SEAFARER®

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Third Quarter 2019

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During the third quarter of 2019, the Seafarer Overseas Growth and Income Fund returned -0.35%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, returned -4.11%. By way of broader comparison, the S&P 500 Index gained 1.70%.

The Fund began the quarter with a net asset value of $11.47 per share. It paid no distributions during the quarter and finished the period with a value of $11.43 per share.[2]

Performance

Throughout much of July, most stock markets in the developing world held relatively steady, as if waiting for the rush of published financial results for companies – the height of which typically occurs five to seven weeks after the end of the calendar quarter (during the middle of August, in this case). It was during this rush that shares in the developing world plummeted, as profitability for companies – particularly those in China – fell well below the expectation of Wall Street analysts (see the Outlook[3] section of the Fund's second quarter 2019 portfolio review for further discussion).

The resulting "gap" between misplaced expectations and a somewhat harsher reality pushed shares rapidly lower. By August 15, the MSCI Emerging Markets Index was suddenly 8% lower than where it had finished in June. The benchmark did recover somewhat by the end of the quarter, perhaps because stocks overreacted in shock to the anemic performance of many companies. Yet despite the half-hearted recovery in some stocks, performance was poor.

The Fund's substantial outperformance of the benchmark does not lend itself to any obvious explanation. The only common characteristic of the Fund's holdings that might explain their resilience is that most companies presented very stable financial results – and some even modestly surpassed expectations. Notable holdings in this regard were Naver (a leading internet media company in Korea with

As of 9/30/19 the annualized performance of the Fund's Institutional class was: 1 year 1.78%, 3 year 2.94%, 5 year 3.44%, and since inception (2/15/12) 5.16%[1]; the gross expense ratio was 0.89%. 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.

a substantial holding in a Japanese internet subsidiary), Orion (a Korea-based snack cake company with operations that span China and Vietnam), Aspeed (a Taiwan-based maker of specialized chips for computer servers), and Coway (a Korea-based producer of high-end household goods, also operating in Malaysia and the U.S.).

Normally, such "at par" performance would not lead to exuberance among stock prices; but when the broader market is undergoing a sharp deterioration in the quality of its underlying earnings, the favorable comparison can lend support to share prices. Essentially, the fundamental performance and earnings of the Fund's holdings proved steadier than most other companies, and this led the holdings' shares to be stable in a sinking market.

Allocation

The Fund exited two long-held positions during the quarter: Sun Pharma Advanced Research Company (SPARC) and SIA Engineering. SPARC is an India-based company that specializes in the development of new pharmaceutical therapies and medical devices. SIA Engineering performs aircraft maintenance and plane overhaul for international air carriers throughout the Asian region, including its parent company, Singapore Airlines International.

During the past five years, SPARC has realized some success with the introduction of new generic therapies, particularly several that target glaucoma and various forms of ocular hypertension. However, the company's financial performance has been lackluster due to poor licensing and operational decisions taken by its management. This placed severe strain on the company's financial stability and necessitated repeated capital raising exercises. While SPARC arguably persists as an innovative leader, the Fund exited the position to reduce its exposure to such financial instability.

The Fund exited SIA Engineering in order to take advantage of short-term speculation in the company's shares, driven by rumors that the company's parent might privatize its stock. The surge in the share price offered an attractive and liquid moment to exit, given that the company has seen its fundamental performance slowly ebb in an era where aircraft engineering improvements have rendered less frequent maintenance schedules, and thus a deteriorating environment for the company.

Outlook

At this time, slowing economic growth (especially in China and India) has cast a terrible pall over expectations for profits in 2019. The careening uncertainty of the U.S.-instigated "trade war" does not appear to be the prime cause for the deceleration in growth – rather, the causes are mostly domestic in nature – but the "war" has certainly hastened the deterioration in growth. Wall Street analysts are in shock, and they have revised their forecasts to represent a -7% decline in 2019 profits for the emerging markets relative to profits in 2018. Only nine months ago, analysts had forecast 9% growth; in other words, there has been a whopping 16 percentage point decline in expectations during the past nine months.

Our reading of financial results – which is admittedly based on the anecdotal interpretation of hundreds of individual companies, rather than a (pseudo-scientific) model of aggregate performance – suggests nothing so bad. Wall Street analysts have most likely exaggerated the downside (after having also exaggerated the upside). It is true the outlook for earnings growth has deteriorated in 2019; yet we believe it will remain positive for the year, if only just so. Expectations for an expansion in the range of 1% to 3% seem reasonable (again, based on a multitude of anecdotal, micro observations). Against this weak – but not catastrophic – backdrop, share prices in most countries and sectors are priced in expectation of severe deterioration; yet reality is likely to offer modest but pleasant positive surprises between now and April 2020 (when the final 2019 audited results of some laggard companies are published). The mismatch between low share prices and the potential for somewhat-better-than-expected corporate performance seems a favorable one for investors.

