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SEAFARER OVERSEAS VALUE FUND

Portfolio Review

First Quarter 2018

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During the first quarter of 2018, the Seafarer Overseas Value Fund returned 0.41%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, rose 1.47%. By way of broader comparison, the S&P 500 Index declined -0.76%.

The Fund began the quarter with a net asset value of $12.09 per share. It paid no distributions during the quarter and finished the period with a value of $12.14 per share.[2]

Performance

The Fund's total return during the first quarter of 2018 was essentially flat. This result, however, does not mean that the portfolio's underlying holdings experienced little change in price over the quarter. In fact, the opposite is true, as many of the Fund's holdings experienced meaningful price swings, both positive and negative, over the quarter. Against a backdrop of increased volatlity and uncertainty in the markets, the Fund generated a 0.41% total return for the quarter as gains from the contributors slightly offset the losses generated by the detractors.

The concept of symmetry permeated the first quarter of 2018 – not only with regard to the Fund's performance, but also as it related to unfolding global events over this time period (please refer to the Outlook section of this review).

> 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.

In the first quarter, the top three contributors and detractors were all stocks where the Fund held a position of 3% or greater, making the aggregate weight of winners and losers nearly the same. The top contributors were Xtep International (Balance Sheet Liquidity[3] category of value, as defined in the white paper On Value in the Emerging Markets[4]), China Resources Beer (Structural Shift[5]), and Pegas Nonwovens (Segregated Market[6]). The top detractors were First Pacific (Breakup Value[7]), China Foods (Asset Productivity[8]), and Genting Singapore (Balance Sheet Liquidity[3]).

The stock prices of these companies appreciated or depreciated in the range of +/- 10% to 20% during the quarter, with Xtep's appreciation of 42.4% as the outlier.

The significant appreciation in Xtep's share price during the quarter was surprising because it followed a profit warning in December of 2017 and several downgrades by sell-side research analysts. My interpretation of this counter-intuitive share price move is that the market largely discounted the company's negative profit warning, which was driven primarily by the purchase of old inventory from the retail channel, and instead saw the purchase as a sign of Xtep's operational restructuring potentially coming to an end. At one level this share price performance is consistent with the growth-driven rally in emerging market equities that started at the beginning of 2016, since it anticipates a resumption of earnings growth at the company. Note that sell-side earnings only began to anticipate growth *after* the share price had rallied. On the other hand, this newfound earnings growth is far from assured, and the company could disappoint the market again. It is from this perspective that I see a value strategy delivering returns within an overall market rally driven by growth stocks. For a discussion of the Value Fund's role within the ongoing emerging market rally, please refer to the Performance section of the fourth quarter 2017 portfolio review.[9]

China Resources Beer (Structural Shift[5]) and First Pacific (Breakup Value[7]) were the Fund's two largest positions at the beginning of the quarter, with weights of approximately 3.9%. These stocks experienced opposite performance patterns, with the former's stock price appreciating 20.7%, while the latter depreciated 19.8%. This divergent performance is another way in which symmetry reared its head this quarter. China Resources Beer's stock price reacted strongly to indications that it would raise beer prices, which would presumably, though not assuredly, begin to address the company's structurally low profit margin. On the other hand, First Pacific's price to book value (P/BV) ratio declined from approximately 0.9x to 0.7x following indications that the company's Philippine mobile operator subsidiary is taking longer than anticipated to stabilize market share and is planning to increase network investment, while its Philippine water subsidiary is experiencing difficulty raising tariffs.

Finally, the remaining determinants of performance this quarter serve as a reminder that the historical norm is for stock prices to move in cycles, unlike the remarkably steady appreciation of the MSCI Emerging Markets Index from the beginning of 2016 to the end of 2017. After experiencing a meaningful decline in the fourth quarter of 2017, the share price of Pegas Nonwovens (Segregated Market[6]) resumed its appreciation once the tender offer for shares by a new control party expired. Similarly, but in the opposite direction, the share prices of China Foods (Asset Productivity[8]) and Genting Singapore (Balance Sheet Liquidity[3]) declined after periods of strong performance and dividend increases for both companies.

