



SEAFARER

Seafarer Overseas Growth and Income Fund

The Role of Preferred Equities,  
Convertible Bonds, and Fixed Income Instruments

October 2015

ALPS Distributors, Inc. is the distributor for the Seafarer Overseas Growth and Income Fund.

**This material must be accompanied or preceded by a prospectus. View the Fund’s prospectus at [www.seafarerfunds.com/prospectus](http://www.seafarerfunds.com/prospectus).**

**Important Risks:** An investment in the Fund involves risk, including possible loss of principal. International investing involves additional risk. These include risks related to social and political instability, market illiquidity, and currency volatility. Investing in foreign securities may involve certain additional risks, exchange-rate fluctuations, limited liquidity, high levels of volatility, 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. Diversification does not eliminate the risk of losses. Given the potential increased volatility of the Fund, an investment in the Fund should be considered a long-term investment.

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Non-common stock holdings allow the Fund to optimize the tradeoff between prospective growth and current income.

Seafarer believes this tradeoff is tantamount to one between risk and reward.

Seafarer believes such securities (and the tradeoffs they offer) can help the Fund better achieve its investment objectives.

1. Size of the Emerging Market Bond Universe
2. Characteristics of the Fund's Non-Common Stock Holdings
3. Features of Non-Common Asset Classes Within the Fund
4. The Role That Non-Common Stocks Play Within the Fund

	Market Capitalization (US\$ in Trillions)	Number of Securities (Thousands)
USD and EUR corporate debt	3.0	4.2
USD and EUR sovereign debt	1.1	1.0
Local currency corporate debt	4.4	14.2
Local currency sovereign debt	10.6	7.1
All currency convertible bonds	0.1	0.4
Local currency preferred stocks	0.3	0.1
	<u>\$19.5</u>	<u>27.0</u>

Source: Bloomberg

Note: table excludes bank debt, and excludes bonds with issue size < \$100 million equivalent

# Characteristics of the Fund's Holdings



	<u>Characteristics</u>	<u>Screening Criteria &amp; Sources for Idea Generation</u>
Preferred Equity	Priced below common equity, usually with comparable economic rights	Higher yield than common equity, only after vetting common equity
Convertibles	Positive yield, attainable conversion price	Convertible bonds that have an attainable conversion price [Premium / Return on Invested Capital < term to maturity]
Corporate Bonds	Compelling yields relative to common stock; stock-like total return potential	Bonds that offer steady income streams, compelling relative value and / or interesting credit events opportunities
Sovereign Bonds	Compelling local currency yields; lower volatility than common equities	Long term tenors, high absolute yields, daily liquidity of ~ US\$5 million / day

# Features of Non-Common Asset Classes



Preferred Equities	<ul style="list-style-type: none"><li>• Lower valuation and higher yield than common equity, with some deterioration in liquidity</li></ul>
Convertible Bonds	<ul style="list-style-type: none"><li>• Lower volatility than most emerging market equities and can sometimes add current yield to the Fund</li><li>• Downside protection, especially in volatile markets</li><li>• Unlike government bonds and corporate bonds, convertible bonds offer equity upside potential</li></ul>
Corporate Bonds	<ul style="list-style-type: none"><li>• Corporate bonds offers exposure distinctive from common stock; sometimes we will purchase an issuers' bonds when the equity is too expensive, thereby gaining access to the income stream of a particular business even when equity valuations are unattractive</li><li>• Senior preference in the capital structure</li><li>• Lower volatility than most emerging market common equities, adding stability to the Fund</li><li>• Often a yield commensurate with the low end of that expected for equities</li><li>• An alternate source of liquidity both in terms of asset class and also in terms of timing, sometimes trading in time zones other than that of local domicile</li></ul>
Sovereign Bonds	<ul style="list-style-type: none"><li>• Adds current yield to the Fund</li><li>• Lower volatility than most emerging market common equities, adding stability to the Fund, particularly if individual sovereign risks and currency risks are diversified across the portfolio holdings</li><li>• Low default risk -- local currency denominated government bonds have had low levels of default historically</li><li>• An alternate source of liquidity both in terms of asset class and also in terms of timing, sometimes trading in time zones other than that of local domicile</li></ul>

# The Fund's Current Bond Holdings



	Portfolio Weight (%)	Effective Maturity (yrs)	Yield to Maturity (%)	Modified Duration	Option Adjusted Spread (bps)	Coupon (%)	Bloomberg Composite Rating	Currency
<b>Convertible Bonds</b>								
ASM Pacific Technology 2% '19	1.6	1.5	2.5	1.5	135	2.00	NR	HKD
OLAM 6% '16	0.5	1.0	4.9	1.0	245	6.00	NR	USD
<b>Corporate Bonds</b>								
America Movil 7.125% '24	1.1	9.2	7.5	6.5		7.13	A-	MXN
<b>Sovereign Bonds</b>								
Brazil 10.25% '28	0.7	12.3	13.9	6.0		10.25	BBB-	BRL
Indonesia 8.375% '24	0.7	8.5	9.7	5.8		8.38	BBB-	IDR
Turkey 8.8% '23	0.8	8.0	10.9	5.2		8.80	BBB	TRY