There is one critical caveat to this argument: share prices for many companies in China remain terribly high, especially in the domestic A-share market (accessible to the Fund via the Hong Kong Exchange Stock Connect). At the same time, China is the origin of some of the sharpest deterioration in corporate performance. Chinese companies, taken in aggregate, were the largest cause of the aforementioned 16 percentage point decline in earnings forecasts. The combination of high share prices and deteriorating performance is not a favorable one, in general. Put bluntly: there may be some "air pockets" in the Chinese stock market in the months and quarters ahead. Yet this does not mean the whole of China is "uninvestable": indeed, the Fund continues to productively invest in many companies domiciled there, right now. Our aim is to try to steer the Fund clear of holdings in China that might encounter severe "air pockets" in their corporate performance.

One final note: Seafarer has parted ways with Inbok Song. For more details on this departure, please see the Message to Shareholders – Portfolio Manager Update.[4]

Beginning in August 2018, Inbok served as a portfolio manager for the Growth and Income Fund. In that role, she was responsible for managing the newly-articulated Growth component (approximately 29% of the Fund's net assets) and the holdings therein (16 positions). (See Figure 1 for definitions of the Fund's Core, Growth, and Value portfolio components.)

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

I (Andrew Foster) have since assumed management responsibilities for the Growth component of the portfolio and the underlying holdings. My immediate intention is to reshuffle a few of the existing positions while reducing exposures to selected risks. However, I also intend to retain several holdings that I believe could offer the sustained growth characteristics that the strategy seeks. Most importantly, I intend to maintain the Fund's dedicated focus on the Growth component for the foreseeable future, as I believe that the component plays a vital role within the strategy, and the resulting holdings are critical to the Fund's long-term success.

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

Andrew Foster
Chief Investment Officer and Portfolio Manager

Paul Espinosa
Portfolio Manager

November 6, 2019

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[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned -0.35% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $11.42 per share; and it finished the quarter with a value of $11.38 per share.

[3] www.seafarerfunds.com/funds/ogi/portfolio-review/2019/06/Q2#outlook

[4] www.seafarerfunds.com/message-to-shareholders/2019/10/11

Glossary

Chinese A-Shares: a class of securitized common stock in Chinese companies, traded exclusively on Chinese stock exchanges (i.e., Shanghai and Shenzhen), and denominated in renminbi, China's currency. Historically, the renminbi was subject to strict controls, such that foreign (i.e., non-Chinese) investors were not able to obtain or use the currency for financial purposes (i.e. savings or investment). Because of this constraint on the currency, A-shares were historically inaccessible to foreign investors, de facto: foreigners could not legally obtain renminbi for portfolio investment purposes, and therefore they could not fund any purchase of A-shares. Beginning in 2002, China liberalized the use of the renminbi for investment purposes, allowing selected, large foreign institutions to apply for Qualified Foreign Institutional Investor (QFII) status. Foreign institutions granted QFII status can legally purchase renminbi under a quota scheme, and that renminbi can be used to fund the purchase of A-shares and other financial assets within China. Beginning in 2014, China launched a second program known as the "Stock Connect;" this program allows foreign investors to purchase selected A-shares on the Shanghai or Shenzhen exchanges.

A-shares are not to be confused with H-shares (Chinese companies incorporated in China, but listed in Hong Kong) and ordinary Hong Kong-listed companies of Chinese origin (Hong Kong incorporated, and Hong Kong-listed, but with substantial economic ties to mainland China).

If a Seafarer Fund is invested in Chinese A-Shares, please note the following: 1) any reduction or elimination of access to A-Shares could have a material adverse effect on the ability of the Fund to achieve its investment objective; and 2) uncertainties regarding China's laws governing taxation of income and gains from investments in A-Shares could result in unexpected tax liabilities for the Fund, which could adversely impact Fund returns.

Shanghai-Hong Kong Stock Connect: a trading link launched in 2014 that allows offshore, non-domestic-Chinese investors and entities to invest in Chinese A-shares listed on the Shanghai Exchange. Investment via the Stock Connect occurs through a special mechanism that was designed and implemented by the Hong Kong Stock Exchange. The Stock Connect also allows Mainland China investors to purchase certain Hong Kong-listed stocks via accounts with the Shanghai Exchange.

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

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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.

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 September 30, 2019, Naver Corp. comprised 3.0% of the Seafarer Overseas Growth and Income Fund, Orion Corp. comprised 3.5% of the Fund, Aspeed Technology Inc. comprised 1.7% of the Fund, and Woongjin Coway Co., Ltd. comprised 2.1% of the Fund. The Fund did not own shares in Sun Pharma Advanced Research Co., Ltd., SIA Engineering Co., Ltd., or Singapore Airlines. 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.