SEAFARER

SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Fourth Quarter 2017

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During the fourth quarter of 2017, the Seafarer Overseas Value Fund returned 1.90%.[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 $12.28 per share. During the quarter, the Fund paid an annual distribution of approximately $0.412 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $0.537 per share.[2] The Fund finished the quarter with a value of $12.09 per share.[3]

During the calendar year, the Fund returned 23.16%, whereas the benchmark index rose 37.75%.[4]

Performance

This portfolio review examines the Fund within the context of what is by now a confirmed rally in emerging market equities, which have appreciated consistently since the beginning of 2016. In the Annual Report for the period ended April 30, 2017,[5] I concluded my review of the Fund's first year of performance by stating that "it has truly been a year in which earnings momentum and nothing else seemed to drive stock price performance." The fourth quarter of 2017 represents a continuation of this condition.

For more information about Seafarer's seven distinct sources of value in emerging markets and how they may give rise to viable opportunities for long-term, value-oriented investments, see the white paper titled *On Value in the Emerging Markets* available at www.seafarerfunds.com/value.

An examination of the top contributors to the Fund's 1.90% total return during the quarter reveals earnings growth as a common driver across the names in the portfolio. However, this observation requires qualification. The first qualification is that at the time of initial purchase, the motivation for including these securities in the portfolio was not earnings momentum,but other considerations. In fact, at the time of first purchase, these

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.[6]

stocks suffered from declining earnings. Thus, the reason for initiating a position in the top contributor to performance, China Foods, was the expectation of the company selling non-core assets (Structural Shift[7] category of value, as defined in the white paper On Value in the Emerging Markets[8]), and the low utilization of what I expected to eventually constitute the company's core asset (Asset Productivity[9] category of value). The company also happens to have started reporting earnings growth since I introduced it in the Fund.

Similarly, the original reason for investing in another top contributor throughout the calendar year, Melco International Development, a Hong Kong-based casino developer, owner and operator, was the undervaluation of the company's balance sheet (Breakup Value[10] category of value). However, over a year ago Macau's gross gaming revenue began to grow once again after several years of contraction, and the company's earnings have begun to reflect that fact. The same argument applies to the other top contributors to portfolio performance: Shangri-La, a pan-Asian hospitality company (Breakup Value[10]), and Samsung SDI, a Korean battery manufacturer (Breakup Value[10]).

The second qualification required by the above observation that earnings growth constitutes the common thread among the Value Fund's top contributors to total return is that this factor is not the sole explanatory variable. Particularly in the case of China Foods, the company's announcement of the sale of two non-core subsidiaries holds greater explanatory power over its stock price appreciation than earnings momentum, in my opinion. Similarly, management and operational changes at Shangri-La better explain the rise in the company's share price than earnings growth to date.

The reason I make these nuanced distinctions is because they aid in the understanding of the Value Fund's performance relative to the benchmark, and they address the broader question of the role of the Fund within the context of what appears to be a growth-driven market. In essence, one should not conclude based on the foregoing that only value names that begin to grow earnings again will drive portfolio returns. Even within the context of a rising market that seems driven by growth-oriented names, value-driven stocks have performed well for the right reasons. Based on the evidence thus far, I conclude that there is still a purpose for a value-oriented strategy within the present growth-driven market.

I am reasonably satisfied with the Fund's absolute performance of 1.90% over the past quarter; however, this figure significantly underperforms the benchmark's total return of 7.50% over the same period. The above discussion of the portfolio's top contributors should illustrate the heterogeneous nature of the portfolio's drivers. In contrast, the primary contributors to the benchmark's total return over the past quarter (and for the calendar year) are a narrow group of technology and internet firms: Tencent, Naspers (owner of one-third of Tencent), Taiwan Semiconductor Manufacturing Company (TSMC), and Samsung Electronics.

More broadly, the Value Fund consists of a collection of investment ideas, each one having its own relatively idiosyncratic driver for value realization. While I classify these drivers into broad categories – the seven sources of value defined in the white paper On Value in the Emerging Markets[8] – each investment holding has its own individual set of characteristics. More importantly, from the perspective of portfolio performance relative to the benchmark, the timing of value realization for each individual investment is unpredictable. To illustrate the point, consider this period's top contributor to the portfolio's total return: China Foods. The company had no compulsion to sell two of its subsidiaries this past quarter, apart from state-owned enterprise reform within the company and its parent COFCO (China National Cereals, Oils and Foodstuffs Corporation, a relatively opaque company). This restructuring process could have taken another year to complete.