Allocation

During the quarter the Fund did not sell any existing holdings or add new securities.

In light of recent market volatility, it is opportune to discuss the Fund's cash weighting. The Fund began the quarter with a 12% allocation to cash and ended the period with a 17% allocation to cash. A large Fund inflow at the end of the quarter and its gradual deployment drove the increase in cash level seen at quarter end.

While the Fund's cash level may change over time, I generally target a cash position of 15% or less. I believe it is important to discuss why the current cash position exceeds the target range, and how the Fund uses this resource.

Indeed, in a consistently up-trending market, such as the one experienced by emerging markets over the past two years, a high level of cash constitutes an opportunity cost. Conversely, in volatile or down-trending markets, cash represents increased purchasing power.

However, the Value Fund holds a relatively high level of cash for reasons unrelated to the underlying market dynamics. The Value strategy views the purchase price of a security as the primary determinant of long-term investment returns. The corollary of this tenet is that the Fund will hold cash instead of securities should price action prove unfavorable. The reason for this is that cash may contribute positively to *realized* long-term returns when used correctly, even if it incurs an *opportunity cost* during interim periods.

The Fund has already begun to *slowly* take advantage of its cash resource during the most recent period of market volatility.

Outlook

Symmetry. Where would the accounting profession be without it? Accountants revere a perfectly symmetrical balance sheet, as well as financial statements where the cash flow statement's change in cash perfectly foots with the balance sheet's period-over-period cash variance. This concept, and the accountants' relentless pursuit of it, form the foundation of the Fund's search for value. How would an investor have confidence in the discovery of presumed value without symmetrical financial statements?

This concept of symmetry repeatedly came to the fore of my mind as trade-related developments unfolded during the first quarter of 2018. In my opinion, trade friction, or the perception of asymmetry in current account balances between countries, is the natural outcome of an international trade process that is distorted to begin with. The difficulty of untangling perceived distortions does not restrict itself to the myriad regulations that govern trade under the aegis of the World Trade Organization (WTO). The active management of foreign exchange rates by governments further distorts the free and voluntary exchange of goods and services across borders.

This form of international trade management has persisted for so long that the pursuit of symmetry in the terms that govern trade relations seems futile given that cumulative distortions are probably intractable by now.

While the present trade dispute between the United States and China will likely impact one of the Value Fund's holdings directly (please see discussion below), what concerns the Outlook section of this portfolio review is the post-dispute implications of investing in emerging markets.

Specifically, my concerns relate to the implications for the future of China and were articulated in the Outlook section of my fourth quarter 2017 portfolio review.[10] Among the ideas discussed in that portfolio review was my speculation on China's future use of its foreign exchange reserves beyond their historical role of anchoring the currency. There are two points to make relating to the direct connection between the present trade dispute and China's historical reserve accumulation:

1. China's foreign reserve accumulations of approximately USD 3 trillion at present and USD 4 trillion at its peak (June 2014) are living proof of distortions to free trade.[11] The foreign reserve figures are matters of fact. The inference that these figures are evidence of trade distortions is my own, and is based on the observation that these figures are without precedent in terms of absolute magnitude, as well as relative size versus the economy. In my view, any country would be unlikely to accumulate such a magnitude of reserves without the presence of fixed exchange rates, capital controls, and the ability of its trading partner – in this case the U.S. – to finance private and public deficits seemingly without constraint. This observation does not seek to allocate blame to either side of the trade dispute; it merely constitutes an observation of historical fact – the level of reserve accumulation – and the foregoing inference. The point of making this inference is to hopefully provide a more useful framework for thinking about the dispute than what one reads in the newspapers. Even more importantly, it may provide a useful framework for thinking about investments in the emerging markets.

2. To that end, my next observation is that China's reserve accumulation seems to have stabilized after shrinking from its peak level in 2014. In other words, the reserve accumulation dynamic seems to have already entered a new, more stable regime, different from its meteoric rise since the country joined the World Trade Organization in 2001. It is important to note that this new regime began well before the present trade dispute with the U.S., again suggesting that there are other forces at work.