Source: Bloomberg

As of September 30, 2015, the ASM Pacific Technology convertible bond comprised 1.6% of the Seafarer Overseas Growth and Income Fund, the OLAM convertible bond comprised 0.5% of the Fund, the America Movil corporate bond comprised 1.1% of the Fund, the Brazil sovereign bond comprised 0.7% of the Fund, the Indonesia sovereign bond comprised 0.7% of the Fund, and the Turkey sovereign bond comprised 0.8% of the Fund. View the Fund's Top 10 Holdings at [www.seafarefunds.com/fund/composition](http://www.seafarefunds.com/fund/composition). Holdings are subject to change.

Bps = basis points

Bloomberg Composite Ratings are a composite of the bond ratings issued by four nationally recognized statistical ratings organizations: DBRS, Fitch Ratings, Moody's Investor Services, and Standard & Poor's. For more information on the composite rating methodology, see the Glossary. (Source: Bloomberg)

HKD = Hong Kong Dollar, USD = United States Dollar, MXN = Mexican Peso, BRL = Brazilian Real, IDR = Indonesian Rupiah, TRY = Turkish Lira

# Role of Non-Common Stocks in the Fund



Seafarer Fund Portfolio Holdings  
Excluding Cash & Equivalents, 9/30/15



Note: Bin Intervals divide a range of values into a series of intervals, in this case 5% growth intervals.

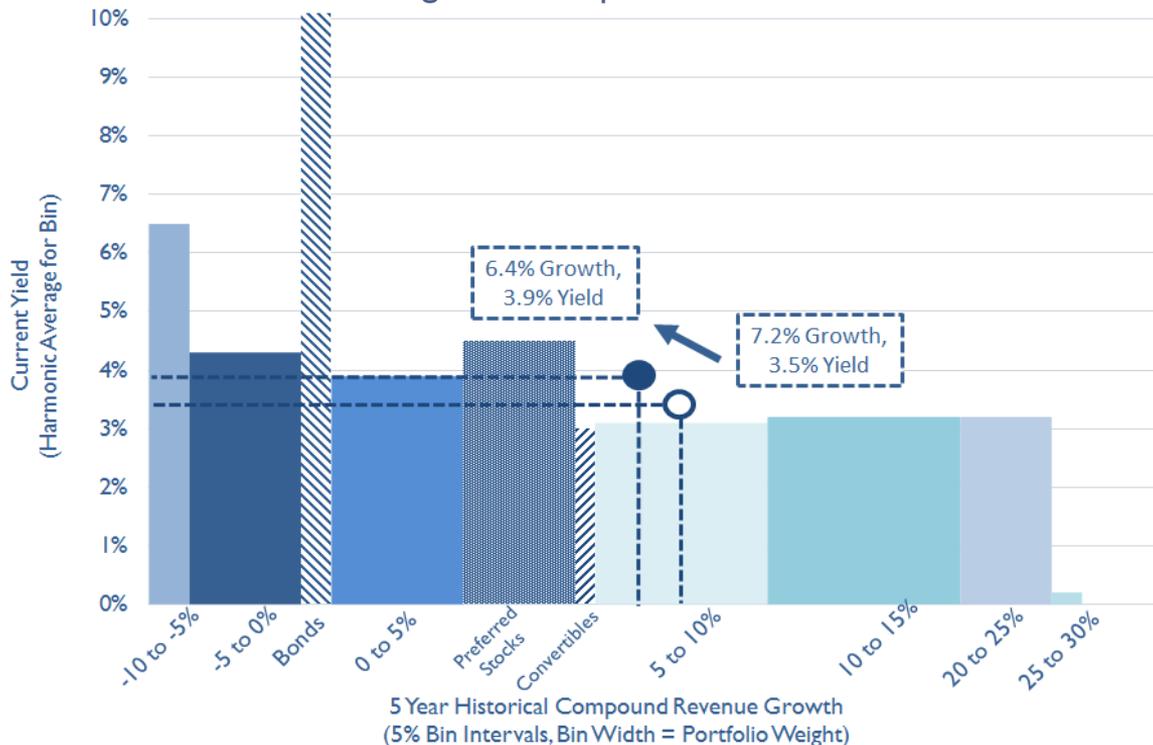
30-Day SEC Yield: SFGIX 2.49%; SIGIX 2.59%.

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. To obtain the Fund's most recent month-end performance, visit [seafarerfunds.com](http://seafarerfunds.com) or call (855) 732-9220.

# Role of Non-Common Stocks in the Fund



Seafarer Fund Portfolio Holdings  
Excluding Cash & Equivalents, 9/30/15



Note: Bin Intervals divide a range of values into a series of intervals, in this case 5% growth intervals.