Thus, given that the timing of value realization is unpredictable, together with the idiosyncratic nature of the portfolio's holdings, the Value Fund's performance relative to the benchmark will probably be a circumstantial question most of the time. Indeed, the Value Fund's active share as of the end of the quarter was slightly above 93%.[11]

Within the context of strongly rising emerging market equities seemingly driven by an inflection point in earnings growth (please refer to Seafarer's Emerging Markets Briefing[12]), the Value Fund is likely to trail the benchmark. In my opinion, this performance lag is not due to the Fund having lower return potential than the market, but due to the difference in focus between a market searching for high earnings growth, and the Fund searching for a minimum rate of investment return regardless of the associated growth rate of the security in question.

Furthermore, not only does the portfolio include investment ideas that are still maturing, but it also owns companies that continue to report declining earnings. Given the market environment, it should not come as a surprise that this period's top detractors to portfolio performance share negative earnings momentum as a common characteristic. Crédito Real (Asset Productivity[9] category of value), First Pacific (Breakup Value[10]), Global Ports (Asset Productivity[9]), Asia Satellite (Deleveraging[13]), and Amvig Holdings (Balance Sheet Liquidity[14]) have all continued to report declining earnings and their respective share prices have continued to decline.

As was the case with the top contributors to performance, the above comment on negative earnings growth needs qualification. Beyond earnings momentum, political factors also impacted the fourth quarter. The political dynamic in the United States and its implications for the future of NAFTA, as well as Brazil's own political struggle to reduce the burden of public employees and retirement benefits on the productive side of the economy, led to the significant depreciation of the Mexican peso and Brazilian real, respectively. The stock prices of the Fund's holdings in each country, Crédito Real in Mexico and Qualicorp (Structural Shift[7]) in Brazil, also suffered and compounded the losses derived from the currencies. In addition, the actions of Saudi Arabia's Crown Prince Mohammad bin Salman have had regional repercussions impacting the Fund's holdings in the region: Qatar Gas Transport (Deleveraging[13]) and to a lesser extent Tabreed (Deleveraging[13]).

These political factors constitute one of the reasons for the inflection point in the Value Fund's performance during the fourth quarter of 2017. Throughout the calendar year, the Fund had appreciated steadily and consistently, even if it still lagged the MSCI Emerging Markets Index. In fact, the Fund's NAV displayed remarkable resilience during two episodes of retracement in the benchmark's performance during early August and late September. However, from mid-September onward, the Fund's NAV stabilized. Part of the reason for this change in performance dynamic is the political factor explained above. The remaining drivers cannot be categorized. They constitute an amalgamation of individual stock dynamics. Specifically, First Pacific, a Hong Kong-based holding company, endured a share price decline after one of its subsidiaries, PLDT, failed to regain market share in the Philippines wireless market. Global Ports, a Russian port company, suffered from indications that Russian authorities would force the company to price its services in Russian rubles instead of U.S. dollars. Pegas Nonwovens, a Czech manufacturer of nonwoven, absorbent textiles (Segregated Market[15]), experienced a decline in its share price after the conclusion of a tender offer for the shares by a Czech industrialist.

What is important to observe in individual stock dynamics during the fourth quarter is not simply how they contribute to the overall Fund performance, but how they exemplify the nature of a value fund. A good example within the quarter of my earlier point that the timing of value realization is unpredictable is Xtep, a Chinese sports footwear and apparel company (Balance Sheet Liquidity[14]). The stock price had declined throughout the year after the company posted an earnings contraction in the first half of 2017 and issued a profit warning for the full year on December 8, 2017. However, the stock price has appreciated strongly since the issuance of the profit warning to the point that it has fully recovered from the price decline earlier in the year. Note that this price appreciation has taken place before the company actually reports full year earnings that are expected to contract year-on-year on the order of 25% to 35%, and after numerous rating downgrades by brokers following the profit warning. While it remains to be seen how sustainable Xtep's stock price appreciation is – as it is a function of the ultimate success of the company's operational transformation – the point still stands that stock price dynamics are much more complex than what the growth-driven market of the last two years seems to suggest.

