SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Third Quarter 2017

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During the third quarter of 2017, the Seafarer Overseas Value Fund returned 3.89%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, rose 8.04%. By way of broader comparison, the S&P 500 Index gained 4.48%.

The Fund began the quarter with a net asset value of $11.82 per share. The Fund paid no distributions during the quarter, and it finished the period with a value of $12.28 per share. [2]

Performance

The Value Fund delivered a total return of 3.89% during the third quarter of 2017. While I consider this return to be attractive in an absolute sense for a quarter, it nevertheless lagged the benchmark's return of 8.04%.

As has been the case in previous quarters, the drivers of returns for the Value strategy and the benchmark are very different. The top contributors to the performance of the Value strategy during the quarter include a Brazilian insurance broker (Structural Shift[3] category of value), a Chinese coke bottler (Asset Productivity[4]), a Russian port company (Asset Productivity[4]), a Korean battery manufacturer (Breakup Value[5]), and an Asian holding company (Breakup Value[5]). On the other hand, Chinese internet names continue to drive the benchmark's performance.

> For more information about Seafarer's seven distinct sources of value in emerging markets and how they may give rise to viable opportunities for long-term, value-oriented investments, see the white paper titled *On Value in the Emerging Markets* available at www.seafarerfunds.com/value.

At a portfolio level, it is important to note that last quarter's theme of partial value realization through a change in the shareholder base of Greatview Aseptic and Tabreed (please refer to the second quarter 2017 portfolio review[6]) continued in the third quarter with a change in control at another portfolio holding: Pegas Nonwovens. Pegas Nonwovens is a Czech manufacturer of nonwoven, absorbent textiles. The investment vehicle of a Czech industrialist acquired an 88% stake in the company through a tender offer. The Value Fund did not participate in the tender, as I am more interested in the long-term value the new controller plans to create at Pegas Nonwovens than in the short-term gain implied by the tender offer. I am planning a trip to Eastern Europe in December, when I expect to meet with management and discuss its future plans.

Allocation

I did not add any new holdings to the portfolio during the quarter. Allocation during this period consisted of deploying steady fund inflows, taking advantage of individual share price weakness whenever possible.

Outlook

Among the various subjects I discussed in the Value Fund's second quarter 2017 portfolio review[7] was China's efforts to rein in credit growth by suppressing foreign mergers and acquisitions (M&A). In August, Beijing announced new rules governing foreign M&A. Specifically, it defined three categories of foreign investment:

1. Banned: gambling and anything else contrary to national security;
2. Restricted: property, hotel, film, entertainment, and sports; and
3. Encouraged: One Belt One Road-related, research and development, technical standards, oil and mining, as well as agriculture and fishing.

I already discussed last quarter my views on how China's various measures to tame credit growth relate to an underlying interest in preserving the value of the Chinese renminbi; which itself relates to the inclusion of the renminbi by the International Monetary Fund in its Special Drawing Rights (SDR), and the partial inclusion by MSCI (index provider) of Chinese A-shares in its benchmark indices. The more profound question raised by this latest official pronouncement about foreign M&A concerns the true extent of state control of the economy. China has long operated as a mixed economy with private companies co-existing alongside state enterprises. This latest policy development moves the pendulum toward state control of the whole economy, as it impacts both private and public enterprises.

A similar question applies to Brazil, whose government announced during the month of August that it would divest a total of 57 companies, including the bellwether Electrobras (a utilities company). The Brazilian government aims to raise 40 billion reais (approximately 12.5 billion U.S. dollars) by December 2018. In a parallel to the question surrounding the extent of the Chinese government's control of private companies, it remains to be seen how independent these newly-privatized Brazilian companies will be even if the government is no longer a shareholder or a minority one. More than the divestment announcement itself, it is this future test on company independence that will mark whether Brazil is truly embarking on long-term economic progress.

Note that Brazil's privatization announcement comes after numerous corruption scandals in the country (another parallel with China). One could view this privatization drive as not just aimed at addressing the fiscal deficit (the intended purpose), but as a critical step in reducing corruption in the long-term by transferring assets to the private sector. At the present time of intense industry focus on ESG-related issues, the message on governance should not be lost on investors, even if the intended purpose was to temporarily relieve Brazil's budget crisis.

A global theme that reared its head within the Value portfolio this quarter is the impact on stock prices of index-inclusion news and related passive flows. Portfolio holding WH Group, a Chinese hog company, appreciated 5.73% from August 15 to September 30, on news that it would be included in Hong Kong's Hang Seng Index. Another fund holding, Pacific Basin, a dry bulk shipping company, appreciated 4.14% from August 15 to the end of the quarter on news that it would be eligible for southbound flows (from the Chinese Mainland to Hong Kong) related to the Stock Connect program, and be included in the Hang Seng Stock Connect Hong Kong Index.

