SEAFARER

Excerpt from the *Seafarer Funds Annual Report*

Letter to Shareholders

Period Ended April 30, 2017

Andrew Foster
Chief Investment Officer

Dear Fellow Shareholders,

I am honored to address you again on behalf of the Seafarer Funds. This report addresses the Funds' 2016–17 fiscal year (May 1, 2016 to April 30, 2017).

Cost Reduction and Economies of Scale

At the outset of Seafarer Capital Partners in 2011, we published a number of public goals[1] that we believed would define the long-term success of the organization. One of the goals we emphasized was the importance of reducing Fund expenses, over time and with scale. I am pleased to announce to shareholders that Seafarer has made substantial progress in this regard over the past five years.

When the Seafarer Overseas Growth and Income Fund launched in February of 2012, its Institutional and Investor classes began with net expense ratios of 1.45% and 1.60%, respectively. As the Fund was then quite small, its gross expenses were in fact much higher, but Seafarer elected to subsidize the expenses via a "cap agreement" that underwrote the initial net expense levels.

Five years later, the Growth and Income Fund's assets have expanded due to considerable support from its shareholders. I am pleased to report that with the passage of time and the achievement of such scale, the Fund has realized a substantial reduction in its expenses. For the most recent fiscal year ended April 30, 2017, the expenses charged to shareholders were reduced approximately 36% for both classes (0.92% and 1.02% for the Institutional and Investor classes, respectively), relative to those in the Fund's first fiscal year. (For reference, the Fund's Prospectus (dated August 31, 2016) states that the Fund expenses are 0.98% and 1.08% for the Institutional and Investor classes, respectively.)

Seafarer Capital Partners continues to "cap" the Growth and Income Fund's expenses by contract; however, the Fund's economy of scale is now sufficient to ensure that its gross expenses are considerably lower than the cap, rendering the cap moot at the present time. Seafarer has extended the same expense cap to the Seafarer Overseas Value Fund. Net expenses for the Value Fund are 1.05% and 1.15% for the Institutional and Investor classes, respectively.[2]

We are proud that the Funds have achieved material economies of scale for shareholders, in accordance with our firm's long-term goals.

The reduction in fees from the Growth and Income Fund's inception to present is large enough that it is unlikely to be repeated. However, we believe that additional economies can be realized, over time and with scale, and we will continue to work on behalf of the Funds to make it so.

Expansion of Seafarer's Team

I wish to note that Seafarer continues to invest in its internal resources, particularly its personnel. In the past six months, two individuals have joined our firm.

I am pleased to welcome Brian Stableford, a colleague and mentor of mine from a prior organization. Brian helped consult Seafarer in its earliest days; but he joined the company as Director of Investment Operations last fall. Brian brings with him a wealth of market experience and trading expertise. When not trading, his role is to ensure that the firm's systems and processes work efficiently, even when under duress.

I am also pleased to welcome Stephanie Gan, who joined the firm as a research analyst in January of this year. She will assist me in support of the Growth and Income strategy.

Seafarer's Policy on Corporate Governance (or, "ESG Policy")

Approximately two years ago, the mutual fund rating agency Morningstar launched a new rating scheme, intended to accompany its existing star-rating scheme, fund analysis, and other reporting. The new scheme, called Sustainability Ratings, aims to measure the extent to which a given fund's portfolio holdings exhibit certain characteristics associated with environmental stewardship, social impact, and corporate governance (known as "ESG").[3] Funds that have requisite data and performance records are awarded between one and five "globes" (in lieu of the traditional stars) to connote the extent to which the holdings display the characteristics associated with the new rating scheme.

Since the Sustainability Ratings were launched, the Seafarer Overseas Growth and Income Fund has consistently been awarded five globes. (As of the date of this letter, the Value Fund is not rated.) The Growth and Income Fund's high rating has prompted some shareholders to question whether and how ESG criteria figure within Seafarer's investment philosophy and process – particularly as the Fund does not have an explicit ESG mandate.

In brief: Seafarer does not explicitly utilize ESG criteria to screen or select holdings for the Fund's portfolio. As such, Seafarer cannot assure investors that the Fund's current rating can be sustained. Nevertheless, we believe that the Fund's current rating is a logical reflection of Seafarer's policies toward corporate governance and its stewardship of capital.

From the inception of Seafarer Capital Partners in 2011, the firm and its members have sought to build a "purpose-driven organization." Our objective is to create a company that rests upon a moral foundation, along with a culture that values ethics and excellence in equal measure. Our ultimate goal is to create an organization that can sustain itself over the longest horizon, with clients that are well satisfied, and where partners and staff are pleased to work.

Seafarer's investment philosophy places great weight on investing for the long term: only via steady effort over considerable time can meaning be discovered, can value be created, and can wealth be measured.

The firm's investment philosophy favors organizations capable of sustaining their growth and excellence over an extended horizon. Seafarer's research process therefore attempts to select companies that pursue steady development and progress over time.

Seafarer believes that all such companies must possess a moral purpose that extends beyond short-term material gain. We believe that well-run companies must recognize their impact on society and the natural world, and strive to improve that impact over time. Our assumption, born out by experience, is that companies that do otherwise will fail to create lasting value, and their existence will be foreshortened.

