SEAFARER®

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Fourth Quarter 2018

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During the fourth quarter of 2018, the Seafarer Overseas Growth and Income Fund returned -9.81%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, fell -7.40%. By way of broader comparison, the S&P 500 Index tumbled -13.52%.

The Fund began the quarter with a net asset value of $12.26 per share. During the quarter, the Fund paid a distribution of approximately $0.784 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $2.679 per share.[2] The Fund finished the quarter with a value of $10.29 per share.[3]

During the calendar year, the Fund returned -18.12%, whereas the benchmark index returned -14.25%.[4]

Performance

2018 bore witness to the decline that followed a "false dawn" in emerging markets, with China at the epicenter of the downturn.

One year ago, I (Andrew Foster) wrote the following in the Fund's fourth quarter 2017 portfolio review:[5]

> *I am concerned that stock prices in the emerging markets may suffer a near term correction, or possibly worse. . . .[T]he emerging markets currently exhibit speculative characteristics, led by Chinese shares. Valuations across many markets are elevated, and some large capitalization stocks appear grossly over-priced. Given elevated valuations and widespread speculation, caution is in order. Equities in the developing world are likely susceptible to price volatility. . . [investors] that are not willing or able to hold their positions for the medium-term (an absolute minimum of three years; ideally at least five years) should re-examine the exposure and risk they are willing to bear in the interim. I have attempted to make the Fund's portfolio allocation more defensive at the margin, but I do not know whether my efforts will prove sufficient.*

My investment career spans two decades; never before had I written such a direct warning to shareholders. Most strategists and pundits expressed the opposite opinion, offering glowing forecasts for emerging markets in 2018. They were wrong.

Please note: this portfolio review encompasses only the fourth quarter of 2018, and does not offer a thorough discussion of the entire calendar year. The Fund operates on a fiscal year that concludes April 30; as such, Seafarer offers comprehensive performance reviews for the Fund's annual and semi-annual periods, which are published in the Fund's Shareholder Reports in late June and December, respectively. Previous Shareholder Reports are available at www.seafarerfunds.com/archives.

As of 12/31/18 the annualized performance of the Fund's Institutional class was: 1 year -18.12%, 3 year 4.15%, 5 year 1.54%, and since inception (2/15/12) 3.89%[1]; the gross expense ratio was 0.87%. 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.

I was convinced the data did not support the exuberance and outright speculation that was rife one year ago. Rather, the data suggested that China employed various forms of fiscal stimulus, and singlehandedly induced a powerful but unsustainable surge in its domestic economic expansion. That surge was so powerful that it temporarily lifted growth across the developing world. Prices for commodities and raw materials surged, and China became the prime consumer of imports from the rest of the developing world.

I am convinced that this temporary surge – the "false dawn" – was engineered by China's government. The data shows that, prior to the second half of 2016, corporate profits were growing at a tepid rate among Chinese companies; between the second half of 2016 and the first quarter of 2018, that growth skyrocketed; and thereafter, the growth suddenly stalled (and for some companies, went into reverse). The motive behind the stimulus is opaque, but the temporary surge coincided with a number of contentious political events within the Chinese government and the Communist Party.

The sudden deceleration in earnings growth after the first quarter of 2018 apparently caught most investors off guard. Emerging market equities slipped gradually lower all year, and then suddenly plunged lower in the fourth quarter as the deceleration became plain for all to see. Importantly, the slowdown in China occurred even before U.S. trade tariffs have had any discernible impact; indeed, China enjoyed a record bilateral surplus with the U.S. in 2018, and yet corporate profits still slowed dramatically in the second half of the year.[6] So far, China's deceleration in growth is entirely attributable to domestic factors, and not yet due to U.S. tariffs. However, if China and the U.S. do not resolve their trade disputes soon, China's trade balances will further weigh on its growth prospects.

Against this backdrop, I was deeply frustrated with the Fund's performance: I anticipated the ensuing decline, yet I was unable to render a portfolio that could shield the shareholders from the downturn in markets. The gap between my insight and my implementation has never been larger. As many of you know, I have made changes to the Fund's management structure in an attempt to correct this problem. For those who have persevered in your investment with the Fund, I thank you for your patience and your trust.

Turning to the Fund's performance in the fourth quarter, Paul Espinosa, Inbok Song, and Andrew Foster comment on the Value, Growth, and Core components of the Fund (as defined in Figure 1), respectively.

