SEAFARER

SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Fourth Quarter 2018

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During the fourth quarter of 2018, the Seafarer Overseas Value Fund returned -9.12%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, declined -7.40%. By way of broader comparison, the S&P 500 Index returned -13.52%.

The Fund began the quarter with a net asset value of $11.45 per share. During the quarter, the Fund paid a distribution of approximately $0.333 per share. This payment brought the cumulative distribution, as measured from the Fund's inception, to $0.870 per share.[2] The Fund finished the period with a value of $10.08 per share.[3]

During the calendar year, the Fund returned -13.93%, whereas the benchmark index returned -14.25%.[4]

Performance

During the fourth quarter of 2018, the Seafarer Overseas Value Fund lost most of the outperformance relative to the benchmark index that it had accumulated during the first half of the year.

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.

My disappointment with the strategy's performance during the fourth quarter relates more to the Fund's absolute NAV loss than to its performance relative to the benchmark. While one may reasonably expect a capital loss when broader emerging market debt and equities are undergoing a meaningful re-pricing, the Fund invests a significant portion of its resources in income-producing securities – as evidenced by a gross portfolio yield of 4.3% as of September 30, 2018, the beginning of the period under review. This ordinary income proved insufficient to stabilize the Fund's NAV during the period under review.

More importantly, however, I expected the business and financial characteristics of these income-producing securities to provide capital stability to the Fund, in addition to ordinary income. I attribute the Fund's capital loss – which exceeded

As of 12/31/18 the annualized performance of the Fund's Institutional class was: 1 year -13.93% and since inception annualized (5/31/16) 3.39%[1]; the net expense ratio was 1.05% and the gross expense ratio was 1.75% 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.

Figure 1. A Working Definition of Value

Seafarer has identified seven distinct sources of value in emerging markets that may give rise to viable opportunities for long-term, value-oriented investments.

Opportunity Set	Source of Value	
Balance Sheet	Balance Sheet Liquidity	Cash or highly liquid assets undervalued by the market
	Breakup Value	Assets whose liquidation value exceeds their market capitalization
	Management Change	Assets that would become substantially more productive under a new owner / operator
	Deleveraging	Shift of cash flow accrual from debt holders to equity holders
	Asset Productivity	Cyclical downturn following a period of asset expansion
	Structural Shift	Shift to a lower growth regime, but still highly cash generative
Income Statement / Cash Flow	Segregated Market	Productive, cash-generative assets trading in an illiquid public market

Source: Seafarer Sources of value are highlighted in this document using This Style.

Additional information is available in the white paper *On Value in the Emerging Markets* at www.seafarerfunds.com/value-in-em.

my expectations for the quarter and calendar year – to the share price decline of this specific group of securities. To understand why I expected these holdings to deliver capital stability to the Fund in addition to income, consider two simple statistics: change in dividend income and valuation.

It is important to remind the reader that the Value Fund recognizes that a very high dividend yield (usually in excess of 6%) tends to signal financial distress. As discussed in the white paper On Value in the Emerging Markets,[5] the strategy focuses on assessing the sustainability of said dividend. The statistics that follow should be understood within this context.

As of December 31, 2018, the strategy owned stakes in 33 companies, out of which ten holdings delivered a dividend yield of 6% or greater. Seven of these ten holdings increased their dividend in absolute terms during 2018, yet their share price declined during the year. One company raised its dividend and ended the year with its share price at the same level as the beginning of the year. Only two companies of the ten in this group lowered the dividend in absolute terms, with one of them showing no change in the share price between the beginning and end of the year, and the other posting a lower share price.

Thus, on balance, the Fund had a good track record of selecting companies that improve their financial performance, as illustrated by a rising dividend in absolute terms, in a category of stocks for which the market was not willing to pay for said dividend. Furthermore, other valuation metrics, such as free cash flow yield and price to earnings (P/E) ratio, corroborated the value on offer as indicated by the elevated dividend yield. Counterintuitively, from my perspective, the share price of most of these companies declined during the period under review, failing to protect the Fund's NAV despite elevated and rising dividend income, and low valuation – two metrics that are historically associated with capital preservation.

