SEAFARER®

Excerpt from the *Seafarer Funds Annual Report*

Letter to Shareholders

Period Ended April 30, 2020

Daniel Duncan

Managing Director, Business Development and Client Services

Dear Fellow Shareholders,

It is my pleasure to address you, our clients and shareholders of the Seafarer Funds, at this challenging time. Having communicated directly with many of you in my role as Managing Director of Business Development and Client Services, it is an honor to be able to offer my viewpoints on Seafarer Capital Partners ("Seafarer," the adviser to the Funds) and the state of U.S. investors' exposure in the emerging markets.

This shareholder report covers the Funds' 2019-20 fiscal year (May 1, 2019 – April 30, 2020).

Update on Seafarer Capital Partners – COVID-19 Response

The team at Seafarer has been resilient in the face of the disruptions to normal business operations brought about by the COVID-19 pandemic. Nonetheless, like many asset managers, the firm is experiencing the effects of the recent downdraft in markets. These challenging times have led to many productive conversations as clients assess how to incorporate emerging markets in portfolios moving forward.

While the effects of the pandemic on the markets have been multifaceted and complex, with further discussion below, this is first and foremost a public health crisis. Our thoughts are with those who have suffered from the disease or seen loved ones suffer. For Seafarer, the first priority is the health and safety of our employees and their families. The firm began deferring travel to China in January and travel to the rest of Asia shortly thereafter. The team began working remotely on a voluntary basis in early March. Shortly after Seafarer published a Message to Shareholders Regarding COVID-19[1] on March 16, the entire San Francisco Bay Area was placed under a Shelter-in-Place order, which remains in effect as of the date of this letter. Seafarer has sought to be thorough and thoughtful with business continuity planning. The firm has designed its systems so that the entire team is able to work remotely without disruption. Our remote work preparations were tested last year during the wildfires (and resulting power outages) in Northern California. Now, after more than two months of working remotely, operations within Seafarer have continued to run smoothly, as technology allows us to stay in close communication.

We at Seafarer hope for the safety and security of our shareholders during this challenging time. We look forward to resuming work travel and in-person visits with portfolio companies when it is safe to do so. In the meantime, we will continue to utilize technology and virtual communications to perform our jobs to the best of our ability.

Emerging Markets Exposure for Developed Market Investors in a Time of Crisis

In my years of helping developed market investors understand the risks and opportunities of investing in emerging markets, the most common question asked is, "Why should we bet on China instead of the U.S.?" Underlying this view is the fact that most U.S. investors still think of international equity investing in terms of broad-brush country views, rather than the individual companies that are the actual focus of our investment process. Also embedded in this question is an understanding that China is very different from the U.S. in terms of politics and economic structures. These differences can make it seem as if there is an insurmountable divergence of values between the two countries.

Seafarer has written extensively on the challenges of investing in a non-democratic country like China.[2] The "Chinese Economic Miracle" has lifted 850 million people from extreme poverty in the last generation, a massive achievement.[3] While that number in itself is staggering, at the same time we cannot brush over the issues and problems associated with Chinese Communist Party rule.

The question of whether investors should bet on China or the U.S. poses a false dichotomy. Developed market investors are not required to choose between either country; in fact, equity investors are generally not investing in the countries at all, but in companies that happen to be located in the various countries. Rather than making a binary choice between markets, investors are diversifying their portfolios with a mix of risks and rewards in an effort to lower concentration risk.

The current environment, with the global spread of COVID-19 after its emergence in Wuhan, China, seems to have reinvigorated this nationalistic question about investing in China. My response to the question remains the same: I believe most developed market investors could benefit from the diversification offered by investing in the emerging markets globally and China specifically. However, I believe this exposure should not be achieved by simply investing in China or the emerging markets, but by investing in specific companies that have been well researched. While no analyst observing a company from the outside is ever fully able to trust the numbers (in China, the U.S. or anywhere) a well-diversified portfolio of emerging market equities whose current valuations under-represent their long-term growth potential could be a good diversifier for U.S. investors.