As I stated earlier, it is this kind of stock-specific observation that suggests that there is room for a value strategy in a growth-driven market. While the Value Fund's largely stable NAV throughout the fourth quarter as the benchmark continued to appreciate is clearly not ideal, when considered in conjunction with the NAV's stability during previous episodes of benchmark retracement earlier in the calendar year, it suggests an idiosyncratic behavior of the Value Fund relative to the market. Considering this behavior together with satisfying absolute returns for the full calendar year, I am content that the Seafarer Overseas Value Fund is so far making a meaningful contribution to the overall allocation of investor savings.

Allocation

During the quarter the Fund did not sell any existing holdings or add any new securities. Allocation during this period consisted of deploying steady Fund inflows, taking advantage of individual share price weakness whenever possible.

Outlook

The defining event of the fourth quarter of 2017, and arguably of the full calendar year, was China's 19th National Congress of the Communist Party held during the month of October. The communist party holds this event every five years to announce leadership changes as well as policy development. Yet, it was not until I returned from an investment trip to Prague in December that the ebb and flow of my thoughts began to penetrate the fog beyond which lies the horizon we commonly refer to as the future of the emerging market universe. In my humble opinion, the horizon for emerging markets is in the process of shifting from a trio of guiding stars to a new set of stars that will point the way forward.

Three relatively synchronized events spawned a large component of the universe we now refer to as emerging markets:

1. The consistent decline for more than a generation of U.S. Treasury yields since their peak in 1981.

2. China's decisions, under leader Deng Xiaoping in 1979, to open the country to trade and competition with the international community, and also officially allow privately-owned enterprises.

3. Soviet leader Mikhail Gorbachev's abandonment of the Brezhnev Doctrine in 1988 liberated the Eastern Bloc countries from Russia's grip, thus launching these former Russian satellite countries into the orbit of Western Europe. This change in policy was an important step in the eventual dissolution of the Soviet Union in 1991.

While China is obviously very different from Eastern European countries – leading many to question the reasonableness of classifying such disparate countries in the same investment basket – what unites them in our investment universe is their common emergence as true economies from the shackles of centrally planned production. While these newfound markets increased the investment options in our universe, it was their integration into the structures of the International Monetary Fund (IMF) and World Trade Organization (WTO) during the 1980s and 1990s that gave impetus and scale to these economies and the accompanying capital markets Seafarer invests in.

By virtue of being the world's premier reserve currency, the U.S. dollar acted as the functional currency to anchor not only international trade relations, but also the value of the domestic currency of many emerging markets. It is in this context that the prolonged expansion of the U.S. dollar monetary base, exemplified by the unabated decline of the 10-year U.S. Treasury yield from circa 15% in 1981 to circa 2% in 2017, assumes relevance. One could argue that the international growth of U.S. dollar-denominated credit underwrote the early development of emerging markets. This early development included Eastern Europe's transition to market-based economies accompanied by democracy, as well as China's newfound prominence – without democracy – since the country's accession to the WTO in 2001.

It is at this juncture that the connection between my visit to Prague and China's 19th National Congress becomes clear. There is an unstated assumption among observers of emerging economies that not only will these tend to follow a similar development path, but they will also evolve in the image of the more developed Western economies. One of the reasons for this expectation is the inextricable connection between economic freedom and political liberty. If China intends to avoid the middle income trap after its first phase of development, I think the communist party must incrementally decentralize power. In broad strokes, this was the experience of Eastern European countries that may represent a close analogue for China only in the sense that they are both emerging from centrally planned production.

Yet, what the policy decisions of Xi Jinping, China's President, prior to and during the 19th National Congress have made clear is that China intends to define its own development path in a manner that does not conform to historical precedent, such as the one undertaken by Eastern European countries.

Instead of decentralizing decision-making as China reaches middle income status, which would be consistent with the pattern of countries that have avoided the middle income trap, Xi Jinping has chosen to centralize power around his persona through a long-running anti-corruption campaign that has removed many of his adversaries, and by incorporating "Xi Jinping Thought" in the Party's constitution. The inclusion of Xi Jinping in the constitution elevates his status to a rarefied level shared only by Mao Zedong and Deng Xiaoping. By immortalizing his thought in the constitution, Xi Jinping assures his guidance of national policy for decades to come.

While Xi Jinping Thought is too vague to draw hard conclusions and is still evolving, I would suggest that the actions of China's President leading up to the National Congress are sufficiently revealing of China's objectives to form a view of the country's development over the coming decades. My conclusion is that China will emerge as a new guiding star alongside the ones aforementioned for the future of emerging markets.

