SEAFARER

SEAFARER OVERSEAS VALUE FUND

Portfolio Review

First Quarter 2019

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During the first quarter of 2019, the Seafarer Overseas Value Fund gained 11.51%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, returned 9.95%. By way of broader comparison, the S&P 500 Index returned 13.65%.

The Fund began the quarter with a net asset value of $10.08 per share. It paid no distributions during the quarter and finished the period with a value of $11.24 per share.[2]

Performance

The most pleasing aspect of the Value strategy's first quarter 2019 performance extends beyond the restoration of the Fund's NAV to a pre-October 2018 level, before the sharp fourth quarter drawdown in emerging equity markets. Indeed, the defining characteristic of this quarter's performance was the nature of the stocks that contributed most to the NAV appreciation. Among the top contributors to total return for the quarter are stocks that lie outside the traditional beaten path of the emerging markets benchmark, stocks that generate value for their shareholders in ways that extend beyond growth expectations, and whose business practices are unique in some way. In other words, stocks emblematic of the Seafarer Overseas Value strategy.

Asia Satellite Telecom Holdings (Deleveraging source of value; see Figure 1 for definitions of the sources of value referenced in this review), an owner and operator of satellites for data and communication services, is among the top contributors to performance for the quarter. The market is now beginning to recognize what attracted Seafarer to the stock since the inception of the Value strategy – that the balance sheet is on a clear deleveraging path, and that the dividend will continue to rise as the company reduces debt and capital expenditure requirements subside. A unique aspect of the underlying satellite business that I expect will foment further investor interest in the stock is the relative independence of demand for satellite services from fluctuations in gross domestic product (GDP) growth expectations that world economies appear to suffer from these days.

As of 3/31/19 the annualized performance of the Fund's Institutional class was: 1 year -4.42% and since inception annualized (5/31/16) 7.14%[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.

Another characteristic Value strategy holding that contributed meaningfully to this quarter's performance is Qatar Gas Transport (Deleveraging), an owner and operator of liquified natural gas (LNG) transport vessels. The company's share price appreciation this quarter is uncharacteristic of a security that is essentially a U.S. dollar bond disguised as equity, in the sense that the underlying business is based on shipping contracts with durations exceeding 20 years. There is a growing recognition in the market that Qatar Gas Transport will expand its fleet significantly in the coming years as the country grows its natural gas output. This newfound recognition by the market appears to coincide with news flow surrounding new orders for LNG vessels placed with Korean shipbuilders. As was the case with Asia Satellite, the Value Fund owned Qatar Gas Transport since the Fund's inception. While unfortunately the Fund held the position during the surprise announcement in June of 2017 of the embargo on Qatar, it used the associated share price decline to increase its position in the stock on the view that the embargo would not apply to Qatar Gas Transport's operations, and that the country would substitute natural gas production for the interbank market as a source of U.S. dollars, as explained in the second quarter 2017 portfolio review.[3] On the topic of whether the Korean shipbuilders could constitute another part of the value chain for the Fund to increase its NAV, it is my experience that Korean shipbuilders are a uniquely poor vehicle to translate new order growth into retained earnings, much less dividends.

Lastly, no portfolio review would be complete without a discussion of stocks that detracted from the Fund's NAV. While there were several such holdings this quarter, their share price retrenchment was of modest magnitude, and no company stood out versus the others. Thus, I will highlight Tabreed (Deleveraging and Structural Shift) as a case similar to that of Qatar Gas Transport in that they are both relatively unknown companies whose growth does not stand out against other emerging market companies, but whose return potential for investors is attractive for reasons that relate to valuation, dividends, and unique business characteristics.

The share price of this provider of district cooling services declined modestly during the quarter despite the company's announcement of its first foray outside of the Middle East into India, a long-awaited event. As was the case with the stocks previously discussed in this portfolio review, the Fund must exercise patience until the market recognizes the growing dividend and reassesses the growth rate of the company as it embarks on a newfound international expansion path.