I have not compiled data on passive fund flows to and within emerging markets, but to the extent they follow the trend set by the switch from active to passive management in the United States, one could expect stock prices to undergo significant movement, spurred by their addition, deletion or re-weighting within passive indices.

I would like to end this commentary by going full circle, and making reference to the three companies within the Value Fund that have experienced significant changes in the shareholder base. Tabreed, Greatview Aseptic, and Pegas Nonwovens are relatively unknown emerging market companies that are expanding globally. They have capital expenditure (CAPEX) programs to pursue growth that is largely independent of the overall outlook for emerging markets. Another portfolio company, Samsung SDI, also has ambitious CAPEX plans. And finally, two other holdings, Shangri-La and Hang Lung Properties, displayed early signs of revenue acceleration in China based on their first half of 2017 results.

The reason I make these observations regarding several of the Value Fund's holdings is that they may represent incipient signs at the portfolio level of what my colleague, Andrew Foster, has identified as an earnings recovery in emerging markets even as global trade remains soft (please refer to Seafarer's Emerging Markets Briefing[8]).

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

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[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 3.80% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $11.84 per share; it finished the quarter with a value of $12.29 per share.

[3] www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets/#structural-shift

[4] www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets/#asset-productivity

[5] www.seafarerfunds.com/commentary/on-value-in-the-emerging-markets/#breakup-value

[6] www.seafarerfunds.com/funds/ovl/portfolio-review/2017/06/Q2/#realized-value

[7] www.seafarerfunds.com/funds/ovl/portfolio-review/2017/06/Q2/#credit-growth

[8] www.seafarerfunds.com/commentary/emerging-markets-briefing/2017/09

Glossary

Belt and Road Initiative is a roadmap for infrastructure development and trade cooperation in China. 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."

Brazilian Real (BRL) is the official currency of Brazil.

Capital Expenditure (CAPEX) is the outlay of money to acquire or improve capital assets such as buildings and machinery. Unlike ordinary expenses, which are typically expensed in the period in which they are incurred, capital expenditures do not pass through the income statement on a real-time basis. Instead, expenditures to purchase or maintain a given asset are "capitalized" as assets on the balance sheet; then those same assets are "depreciated" over time, according to accounting standards that dicatate the useful life of said assets.

Chinese A-Shares is 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 has been 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 have historically been inaccessible to foreign investors, de facto: foreigners could not legally obtain renminbi for investment purposes, and therefore they could not fund any purchase of A-shares. Over the past decade, China has 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. More recently, China has launched a program known as the "Stock Connect," or colloquially, the "through train;" this program allows foreign investors to purchase selected A-shares on the Shanghai or Shenzhen exchanges, regardless of their QFII status.

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). H-shares and Hong Kong-listed companies are available for investment by foreign (non-mainland China) investors; ironically, H-shares are not necessarily available to domestic Chinese parties, who can only invest in Hong Kong via a regulated scheme called "Qualified Domestic Institutional Investor" (QDII).

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.

ESG (Environment, Society, and Governance) is evaluation criteria applied to a company's operations that focuses on environmental stewardship, social impact, and corporate governance.

International Monetary Fund (IMF) is an organization of countries whose primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. Created in 1945, the IMF is governed by and accountable to the countries that make up its near-global membership.

Mergers and Acquisitions (M&A) is the consolidation of companies or assets. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

Renminbi (RMB) is the official currency of the People's Republic of China. The name literally means "people's currency." The yuan (sign: ¥) is the basic unit of the renminbi, but is also used to refer to the Chinese currency generally, especially in international contexts.

Special Drawing Rights (SDR) is an international reserve asset created by the International Monetary Fund in 1969 to supplement its member countries' official reserves. SDRs can be exchanged for freely usable currencies. As of October 1, 2016, the value of the SDR is based on a basket of five major currencies — the U.S. dollar, Euro, Chinese renminbi, Japanese yen, and pound sterling.

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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/ovl/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.

The Hang Seng Index is a market capitalization-weighted index of 40 of the largest companies that trade on the Hong Kong Exchange. The Hang Seng Stock Connect Hong Kong Index is a benchmark for the performance of equities listed in Hong Kong that are eligible for trading via the southbound trading link of the Stock Connect.

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 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.

As of September 30, 2017, Greatview Aseptic Packaging Co., Ltd. comprised 1.5% of the Seafarer Overseas Value Fund, Tabreed (National Central Cooling Co. PJSC) comprised 2.2% of the Fund, Pegas Nonwovens SA comprised 2.6% of the Fund, WH Group, Ltd. comprised 3.7% of the Fund, Pacific Basin Shipping, Ltd. comprised 1.7% of the Fund, Samsung SDI Co. Ltd. comprised 3.2% of the Fund, Shangri-La Asia, Ltd. comprised 3.1% of the Fund, and Hang Lung Properties, Ltd. comprised 2.1% of the Fund. The Fund had no economic interest in Eletrobras. View the Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ovl/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.