SEAFARER

SEAFARER OVERSEAS VALUE FUND

Portfolio Review

First Quarter 2017

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During the first quarter of 2017, the Seafarer Overseas Value Fund returned 8.86%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, rose 11.49%. By way of broader comparison, the S&P 500 Index gained 6.07%.

The Fund began the quarter with a net asset value of $10.16 per share. The Fund paid no distributions during the quarter, and it finished the period with a value of $11.06 per share.[2]

Performance

The first quarter of 2017 marked a point of departure for the Value Fund's performance relative to its short history. Since inception until the end of 2016, the net asset value (NAV) had proven remarkably stable, both at the time of the Fund's inception in the middle of a strong emerging market (EM) rally, and through the EM sell-off at the time of President Trump's election. A "step-function" may best describe the Fund's subsequent performance during the first quarter of 2017. The Fund appreciated strongly throughout the quarter until early March, when the NAV stabilized again.

In examining the drivers of performance for the quarter, I do not discern any sector or country patterns. The top contributors are an eclectic group operating in real estate, advertising, shipping, and leisure. Stock price appreciation was satisfyingly distributed among most Fund holdings, with approximately one third of portfolio securities appreciating in excess of 10%. However, I do detect a reflection at the stock level of what my colleague, Andrew Foster, has described as an earnings acceleration at the EM universe level (please refer to the Growth and Income Fund's third quarter 2016 portfolio review[3]). Indeed, while the top and bottom contributors to performance during the quarter both share a history of negative earnings momentum up to the first half of 2016, in most cases, the quarter's top performers did report earnings growth in the second half of 2016.

I would take the argument one step further by noting that as it concerns holdings in the Value Fund only, the acceleration in earnings was limited to that: earnings. Revenue has shown limited signs of acceleration thus far. Furthermore, the primary basis of differentiation between the top and bottom contributors to performance is one of revenue exposure. The top performers share a regional base of operations, while the bottom contributors have country-specific revenue bases.

Analyzing the portfolio through this dimension proves insightful in that I interpret the appreciation of emerging market stocks as not only a reflection of improved earnings momentum, but an anticipation of an expected revenue acceleration. Perhaps unsurprisingly, and equally illuminating, the stocks with the worst performance have their revenue bases confined to China and Mexico, two countries singled out by the Trump administration. I think this observation is simply a coincidence, albeit an interesting one, in that the two worst performers, AMVIG Holdings and Xtep International, do have stock-specific drivers of negative revenue momentum. In the case of the Fund's only holding in Mexico, Crédito Real, the stock actually contributed positively to the quarter's performance. Nonetheless, I place it in this negative category because the stock sold off significantly since the election of President Trump and the company earns revenue primarily in Mexico. These factors represent part of the reason that I find value in the stock and purchased it for the Fund by the end of the first quarter.

Indeed, in addition to the strong appreciation of the Fund, the other salient factor for the portfolio during the quarter was the addition of three new holdings. All three are stocks that I have been tracking for some time, and I discuss them further in the Allocation section below.

The final point to make with regard to performance is that, as was the case in the fourth quarter of 2016, emerging market currencies continue to account for a significant proportion of overall returns in the universe. A representative basket of EM currencies appreciated 4.76% against the U.S. dollar during the first quarter of 2017, accounting for 42% of the MSCI Emerging Markets Index's total return of 11.49%.[4]

Allocation

I added three new holdings to the Fund during the quarter. All three are companies I have been tracking for some time. The reason for adding them this quarter and not earlier is a combination of price action and new information.

The impetus for adding Crédito Real to the portfolio by the end of the first quarter was price action. The stock price depreciated 26.18% from the U.S. presidential election on November 8, 2016 through March 31, 2017.[5] The risks for this payroll lender are largely known by now: more expensive costs of Mexican and U.S. corporate bonds, which the company uses to fund its payroll lending; and a slowdown in the demand for credit. What the valuation at a 1.2 price to book value ratio fails to properly account for is the high return of the business coupled with the low level of risk assumed, as well as the cash that will accumulate on the balance sheet as growth slows down. In essence, the company is too profitable for the level of growth expected for the next year, which is why I place it under the Asset Productivity[6] category of value, within Seafarer's framework of the seven sources of value in emerging markets. In other words, the market is focused on revenue growth prospects, ignoring that the company's lending capacity and value actually grow as cash accumulates on the balance sheet during a slow period.

Further to the East, another portfolio addition is Tabreed, headquartered in Abu Dhabi, and listed in Dubai. The company designs, builds, and operates central cooling facilities, which pump chilled water to buildings via its pipeline network for the purpose of air conditioning. This technology is both more efficient (greener) and more economical than distributed cooling technology. I place this company within the Deleveraging[7] category of value. Tabreed is growing cash flows to existing shareholders as it partially repurchases mandatory convertible bonds, and the remaining debt amortizes faster than the service contracts that provide 30-year revenue visibility. Furthermore, the company continues to build capacity in lock-step with concession growth.