Figure 1: Seafarer Overseas Growth and Income Fund Portfolio Components

Core Holdings	Moderately underappreciated growth; Moderately elevated current yield
Growth Holdings	Higher growth potential; Lower current yield
Value Holdings	Lower growth potential; Higher current yield

Within the Value component of the Fund, the largest detractor to performance was Crédito Real, a Mexican non-bank financial institution. Mexico has a newly-elected President, Andrés Manuel López-Obrador (often referred to as "AMLO"); he and members of his political party have proposed several contentious policies and reforms. Though AMLO's party has implemented few of the policies, the controversial proposals have already had a deleterious impact on Mexican equity valuations – more so than even the renegotiation of the North American Free Trade Agreement (NAFTA). One proposal was to limit the fees that Mexican banks charge their customers. The proposal does not seem to directly impact Crédito Real, yet the announcement was enough to drive the share prices of all Mexican banks and financial institutions lower.

We remain committed to this holding for several reasons. First, Crédito Real enjoys an uncommonly attractive return to risk relationship: it earns a meaningful rate of interest on a book of loans with uncharacteristically low risk (the book is composed primarily of payroll loans, and thus the risk of default is low). Second, we believe the company is ahead of the interest rate cycle relative to the rest of the world. Even as interest rates are trending higher globally, Mexico has already gone through a severe set of rate increases, dating back to 2016; this may give Mexico scope to end or reverse its rate tightening cycle ahead of the rest of the world. Third, Crédito Real continues to earn high returns on equity (ROE) with low financial leverage, even as its cost of funding has increased substantially. The company's book value per share continues to grow even under difficult operating conditions, which themselves could ease, and possibly before the same happens in the rest of the world.

The company's valuation is also low: the price-to-book value ratio is about 0.5, and appears incongruent with a financial institution that, even suffering from a cyclical downturn in profits, still enjoys a ROE percentage measured in the mid-teens.

In the Growth component of the portfolio, an Indian company called Container Corporation helped offset some of the Fund's decline. The company is the dominant railway transportation provider in India, with a market share in containerized rail cargo of over 60%. Recently, the company has been able to sustain a degree of pricing power, even as container fees are under cost pressure industry-wide. Also, the company has improved its cost efficiency by double-stacking freight on certain rail routes, and this in turn has boosted profit margins. As double-stacking occurs on only roughly 15% of the company's current routes, Container Corporation has the opportunity to make continuous improvements in its efficiency over the next few years, as it expands the practice to other rail lines.

On the other hand, the Fund's Growth holdings in South Korea weighed on performance. The Growth component of the Fund holds three small capitalization companies there – Koh Young, Dentium and Leeno. Though the companies are small, they are leaders in their industries, which are industrial automation, dental implants, and precision semiconductor testing tools, respectively. The companies produced respectable financial performance and gained market share; yet investors' interest in these companies flagged in the quarter, particularly amid rising concerns about future economic conditions around the world.

The three companies have historically enjoyed high valuations in accordance with their future growth prospects; but as investors exhibited concern over global prospects for growth, the share prices of the companies came under pressure during the quarter. While we recognize the source of such concern, we have yet to see any material deterioration in the operational performance of these companies, and we think their valuations remain attractive after the recent sell-off.

Regarding the Core component of the Fund: two large positions, the common stocks of Venture Manufacturing and Hyundai Mobis, weighed heavily on returns, falling 21% and 17%, respectively, during the quarter. Both positions remain in the Fund.

Venture Manufacturing is a contract manufacturer of industrial and consumer electronic devices. It helps design, manufacture and inventory the products on behalf of its customers, which are typically large, globally-competitive companies. Venture enjoys very rich profit margins relative to its peers within the manufacturing industry. However, it struggled to grow for many years as its customers (notably, Hewlett Packard) went through their own upheavals and restructurings. Yet in 2016, Venture's many years spent diversifying its customer base began to pay off: the company saw its revenue growth increase, and it did not sacrifice margins to boost sales (indeed, margins rose). The company's revenues accelerated in 2017, leading many investors to speculate on faster growth in 2018; instead, the company's revenues leveled off as sales for one of its key customers fell short of expectations. Venture's shares tumbled in the fourth quarter, seemingly without basis, as there was no observable deterioration during the quarter (the "bad news" about its key customer was known well before then). We believe the company's low valuation, diversified customer base, and cash-rich balance sheet make it an excellent Core holding for the Fund for the long-term.

