SEAFARER®

SEAFARER OVERSEAS GROWTH AND INCOME FUND

Portfolio Review

Fourth Quarter 2019

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During the fourth quarter of 2019, the Seafarer Overseas Growth and Income Fund returned 9.15%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, returned 11.93%. By way of broader comparison, the S&P 500 Index gained 9.07%.

The Fund began the quarter with a net asset value of $11.43 per share. During the quarter, the Fund paid a distribution of approximately $0.132 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $2.993 per share.[2] The Fund finished the period with a value of $12.34 per share.[3]

During the calendar year, the Fund returned 23.19%, whereas the benchmark index returned 18.88%.[4]

Performance

Attributing short-term performance in the stock market to a conclusive source is fraught with error: most short-term price movements, whether up or down, are random events, indiscernible from "noise." However, in the fourth quarter of 2019, the performance of both the Growth and Income Fund and its benchmark index appeared to have a definitive and common origin: on December 13, the U.S. and China publicly intimated agreement on "Phase 1" of a trade deal intended to rectify their most pressing trade disputes. Though the official agreement was not executed until mid-January, the mere anticipation of basic normalization in trade relations was enough to send equities across the emerging markets surging. The benchmark index vaulted 6.53% during the last three weeks of the year – a period during which stock market activity is typically muted.[5]

In my view, markets responded in a visceral manner not because of the merit of the deal itself – most thorny issues between the U.S. and China went unresolved – but rather because the agreement's negotiation was drawn out for such a lengthy and public period that it became a facile "event" around which speculators engaged in short-term trading activity.

Please note: this portfolio review encompasses only the fourth quarter of 2019, 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 12/31/19 the annualized performance of the Fund's Institutional class was: 1 year 23.19%, 3 year 8.38%, 5 year 5.93%, and since inception (2/15/12) 6.16%[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.

Within China, the agreement took on an inflated, trumped-up importance. The Chinese economy decelerated during 2019, and while lackluster trade with the U.S. was an extenuating factor, it was not a dominant one. Yet China's leadership was happy to use the recalcitrance of U.S. trade negotiators as a political foil, blaming the U.S. for designs to hamper China's economic progress and international standing, thereby defraying blame for the domestic economy's tepid performance. Beyond China, the agreement arguably held greater import: the economic output of many developing nations now hinges more upon exports to China than the U.S., and therefore China's overall economic health and trade balances matter mightily. Thus, the agreement was met with applause by stock investors despite its rudimentary nature.

During the surge at year end, large capitalization growth stocks performed best, with semiconductor stocks, Chinese financial stocks, and Chinese internet stocks dominating the index's performance. Likewise, the Fund saw gains from similar sources: Samsung Electronics and Taiwan Semiconductor (semiconductor companies from South Korea and Taiwan, respectively) and Alibaba Group (China internet) spurred performance. However, the Fund saw notable gains among a few other positions, divergent from the index: Qualicorp (a mid-sized, Brazil-based insurance broker), Richter Gedeon (a mid-sized, Hungary-based pharmaceutical firm) and Moneta Money Bank (a Czech bank) all made notable contributions to the Fund's positive performance.

Allocation

During the fourth quarter of 2019, Seafarer parted ways[6] with one of the Fund's portfolio managers, Ms. Inbok Song. I wish Ms. Song well in her career.

After Ms. Song's departure, I announced an intention to undertake a transition in the positions that were formerly under Ms. Song's management. The transition has two major stages: first, certain holdings would be exited summarily before December 31, 2019. Second, all remaining holdings would be placed under review to re-affirm their suitability for the Fund, with an intention to complete the review within the first quarter of 2020, or shortly thereafter. The first stage is complete; the second stage is presently underway.

During the closing months of the year, the Fund exited the following positions:

- Aspeed (a small-capitalization computer component maker based in Taiwan)
- China International Travel Services (a large purveyor of travel services to the Chinese public)
- Container Corporation (an India-based railway freight company)
- Foshan Haitian (a China-based maker of condiments and other edibles)
- Leeno (a Korea-based maker of precision components used in semiconductor manufacturing).

The Fund added two new positions during the quarter: Innocean Worldwide, a Korea-based advertising agency known for its successful automotive advertisements, and Bizlink, a small-cap Taiwan-based firm that develops and manufactures advanced electronic couplers for uses ranging from personal computers to electronic vehicles. Both firms have cash-rich balance sheets, resilient cash flows, steady growth opportunities and stable dividends.

Lastly, the Fund added to its holding in Alibaba Group, raising the position from a 2% weighting to a 5% weighting.

Outlook

In the first weeks of January, reports began to surface of a new viral infection in China, emanating from the metropolis of Wuhan in Hubei province. The virus, officially known as COVID-19, has circulated well beyond Wuhan, beyond China, to nearly every corner of the globe. At the time of this writing, much is still unknown about the virus: its precise origin, mode of transmission, incubation period, pathology, lethality, effective protocols for treatment, and vaccination. Any major predictions about the virus or its human and economic toll are facile. Still, one thing is known with certainty: the heroic efforts of China's overwhelmed medical professionals – particularly those in Hubei – have procured precious time for the world to prepare for the disease to emerge on a broader, global scale. May their efforts not be in vain.