Allocation

The Fund exited its position in Pou Chen (Breakup Value), a Taiwanese manufacturer and retailer of athletic footwear. The confluence of two factors drove the sell decision. The first was a downward reassessment of the company's long-term earnings power. While management appears to have correctly identified and addressed the factors impinging on profitability, there is nevertheless reason to expect a permanent impairment to the sustainable margin of the business. The second factor was the improved contribution to earnings from the company's stake in Nan Shan Life Insurance. Seafarer used Pou Chen's share price recognition of the latter point to exit its position for reasons related to the long-term profitability of the core business.

The Value Fund reinvested proceeds from the sale of Pou Chen into a new holding: Moneta Money Bank (Management Change and Asset Productivity).

Moneta Money Bank is a bank specializing in lending to small and medium-sized enterprises (SMEs) and consumers in the Czech Republic. A conservatively capitalized bank operating in a stable macroeconomic environment, it aims to resume lending growth and recover pricing power in the consumer lending segment. Management, acutely aware of the scale limitations of the bank and the Czech Republic, is working to transcend those limitations through mergers and acquisitions. Finally, at the current share price, the dividend yield hovers around 7% in an historically stable currency against the U.S. dollar.

Outlook

During these days of convulsion in the national politics of many developed markets – as they attempt to transition to slower rates of debt growth – it is relevant to point out how China is responding differently to the same challenge of high debt levels in the economy.

First, Xi Jinping declared himself President for life during China's 19th National Congress held in October of 2017. By concentrating power in his persona, Xi Jinping may be sparing China the internal infighting for the monopoly of legislation that developed countries suffer from as expressed in populism, nationalism, yellow vests in France, or any other form.

Second, China's National People's Congress held during the first quarter of 2019 placed the emphasis of economic management on 2 trillion renminbi (RMB) worth of tax cuts. This approach, aimed at promoting the private sector, lies in stark contrast to the ever-increasing role of government in developed economies that naturally arises from the competition for legislative power.

The aim of these two observations is not to make value judgements, but simply to point out that China is following a different path than most developed markets in responding to the challenge of high debt levels.

Finally, it is important to draw attention to Andrew Foster's fourth quarter 2018 portfolio review[4] for the Seafarer Overseas Growth and Income Fund where he characterized the earnings growth outlook for emerging markets as healthy.

Thus, I would argue that the outlook for emerging markets, both in terms of overall earnings growth and policy direction in China – the primary economy within the emerging markets universe – is a positive one. I find China's newfound interest in stimulating the private sector through tax cuts particularly encouraging.

Within this context, the Value strategy will continue to follow its bottom-up research priorities, driven by differentiated companies of interest, rather than countries or sectors.

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

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April 15, 2019

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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 11.41% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $10.08 per share; it finished the quarter with a value of $11.23 per share.

[3] www.seafarerfunds.com/funds/ovl/portfolio-review/2017/06/Q2#geopolitical-risk

[4] www.seafarerfunds.com/funds/ogi/portfolio-review/2018/12/Q4#outlook

Glossary

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.

Gross Domestic Product (GDP): a macroeconomic measure of the value of a country's economic output. GDP includes only those goods and services produced domestically; it excludes goods and services produced abroad, even if such goods and services are produced by factors of production (i.e. companies) owned by the country in question.

Interbank Market: a foreign exchange market where banks trade currencies.

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.

Renminbi (RMB): 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.

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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 March 31, 2019, Asia Satellite Telecommunications Holdings, Ltd. comprised 4.5% of the Seafarer Overseas Value Fund, Qatar Gas Transport Co., Ltd. comprised 4.8% of the Fund, National Central Cooling Co. PJSC (Tabreed) comprised 3.5% of the Fund, and Moneta Money Bank AS comprised 0.6% of the Fund. The Fund did not own shares in Pou Chen Corp. 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.