Meanwhile, Hyundai Mobis also saw its shares decline during the quarter, ostensibly due to an anticipated decline in the automotive market in China (for many preceding years, the Chinese auto market has been critical to lifting marginal growth for automakers worldwide). Investors seemed to fear that the Hyundai auto group, via its companies Hyundai Motor and Kia Motors, would see a sharp deterioration in sales, and that this in turn would weigh on the performance of Hyundai Mobis, the main parts and systems producer for the auto group. China's auto market did collapse during the fourth quarter – sales are expected to fall about 3% in 2018 versus 2017 – yet it appears Mobis will emerge mostly unscathed. This is because the company enjoys robust performance in its Korean after-market servicing business, and because it has undertaken impressive steps to sell its parts and systems to unaffiliated automakers around the world, thereby weaning itself off dependence on Hyundai Motor and Kia Motors. Financial disclosure in January indicates that Mobis was materially successful in this latter endeavor, and yet only just beginning, suggesting the company has reasonable scope for growth ahead.

Allocation

By mid-November, the Fund completed the portfolio restructuring that was first announced[7] in late August of 2018. Paul Espinosa now invests approximately one quarter of the Fund's capital in positions that offer greater value, typically manifest in elevated yields; this portion of the Fund is now known as the "Value Component," and it includes 18 positions (all of which are held in common with the Seafarer Overseas Value Fund). Six of those positions have been carried over from the Growth and Income Fund's original construct, and 12 are new additions to the Fund. Notably, the new positions have expanded the Fund's geographical range, including holdings in the United Arab Emirates (Tabreed, a company that provides district cooling services for the supply of chilled water to air conditioning systems) and Qatar (Qatar Gas, a company that transports liquid natural gas).

Likewise, Inbok Song directs another quarter of the Fund's assets, currently invested in 16 new positions that she believes exhibit singular prospects for sustained growth. At present, all 16 issuers operate in either East or South Asia. However, the issuers are notable in that they span a wide variety of industries, many of which were not previously represented in the portfolio: oncological pharmaceuticals, dental equipment, rail transport and logistics, hospital services, industrial automation equipment, duty free shopping, security equipment, and internet commerce.

Andrew directs the residual Core of the Fund, which includes 19 positions. Except for one recently introduced holding (Naver, an internet media company based in South Korea), the other 18 were represented in the Fund's portfolio prior to the restructuring. The Fund's portfolio encompasses 53 positions in total, all either common stock or preferred equities – the Fund jettisoned its medium- and long-term fixed income instruments during the recent restructuring. (The Fund retains a small collection of short-term, higher grade sovereign bonds for liquidity management purposes, representing roughly 2% of the Fund's assets at the end of the fourth quarter. These bonds do not figure in the count of 53 positions in the Fund.)

We believe the three portions of the Fund are best described as "components" rather than "sleeves." Each component is too concentrated (i.e. under 20 positions) and would not function well as a "stand alone" portfolio if it was cleaved off from the rest. Rather, we designed the three components to work together; only when combined do they make a cohesive whole. The "Value" and "Growth" components oversee a bit more capital than the past. Whereas the Fund typically held between 10% and 20% in each of these two components, it will typically hold 25% to 35% in each in the future. Despite these modifications in the Fund's construct, it remains highly concentrated, and our intent is for it to remain so. The Fund will typically hold positions in 40 to 60 issuers, a range that remains unchanged from the inception of the Fund.

Outlook

Contrary to the views of many, we believe 2019 will prove to be a moderately better one for stocks in the developing world. The case for this view is relatively simple:

1. The actions of the U.S. Federal Reserve influence security prices in emerging markets, but the effect is grossly overstated by global financial media. Regardless of whether the Fed raises rates, reduces rates, or "stands pat," central banks in the developing world are likely to act independently of the Fed's policy – i.e., making marginal cuts in local rates in an attempt to stave off deflation and stimulate growth.
2. While many scenarios are possible, we believe it's reasonable to expect corporate profits to expand between 8% and 10% in 2019. Admittedly, this represents a slight deterioration in growth versus the preceding year (2018 growth is not yet finalized, but will likely be about 10% or 11%). Nonetheless, growth of this magnitude and stability is relatively attractive in comparison to many other regions in the world.
3. Valuations on stocks are generally reasonable (and in some cases, favorable).

Taken together, these three conditions suggest that 2019 will likely be marginally better for the emerging markets than was 2018.

However, China's fortunes are essential to this outlook. China is the dominant market within the asset class: it occupies over 30% of the benchmark index and rising; it is the largest trading partner for nearly all other developing countries. Yet as mentioned above, China's growth is slowing, independently of the "trade wars" with the U.S. Any deceleration due to the "wars" would only be incidental, and not a central cause of China's present malaise.