Rounding out our global tour by going even further to the East, the Fund added China Yangtze Power to its holdings. It is worth highlighting that this security is a Chinese A-share. In other words, the company is listed in Shanghai and trades in renminbi, which means that foreign investors have traditionally lacked unfettered access to this security until the establishment of the Shanghai-Hong Kong Stock Connect in November of 2014. Seafarer has tracked this company since before the establishment of the Stock Connect. However, only recently has Seafarer become sufficiently comfortable with the inner-workings of the Stock Connect to purchase a Chinese A-share security via the program.

Comfort with market access is one of the reasons for adding China Yangtze Power to the portfolio now. The other reason is new information concerning a major acquisition, which the company finalized during 2016. Now that consolidated financial and operating details are available, I have determined that the free cash flow yield this company generates is not only attractive, but enjoys high visibility. The company presents an attractive combination of sharing this cash flow with investors (5% dividend yield), deleveraging over the next few years, and pursuing growth in the long term with significant capacity additions currently gestating at the parent level. I classify the company under the Structural Shift[8] category of value due to the uncommonly competent nature of management in this state-owned enterprise, China's push for green energy, and the expected partial liberalization of electricity prices in China over the coming years.

Allocation among existing holdings in the Fund has been a balancing act between Fund inflows and appreciating holdings. The Value Fund has received steady inflows throughout the quarter. These inflows have kept the weight of appreciating securities in check, obviating the need to sell down the quarter's strongest performers for risk control purposes. Given the more cyclical nature of the best performing securities in the portfolio, I have intentionally favored the steadier, more income generating businesses in the allocation of Fund inflows. The purpose of this allocation choice is to safeguard as much of the Fund's NAV as possible in the event of market drawdown. As I discussed above, my read of market action during the first quarter of 2017, both for EM as a whole and for the top performing names in the portfolio, is that there is a degree of speculation on a potential revenue acceleration. I am not judging whether this estimation is correct. The Fund does not own the names in the portfolio for this reason. My tactical allocation simply aims to maintain a balance within the overall portfolio with the objective of safeguarding against a reversal of what has proven to be a very strong quarter, while maintaining the portfolio's overall character.

Outlook

In the portfolio review for the previous quarter[9] I noted that, beyond the vagaries of policy changes in China or the election of President Trump, the core underlying issue facing both the U.S. and China is the ever-declining ability of new debt issuance to generate gross domestic product (GDP) growth. Table 1 illustrates this concept. The table tracks changes in public debt and nonfinancial debt by decade for each country and compares it to GDP. While this basic exercise is not intended to be an exhaustive study of the subject, the conclusion is clear. On a crude basis, each new dollar of debt in the U.S. and China produces approximately 30 cents of additional GDP. This trend – the rapidly declining productivity of deployments of debt capital – is not sustainable, prima facie; and it is even less so in the context of a rising cost of servicing that debt.

I published this table because I'd like to focus our collective attention on what really matters. A strong stock market appreciation in the U.S. and emerging markets has followed the U.S. presidential election. There is endless speculation about various Trump policies, both the helpful (less regulation and lower taxes), and the misguided (imposition of additional trade barriers and a rise in deficit spending).

Table 1. Dollar of GDP per Additional Dollar of Debt
(U.S. Dollar Millions)

	1985–1995	1995–2005	2005–2015
United States			
GDP Change	$3,510	$5,756	$4,713
Public + Nonfinancial Debt Change	4,732	7,846	15,789
Marginal GDP / Debt	**0.74**	**0.73**	**0.30**
China			
GDP Change		$1,604	$8,393
Public + Nonfinancial Debt Change		2,794	26,690
Marginal GDP / Debt		**0.57**	**0.31**

Past performance does not guarantee future results.
Sources: Federal Reserve of St.Louis FRED Economic Data, Bloomberg, Seafarer.

Instead of debating each policy ad nauseam, it is important at times of swift change, such as the present one, to focus on a few core drivers and dismiss the rest as more likely to be noise than information.

The point of the preamble above is this: U.S. banks have $2 trillion of excess reserves that could be deployed to finance either a larger U.S. government deficit directed at infrastructure, or corporate capital expenditures presumably incentivized by lower tax rates. This factor probably lies at the core of the U.S. stock market reaction to the election. While the deployment of these reserves would flow to corporate earnings and probably translate to higher stock valuations, the long-term and ultimate determinant of asset values (i.e. a Fund's NAV) is less whether these reserves are deployed, and more whether this additional credit goes to enduring productive use. The table above suggests that from an historical perspective, there is little ground for optimism.

What does this mean for the Seafarer Overseas Value Fund? In terms of the immediate future, and to the extent that a portion of a potential new cycle of credit and spending growth in the U.S. flows overseas and affects emerging market asset prices, there is potential for the Value Fund to lag markets or other funds with a more growth-driven focus.