30-Day SEC Yield: SFGIX 2.49%; SIGIX 2.59%.

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## **Basis Point**

A basis point is one one-hundredth of a percentage point (0.01). One percent = 100 basis points and likewise, one half of 1 percent = 50 basis points. Bond traders and brokers regularly use basis points (commonly referred to as bps) to state concise differences in bond yields. The Federal Reserve Board uses basis points when referring to changes in the federal funds rate. (Source: FINRA)

## **Bin Interval**

Bin intervals divide a range of values into a series of intervals; this is a concept commonly used in histograms.

## **Bloomberg Composite Rating**

Bloomberg Composite Ratings are a composite of the bond ratings issued by four nationally recognized statistical ratings organizations: DBRS, Fitch Ratings, Moody's Investor Services, and Standard & Poor's. The composite is calculated as an evenly distributed weighting of the ratings of each of the agencies which has issued a rating for a bond. The composite is calculated by taking the average of the existing ratings, rounded down to the lower rating in situations where the composite is between two ratings. A composite is not calculated if the bond is rated by only one of the four ratings agencies. The composite rating is not intended to be a credit opinion.

Bloomberg Composite Ratings range from AAA (the most credit worthy) to D- (defaulted) and NR (not rated). (Source: Bloomberg)

## **Conversion Price**

The value at which convertible bonds, debentures, or preferred stock can be converted into common stock, as announced when the convertible is issued. (Source: Barron's Dictionary of Finance and Investment Terms, 1995)

## **Current Yield**

The yield for the underlying basket of securities based on the current dividend yield for common and preferred stocks and the yield to maturity for bonds.

## **Dividend Yield (Trailing 12-Mo)**

A measure of the sum of the dividends paid per share during the trailing 12 months divided by the current share price.

## **Dominion Bond Rating Service (DBRS)**

Dominion Bond Rating Service (DBRS) is one of the nationally recognized statistical rating organizations, headquartered in Toronto. DBRS, similar to the other nationally recognized statistical rating organizations, provides credit rating opinions and research on debt instruments and other securities.

## **EBITDA**

An acronym that refers to “Earnings Before Interest, Taxes, Depreciation and Amortization.” It is calculated as follows:

EBITDA = Operating Revenues – Operating Expenses (excluding interest, taxes, depreciation and amortization).

EBITDA is used as a very rough proxy for a company’s ability to produce gross cash flow (cash flow itself being a proxy for a company’s profitability). Analysts often utilize EBITDA because it is easy to calculate, and because it is fairly comparable from one company to another. EBITDA is a very superficial, basic measure, and consequently it might not always serve as an accurate guide to a company’s long-term profitability; however, one of its chief benefits is that it precludes many of the accounting and financial decisions that a company’s management might utilize to influence (or even distort) ordinary operating profits.

## **Fitch Ratings, Inc.**

Fitch Ratings, Inc. is one of the nationally recognized statistical rating organizations, headquartered in New York and London. Fitch, similar to the other nationally recognized statistical rating organizations, provides credit rating opinions and research on debt instruments and other securities.

## **Harmonic Average**

A harmonic average is the reciprocal of the arithmetic mean of the reciprocals. Harmonic averages are generally preferable to weighted averages or other techniques when measuring the fundamental characteristics (e.g., earnings per share, book value per share) of a portfolio of securities.

## **Modified Duration**

A concept that measures bond price volatility by measuring the length of a bond, modified duration is the weighted-average term-to-maturity of a bond’s cash flows, the weights being the present value of each cash flow as a percentage of the full bond’s price.

## **Moody’s Investor Services**

Moody’s Investor Services is one of the nationally recognized statistical rating organizations, headquartered in New York City. Moody's, similar to the other nationally recognized statistical rating organizations, provides credit rating opinions and research on debt instruments and other securities.

## **Option Adjusted Spread**

The difference in yield (expressed in basis points) between various issues of securities, adjusted for any embedded options.

**Return on Invested Capital (ROIC)**

The amount earned on a company's total capital, typically calculated by dividing total capital into earnings before interest, taxes and dividends. (Source: Barron's Dictionary of Finance and Investment Terms, 1995)

**Standard & Poor's**

Standard & Poor's is one of the nationally recognized statistical rating organizations, headquartered in New York City. Standard & Poor's, similar to the other nationally recognized statistical rating organizations, provides credit rating opinions and research on debt instruments and other securities.

**Tenor**

The length of time until a loan or a bond is due. For example, a loan is taken out with a two year tenor. After one year passes, the tenor of the loan is one year. (Source: NASDAQ)

**Yield to Maturity**

A concept used to determine the rate of return an investor will receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. Recognizing time value of money, it is the discount rate at which the present value to all future payments would equal the present price of the bond, also known as internal rate of return. (Source: Barron's Dictionary of Finance and Investment Terms, 1995)



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