My failure this calendar year was to expect capital preservation from this group of stocks when evidently other factors superseded the foregoing considerations in determining share price performance. Contemplating what those factors may be would delve into the realm of speculation and excuse-making more than I am comfortable with. However, it is worth highlighting that there is a common denominator within this group of stocks: they tend to be small-to-medium capitalization companies and many of them are listed in Hong Kong with meaningful business activity in China.

Having covered the portion of the Fund's performance that surprised me, I now turn to that part of performance that accorded with my expectations, given the challenges emerging markets faced during the fourth quarter of the year. Four stocks accounted for approximately half of the Value Fund's -9.12% total return for the quarter.

The largest detractor to performance was Crédito Real (Asset Productivity source of value; see Figure 1 for definitions of the sources of value referenced in this review), a Mexican non-bank financial institution. The surprising factor in Mexico is that the policy proposals of Mexico's new President, Andrés Manuel López-Obrador, and his party have had a more deleterious impact on Mexican equity valuations than the renegotiation of the North American Free Trade Agreement (NAFTA) did. While a policy proposal to limit fees charged by Mexican banks does not affect Crédito Real, it has impacted the stock price of all Mexican banks, and financial companies by extension. The Value strategy remains committed to this holding for several reasons. First, it enjoys an uncommonly attractive return to risk relationship in that it earns a meaningful rate of interest on a loan book that benefits from uncharacteristically low risk by virtue of being primarily composed of payroll loans. Second, this company is much further ahead of the interest rate cycle than the rest of developed and emerging markets. To the extent that global equity markets are presumably resetting valuation parameters due to higher interest rates in the U.S. today, and in Europe in the near future, Mexico has already gone through a severe interest rate tightening cycle since 2016. While the future remains uncertain, it is likely Mexico could 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 leverage even when its cost of funding has increased substantially. In short, the company's book value per share continues to grow even under difficult operating conditions, which themselves could ease in the not too distant future, and probably before the same happens in the rest of the world. The company's 0.5x price to book value (P/BV) remains incongruent with a bottom-of-the-cycle ROE in the mid-teens.

The second largest detractor to portfolio performance this quarter was China Foods (Asset Productivity), a Chinese Coca-Cola bottler. Whereas the stock price reaction of Crédito Real to developments in Mexico was understandable, albeit disappointing given the share's already cheap valuation, China Food's stock price performance this quarter presents a challenge given the lack of company-specific developments. Rationalizations of the share's 28.2% decline this quarter necessarily relate to broader market conditions. A price movement of this nature is a welcome development for a value-oriented strategy – with liquid resources – that prizes management's re-focusing on the core bottling operation and its productivity. Within the context of the value extraction other Coke bottling franchises around the world have achieved, China Food's approximately U.S. $1 billion market capitalization belies the scale of its operation in the franchise territory.

Even though it was not the largest detractor to performance this quarter, the share price decline of Del Monte Pacific (Deleveraging and Management Change), a food producer and owner of the Del Monte brand, resulted in the most soul searching. Pressure on a levered company's stock price while the London Interbank Offered Rate (LIBOR) is rising falls within expectation. Said pressure, however, seemed to have relented during the third quarter of 2018 following an increase of ownership in the company by the controlling family earlier in the year, and the company's price to book value ratio having reached a low of approximately 0.4x. What surprised during the fourth quarter of 2018 was the market further marking down the price to book value ratio of the company to 0.3x in apparent disregard of quarterly financial results that demonstrated positive progress toward restoring profitability and deleveraging. The Value Fund recognizes the risk associated with this security and remains committed to the name on the basis that returning the profitability of the U.S. subsidiary – and therefore, the ability of the company to reduce leverage – to normalized levels is a realistic prospect. Given valuation and the impact of lower future debt on the cash flow that accrues to equity holders, the return potential of Del Monte stock is closer to that of a call option without expiration than to equity. Importantly for a levered emerging market company, Del Monte does not suffer from a foreign exchange mismatch between the assets (the U.S. subsidiary) and the liabilities. Finally, this holding brings balance to the Value strategy whose countervailing stake in Qatar Gas Transport (Nakilat; Deleveraging), an owner and operator of liquified natural gas (LNG) carriers, is effectively a U.S. dollar bond with a growth component bolted on disguised as equity (as explained in the second quarter 2017 portfolio review).[6]