Thus, the truly relevant question to ask is not what the outcome of the trade disagreement will be, but rather, what does the regime change that has already occurred in China's reserve accumulation suggest about the changing nature of the country's trade relations, and by implication, the likely future development of Chinese corporates? And, most importantly, what does this mean for the Value Fund's present and potential future investments in said corporates?

The Fund's fourth quarter 2017 portfolio review[10] devoted part of its outlook to speculating about the future development of the renminbi (RMB). I argued for the renminbi gradually fulfilling a role as a reserve currency in a functional sense, beyond merely being designated as such by the International Monetary Fund (IMF). I also proposed that China is already developing its own sources of value creation to exchange within the renminbi's future sphere of influence, as a substitute for the historical exchange of Chinese labor for Western technology that enabled the country's capital accumulation and improvements in living standards. With that background in mind, and in light of the aforementioned regime change in the country's reserve accumulation, I would follow-up last quarter's speculation on the renminbi with another, relevant to this quarter's trade dispute, and propose that the Chinese current account may potentially shift from a surplus to a deficit in the future. Arguably, the forces driving this change, which last quarter's portfolio review covered, are already at work, thus diminishing the relevance of the present trade dispute between the U.S. and China.

Chinese corporates are already developing their own technology in areas such as 5G mobile communication, semiconductor manufacturing, online payment systems, and electric energy storage. I expect these companies to exchange such technology for lower value-added goods manufactured within the renminbi's sphere of influence, a large component of which will include the countries comprising China's Belt and Road Initiative. It is important to note that the process of relocating low-value manufacturing, such as textiles, from China to countries with underemployment already started years ago.

There is no economic law that predicts China must run a current account deficit as a result of the foregoing process. It is simply my observation that Beijing is coordinating the development of broader and deeper debt markets, while concurrently making them accessible to foreign capital, as it has already done with the equity markets. This factor, together with the development of home-grown technology, and a currency gaining reserve status, suggests that China's terms of trade are in flux, and that it is perhaps very late to renegotiate perceived asymmetries in trade relations. Even more importantly, China may be capable of running a current account deficit in the future regardless of whether its level of exports stays the same, or even grows, in terms of value. The key difference going forward is the benefit afforded to a country that uses a reserve currency – that is, the ability to finance large deficits for long periods of time. Beijing's upward revision to foreign ownership limits of Chinese financial companies further prepares the ground for the country's ability to finance potential external deficits in the future. In summary, China's terms of trade are already shifting, the reminbi is gradually acquiring reserve status, and Beijing is opening the capital account in lockstep. All of this suggests that the new regime of China's reserve accumulation, entered into in 2014, may represent the first step of further evolution, thus diminishing the relevance of the present trade dispute.

The investment challenge of this process is not only to find companies that will help create China's future as envisioned in this portfolio review, but to also purchase such corporates at attractive prices. Another soft implication of the changing nature of China's economy is the potential rise of Chinese brands. Such brands need not relate to technological innovation. Consumer product companies operate on the basis of brand equity. The export potential of Chinese-branded consumer products may rise, assuming corporates continue to improve product quality concurrently with the gradual acceptance of the renminbi as a reserve currency.

A case in point is the Fund's holding Xtep. This manufacturer of athletic apparel has demonstrated quality improvements over the past few decades. As Xtep's category of value classification (Balance Sheet Liquidity[3]) suggests, the Fund owns this company for reasons unrelated to my own perception of the corporate brand equity; however, I do track the company's pricing and sales performance relative to the long-established industry leaders: Nike and Adidas. Only time will tell if Xtep may join the ranks of these iconic brands and one day enjoy a similar level of domestic and international acceptance.

WH Group (Management Change[12]), another portfolio holding working to improve its value-added product offering and brand equity, is in the crosshairs of the present trade dispute between the U.S. and China. WH Group is a meat processor that acquired a foreign brand, U.S.-based Smithfield Foods, to accelerate its transition to branded sales and to exploit revenue and cost synergies. The company imports pork from the U.S. into China, where hog prices have been consistently higher than those in the U.S. for a long time. The proposed 25% tariff on hog imports from the U.S. to China impacts the company directly.

