SEAFARER

SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Second Quarter 2018

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During the second quarter of 2018, the Seafarer Overseas Value Fund returned -3.71%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, declined -7.86%. By way of broader comparison, the S&P 500 Index gained 3.43%.

The Fund began the quarter with a net asset value of $12.14 per share. It paid no distributions during the quarter and finished the period with a value of $11.69 per share.[2]

Performance

The second quarter of 2018 delivered a meaningful depreciation to the MSCI Emerging Markets Index, which had already begun to suffer weakened performance during the first quarter, despite initially appreciating in January. The first observation of note is that emerging market currencies, rather than changes in stock prices denominated in local currencies, drove most of the index's performance during the quarter. In fact, the MSCI Emerging Markets Currency Index, which tracks the value of emerging market currencies versus the U.S. dollar (with currency weights that correspond to the weights of countries in the MSCI Emerging Markets Index), depreciated -5.50% during the quarter, accounting for the majority of the MSCI Emerging Markets Index's -7.86% total return. The second observation is that the index's negative performance was heavily concentrated in the month of June, coincident with an intensification of the trade dispute between the U.S. and many of its trading partners. The Value Fund's NAV depreciated -3.71% over the same period. Even though the Fund's performance drivers at a stock level were very different from those of the index – the Fund's active share was 92.8% as of June

> 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.

As of 6/30/18 the annualized performance of the Fund's Institutional class was: 1 year 2.36% and since inception (5/31/16) 10.23%.[1]; the net expense ratio was 1.05% and the gross expense ratio was 3.63% The performance data quoted represents past performance and does not guarantee future results. Future returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. View the Fund's most recent month-end performance at www.seafarerfunds.com/performance.

30, 2018 – global variables impacted overall performance meaningfully for the first time since the Fund's inception. Interestingly, given the index's performance characteristics this quarter, emerging market currencies are not one of those variables as the strategy had modest exposure to the currencies that depreciated most during the quarter, such as the Turkish lira, the South African rand, and the Brazilian real.

On the other hand, the rise in the London Interbank Offered Rate (LIBOR), as well as the anticipation of new tariffs in the U.S. and China beginning in July, impacted the stock price of several portfolio holdings. Indeed, two of the largest detractors to the Fund's NAV during the quarter are classified under the Deleveraging[3] category of value (as defined in the white paper On Value in the Emerging Markets[4]), which makes intuitive sense given the rising cost of debt denominated in U.S. dollars. Emerging market corporates have historically funded a significant portion of their liabilities using offshore U.S. dollar denominated debt, which tends to use LIBOR as the reference rate for pricing purposes. The rise of the 12-month LIBOR from 1.78% to 2.76% between September 29, 2017 and June 29, 2018 pressured the equity valuations of Fund holdings that are highly levered.[5] Specifically, the stock prices of Global Ports (Deleveraging[3] and Asset Productivity[6]), a Russian port owner and operator, and Del Monte Pacific (Deleveraging[3] and Management Change[7]), a food producer and owner of the Del Monte brand, declined significantly during the quarter over concerns that operational improvements at each company were too slow to de-lever the balance sheet against the backdrop of a rapidly rising LIBOR.

Similarly, the stock price of WH Group (Management Change[7]), a meat processor and owner of U.S.-based Smithfield Foods, suffered during the quarter due to another increasingly global force: tariffs between the U.S. and its trading partners. While the stock price of WH Group had already declined during the first quarter of 2018 in anticipation of said tariffs, it took another leg down toward the end of the second quarter as tariffs became less of a threat and more of a reality.

In my estimation, the second quarter of 2018 was the first time since the Value Fund's inception that a global factor impacted the overall portfolio's performance in a meaningful manner. The three stocks cited above had a combined -1.81% negative contribution to the quarter's total return of -3.71%.

Within a context of weak debt and equity markets for emerging economies, there were of course other Fund holdings that performed poorly, albeit for reasons that relate more to company specifics than global factors. Among such holdings were First Pacific (Breakup Value[8]), a conglomerate with assets in the Philippines and Indonesia, and Qualicorp (Structural Shift[9]), a Brazilian health insurance broker. In the case of First Pacific, new questions arose regarding the recoverability of historical tariff adjustments for its Philippine-domiciled infrastructure assets. Ironically, Qualicorp's stock price declined for the opposite reason than that of First Pacific: specifically, over concerns that its upward insurance premium adjustment is too large given the context of weakening Brazilian employment and purchasing power.