The last of the four names that account for approximately half of the Fund's NAV loss during the quarter is First Pacific (Breakup Value), a conglomerate with assets in the Philippines and Indonesia. This is another case of a stock with a low valuation getting cheaper, in this case presumably on the announcement of a third mobile operator in the Philippines. While the stock reaction following the news is understandable, the market had long expected a new mobile entrant. Indeed, as of the date I am writing this quarterly review, the stock price had recovered much of the value it lost following the announcement. The Value Fund deems that the stock price of First Pacific fully captures the historical pressure on subsidiary cash flow that accrues to the parent company and ignores visible signs that point to a partial restoration of said cash flow, though with uncertain timing. Furthermore, management is taking steps to redress a historical misallocation of capital, though again, timing remains elusive.

Allocation

In last quarter's portfolio review[7] I described a ladder approach to the deployment of the Value strategy's significant cash resources. The strategy has gradually switched its preference from cash to equities as emerging market equity valuations have declined throughout the year. The Fund's cash balance at the end of the first, second, third, and fourth quarters of 2018 was 16.75%, 13.60%, 10.08%, and 6.04%, respectively. While the cash position of the first three quarters of the year understates the switch from cash to equities in the deployment of inflows into the Fund, outflows from the Fund constitute the great majority of the cash decline in the last quarter of the year.

I have dedicated the Allocation section of previous quarterly reviews to explaining the Value Fund's view that a meaningful cash resource of 15% or less of the Fund represents a call option more than an opportunity cost, at least in the context of a Value strategy. Indeed, following the tenet that the price paid for a security is the primary determinant of long-term investment returns, realized gains or losses carry more importance than an opportunity cost measured over an intervening period. In the context of down-trending equity markets and Fund redemptions, a relatively high cash balance prevents the Fund from selling holdings during a period of declining prices and limited liquidity, thus avoiding the realization of capital gains or losses at unfavorable prices.

During the quarter the Value Fund did not add new securities or exit any positions.

Outlook

Calendar year 2018 was a difficult year for the performance of equity markets in emerging economies. There is an abundance of facile rationalizations for the recent decline in equity valuations and the return of the benchmark index to pre-2016 levels. The problem with elaborating on the myriad factors presumably pressuring equity valuations – such as the U.S.-China trade war, interest rate increases, geopolitical tensions, commodity prices, or slowing economies – is that it implies that portfolio returns are a function of these factors alone. While at some level emerging market equity returns cannot escape these forces in the short-term, to view investment returns in this light truly misses the point of the Seafarer Overseas Value Fund.

The Performance section of this portfolio review discussed a number of Fund holdings that earn high dividend yields in excess of 6%. Even though the stock prices of most of these holdings declined, not only did the Fund earn said dividend, but the dividend itself increased in most cases during the calendar year. This is a source of investment return that is independent of the vagaries of asset price movements. Even though capital losses hid this source of return during the fourth quarter and calendar year overall, when measured over long periods of time the accrual of this return does resurface to become visible.

The disappointing development in the quarter was not that asset prices declined in emerging markets, but that the low valuation of the Fund's holdings did not provide as much NAV protection as I had envisioned. This disappointment applies to both the high-income generating portions of the strategy and those sections of the portfolio invested in more speculative holdings with regard to their cash flow generation. Indeed, the Seafarer Overseas Value Fund is designed as a balanced mix of current income and future capital appreciation with a diversity of risks as contemplated in the seven categories of value (see Figure 1). Thus, the Value strategy generates returns from individual company dynamics that over time should prove less dependent on the overall performance of the emerging market asset class.

It is important at times such as this one to remember why the strategy invests in its holdings and avoid reacting to spurious signals. At a macro level, I would argue that the factors mentioned in the first paragraph of this Outlook section are symptoms of an underlying phenomenon rather than drivers. In my view, the underlying factor giving rise to the prevailing headlines in the financial press is the slowdown of economies as a result of debt saturation, as explained in the first quarter 2017 portfolio review.[8] The impact of the slowdown in money supply growth currently underway in most developed markets is surfacing in many areas including emerging markets. Keeping this perspective in mind can help an investor avoid overreacting to more superficial factors such as the U.S.-China trade dispute.

