



May 31, 2016

Introducing the Seafarer Overseas Value Fund

Today, Seafarer launches the Seafarer Overseas Value Fund. There are several motivations for a prospective shareholder to embark on this journey. First, is the investment merit of a value discipline, as detailed in Seafarer's white paper: On Value in the Emerging Markets. The paper develops a method for the practical application of a value discipline to the emerging market universe – the traditional domain of growth investors. The study reveals the various forms value manifests itself in a universe distinct from developed markets; a universe characterized by higher growth, more expensive capital, and varying degrees of corporate governance. Second, it is Seafarer's estimation that emerging markets are one of the few investment alternatives left where investors may still earn a meaningful return on capital. As value-oriented investors, and having invested years studying the evolution of emerging economies, we conclude that the value opportunity in these markets is both large and compelling. The third and equally important motivation for launching the Seafarer Overseas Value fund is that investors need it.

We live in an age when savers, particularly those living through later years, are forced to consume capital to finance consumption. And while the same policies that deprive this cohort of current income have arguably also lifted asset prices on a global scale, there is an underlying sense of unease. The unprecedented rise of debt since the early 1990s, combined with substantial equity returns in developed markets, force one to question the sustainability of returns on capital, as future returns may have been brought forward.

Exacerbating the uncertainty of adequate future returns is the popularity of benchmarked, passive funds as the vehicle of choice by investors. Passive funds purchase benchmark securities without discrimination, and invest pro-cyclically – buying more of a security as its price rises – thus further undermining the foundation of future returns in formulaic fashion.

The Seafarer Overseas Value Fund offers a different solution to investors by pursuing a minimum rate of return on capital. In doing so, it addresses the tangible need to grow capital, instead of focusing on relative performance, which may or may not result in adequate capital appreciation. By investing in securities with a discount to intrinsic value, the fund aims to avoid the valuation risk inherent to passive funds that invest indiscriminately.

The Seafarer Overseas Value Fund should be thought of first as a value strategy, and second as an emerging markets fund. It pursues its objective of capital appreciation by building a portfolio one security at a time, rather than participating in the growth of any general category an investor may wish to define. In this respect, the Value Fund offers a differentiated alternative to the Seafarer Growth and Income Fund. The latter is designed as a means to make emerging markets accessible to investors – by seeking to dampen the volatility inherent to these markets through the judicious use of dividends, while still

delivering a portion of the growth characteristic to emerging markets. The Value Fund is also designed to pursue the capital growth that investors need in the current era of low interest rates globally, but its primary tool is the price paid for a security, rather than dividends.

I would like to conclude by stating why I am investing part of my savings through the Seafarer Overseas Value Fund, and why I am embarking on this journey at a personal level. For far too long, at least since I began my professional career, emerging markets have been perceived as the periphery of a universe whose center is developed markets. This means that, in practice, all an emerging market investor has had to keep track of is the cycle of monetary expansion and contraction in developed economies. More precisely, investors have tracked the change in value of the U.S. Dollar against other currencies or commodities. While a pragmatic approach, this view is also an oversimplification of reality. This approach to investing effectively reduces all value creation for shareholders to a function of credit cycles.

My meetings with the management of emerging market companies over the years reveal a different and more nuanced reality of investing in this universe. There are innumerable corporates with competent management that earn their way forward – by creating value – not by being the passive beneficiaries of credit cycles. For those companies that have survived over the years, their histories of working against these pernicious monetary cycles makes them all the more competent. It is these entities that will be the object of the Seafarer Overseas Value Fund's focus. My intention is to create a portfolio that reflects the underappreciated quality and value of companies in emerging markets. The fact that the securities many of these corporates underwrite regularly sell at attractive valuations is an opportunity I am eager to seize.

Finally, I am conscious of the trust you place in us when investing in the Seafarer Overseas Value Fund. It is my intention to serve that trust with corresponding diligence.

Paul Espinosa
Portfolio Manager
Seafarer Capital Partners, LLC

The views and information discussed in this commentary are as of the date of publication, are subject to change, and may not reflect the writer'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.