Not all was doom and gloom during the second quarter. I was pleased to see some of the Value Fund's holdings appreciate for stock-specific reasons and against a difficult backdrop for markets. Xtep (Balance Sheet Liquidity[10]) is a good example of the investment performance power of a value stock that begins to realize its potential. The stock price appreciated 26.91% this quarter after a strong first quarter. I attribute the strength of this performance to the very significant level of net cash on the company's balance sheet, which accounted for 36% of market capitalization and 23% of assets as of December 31, 2017, when the share price began to appreciate. In effect, the previous valuation discounted the cash balance based on the view that the company would burn through said cash due to poor operating financial results. Now that management's turnaround strategies are being finalized and appear to be bearing fruit, the market has ascribed newfound valuation parameters – not only to the operation itself, but also to the cash on its balance sheet.

China Foods (Asset Productivity[6]) and Samsung SDI (Breakup Value[8]) are additional Value Fund holdings that appreciated meaningfully during the quarter. In both cases, the quarter's performance represented the continuation of a longer-running stock appreciation related to a newfound focus by management on the core Coke bottling operation in the case of China Foods, and improving profitability at the electric vehicle battery manufacturing unit at Samsung SDI.

Allocation

During the quarter the Value Fund did not add new securities or exit any positions.

The Allocation section of the first quarter 2018 portfolio review[11] discussed the rationale for the Fund's high cash level. The second quarter of 2018 proved the first quarter's cash-related discussion prescient and provided the opportunity to practice what I preach. Indeed, the Fund used the general market weakness in emerging markets, as well as pointed pressure on the stock prices of highly levered companies and companies impacted by new trade tariffs, to add to existing holdings at more attractive prices.

The process of purchasing additional shares of a company when its share price is under pressure is the same as that of a company whose share price is rising. In other words, the Value strategy makes it a point to maintain communication with a company's management through the years to ensure that the original process of operational transformation that the Fund invested in continues. In the case of companies with share prices under acute pressure, this process carries more urgency. Such was the case during the second quarter when I visited Del Monte Pacific and First Pacific at their respective headquarters to address specific questions critical to an eventual realization of the value I see in the share prices of these companies.

In the case of Del Monte Pacific, a company without sell-side coverage, the meeting covered all the leverage statistics one could think of and their probable evolution. While such statistics are the stuff that gets me excited to go to work each morning, I understand if Value Fund investors have a life to live and would rather dispense with such mundane matters. Investors who think otherwise may feel free to disabuse me of this idea. In the meantime, I will liberate this quarterly review of the tyranny of accounting figures – but, not without first conveying the idea that I was satisfied with the actions of Del Monte management thus far to reduce leverage. While there is no guarantee that management's future actions will succeed, the combination of a price to book value ratio of 0.45x and reasonable progress to improve the profitability of Del Monte's operations in the U.S. make Del Monte an attractive holding for the Value Fund. It is important to note that despite the company's equity offering extraordinary appreciation potential, the risk is also very high, especially when the cost of debt is increasing rapidly. In such cases, the Value strategy limits the initial exposure to an investment of this nature to 3% of the Fund. The investment's weighting in the portfolio may increase only though relative appreciation.

Another case of using the Value Fund's cash resource to purchase additional shares in a company that exhibits the potential for substantial investment return, even as its valuation continues to deteriorate, is that of First Pacific. During the quarter, I met with the parent company's management, as well as with the management of two infrastructure subsidiaries in the Philippines. This company represents an interesting case study – not because of the ability to contrast the responses of the subsidiaries with those of the parent – but because of the nuance that drives the decision to buy additional shares as the stock's price declines. The unwillingness of the Philippine government to adjust tariffs retroactively presumably drove the most recent decline in the valuation of the company from a price to book value ratio of 0.73x to 0.65x. Only after speaking with management did it become clear that the issue is not one of willingness, but rather of who will bear the burden of said retroactive adjustments. The investment decision then shifts from one of questioning the normalized cash flow of the company to one of time – how long does an investor have to wait to receive said cash flow. The aforementioned decline in valuation effectively bought the Fund at least one more year of return potential, making the additional purchase of shares at the present valuation an attractive proposition for the strategy.