In terms of my own actions, I intend to continue searching for new value ideas wherever they may present themselves. Sometimes they show up in countries that have gone through macroeconomic adjustment, such as this quarter's new portfolio addition in Mexico. On other occasions, value does not show up even where one expects it to do so, such as my inability to see value in a subset of Egyptian stocks before and after the country's currency devaluation. And yet in other instances, one finds value in stable economies such as the portfolio additions in the United Arab Emirates and China this quarter.

The point is that almost regardless of the overall economic environment, companies still go through their own natural dynamics, yielding potential opportunities for the Value Fund. One prediction I would make about the future is that I expect this natural process to continue.

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

Paul Espinosa
Lead Portfolio Manager
Seafarer Capital Partners, LLC

April 9, 2017

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[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 8.74% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $10.18 per share; it finished the quarter with a value of $11.07 per share.

[3] See www.seafarerfunds.com/funds/ogi/portfolio-review/2016/09/Q3#expectations-gap

[4] Source: *Bloomberg*.

[5] Source: *Bloomberg*.

[6] See www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets/#asset-productivity

[7] See www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets/#deleveraging

[8] See www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets/#structural-shift

[9] See www.seafarerfunds.com/funds/ovl/portfolio-review/2016/12/Q4#credit-expansion-gdp

Glossary

Capital Expenditures are the outlay of money to acquire or improve capital assets such as buildings and machinery. Unlike ordinary expenses, which are typically expensed in the period in which they are incurred, capital expenditures do not pass through the income statement on a real-time basis. Instead, expenditures to purchase or maintain a given asset are "capitalized" as assets on the balance sheet; then those same assets are "depreciated" over time, according to accounting standards that dicatate the useful life of said assets.

Chinese A-Shares are 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 has been 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 have historically been inaccessible to foreign investors, de facto: foreigners could not legally obtain renminbi for investment purposes, and therefore they could not fund any purchase of A-shares. Over the past decade, China has 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. More recently, China has launched a program known as the "Stock Connect," or colloquially, the "through train;" this program allows foreign investors to purchase selected A-shares on the Shanghai or Shenzhen exchanges, regardless of their QFII status.

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). H-shares and Hong Kong-listed companies are available for investment by foreign (non-mainland China) investors; ironically, H-shares are not necessarily available to domestic Chinese parties, who can only invest in Hong Kong via a regulated scheme called "Qualified Domestic Institutional Investor" (QDII).

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.

Deleveraging is the act of repaying debt, or the act of becoming less reliant on debt. (Sources: Seafarer and *Barron's Dictionary of Finance and Investment Terms*, 1995)

Dividend Yield (Trailing 12-Mo) is a measure of the sum of the dividends paid per share during the trailing 12 months divided by the current share price.

Free Cash Flow Yield is 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) is 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.

Net Asset Value (NAV) is a fund's net asset value per share; for an open-end mutual fund, the net asset value is equivalent to the fund's price per share. A fund's net asset value per share is calculated by summing the fund's assets (including portfolio securities and cash), netting off the fund's liabilities, and then dividing the residual balance by the number of fund shares outstanding.

Nonfinancial Debt is the aggregate of debt owed by governments, households, and companies not in the financial sector.

Price to Book Value (P/BV) Ratio is the market price of a company's common shares, divided by the company's book value per share.

Public Debt is the total financial obligations owed by all governmental bodies of a nation.

Renminbi (RMB) is the official currency of the People's Republic of China. The name literally means "people's currency." The yuan (sign: ¥) is the basic unit of the renminbi, but is also used to refer to the Chinese currency generally, especially in international contexts.

Shanghai-Hong Kong Stock Connect is a trading link launched in 2014 that allows offshore, non-domestic-Chinese investors and entities to invest in certain Chinese-listed stocks (known as "A-shares") that previously were inaccessible to such offshore investors. Investment in A-shares via the Shanghai-Hong Kong Stock Connect occurs through a special mechanism that was designed and implemented by the Hong Kong Stock Exchange.

State-owned Enterprise (SOE) is a legal entity that is created by the government in order to participate in commercial activities on the government's behalf. A state-owned enterprise can be either wholly or partially owned by a government.

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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/ovl/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. It is not possible to invest directly in this or any index.

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 this or any index.

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As of March 31, 2017, AMVIG Holdings, Ltd. comprised 2.7% of the Seafarer Overseas Value Fund, Xtep International Holdings, Ltd. comprised 2.8% of the Fund, Credito Real SAB de CV comprised 2.7% of the Fund, Tabreed (National Central Cooling Co. PJSC) comprised 2.6% of the Fund, and China Yangtze Power Co Ltd. comprised 2.5% of the Fund. View the Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ovl/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. The Seafarer Overseas Value Fund is new and has limited operating history

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