SEAFARER OVERSEAS VALUE FUND

Portfolio Review

Second Quarter 2019

Paul Espinosa
Portfolio Manager

During the second quarter of 2019, the Seafarer Overseas Value Fund gained 5.25%.[1] The Fund's benchmark, the MSCI Emerging Markets Total Return Index, returned 0.74%. By way of broader comparison, the S&P 500 Index returned 4.30%.

The Fund began the quarter with a net asset value of $11.24 per share. It paid no distributions during the quarter and finished the period with a value of $11.83 per share.[2]

Performance

I am pleased with the Value Fund's 5.25% NAV appreciation during the second quarter of 2019 not only because it is a strong figure for such a short period of time, but because the NAV appreciated for the right reasons. The fact that stock-specific factors drove most of the Fund's NAV appreciation, which itself also seemed detached from the benchmark's performance, should minimize the concern that such gains will prove fleeting.

Indeed, the top contributor to the Fund's performance relates to the probable privatization of Asia Satellite Telecommunications Holdings (Deleveraging source of value; see Figure 1 for definitions of the sources of value referenced in this review), which if finalized, would permanently lock in the stock's advance. The controlling shareholders of this satellite owner and operator instructed the Board of Directors to implement a tender offer for the publicly-listed shares of the company, which supported a share price appreciation of 49.25% during the quarter.

Following the theme of an event-driven unlocking of value during the second quarter, Wilmar International (Asset Productivity), a vertically integrated processor of edible oils, proved a top contributor to Fund performance as it becomes increasingly likely that the company will list its China business in Shenzhen. It is worth noting that the meaningful negative performance of Chinese stocks in

As of 6/30/19 the annualized performance of the Fund's Institutional class was: 1 year 4.47%, 3 year 8.82%, and since inception (5/31/16) 8.32%[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.

general during the quarter failed to dent the expectations surrounding this potential value-unlocking event.

The last notable contributor to the Fund's NAV appreciation during the quarter is another holding whose stock price rise was detached from the performance of the rest of the market. The share price of **Qualicorp** (Structural Shift), a Brazilian life insurance broker, appreciated 54.79% in the quarter following its weak performance during the second half of 2018. The stock's recovery appears to relate to an improvement in sentiment toward the company's corporate governance after a questionable one-time cash payment to the CEO was reinvested into shares of the company. There are also signs that Qualicorp may engage in a capital reduction as the business continues to generate cash flow well in excess of its reinvestment requirements, and as the company generates high rates of return on capital despite difficult operating conditions in Brazil.

On the negative side of the ledger, **Xtep** (Balance Sheet Liquidity), a Chinese sportwear designer and manufacturer, meaningfully detracted from portfolio performance after unexpectedly raising equity capital to fund the acquisition of several foreign brands including K-Swiss and Palladium. While I welcome the purchase of said brands as a premiumization strategy, I disagree with the choice of financing method, which in my opinion explains the loss of the share price's strong performance up to that point.

The other notable detractor to performance is **PetroVietnam Fertilizer and Chemical** (Management Change and Balance Sheet Liquidity), a Vietnamese fertilizer manufacturer that reported weak first quarter results driven by a rising oil price and low utilization of new capacity during a ramp-up period. The Value strategy remains committed to PetroVietnam as the unlocking of value in this multi-faceted company depends less on the vagaries of the oil price and more on the expansion of capacity, displacement of imports, change in the controlling shareholder, and the tax treatment of its production.

Allocation

During the quarter the Fund added **Georgia Capital** (Breakup Value) as a new holding. A spinoff from Bank of Georgia, this holding company operates in the country of the same name and owns stakes in established businesses such as Bank of Georgia, Georgia Healthcare Group, and the monopoly water utility in the capital city of Tbilisi. It also incubates companies that deliver under-supplied services such as housing development, property and casualty insurance, and education. More importantly, the combination of high returns on capital with a long runway for high growth rates makes each of Georgia Capital's individual businesses extraordinarily attractive. Furthermore, Georgia stands out with an uncommon degree of government transparency and efficiency, which have helped it achieve the sixth highest ranking out of 190 countries in the World Bank's Ease of Doing Business rankings.[3]

During the quarter the Value Fund did not exit any positions.

Outlook

The evolution of the U.S.-China trade war and the U.S. Federal Reserve's future interest rate path dominated news headlines during the second quarter of 2019. However, in my opinion the more fundamental event concerning the future of emerging markets took place in a small Special Administrative Region of China: Hong Kong. The significance of the events that are still unfolding there belie the territory's small size.

Since March of 2019, various segments of Hong Kong society have protested an extradition bill pending in the Legislative Council, culminating in mass demonstrations in June. The interesting question is not whether the bill will pass or fail, as ultimately the Sino-British Joint Declaration guarantees Hong Kong's Basic Law until 2047 only. Rather, what I see as significant is the connection, whether intentional or not, between the controversy surrounding the extradition bill and the recent questioning by some investors of the viability of the Hong Kong dollar peg to the U.S. dollar.

What the legislative controversy highlights is the distinction between the rule of law and rule by legislation, with the protection of property rights at the center of this distinction. And while the recent questioning by some investors of the viability of Hong Kong's currency board relates to financial factors, I would add China's encroachment into Hong Kong's rule of law as the ultimate threat to the peg. In fact, from a purely financial perspective, I would discount the questioning of this battle-scarred currency board for the simple reason that the Chinese renminbi (RMB) is not yet freely convertible and China still needs the Hong Kong dollar as its port of access to the global U.S. dollar capital market.