Markets are unsettled: during a few short weeks in late January and early February, the Fund's benchmark swooned dramatically, and then recovered most of its losses, as if the virus's initial, downward impact was exaggerated. Understandably, investors want to know the impact of COVID-19 on China's economy, on its stock market, and on emerging market equities and currencies more broadly. Unfortunately, I have no reliable answer, as the health, economic and financial consequences of the virus are unknowable at present and may not be known for many more months at the earliest. I would dissuade you from accepting any advice that claims to know otherwise, as the virus's unknown path will undoubtedly catalyze unpredictable, intertwining events.

While I cannot predict the impact of the virus, I will offer two comments for those that wish to draw meaning from the crisis.

First: I suspect that President Xi's administration in China will remain under great duress, as this event has tested the government's credibility. China's government is not directly culpable for the emergence of the virus, though lax enforcement regarding food sanitation may have played a role. Rather, I note the large and growing number of dissatisfactory events that now litter China's political landscape: a tepid economy; grandiose, failed and expensive Belt and Road projects; unsettled trade and political frictions with the U.S.; a rampant swine disease that has devastated China's pig herds, rendering a staple protein unaffordable; violent protests that have shattered the stability of Hong Kong; a stiff political rebuke in Taiwan; and now a medical system that is revealed to be severely underequipped for crisis, with hospitals built overnight in a late, hollow gesture to compensate for decades of underinvestment in health care. It was only a few months ago that sophisticated missiles were paraded down Chang'an Avenue in Beijing, promoted as a symbol of the nation's burgeoning might and international standing. COVID-19 has undermined that narrative. China's present leadership has accumulated extraordinary power and privilege, unrivaled since the days of Mao. Yet I suspect the number of conflagrations burning in China's political landscape can only undermine the administration's credibility, which may in turn lead to restlessness in China.

Second: I wonder whether the current work stoppage in China might trigger a payments crisis. For the better part of the past decade, ill-informed U.S. hedge fund managers have stoked fears over China's banking system and property markets. Both are rickety, but neither was likely to trigger a broad-based collapse (though I endorse the view that either might exacerbate a crisis, once initiated by another source). Rather, I have long suspected a different source of weakness would be more likely to trigger financial weakness: China's incredibly over-stretched and dysfunctional corporate payments system.

For reasons unique to the country's financial markets, China's companies sit on mountains of "receivables" – effectively, "I.O.U.s," where services are rendered but not paid for until a much later date. Likewise, companies have voluminous amounts of payables – promises to pay their vendors and suppliers, once they are paid by their own customers. These chains of non-payment – from company to company, vendor to supplier – place an overwhelming strain on the flow of liquidity through the Chinese economy. The origin of the problem is complicated, but it usually stems from large state-owned enterprises (SOE) that are unwilling or unable to pay their vendors on time. Smaller companies, keen to earn business from large, well-connected companies, are all too ready to extend short-term credit to their SOE customers in order to make a sale, and thus begins a chain of deferred payments, one that eventually stretches to the extreme. Developments in capital markets over the past few years have alleviated this strain slightly, though risks remain acute in my view.

I suspect that the current cessation of work could place further strain on this already fragile system of deferred payments, possibly inducing a liquidity crunch. This in turn could trigger a broader seizure in China's banking sector, which could induce broader consequences. So far, China's central bank has injected nearly US$200 billion of liquidity into China's financial system, presumably to avert exactly this problem. Markets are still calm, and there is no sign of crisis yet. Still, investors should remain on guard until economic conditions normalize, paying attention to any companies with outsized balances of accounts receivable and payable.

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

Andrew Foster
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Paul Espinosa
Portfolio Manager

February 19, 2020

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIGIX). The Investor share class (ticker: SFGIX) returned 9.05% 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 $11.38 per share; it paid a distribution of approximately $0.126 per share during the quarter; and it finished the quarter with a value of $12.28 per share.

[4] The Fund's Investor share class returned 23.00% during the calendar year.

[5] Performance for the MSCI Emerging Markets Total Return Index measured between 12/10/19 and 12/31/19. Source: Bloomberg.

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

Glossary

Belt and Road Initiative: an international program to spur investment and trade links between China, central Asia, and Europe. The initiative was announced by China's President Xi Jinping in 2013. The official name for the initiative is the "Silk Road Economic Belt and the 21st Century Maritime Silk Road."

State-owned Enterprise (SOE): a legal entity that is created by the government in order to participate in commercial activities on the government's behalf. A state-owned enterprise can be either wholly or partially owned by a government.

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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, 2019, Alibaba Group Holding, Ltd. comprised 4.8% of the Seafarer Overseas Growth and Income Fund, Samsung Electronics Co., Ltd. comprised 4.8% of the Fund, Taiwan Semiconductor Manufacturing Co., Ltd. comprised 2.4% of the Fund, Qualicorp Consultoria e Corretora de Seguros SA comprised 3.2% of the Fund, Richter Gedeon Nyrt comprised 3.4% of the Fund, Moneta Money Bank AS comprised 1.7% of the Fund, Innocean Worldwide, Inc. comprised 0.5% of the Fund, and Bizlink Holding, Inc. comprised 1.4% of the Fund. The Fund did not own shares in ASPEED Technology, Inc., China International Travel Service Corp., Ltd., Container Corp. of India, Ltd., Foshan Haitian Flavouring & Food Co., Ltd., or LEENO Industrial, Inc. 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.