SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Second Quarter 2017

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During the second quarter of 2017, the Seafarer Overseas Value Fund returned 6.87%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, rose 6.38%. By way of broader comparison, the S&P 500 Index gained 3.09%.

The Fund began the quarter with a net asset value of $11.06 per share. The Fund paid no distributions during the quarter, and it finished the period with a value of $11.82 per share.[2]

Performance

The Value Fund delivered a total return of 6.87% during the second quarter of 2017, a steady rate of appreciation relative to the first quarter's gain of 8.86%. The most important point to make about this quarter's performance is that there was substantial rotation in the holdings that drove the Fund's appreciation relative to last quarter. Of the top ten positive contributors to performance, only three holdings overlap with the preceding quarter. In my opinion, this is a sign of health for the Fund, as it demonstrates that the portfolio benefits from a multitude of sources of value, and diminishes the potential concern that a single thematic is driving the overall portfolio.

Furthermore, the holdings that led performance for the Fund this quarter are distinct from those that drove the MSCI Emerging Markets Index. Among the top Fund contributors were a Russian food producer, a Czech tobacco company, and a cooling services firm from the United Arab Emirates. On the other hand, Chinese technology names drove the performance of the benchmark index, when measured year-to-date. During the second quarter, a new element also contributed to benchmark's performance: selected Chinese real estate and insurance companies gained a great deal – and they represent industries of intense debt-fueled asset expansion (please refer to the Outlook section below for more commentary on this topic).

When considered in this context, the Value Fund's appreciation of 6.87% during the quarter, slightly ahead of the benchmark's 6.38%, should be interpreted as coincidental.

The more important observations concerning performance are the advent of two cases of rapid value realization, and my response to a surprise geopolitical event affecting one of the portfolio's holdings. The two cases of value realization concern Greatview Aseptic of Hong Kong and Tabreed National Central Cooling of the United Arab Emirates.

Greatview Aseptic's stock price appreciated 18% during the calendar quarter, spurred by Jardine Strategic's purchase of a 22% stake in this Chinese manufacturer of aseptic packaging at a 20% premium to the price prior to the transaction announcement. Jardine is a long-standing private investment group based in Hong Kong.

Tabreed provides air cooling and conditioning services throughout the Middle East. The company's stock price rose 14% during the quarter when Engie, a French utility company, bought a 40% stake at a 42% premium to the last traded price.

I was pleased to see these instances of strategic shareholders acquiring significant stakes in two Fund holdings, not only due to the share price appreciation itself, but because these transactions validated the undervaluation of the companies and the quality of the underlying business and management.

The other side of the performance ledger – and there always is another side – is a company that not only detracted from the portfolio's NAV, but also put me, in my capacity as portfolio manager of the Value Fund, to the test. The surprise diplomatic embargo of Qatar by Saudi Arabia, Egypt, the United Arab Emirates, and Bahrain on June 5 led to an immediate 15% decline in the stock price of Nakilat (Qatar Gas Transport). The stock price later recovered a portion of those losses, such that it declined 8% from June 4 to the end of the quarter.

My thoughts regarding Nakilat overlap with the portfolio's asset allocation, so I will elaborate on this holding in the Allocation section, below.

Allocation

There is endless debate about how to react to surprise and meaningful negative events that directly impact a fund holding and its stock price. While there is some pragmatic wisdom in the idea of "sell first and ask questions later," I took the view that the adage did not apply to this case. The reason I did not sell Nakilat shares as soon as the news of the embargo broke out is that the business is as defensive as one might wish. The company owns and operates ships that transport the liquefied natural gas (LNG) that Qatar extracts and produces. It is significant to note that the trade embargo against Qatar exempts energy transport. One of the reasons for this exemption is that Qatar produces approximately 26% of the world's LNG. Equally meaningful, though not as important, is that the countries coordinating the embargo also import gas from Qatar. The point here is that an energy embargo on Qatar would be the conceptual equivalent of an oil embargo on Saudi oil exports. The embargo would unsettle the world energy market drawing the entire planet into the disagreement.

Another reason why I consider Nakilat's cash flows, and therefore its share price, to be relatively impervious to the crisis is that the company's ships are backed by 20 to 25 year contracts denominated in U.S. dollars, thus providing extraordinary cash flow visibility into the future.

Given that I did not sell the shares at the start of the embargo, one might also wonder what I have done with the holding in Nakilat since then. My aim throughout the crisis was to minimize the role of speculation in my decision-making. That meant grounding my decisions on information, and not reacting solely on the basis of large stock price movements. Note, however, that it is impossible to avoid an element of speculation in any investment decision, irrespective of the quality and quantity of research conducted, simply because the actions of humans endowed with volition are impossible to predict. That said, and with the caveat that facts and circumstances may change in the future, I decided to add to the Fund's holding in Nakilat.