While my belief in the long-term benefits of emerging markets exposure for developed market investors remains steadfast, a review of the current crisis and various government responses raises some extremely challenging questions for the short and medium term. As the COVID-19 pandemic began to impact the U.S. economy in late February and March, equity and fixed income markets experienced a significant shock. The U.S. Federal Reserve and U.S. Congress immediately stepped in with monetary and fiscal responses to support fixed income markets and affected industries such as the airlines. These interventions, relative to those of the 2008 global financial crisis, were not only very large, but occurred rapidly and with little public discussion. In 2008, I recall weeks of debate concerning the merits of market intervention before the implementation of the Troubled Asset Relief Program (TARP) in October. For years afterward, financial industry conferences discussed the ramifications of the intervention. In 2020, I do not believe I have seen a headline or article that included a discussion of moral hazard. It seems to me that market observers have come to accept, or even anticipate, that the U.S. government will attempt to rescue markets during significant pullbacks. I have been taught in my career that the markets are the most efficient mechanism to determine the risk/reward tradeoff for securities – more efficient over short and medium time periods than any investor can be. If the markets have evolved to truly price in a "government put," whereby they will be rescued in the time of crisis, the risk/reward mechanism of the market is skewed in an unprecedented way. This poses a significant challenge to active managers, particularly those who propose to manage portfolios in an effort to limit downside risk.

I was fortunate that a colleague recommended I read Charles P. Kindleberger's 1978 book, *Manias, Panics, and Crashes: A History of Financial Crises*, in 2007. Dr. Kindleberger walks us through several of the most significant financial crises in history and the manias that preceded them. He describes three primary stages: the mania, in which investors scramble to gain access to assets at almost any price; the shock, which creates an initial panic as investors rush to exit these positions; and the resulting crash, where the economic impact of the panic is felt with real businesses declaring bankruptcy for lack of access to capital. This book helped me to understand what I experienced in the dot-com boom and bust of 2000-2002, when I was a young financial advisor attempting to build a career in this industry. It also helped me to comprehend and contextualize the global financial crisis of 2008-2009 as I attempted to build client relationships with professional investors.

I recently pulled the book from my bookshelf and have kept it on my desk as a reminder through the current market environment. I believe that it is important to keep a perspective on what has occurred so far in 2020. Flat market performance is not generally what one would expect in a health and economic crisis. While the equity market decline in the first quarter was dramatic and sharp, so too was the recovery. In fact, at the time of this letter, the S&P 500 (representing U.S. equity markets) is almost unchanged from its level just one year ago. While we face an unprecedented global health challenge, the peak to trough decline in the market this year pales in comparison to the NASDAQ decline in the early 2000s dot-com bust, the S&P 500 downturn in the Global Financial Crisis in 2008-09, and the significant pullback experienced by the "Tiger Economies" of Asia in the late 1990s. In Dr. Kindleberger's construct, it appears to me that we have experienced a mania in the U.S. toward equities over the last several years, and a panic in global capital markets in March of 2020, but we have not yet experienced the crash phase, which can be so painful for equity investors and economies as a whole.

I would certainly never attempt to predict short-term market moves. Many investors much smarter and more attuned than I have gotten short-term calls consistently wrong. To say that we have not yet experienced the crash phase of the market cycle does not necessarily mean that we will. My view that the long bull market since the global financial crisis was a mania could be incorrect. It is possible that the U.S. Federal Reserve's unprecedented intervention will be able to stave off the worst economic ramifications of the COVID-19 pandemic. In another year, we may be looking at the first quarter of 2020 as a blip in the bull market, similar to that of December 2018. However, I feel that investors should remain vigilant to the potential that while the initial panic may be over, there could be significant negative economic and market events to come. I do not believe that investors will be able to time the cycle and correctly guess when to re-enter at the bottom of a crash. The best remedy, in my opinion, is to build a well-diversified portfolio of real income producing assets in appropriate amounts to meet each investor's particular risk tolerance, and rebalance to that appropriate asset allocation on a systematic, time-scheduled basis.