The principle that binds Seafarer's purpose, philosophy, and process is one of enlightened self-interest, not political preference. We believe that the best way to maximize our success and that of our clients is to scrutinize the long-term merits and morals of each action, and invest in companies that do the same. The idea of enlightened self-interest forms the basis of our firm's policy toward corporate governance and the stewardship of capital.

"ESG" stands for "environment, society and governance." The term is in vogue within the investment community, as some hope it will convey a degree of responsibility and purpose. I do not prefer the term, as it is laden with political and faddish connotations. Still, I know very well that investors only defeat themselves if they ignore what E, S and G represent. For this reason, I have decided to codify the firm's policy on corporate governance.

Our policy requires that we use empirical data and objective facts to assess companies' broader impact. We eschew subjective perceptions of companies' standards and practices, particularly those rendered by interest groups. We do so because such groups often press companies to adopt impractical or unattainable standards based on relative comparison or subjective criteria. We know that real progress is often painfully slow, and we will defer judgment as necessary. We understand that corporate standards and practices will improve with persistence and patience.

"Divestment" is not a staple of our approach. Those that advocate divestment as a first and best option do so primarily to garner headlines. Their intent is to gain political influence by manipulating financial capital – capital that often belongs to others. In our experience, such interest groups give little thought to the cost of divestment, nor do they consider the forgone opportunity for change and reform. By contrast, our imperative is to act as a responsible, long-term steward for the funds entrusted to us by our shareholders. We cannot abdicate that responsibility because it is politically expedient.

Instead, our obligation is to work with portfolio companies to monitor whether they deploy capital to both moral and efficient ends. This is the only way we know of to generate sustained returns; it is the only way that society achieves a measure of progress at the same time. An important adjunct is that we believe that humanity prospers via communication and the exchange of ideas. Isolation and excommunication tend to breed misunderstanding, mistrust, and enmity. The failure to share values and ideas means no scope for improvement or for reform.

Our efforts at engagement will fail at times: some errant companies may prove recalcitrant, in which case divestment may be the only moral choice. But we must first try. Divestment will be our last resort, when sustained efforts at engagement have failed.

We contrast our approach against others that may be well intended, but which lack coherence, discipline or endurance. We will hold neither our clients' capital nor our firm's reputation subject to the caprices of interest groups or political movements. If we did, we might win plaudits from certain corners; yet we would stand for nothing, accomplish nothing lasting, and fritter away capital and time.

Most importantly, our policy is not a marketing novelty, but rather is essential to our shareholders' long-term success. We believe that our approach toward governance and stewardship is an innate part of our job, not unlike risk management or capital allocation. Accordingly, we will not launch funds with specialized "ESG" mandates. Instead, our governance policy is woven into our philosophy and process – it affects all our funds and everything we do, all the time.

To summarize, this is what we strive to do:

- Use empirical data, facts, and objective analysis to guide our assessment of corporate governance;
- Make reasonable efforts to measure each company's broader impact on society and the natural world;
- Attempt to explicitly quantify and qualify how that impact might promote or detract from the company's value and prospect for sustained growth;
- Employ a steady, patient program of communication and engagement to sway companies toward improved practices and disclosure;
- Engage in constructive discussion with companies – not aggressive activism – as a natural extension of our bottom-up research process;
- Measure the efficacy of such engagement over an appropriate horizon;

- Quit companies only when their detriments prove material, and when sustained engagement fails to produce change; and
- Consider thoughtful preferences expressed by clients and shareholders.

By contrast, this is what we refuse to do:

- Include a company in our portfolios simply because it excels at "ESG" criteria;
- Hold clients' capital hostage to interest groups and political movements;
- Place excessive emphasis on relative comparisons or subjective observations to measure corporate standards and practices;
- Utilize "divestment" as the first or best means to exert pressure;
- Exit an investment solely because it was placed on a "blacklist," particularly when the rationale or criteria that determine the blacklist is opaque;
- Churn our clients' portfolios in order to placate third parties; and
- Forget that our clients' investment objectives are defined clearly in the relevant prospectus.

I am publishing this explanation of Seafarer's policy not to denote a change in philosophy or process, but rather to publicly codify an informal approach that has existed since the firm's inception. My aim is to ensure that our clients enjoy greater transparency to our process; to refine the firm's understanding of its own philosophy; and to let our society know where we stand on such matters.

Some clients might object on the basis that this policy represents an unwelcome change; others may redeem their capital, either because this policy goes too far, or not far enough. It is their prerogative, but it would be a shame. This policy changes nothing at Seafarer, except that it helps us become more conscious about that which we do already – and thereby get better at it.

We appreciate the trust you afford our organization, and we are honored to serve as your investment adviser in the emerging markets.

Andrew Foster
Chief Investment Officer
Seafarer Capital Partners, LLC

May 15, 2017

[1] www.seafarerfunds.com/ask-seafarer/#what-are-the-firms-goals

[2] Seafarer Capital Partners, LLC has agreed contractually to waive and/or reimburse fees or expenses in order to limit Total Annual Fund Operating Expenses After Fee Waiver/Expense Reimbursements (excluding brokerage expenses, interest expenses, taxes and extraordinary expenses) to 1.15% and 1.05% of each Fund's average daily net assets for the Investor and Institutional share classes, respectively. This agreement is in effect through August 31, 2017.

[3] Information on the Morningstar Sustainability Ratings is available at www.morningstar.com/company/sustainability.

SEAFARER®
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