There were three primary drivers of my decision. First, as of the date of this writing, it seems that the trade and diplomatic embargo will continue for an indefinite time, and that it will not escalate to a military conflict; further, energy trading continues to be exempt from the severance of trade links. Second, the countries sponsoring the embargo have withdrawn U.S. dollar deposits from the Qatari banking system. Third, Qatar announced its intention to increase LNG production by 30%. Based on where I see the pieces placed on the chessboard represented by this standoff, my interpretation is that Qatar aims to replace U.S. dollar deposits from regional banks with its own source of U.S. dollars: LNG.

As a result, the crisis has possibly delivered an attractive proposition to shareholders of Nakilat. Pre-crisis, Nakilat equity shares offered a bond-like return and risk profile, where a 5.5% dividend yield was expected to grow into the future as the company amortized its debt; raised margins by taking over the operation of a greater proportion of its ships and via price escalations; and increased the dividend payout ratio over time. Given the long-term nature of its contracts, the risk profile around this total return expectation was very low, similar to that of a bond. Subsequent to the share price decline, the crisis has delivered a bond-like instrument priced as equity. Furthermore, I expect that Qatar's need for U.S. dollar funding will turn Nakilat into a bond-like instrument priced as equity with a call option on meaningful growth – possibly on the order of 30%. Moreover, as a pure transport company, Nakilat is largely unaffected by swings in the price of natural gas. For all of these reasons, I took advantage of the decline in the company's stock price to add to the Fund's holding in Nakilat.

Another change in the Value Fund's asset allocation is the addition of a new security: China Foods. Within the context of the seven categories of value defined in Seafarer's white paper, *On Value in the Emerging Markets*,[3] China Foods' source of value is a combination of Breakup Value[4] and Asset Productivity.[5] China Food's breakup value stems from its ownership and operation of three distinct businesses: an edible oils manufacturer, a winery, and a Coke bottling business. The company recently announced the sale of its edible oils division, helping to realize part of the balance sheet value, while simultaneously focusing management on the core business: Coke bottling, where the source of asset productivity value lies. I expect the margins the bottling operation earns to rise over time, converging closer to the global standard as the company consolidates new bottling territories that are contiguous to its current operation, and as the price of Coke rises in China.

Outlook

I ended the Value Fund's first quarter 2017 portfolio review[6] discussing my preoccupation with the declining productivity of debt in both the United States and China. It is in this light that I find several developments during the second quarter particularly meaningful for the long-term outlook of emerging markets.

While Chinese technology firms continued to drive the performance of the benchmark index this quarter, two non-technology Chinese companies also featured among the top contributors to the benchmark's total return: Ping An Insurance and China Evergrande Group (a real estate company). I mention these two not only because they helped drive returns, but also because they epitomize at the micro level the country's preoccupation with rapid asset expansion financed by seemingly unconstrained debt levels. I expressed the same concern at the macro level, defined in terms of GDP and national debt, in my review of last quarter's performance.

Chinese authorities have, by their actions, revealed they share my concern: during the quarter, they undertook various measures intended to rein in credit growth. For instance, they launched investigations of top insurance industry representatives (some insurance companies have taken advantage of relaxed regulations to engage in debt-fueled acquisition sprees); and the authorities launched a more general crackdown on foreign mergers and acquisitions (M&A) by Chinese corporates. One may view the suppression of foreign M&A as an extension of the capital controls China experimented with in late 2016 (please refer to the Value Fund's fourth quarter 2016 portfolio review[7]).

What is significant in the foregoing discussion is that for all the commentary in the financial press related to a weakening renminbi, I believe that China's actions over the long-term reveal a greater interest in preserving the value of the renminbi relative to the U.S. dollar than debasing it. China's interest in a relatively stable exchange rate seems to make for good policy, particularly in light of another significant event that occurred during the quarter: on June 20, MSCI (the index provider) chose to admit Chinese A-shares to its benchmark indices (the inclusion is only a partial one, initially; the A-shares full weighting will be phased in over time). This inclusion of domestically-listed Chinese stocks is in turn a logical extension of the earlier (October 2016) adoption within the International Monetary Fund's Special Drawing Rights (SDR) of the renminbi as a reserve currency.

Put more succinctly, China is clearly creating the conditions to attract *long-term* foreign capital, and a currency that preserves its value over time is key to making Chinese assets a store of value.