The reason the Hong Kong microcosm has a bearing on the entire emerging markets universe is that I expect this experience to impact the opening of China's own capital markets to international investors. Indeed, the effectiveness of the Stock Connect and Bond Connect programs is ultimately capped by the sanctity of property rights in China. The recent protests called attention to the safety of the entrepreneurial class in Hong Kong; the safety of corporate intellectual property underlies the U.S.-China trade dispute; and doubts surround the viability of the Hong Kong dollar peg. These all involve a common underlying issue: the questioning of China's protection of property rights. Up to the present, the Chinese government has managed to engineer unprecedented economic growth without confronting this issue. The country now faces a confluence of events that has brought this question to the fore. Beijing's response will determine the ultimate success of China's capital market development, the inclusion of its domestic exchanges in benchmark indices, and the long-term capital allocation of global investors.

It is perhaps unsurprising that China confronts this question at a time when its economy and that of the world seem to be slowing down. This is therefore an opportune time to remind the reader that the Seafarer Overseas Value Fund does not allocate capital based on global growth expectations. The design of the Value strategy aims to generate investment returns from a diversity of factors as explained in the white paper *On Value in the Emerging Markets*,[4] where I identify seven sources of investment return. While there is a cyclical category of value that is sensitive to changes in growth expectations, the other six categories are more dependent on factors that do not relate to growth.

In fact, the performance of several Value Fund holdings during the second quarter illustrate that idea. In my prior discussion of Wilmar International, I neglected to point out that the stock price appreciated despite the company enduring direct impacts from the U.S.-China trade dispute and depressed palm oil prices; these two factors generally led investors to expect weak earnings. Wilmar represents a case of a stock realizing its value potential not just for reasons unrelated to growth, but also in spite of negative growth revisions.

Similarly, the share price of Asia Satellite appreciated for reasons previously explained and despite long-standing excess capacity in the industry, which limits future earnings growth expectations.

Even though growth is an integral component of the valuation question and thus permeates all portfolio holdings even in cases where the Value strategy owns a company for unrelated reasons, Seafarer tends to focus on companies that forge their own growth. For example, Genting Singapore (Asset Productivity), a casino owner and operator in Singapore, has secured a license to expand capacity in Singapore and is pursuing a potential license in Japan. Qatar Gas Transport (Deleveraging), an owner and operator of liquefied natural gas (LNG) vessels, is very likely to expand its fleet in response to a natural gas production increase by Qatar that is largely independent of global gross domestic product (GDP) expectations. The point of these examples is that while China's economy – the core of the emerging market universe – may be slowing, this fact does not preclude growth opportunities for individual companies.

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

Paul Espinosa
Portfolio Manager
Seafarer Capital Partners, LLC

July 8, 2019

---

[1] References to the "Fund" pertain to the Fund's Institutional share class (ticker: SIVLX). The Investor share class (ticker: SFVLX) returned 5.25% during the quarter.

[2] The Fund's Investor share class began the quarter with a net asset value of $11.23 per share; it finished the quarter with a value of $11.82 per share.

[3] *Doing Business 2019*, World Bank Group, 31 October 2018, 5. https://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

[4] www.seafarerfunds.com/value-in-em

Glossary

Bond Connect: a market trading link that allows certain investors from Mainland China and overseas to trade in each other's bond markets through a special mechanism that was designed and implemented by the Hong Kong Stock Exchange. Currently, only Northbound trading is allowed, meaning that foreign investors are able to buy and sell Chinese bonds. Chinese investors are not yet able to trade Hong Kong and overseas bonds, known as Southbound trading.

Currency Board: a monetary authority that is required to maintain a fixed exchange rate with a foreign currency. This requires the conventional objectives of a central bank to be subordinated to the exchange rate target.

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.

Hong Kong Basic Law: the constitution of the Hong Kong Special Administrative Region and a national law of China. The Basic Law came into effect on July 1, 1997 when sovereignty over Hong Kong was transferred from the United Kingdom to the People's Republic of China.

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.

Special Administrative Region (SAR): a provincial-level administrative region of China that possesses a high degree of autonomy. According to the constitution of the People's Republic of China, there are two SARs in China: Hong Kong SAR and Macau SAR. Generally, each SAR is not considered to constitute a part of Mainland China.

Stock Connect: trading links that allow offshore, non-domestic-Chinese investors and entities to invest in Chinese A-shares listed on the Shanghai and Shenzhen Exchanges. Investment via the Stock Connect occurs through a special mechanism that was designed and implemented by the Hong Kong Stock Exchange. The Stock Connect also allows Mainland China investors to purchase certain Hong Kong-listed stocks via accounts with the Shanghai and Shenzhen Exchanges.

SEAFARER
seafarerfunds.com

For More Information

Individual Investors
(855) 732-9220
seafarerfunds@alpsinc.com

Investment Professionals
(415) 578-5809
clientservices@seafarerfunds.com

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.

The views and information discussed in this commentary are as of the date of publication, are subject to change, and may not reflect Seafarer'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 June 30, 2019, Asia Satellite Telecommunications Holdings, Ltd. comprised 6.1% of the Seafarer Overseas Value Fund, Wilmar International, Ltd. comprised 4.1% of the Fund, Qualicorp Consultoria e Corretora de Seguros SA comprised 5.0% of the Fund, Xtep International Holdings, Ltd. comprised 3.8% of the Fund, Petrovietnam Fertilizer & Chemicals JSC comprised 1.8% of the Fund, Georgia Capital PLC comprised 2.0% of the Fund, Genting Singapore, Ltd. comprised 2.5% of the Fund, and Qatar Gas Transport Co., Ltd. comprised 5.0% of the Fund. The Fund did not own shares in K-Swiss, Palladium, Bank of Georgia, and Georgia Healthcare Group. 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.