Yet China retains vast potential to reignite its growth: many domestic consumer markets for goods and services are still nascent and can provide opportunities for many decades to come. The chief difficulty is the growing rigidity and orthodoxy of the Communist Party. Under President Xi Jinping, the Party has retreated from its efforts to reform the domestic economy, preferring to champion ideology and accumulate power. Yet if China's economy continues to decline, events will likely force Beijing's hand. We suspect that at that nadir – which might occur sometime before mid-year – China will rediscover its pragmatism, and will re-establish a policy of economic reform that reignites its economy.

Apart from the short-lived and stimulus-induced "false dawn," China's economy has stalled for the past five years, chiefly because the country deferred or abandoned certain critical economic reforms. Yet the nation's latent potential remains vast, and its growth can easily be rekindled if it picks up the mantle of reform once more. Further still, given its scale and its substantial trade links with the rest of the developing world, China has the capability to lift growth across the entirety of the emerging markets.

In summary, I think China may induce a bit of self-inflicted damage before its leadership adopts a pragmatic approach. When it does so, it will restore confidence and growth across the developing world. As this occurs, corporate profitability should expand at a measured pace – as stated above, 8% to 10% expansion is reasonable to contemplate – and when combined with low valuations, investment outcomes should improve relative to the preceding year.

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

Andrew Foster	Paul Espinosa	Inbok Song
Chief Investment Officer and Portfolio Manager	*Portfolio Manager*	*Portfolio Manager*

January 22, 2018

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned -9.84% during the quarter.

[2] The Fund's inception date is February 15, 2012.

[3] The Fund's Investor share class began the quarter with a net asset value of $12.22 per share; it paid a distribution of approximately $0.784 per share during the quarter; and it finished the quarter with a value of $10.25 per share.

[4] The Fund's Investor share class returned -18.19% during the calendar year.

[5] www.seafarerfunds.com/funds/ogi/portfolio-review/2017/12/Q4#more-defensive-posture

[6] "China's Annual Trade Surplus With U.S. Hits Record Despite Trump's Tariff Offensive," *Wall Street Journal*, 13 January 2019. https://www.wsj.com/articles/chinas-annual-trade-surplus-with-u-s-hits-record-despite-trumps-tariff-offensive-11547439977

[7] www.seafarerfunds.com/message-to-shareholders/2018/08/31/#value-growth-tails

Glossary

Book Value: the value of an asset as represented in the accounts of a balance sheet. An asset's book value is typically determined by the original cost of the asset, less any depreciation, amortization or impairment costs applied against the asset. The book value of a firm is typically determined by the value of the firm's assets, less its liabilities. In theory, shareholders would be entitled to the firm's book value if the company's balance sheet was liquidated.

Current Yield: a security's annual income (interest or dividends) divided by its current price.

Leverage: the amount of debt capital used to finance a firm's assets, usually considered or measured in relation to the firm's equity capital.

North American Free Trade Agreement (NAFTA): a comprehensive trade agreement established among the North American countries of Canada, Mexico, and the United States in 1994.

Price to Book Value (P/BV) Ratio: the market price of a company's common shares, divided by the company's book value per share.

Return on Equity (ROE): the amount of net income returned as a percentage of shareholders equity. Return on equity measures a company's profitability by revealing how much profit the company generates with the money shareholders have invested. Return on equity is calculated as follows:

Return on Equity = Net Income / Shareholder's Equity

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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/ogi/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.

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As of December 31, 2018, Crédito Real SAB de CV SOFOM ER comprised 0.8% of the Seafarer Overseas Growth and Income Fund, Container Corp. of India, Ltd. comprised 1.7% of the Fund, Koh Young Technology, Inc. comprised 1.5% of the Fund, Dentium Co., Ltd. comprised 1.1% of the Fund, Leeno Industrial, Inc. comprised 0.7% of the Fund, Venture Corp., Ltd. comprised 4.1% of the Fund, Hyundai Mobis Co., Ltd. comprised 5.2% of the Fund, Tabreed (National Central Cooling Co. PJSC) comprised 0.4% of the Fund, Qatar Gas Transport Co., Ltd. comprised 1.1% of the Fund, and Naver Corp. comprised 2.7% of the Fund. The Fund did not own shares in Hewlett Packard, Hyundai Motor, or Kia Motors. View the Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ogi/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.

