



# Seafarer Overseas Growth & Income

## March 2012

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### A Mutual Fund Observer “Launch Alert” and Interview

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In my February 2012 Commentary, I highlighted the impending launch of Seafarer Overseas Growth and Income (SFGIX and SIGIX). I noted

The fund will be managed by Andrew Foster, formerly manager of Matthews Asia Growth & Income (MACSX) and Matthews’ research director and acting chief investment officer.

The great debate surrounding MACSX was whether it was *the best* Asia-centered fund in existence or merely *one of the two or three best* funds in existence. Here’s the broader truth within their disagreement: Mr. Foster’s fund was, consistently and indisputably one of the best Asian funds in existence.

The launch provoked three long, thoughtful discussion threads about the prospects of the new fund, the Seafarer prospectus was our most downloaded document in the month of February and Chip, our sharp-eyed technical director, immediately began plotting to buy shares of the fund for her personal portfolio.

Mr. Foster and I agreed that the best way to agree potential investors’ questions was, well, to address potential investors’ questions. He read through many of the comments on our discussion board and we identified these seven as central, and often repeated.

#### Who’s on the Seafarer team?

**Kenster1\_GlobalValue:** Could he tell us more about his investment team? He will be lead manager but will there be a co-manager? If not, then an Assistant Manager? How about the analysts - tell us more about them?

He’s currently got a team of four. In addition to himself, he works with:

**Michelle Foster**, his wife, CFO, Chief Administrator and partner. She has a remarkable investing resume. She started as an analyst with JP Morgan, was a Principal at Barclay’s Global Investors (BGI) where she developed ETFs (including one that competed directly with Andrew’s India fund), and then joined investment advisory team at Litman/Gregory Asset Management.

**William Maeck**, his Associate Portfolio Manager and Head Trader. William was actually Foster’s first boss at A. T. Kearney in Singapore, where Andrew worked before joining Matthews. Before joining Seafarer, he worked with Credit Suisse Securities as an investment advisor for high net worth individuals and family offices. For now, William mostly monitors trading issues for the fund and has limited authority to execute trades at Foster’s direction. With time, he should move toward more traditional co-manager responsibilities.

**Kate Jaquet**, Senior Research Analyst and Chief Compliance Officer. Kate brings a lot of experience in fixed-income and high-yield investing and in Latin America. She began her career in emerging markets in 1995 as an economic policy researcher for the international division of The Adam Smith Institute in London. In 1997, she joined Credit Suisse First Boston as an investment banking and fixed-income analyst within their Latin America group. In 2000, she joined Seneca Capital Management in San Francisco as a senior research analyst in their high yield group. She worked on high yield and distressed issuers, the metals & mining, oil & gas, and utilities industries, emerging market sovereigns and select emerging market corporate issuers.

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#### Why create a new firm?

**AndyJ :** I'm still mildly curious about the context of his leaving Matthews. Simply "pursuing other opportunities" might be the whole story, or it might not - even if perfectly true, there's likely a context that would be interesting to know about.

Good and fair question. Mr. Foster has a deep and abiding respect for Matthews and a palpable concern for his former shareholders. When he joined Matthews in 1998, the firm managed \$180 million. It

had grown a hundredfold by the time he left. As a long-time member of the team, sometime chief investment officer, chief research officer and portfolio manager, he'd made a huge and rewarding commitment to the company. About his leaving Mr. Foster made two points:

1. A fund like this has been on his mind for a decade. It wasn't clear, ten years ago, whether Matthews would remain purely Asia-focused or would broaden its geographic horizons. As part of those deliberations, Paul Matthews asked Andrew to design a global version of MACSX. He was very excited about the potential of such a fund. After a long debate, Matthews concluded that it would remain an Asia specialist. He respects their decision (indeed, as manager, helped make it pay off) but never gave up the dream of the broader fund and knew it would never fit at Matthews.
2. He did not leave until he was sure that his MACSX shareholders were in good hands. He worked hard to build "an extremely capable team," even celebrating the fact that he only hired "people smarter than me." He became convinced that the fund was in the hands of folks who'd put the shareholders first. In order to keep it that way, he "made sure I didn't do anything to advance [Seafarer] at the expense of Matthews." As a result, his current team is drawn from outside Matthews and he has not sought to drive growth at Seafarer by aggressively recruiting former shareholders from Matthews.

