund's liquid reserves will for a time range between 2.5% and 5%, instead of the typical, lower level.

As you consider my outlook, please do not mistake my near-term pessimism about stock prices for long-term despair regarding the merit of investment in the emerging markets. Indeed, I think the stocks held by the Fund are attractively priced right now, and the underlying companies enjoy healthy balance sheets and resilient prospects. I expect fundamental conditions to recover, though some business and industries may be irrevocably altered. Furthermore, I suspect that markets will rectify the aforementioned discrepancy, and when they do, conditions will be balanced once more. Thus, my alarm pertains to the present moment, and is aimed towards those stocks directly under the Fed's sway. My warning should not be interpreted as a blanket indictment of equity exposure – especially not emerging equities, which apart from certain "growth/momentum" stocks are now quite attractively priced. Regardless of what may occur in the near term, I think present conditions are still appealing to the disciplined, long-term investor.

Also, please do not mistake my pessimism about stock prices for gloom about the pandemic itself: I remain optimistic about the sacrifice, dedication and talent demonstrated by the world's medical, health and scientific communities. They are heroes, and I suspect they will soon unlock the secrets of this virus – and in doing so, chart a path towards better health outcomes and social conditions for us all.

Our prayers are with those suffering the loss of loved ones, and we are dearly thankful for those working to stem the virus' spread, and for those treating the afflicted.

We hope for your good health, and we firmly believe that this too shall pass.

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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) returned -23.13% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $12.28 per share; and it finished the quarter with a value of $9.44 per share.

[3] www.seafarerfunds.com/funds/ogi/composition#composition-by-sector

[4] www.seafarerfunds.com/funds/ogi/portfolio-review/2019/12/Q4#allocation

[5] "Fundamentals" is jargon for the real financial and operational performance of companies (i.e. assets, liabilities, revenues, profits, losses, products and services, management, employees, output, marketing, distribution channels, customers' demand, industry trends, competition, founders and ownership, etc.) "Fundamentals" encompass nearly every aspect of companies, save for reference to price, performance, valuation and technical trends associated with their publicly-traded stocks and bonds (i.e. "fundamentals" exclude the stock and bond markets).

Glossary

Exchange-traded Fund (ETF): a basket of securities that tracks an underlying index. An exchange-traded fund (ETF) is listed on an exchange. An ETF's share price changes throughout the trading day as shares are bought and sold on the market.

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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.

The NASDAQ Composite is a stock market index of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the Nasdaq stock market. Index code: COMP.

The Dow Jones Industrial Average is a stock market index that measures the stock performance of 30 large companies listed on stock exchanges in the U.S. Index code: DJIA.

It is not possible to invest directly in an index.

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As of March 31, 2020, Innocean Worldwide, Inc. comprised 1.8% of the Seafarer Overseas Growth and Income Fund, Hyundai Mobis Co., Ltd. comprised 5.1% of the Fund, Richter Gedeon Nyrt comprised 4.2% of the Fund, and PetroVietnam Gas JSC comprised 1.5% of the Fund. The Fund did not own shares in Dentium Co., Ltd., Inari Amertron Bhd, or Xtep International Holdings, Ltd. 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.