Finally, Asia Satellite (Deleveraging[3]), an owner and operator of communication satellites, deserves a mention in this review. I visited the management of this company during the second quarter and increased the Fund's ownership of the stock even though the share price at that time had not declined as severely as the prices of the previous two companies discussed. The reason I bring up the company is that despite the recent news of a possible change to the frequency band allocation for communication services in Hong Kong, there is little controversy surrounding its operations, and the cash flow visibility is above average. In my opinion, it is likely – though nothing is certain in this world – that both free cash flow and dividends will rise substantially going forward, despite the overcapacity that plagues the satellite industry. Similar to First Pacific, the market's concern may relate to timing, and even though the issue of time may be uncertain, the current price to book value of 0.72x certainly compensates the strategy for waiting. Waiting for a company to earn its cash flow in a business with above-average visibility such as that of Asia Satellite, as opposed to taking operational risk as is the case with Del Monte, is probably one of the most satisfying ways to earn an investment return. All it takes is the patience and discipline that a Value strategy strives to attain – qualities the equity markets lack because of their ever-shortening time horizon and use of unacceptably low interest rates to discount future cash flows.

Outlook

In the Outlook section of the first quarter 2018 portfolio review,[12] I discussed the implications at the macro and micro level of the new tariffs that the U.S. threatened to impose. Emerging market currencies and equity market valuations began to quantify the deleterious impact of said policy during the second quarter of the year. While the topic is important, I do not believe it deserves further discussion beyond what I expressed in last quarter's portfolio review. I would add that speculating on the duration and severity of the incipient trade war is futile, as world trade is distorted by myriad factors to begin with. Once one understands this idea, it then becomes clear that what trade war predictions attempt to do is speculate on what new level of distortion will become acceptable to both parties. This is a fool's game. Attempting to base an investment decision on a subject that is inherently speculative would likely prove counterproductive.

Instead, I would like to offer an alternative view of what afflicts emerging markets at present. I would argue that the trade war underway may be a red herring, or at the very least, not the main factor. In my view, the dynamics of stocks in the Deleveraging category of value previously discussed help elucidate overall market behavior. That is, the sharp rise in LIBOR is symptomatic of an underlying flow of U.S. dollars away from offshore markets, and presumably back to the core market of the United States. The question to ask is what is driving the dollar flow. I would argue the dollar flow relates to higher U.S. government deficits compounded by the Federal Reserve no longer monetizing new federal debt. Both of these factors require significantly larger U.S. dollar funding from the private sector, which could potentially explain weaker currencies, debt, and equity markets in developing economies.

The reason this account of recent market weakness is important is that the pressure these factors exert in worldwide market valuations is more durable than (what I imagine will be) a trade war with an eventual resolution.

The second reason this account of events is important is that it comes after the 2008 global financial crisis that heralded a process by emerging economies to find trade relationships less dependent on U.S. current account deficits. The present trade war reinforces and hastens this process. Perhaps more importantly, however, larger U.S. federal deficits – compounded by the Federal Reserve's quantitative tightening and concurrent with China opening its capital account – mean that emerging economies will likely experience push and pull forces in the same direction. In other words, all these events conspire toward the same long-term end, the slow decoupling of emerging markets away from the U.S. dollar. The question remains whether the Chinese renminbi can fulfill the role of an alternate monetary anchor, alongside – and not in replacement of – the U.S. dollar. Time will tell.

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 13, 2018

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned -3.71% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $12.13 per share; it finished the quarter with a value of $11.68 per share.

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

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

[5] Source: Bloomberg.

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

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

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

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

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

[11] www.seafarerfunds.com/funds/ovl/portfolio-review/2018/03/Q1#cash-weighting

[12] www.seafarerfunds.com/funds/ovl/portfolio-review/2018/03/Q1#outlook

Glossary

Active Share 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.

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.

London Interbank Offered Rate (LIBOR) is the interest rate at which banks offer to lend funds (wholesale money) to one another in the international interbank market.

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.

Sell Side Coverage refers to analysts from the research arms of investment banks who produce proprietary research, including financial estimates, on a company's securities.

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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.

The MSCI Emerging Markets Currency Index tracks the value of a basket of emerging market currencies versus the U.S. dollar. The basket's currency weights are designed to correspond to the weights of countries in the MSCI Emerging Markets Index.

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 June 30, 2018, Global Ports Investments PLC, GDR comprised 1.5% of the Seafarer Overseas Value Fund, Del Monte Pacific, Ltd. comprised 3.1% of the Fund, WH Group, Ltd. comprised 3.1% of the Fund, First Pacific Co., Ltd. comprised 4.0% of the Fund, Qualicorp SA comprised 2.3% of the Fund, Xtep International Holdings, Ltd. comprised 4.8% of the Fund, China Foods, Ltd. comprised 3.7% of the Fund, Samsung SDI Co., Ltd. comprised 4.1% of the Fund, and Asia Satellite Telecommunications Holdings, Ltd. comprised 4.1% of the Fund. The Fund had no economic interest in 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.