It is in this vein that I consider another event during the second quarter to be highly significant despite the small size of the country in question. The Czech Republic abandoned its policy of maintaining an exchange rate floor of 27 relative to the Euro during the quarter. Like the Swiss National Bank before it, the Czech National Bank had adopted a policy of devaluing its currency in-line with the European Central Bank's policy of debasing the Euro. And like Switzerland before it, the Czech Republic eventually relented and allowed its own currency to retain its value relative to the Euro. I find this new policy more enlightened from an economic perspective, but more importantly, the Value Fund's two holdings in the Czech Republic benefited from this policy change as the value of the Czech koruna appreciated by approximately 11% relative to the U.S. dollar during the quarter.

These actions by China and the Czech Republic serve as a reminder that the reality of emerging markets is more complex than simply a collection of countries following mercantilist policies. Mercantilism consists of the belief that it is preferable to export more than to import, and espouses the devaluation of a country's exchange rate to achieve said objective. For a long time, even to this day, the traditional view of emerging economies has been that they only grow driven by exports. However, three specific events during the second quarter serve to illustrate just how quickly the traditional relationship between developed and emerging economies is changing.

First, China's efforts to lobby for the inclusion of A-shares in the MSCI emerging markets benchmark index, when combined with the launch of the country's new Bond Connect program on July 3 (the latter gives foreign investors access to the domestic bond market), form part of the country's long-running effort to move away from external, export-led growth and toward economic independence and financial autonomy.

Second, the same way that China is moving away from export-led growth, Saudi Arabia is also aiming to lessen its reliance on oil exports. The ascension of Mohammad bin Salman to Crown Prince in June signals future economic and social changes in the country to reduce its dependence on oil exports. As was the case with domestically-listed Chinese equities, MSCI will decide on the potential inclusion of Saudi Arabian companies in the emerging market benchmark index during 2018.

Finally, the U.S. is also making its own transition away from gross domestic product (GDP) growth underpinned by quantitative easing. Indeed, the Federal Reserve Bank made further disclosures regarding the unwinding of quantitative easing during the month of June. Theoretically, this new policy would raise the cost of debt in general, but more specifically for mortgages and Treasuries. Presumably, the growth profile of the U.S. will change as a result and have a derivative impact on emerging economies.

The reason to highlight these three events that span the globe is not to make a prognostication of the future. Rather, I highlight them in the Outlook section of the Value Fund's quarterly review because the confluence of such significant events within one quarter is rare, and it drives home the point that established patterns of economic growth as they relate to emerging economies are changing. I do not pretend to know what the future holds. To re-use the same analogy as above: the way I see the pieces laid out on the global economic chessboard, I would venture a guess that in the future emerging economies will rely more on domestic sources of value addition, and less on exports to developed markets. Long-running actions by China and Saudi Arabia, together with MSCI's announcements this quarter, point to a future where emerging economies play a much more significant and independent role.

If there is a strong indication that the mythical decoupling of emerging markets from monetary cycles in developed markets may become a reality, it is the three events I highlight this quarter. This transition is one of the strongest reasons Seafarer specializes in emerging economies. We are living through a fascinating and opportune time for a value strategy in the emerging markets.

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

July 10, 2017

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 6.96% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $11.07 per share; it finished the quarter with a value of $11.84 per share.

[3] www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets

[4] www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets/#breakup-value

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

[6] www.seafarerfunds.com/funds/ovl/portfolio-review/2017/03/Q1

[7] www.seafarerfunds.com/funds/ovl/portfolio-review/2016/12/Q4

Glossary

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.

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.

International Monetary Fund (IMF) is an organization of countries whose primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. Created in 1945, the IMF is governed by and accountable to the countries that make up its near-global membership.

Mergers and Acquisitions (M&A) is the consolidation of companies or assets. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

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.

Special Drawing Rights (SDR) is an international reserve asset created by the International Monetary Fund in 1969 to supplement its member countries' official reserves. SDRs can be exchanged for freely usable currencies. As of October 1, 2016, the value of the SDR is based on a basket of five major currencies — the U.S. dollar, Euro, Chinese renminbi, Japanese yen, and pound sterling.

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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 June 30, 2017, Greatview Aseptic Packaging Co., Ltd. comprised 1.8% of the Seafarer Overseas Value Fund, Tabreed (National Central Cooling Co. PJSC) comprised 2.8% of the Fund, Nakilat (Qatar Gas Transport Co., Ltd.) comprised 2.3% of the Fund, and China Foods Limited comprised 3.5% of the Fund. The Fund had no economic interest in Jardine Strategic, Engie, Coca-Cola Company, Ping An Insurance, China Evergrande Group, Swiss National Bank, and Czech National Bank. 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.

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