What Seafarer is Doing About the Crisis

I am very proud to be associated with the highly skilled, professional and diligent investment team at Seafarer Capital Partners. Throughout the last year, the team has continued to stay focused on the areas that we can control – our investment research activities on behalf of the Funds, our communications with shareholders and clients, and our internal management practices – while understanding that in the current environment there are many challenges that we cannot control. The team has remained focused on bottom-up research and security selection, and continues to re-assess the strategies and portfolios in light of the new market realities. To me, the Seafarer investment team strikes an impressive balance between sticking to established core principles for guidance while rejecting dogma that could blind the research process to new realities on the ground in the emerging markets. The Seafarer investment team continues to manage the strategies with the same investment philosophy and process that has been in place since the genesis of the firm in 2011.

In addition to managing the strategies, the Seafarer investment team produced two unique and important commentaries that were released in early April 2020, during the height of uncertainty in the markets. *The China Investment Dilemma: Risks for U.S. Investors During A Turbulent Time*[4] by Nicholas Borst and *A Tale of Two Indices*[5] by Steph Gan offer important views into the long-term viability of the emerging markets for U.S. investors.

While the future is uncertain at this time, that is the hallmark of equity investing. Taking an ownership position in a company entails the risk of loss of capital. However, in my experience, such risks are generally rewarded higher expected rates of return. As a result, I believe equity ownership can be one of the best ways to build long-term wealth and future income. Seafarer appreciates the opportunity to be your investment adviser seeking equity opportunities in the developing world.

Expense Ratios and Economies of Scale

As described in the Letter to Shareholders as of April 30, 2017,[6] Seafarer has committed to reduce expenses for the Funds, particularly as time and scale afford greater efficiency.

The scale of the Growth and Income Fund declined during the 2019-20 fiscal year; this in turn reversed some of the economies of scale that the Fund enjoyed in the prior year. The operating expense ratios for the fiscal year increased to 0.92% and 1.02% for the Institutional and Investor classes, respectively. For reference, the expense ratios were 0.90% and 0.99% for the respective classes during the preceding fiscal year.[7] Despite the increase in the Fund's expense ratios, Seafarer's intention remains the same: to offer shareholders positive economies, over time and with scale.

Compared to the Growth and Income Fund, the Value Fund's smaller scale does not yield an equivalent degree of cost efficiency. However, Seafarer has established the same underlying expense structure for both Funds. Should the Value Fund's assets grow over time, it is expected to achieve similar economies of scale. In the meantime, Seafarer continues to "cap" the Fund's operating expenses via a contractual commitment, such that its net expense ratios remain 1.05% and 1.15% for the Institutional and Investor classes, respectively.[8]

Thank you for entrusting us with your investment capital.

Danien Duncan
Managing Director, Business Development and Client Services
Seafarer Capital Partners, LLC

May 15, 2020

[1] www.seafarerfunds.com/message-to-shareholders/2020/03/16

[2] See Letters to Shareholders for the period ended April 30, 2018 (www.seafarerfunds.com/letters-to-shareholders/2018/04/annual#china-at-a-crossroads) and for the period ended October 31, 2017 (www.seafarerfunds.com/letters-to-shareholders/2017/10/semi-annual#dream-for-china).

[3] China Overview, World Bank, 2020. http://www.worldbank.org/en/country/china/overview

[4] www.seafarerfunds.com/commentary/the-china-investment-dilemma

[5] www.seafarerfunds.com/commentary/a-tale-of-two-indices

[6] www.seafarerfunds.com/letters-to-shareholders/2017/04/annual#cost-reduction

[7] The Growth and Income Fund's Prospectus (dated August 31, 2019) states that the Fund's expenses are 0.89% and 0.99% for the Institutional and Investor classes, respectively.

[8] 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 (inclusive of acquired fund fees and expenses, and exclusive of 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, 2020.

SEAFARER®
seafarerfunds.com

For More Information

Individual Investors
(855) 732-9220
seafarerfunds@alpsinc.com

Investment Professionals
(415) 578-5809
clientservices@seafarerfunds.com

A put option is a contract giving the owner the right, but not the obligation, to sell, or sell short, a specified amount of an underlying security at a pre-determined price within a specified time frame. The pre-determined price the put option buyer can sell at is called the strike price.

The NASDAQ Composite is a stock market index of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the Nasdaq stock market. Index code: COMP.

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.

Daniel Duncan is a Registered Representative of ALPS Distributors, Inc.

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.