In my opinion, the reason there is a need for a shifting of the stars in the horizon that guide emerging markets over the coming decades is that many of these economies have achieved middle income status by now. In the case of China, Deng Xiaoping's approval of private enterprise and international trade in 1979 effectively traded Chinese labor for Western technology in the form of machinery and production processes. This exchange lifted the nation's standard of living over the next three decades. With his actions, Xi Jinping is now in the process of determining the next exchange that will define the living standard of a new generation of Chinese.

While it is probably premature to precisely define this next exchange, I suspect that at its core it will involve the productive use of the country's massive foreign exchange reserves of $3.1 trillion beyond their historical role of anchoring the renminbi. Deng Xiaoping's opening up of the country to the outside world is what enabled China to accumulate these reserves. Xi Jinping seems intent on taking the next step – beyond simply opening up the country to the international community, to actively shaping the international landscape.

The first step in that direction is Xi Jinping's launch of the One Belt One Road Initiative (OBOR) in 2013 that seeks to build land-based and sea-based infrastructure to connect China to countries in Central Asia, West Asia, the Middle

East and Europe. It is not a coincidence that soon afterward, in 2015, China officially launched the Asian Infrastructure Investment Bank (AIIB). The key significance of these projects beyond international trade implications is the currency. While China's accumulated foreign reserves are what ultimately capitalize the AIIB, I expect China will increasingly use the renminbi to denominate trade contracts that arise from OBOR infrastructure. While this step is not new, as there already exist trade contracts denominated in renminbi, what is different about OBOR is that it directly links renminbi contracts to infrastructure. More technically, it extends the international use of the renminbi from the current account to the capital account.

This extension is critical to China's generational shift in objectives toward shaping the international landscape. The implications of success in extending the use of the renminbi internationally are multi-dimensional. An OBOR network with infrastructure financed largely with Chinese capital and operating with the renminbi as its primary functional currency would give China a direct sphere of influence, akin to the United States-financed rebuilding of Europe after World War II, or the Soviet Union's relationship with its satellite countries. Implications extend to the Chinese military which I expect would be posted along these trade routes to protect China's interests, as an analogue to the international deployment of the U.S. military, or Spain's use of its navy to protect trade routes with its territories around the globe in the sixteenth and seventeenth centuries, or the Roman Empire's protection of its road network before that. It remains to be seen how much further beyond this direct sphere of influence use of the renminbi extends. However, China is already prepared for such an eventuality with numerous bilateral currency swap agreements.

Success on all these fronts would effectively mean that the Chinese renminbi has the potential to become a true reserve currency in practice, with influence extending well beyond that granted by the IMF's inclusion of the renminbi in the Special Drawing Rights (SDR) basket in 2016. To put it succinctly, China would accrue similar benefits to those the United States has enjoyed since the U.S. dollar became the global reserve currency following World War II.

While hopefully of interest, the largely academic discussion above would be meaningless without its pragmatic application to investments in the emerging markets. The key investment-related implications of the outlook for the renminbi are as follows:

1. The ascendancy of the renminbi equates to a diminished need to accumulate U.S. dollar foreign reserves. While I will always refrain from making a currency forecast, the implication for U.S. dollar-based investors is that investments denominated in a different currency, especially one with potential to become a true reserve currency in practice, could add a diversified and sustainable alternate source of value to their portfolios.

2. The future of emerging market economies will probably depend less on developed market current account deficits and more on endogenous motors of growth. To the extent that China continues to diversify its economy away from infrastructure investment and upgrade the value-added of its industries, while lower value-added industries continue to relocate to less developed countries, intra-emerging market trade will increase its proportional share of overall trade, making the growth of these economies more sustainable and resilient. The implication is that investors can and perhaps should make more permanent allocations to a universe incrementally less dependent on developed markets.

3. In addition to the aforementioned factors that may contribute to the renminbi's ascension to reserve currency status, China ultimately needs to create its own sources of value if the renminbi is to maintain its newfound status. The reason for this requirement is that the drivers of capital formation in China will shift as the currency gains independence. The term capital in this context signifies the network of machinery, workers, production processes, and knowledge that actually creates production, not money. The previously discussed exchange of labor for Western technology designed by Deng Xiaoping is the process by which the Chinese nation accumulated capital and lifted its living standard over the past thirty-seven years. For China to project its objectives internationally it needs a currency that holds its value over time. In order to do that, it needs its own sources of incremental capital formation to exchange with the economies in its sphere of influence. Beijing has demonstrated its awareness of this idea with policies designed to position Chinese companies at the forefront of technologically advanced, global industries such as battery production, electric vehicles, and chip manufacturing. The primary objective for investors is to identify the companies that will create this future. The challenge, however, extends beyond finding these companies to purchasing their common equities at prices that yield an adequate investment return.