Aside from selling the security, there is no way for the portfolio to protect itself from this unexpected eventuality. I have chosen to maintain the Fund's position in WH Group based on the information currently available, which suggests the proposed tariff may be temporary. Even if the tariff becomes permanent, the hit to the company's long-term value creation is more than accounted for in the stock's low valuation.

WH Group's efforts to counteract the distortion of tariffs on its operations and financial performance provide an opportunity to analyze the portfolio from a different perspective, again one of symmetry. WH Group can minimize the impact of tariffs on U.S. hog exports through its exposure to both the upstream and downstream segments of the business. Thus, the company can offset a decline in the profitability of raising and sourcing hogs – the upstream side of the business – as a result of the tariff, with the pricing power it enjoys in the manufacture of consumer-branded products – or the downstream part of the business.

The Fund's strategy is long-only; the portfolio's stock exposures are not hedged by shorting. The Fund also does not hedge the currency exposure that naturally comes with holding foreign stocks. Some of the Fund's holdings, however, have asymmetrical reactions to the same variable. In the same way that WH Group's vertical integration helps it mitigate the impact of tariffs, or changes in the price of hogs, the vertical integration of Wilmar International (Asset Productivity[8]) helps it offset changes in the price of the palm oil it processes in its upstream business by making inroads into the downstream, branded-product side of the business.

PetroVietnam Technical Services (Management Change[12]), a service provider to oil exploration and production companies, has a diametrically opposite reaction to changes in the price of oil than PetroVietnam Fertilizer and Chemicals (Management Change[12]), which uses gas as an input to manufacture fertilizer, the price of which correlates with the price of petroleum.

Another case of symmetry rearing its head in the Value portfolio is the balance provided by income-producing securities with very high dividend yields and companies expected to grow their capital without the prospect of paying out dividends in the short-to-medium term. Finally, the value categories of Balance Sheet Liquidity[3] and Deleveraging[13] are natural opposites in terms of how interest rate changes impact stocks in each of these value segments, thus again delivering another form of balance to the portfolio. It is important to note that the value strategy does not seek perfect symmetry across all possible variables that may impact the portfolio's performance. A balanced exposure to potential risks is simply one of the many considerations that impact the portfolio's construction.

I would like to thank the reader that has made it this far into the Seafarer Overseas Value Fund's portfolio review. I am conscious of the length of this portfolio review and that of the prior quarter's review.[14] I hope my efforts to explain the many facets of the strategy employed by the Fund satisfy the reader's interest.

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

Paul Espinosa
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Seafarer Capital Partners, LLC

April 13, 2018

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 0.41% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $12.08 per share; it finished the quarter with a value of $12.13 per share.

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

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

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

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

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

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

[9] www.seafarerfunds.com/funds/ovl/portfolio-review/2017/12/Q4#pr-performance

[10] www.seafarerfunds.com/funds/ovl/portfolio-review/2017/12/Q4#outlook

[11] Source: FRED Economic Data, Federal Reserve Bank of St. Louis. Data as of February 2018 and June 2014.

[12] www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets#management-change

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

[14] www.seafarerfunds.com/funds/ovl/portfolio-review/2017/12/Q4

Glossary

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.

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.

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.

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.

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 March 31, 2018, Xtep International Holdings, Ltd. comprised 4.3% of the Seafarer Overseas Value Fund, China Resources Beer Holdings Co., Ltd. comprised 3.9% of the Fund, Pegas Nonwovens SA comprised 3.3% of the Fund, First Pacific Co., Ltd. comprised 3.7% of the Fund, China Foods Ltd. comprised 3.1% of the Fund, Genting Singapore PLC comprised 3.3% of the Fund, WH Group, Ltd. comprised 3.2% of the Fund, Wilmar International, Ltd. comprised 3.7% of the Fund, PetroVietnam Technical Services Corp. comprised 2.7% of the Fund, and Petrovietnam Fertilizer and Chemicals JSC comprised 2.0% of the Fund. The Fund had no economic interest in Nike Inc., Adidas AG, or Smithfield Foods, 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.