Similarly, at a portfolio level, it is important not to overreact to superficial signals such as price movements apparently associated with the vagaries of the trade dispute, or global capital flows. These are interim factors that can mask real operational and financial progress at the company level. In fact, this divorce between price action and company-specific financial performance represents an ideal set of conditions in which to invest and find new ideas. The Value Fund will remain focused on the operational progress of its holdings and invest accordingly.

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

Paul Espinosa
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Seafarer Capital Partners, LLC

January 11, 2019

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned -9.02% during the quarter.

[2] The Fund's inception date is May 31, 2016.

[3] The Fund's Investor share class began the quarter with a net asset value of $11.43 per share; it paid a distribution of approximately $0.326 per share during the quarter; and it finished the quarter with a value of $10.08 per share.

[4] The Fund's Investor share class returned -13.92% during the calendar year.

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

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

[7] www.seafarerfunds.com/funds/ovl/portfolio-review/2018/09/Q3/#use-of-cash

[8] www.seafarerfunds.com/funds/ovl/portfolio-review/2017/03/Q1#outlook

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.

Call Option: an agreement that gives the option buyer the right, but not the obligation, to buy an underlying asset – a stock, bond, commodity, or other instrument – at a specified price within a specific time period.

Deleveraging: the act of repaying debt, or the act of becoming less reliant on debt. (Sources: Seafarer and *Barron's Dictionary of Finance and Investment Terms*, 1995)

Dividend Yield (Trailing 12-Mo): a measure of the sum of the dividends paid per share during the trailing 12 months divided by the current share price.

Free Cash Flow: operating cash flow minus capital expenditures.

Free Cash Flow Yield: a basic evaluation measure for a stock that examines the ratio of free cash flow per share to the share price. Some investors regard free cash flow (which takes into account capital expenditures and other ongoing costs a business incurs to keep itself running) as a more accurate representation of the returns shareholders receive from owning a business, and thus prefer free cash flow yield as a valuation metric over earnings yield.

Gross Portfolio Yield: gross yield for the underlying portfolio, estimated based on the dividend yield for common and preferred stocks and yield to maturity for bonds. This measure of yield does not account for offsetting Fund expenses and other costs, and consequently it should not be construed as the yield that an investor in the Fund would receive.

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.

Liquidity: the ability to buy or sell an asset readily and with reasonable volumes without affecting the asset's price. (Sources: Seafarer and *Barron's Dictionary of Finance and Investment Terms*, 1995)

London Interbank Offered Rate (LIBOR): the interest rate at which banks offer to lend funds (wholesale money) to one another in the international interbank market.

Net Asset Value (NAV): a fund's net asset value per share; for an open-end mutual fund, the net asset value is equivalent to the fund's price per share. A fund's net asset value per share is calculated by summing the fund's assets (including portfolio securities and cash), netting off the fund's liabilities, and then dividing the residual balance by the number of fund shares outstanding.

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.

Price to Earnings (P/E) Ratio: the market price of a company's common shares divided by the earnings per common share. The Price to Earnings ratio may use the earnings per common share reported for the prior year or forecast for this year or next year (based on consensus earnings estimates). (Source: *Barron's Dictionary of Finance and Investment Terms*, 1995)

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

Yield to Maturity (YTM): a concept used to determine the rate of return an investor will receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. Recognizing time value of money, it is the discount rate at which the present value to all future payments would equal the present price of the bond, also known as internal rate of return. (Source: *Barron's Dictionary of Finance and Investment Terms*, 1995)

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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.

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 2.4% of the Seafarer Overseas Value Fund, China Foods, Ltd. comprised 2.8% of the Fund, Del Monte Pacific, Ltd. comprised 2.4% of the Fund, Qatar Gas Transport Co., Ltd. comprised 4.7% of the Fund, and First Pacific Co., Ltd. comprised 3.8% of the Fund. 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.