Not all is well in the land of Oz, however. China's total debt balance (at approximately 300% of gross domestic product (GDP),[16] according to figures from the Bank for International Settlements) could augur a disorderly deleveraging process that would retard, perhaps even derail, what I interpret to be China's ambitions for the renminbi. While much ink has been spilled over the doom and gloom China's leverage portends, it is worth noting that China retains much more control over such a process than equally levered countries, such as the United States, Japan, and members of the European Union. The communist party's ownership of state-owned enterprises as well as the banks, together with policy-driven lending practices, give Beijing superior tools to implement a controlled deleveraging, compared to the rules-based system used in developed economies. It should be emphasized that this critical difference still does not protect China from a crisis.

In addition to leverage and associated mal-investment, China's second structural weakness is the State's control of corporations it does not nominally own. While the communist party has always held sway over large corporations, even if privately controlled, many enterprises are now proposing amendments to their articles of incorporation to formally set up Party organizations to perform leadership functions within the company. This formal recognition of the communist party as the ultimate control party in many companies probably relates to the gradual lifting of foreign ownership limits in commercial banks, fund managers, and insurance companies that Beijing announced in November of 2017.

Thus, China is gradually evolving from a system of control through direct ownership of the factors of production to one of control without direct ownership. This new system is actually reminiscent of fascism as practiced in Spain, Italy, and Germany in the period preceding World War II. During this time, even though private individuals owned the equity of companies, the companies would more often than not serve state objectives. In a similar manner, nominally private enterprises operating in China's internet industry have directed investment toward state-owned-enterprises in the wireless sector. This observation is entirely consistent with Xi Jinping Thought where China's President repeatedly commits the Party to socialism. Thus, while it is common to describe post-Deng Xiaoping's China as "neo-capitalist," in my view it would be more accurate to describe China as transitioning from communism to fascism – both systems being branches of socialism – thus making Xi Jinping entirely correct in his pronouncements.

The key weakness of Beijing's insistence on control over private enterprise is that there is a limit to creativity and productivity under conditions of State oversight. This limitation undermines the ultimate goal of making the renminbi a reserve currency. I suspect, however, that Beijing can still achieve most of its objectives for the next several decades before discovering the limits of its own control structure.

Lastly, the restrictions that State control structures impose on the ultimate success of domestic enterprise also manifest themselves internationally. The key defining feature of the age of the U.S. dollar as the world's reserve currency is that the United States enjoyed the moral high ground. Up to World War II, it was brute force that kept global empires together. For the first time in history, the aftermath of the Second World War witnessed the cultural expansion of a globally dominant country, the United States, that went beyond the power of its military and its currency. This cultural expansion was based on shared values between the United States and individuals around the world, especially among individuals suffering under the coercive methods to which all socialist states invariably resort. For the time being, the Chinese government lacks this moral high ground, thus circumscribing the renminbi's ultimate sphere of influence much more closely to that of its military and the international credit expansion of Chinese banks.

China may still continue to progress along the middle income path and may even avoid the middle income trap despite the ultimate limitation the communist party's control structure imposes on individual entrepreneurship and the renminbi's international influence. It will probably take decades to find where this limitation lies. Between now and then, the renminbi will likely continue to advance its practical use in international trade settlement, and Chinese assets will concurrently become more sustainable vehicles for long-term international savings. In my opinion, this is the unstated seismic shift in the international order that the enshrining of Xi Jinping Thought in the Party's constitution aims to realize. The implications of the shift from Deng Xiaoping simply opening up the country to the global community, to Xi Jinping aiming to actively project Chinese interests internationally extend well beyond China. The engines of economic growth in emerging markets are likely to become more endogenous and sustainable from the perspective that they will diversify away from developed economies – thus improving the attractiveness of the emerging market asset class as a more permanent allocation for international savings. It will be important to maintain this long-term perspective as crises inevitably punctuate the way forward indicated by the new star on the horizon that is China's renminbi.

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

January 15, 2018

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 1.82% during the quarter.

[2] The Fund's inception date is May 31, 2016.

[3] The Fund's Investor share class began the quarter with a net asset value of $12.29 per share; it paid an annual distribution of approximately $0.423 per share during the quarter; and it finished the quarter with a value of $12.08 per share.

[4] The Fund's Investor share class returned 22.92% during the calendar year.

[5] www.seafarerfunds.com/reports/2017/04/annual

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

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

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

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

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

[11] Sources: MSCI, Bloomberg, Seafarer. As of December 31, 2017.

[12] www.seafarerfunds.com/commentary/emerging-markets-briefing/2017/09/

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

[14] www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets#balance-sheet-liquidity

[15] www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets#segregated-market

[16] Source: Bank for International Settlements. As of June 30, 2017.

Glossary

Active Share is a measure of a portfolio's deviation from a benchmark index, where a value of 0% indicates that a portfolio is a perfect replica of the index, and a value of 100% indicates that a portfolio is entirely different than the index. More specifically, this statistic adds up the difference in weight of every security in the index versus the portfolio, and divides the total by 2 to arrive at a value. Cash and debt securities with a maturity of less than two years are excluded from the calculation.

Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank, headquartered in Beijing, that invests in sustainable infrastructure and other productive sectors. The bank commenced operations in January 2016.

Belt and Road Initiative is an international program to spur investment and trade links between China, central Asia, and Europe. The initiative was announced by China's President Xi Jinping in 2013. The official name for the initiative is the "Silk Road Economic Belt and the 21st Century Maritime Silk Road."

Capital Account is the net change in physical or financial asset ownership for a nation. The capital account, together with the current account, constitutes a nation's balance of payments. The capital account includes foreign direct investment (FDI), portfolio and other investments, plus changes in the reserve account.

Current Account is the difference between a nation's savings and its investment. The current account is an important indicator of an economy's health. It is defined as the sum of the balance of trade (goods and services exports less imports), net income from abroad, and net current transfers. A positive current account balance indicates that the nation is a net lender to the rest of the world, while a negative current account balance indicates that it is a net borrower from the rest of the world. A current account surplus increases a nation's net foreign assets by the amount of the surplus, and a current account deficit decreases it by that amount.

Foreign Direct Investment (FDI) is investment in domestic businesses by foreign citizens.

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.

Middle Income Trap is a typical feature of many emerging markets. Such countries initially manage to improve average income per capita, but due to declining returns to scale, development is often arrested at a middling level, before incomes reach thresholds associated with richer, developed nations.

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.

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.

World Trade Organization (WTO) is an intergovernmental organization that regulates international trade. The WTO deals with regulation of trade in goods, services and intellectual property between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements.

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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.

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.

The views and information discussed in this commentary are as of the date of publication, are subject to change, and may not reflect Seafarer's current views. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles. It should not be assumed that any investment will be profitable or will equal the performance of the portfolios or any securities or any sectors mentioned herein. The subject matter contained herein has been derived from several sources believed to be reliable and accurate at the time of compilation. Seafarer does not accept any liability for losses either direct or consequential caused by the use of this information.

As of December 31, 2017, China Foods, Ltd. comprised 3.8% of the Seafarer Overseas Value Fund, Melco International Development, Ltd. comprised 3.4% of the Fund, Shangri-La Asia, Ltd. comprised 3.1% of the Fund, Samsung SDI Co., Ltd. comprised 3.3% of the Fund, Crédito Real SAB comprised 2.0% of the Fund, First Pacific Co., Ltd. comprised 3.9% of the Fund, Global Ports Investments PLC, GDR comprised 2.4% of the Fund, Asia Satellite Telecommunications Holdings, Ltd. comprised 3.2% of the Fund, AMVIG Holdings, Ltd. comprised 2.8% of the Fund, Qualicorp SA comprised 1.4% of the Fund, Qatar Gas Transport Co., Ltd. comprised 3.5% of the Fund, Tabreed (National Central Cooling Co. PJSC) comprised 2.9% of the Fund, Pegas Nonwovens SA comprised 3.0% of the Fund, and Xtep International Holdings, Ltd. comprised 3.7% of the Fund. The Fund had no economic interest in Tencent, Naspers (owner of one-third of Tencent), Taiwan Semiconductor Manufacturing Company (TSMC), Samsung Electronics, COFCO, and PLDT Inc. 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.