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### Why global, rather than Asia?

**Maurice:** I'd be interested in what Mr. Foster brings new to the table. Why not invest new dollars with Matthews?

He thinks that two characteristics will distinguish Seafarer:

1. The Fund can provide exposure to multiple asset classes, as its strategy allows for investment in equities, convertible bonds, and fixed income.
2. The Fund has a broad geographical mandate. It's not just broader than Asia; it's also broader than "emerging markets." SFGIX / SIGIX is pursuing exposure to emerging and frontier markets around the world, but Mr. Foster notes that in some instances the most effective way to gain such exposure is through the securities in neighboring countries. For example, some of the best access to China is through securities listed in Singapore and Hong Kong; Australia plays a similar role for some Asian markets.

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### Where are the opportunities now?

**Kenster1\_GlobalValue:** What does he see as potentially the top 3 countries in the fund if he were investing & managing the Seafarer fund right now? As an example - Indonesia looks great but what are his thoughts on this country? How would he rate it? Would he be lightly invested in Indonesia because he feels it might be too growthy at this time?

While he didn't address Indonesia in particular, Mr. Foster did highlight six markets that were "particularly interesting." They are:

1. Vietnam
2. Brazil
3. Mexico
4. Turkey
5. Poland
6. South Africa

He argues that there are substantial political and cultural challenges in many of these countries, and that that turmoil obscures the fundamental strength of the underlying economy. While it's possible to conclude that you'd have to be nuts to sink your money in broken countries, Andrew notes that "broken can be good . . . the key is determining whether you're experiencing chaos or progress, both raise a lot of dust." His general conclusion, having lived through generations of Asian crisis, "I've seen this story before."

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### Will there be Asian exposure?

**MikeM :** It seems to me that if you are looking for Asian exposure, this may not be your fund. This fund is not supposed to be an Asian concentrated fund like his previous fund at Matthews, MACSX.

Yes and no. Mr. Foster can invest anywhere and is finding a lot of markets today that have the characteristics that Asia had ten years ago. They're fundamentally strong and under-recognized by investors used to looking elsewhere. That said, he considers Asia to be "incredibly important " (a phrase he used four times during our conversation) and that "a large portion of the portfolio, particularly at the outset" will be invested in the Asian markets with which he's intimately acquainted.

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### What about fund expenses?

**AndyJ:** It's danged expensive. There's a closed-end fund, FEO, from the long-successful people at Aberdeen, which has a proven track record using a "balanced" EM strategy and costs the same as the investor shares of the Foster fund will. So, I'm not totally sure that Seafarer as a brand new entity is worthier of new \$ at this point than FEO.

His response: "I hear you." His money, and his family's, is in the fund and he wants it to be affordable. The fund's opening expense ratio is comparable to what Matthews charged when they reached a billion in assets. He writes, "I view it as one of the firm's central duties to ensure that expenses become more affordable with scale, and over time." Currently, he can't pass along the economies of scale, but he's committed to do so as soon as it's economically possible. His suspicion is that many funds get complacent with their expense structure, and don't work to aggressively pursue savings.

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### Is he in it for the big bucks?

**Fundalarm:** It's almost exclusively about pay. If you're a star, and your name is enough to attract assets, why would you want to share the management fee with others when you can have your own shop. Really. Very. Simple. Answer.

While Mr. Foster didn't exactly chuckle when I raised this possibility, he did make two relevant observations. First, if he were just interested in his own financial gain, he'd have stayed with Matthews. Second, his goal is to pursue asset growth only to the degree that it makes economic sense for his shareholders. By his estimation, the fund is economically sustainable at \$100-125 million in assets. As it grows beyond that level, it begins accumulating economies of scale which will benefit shareholders. At the point where additional assets begin impairing shareholder value, he'll act to restrict them.

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## Bottom Line

Seafarer represents a thoughtfully designed fund, with principled administration and one of the field's most accomplished managers. It's distinctive, makes sense and has been under development for a decade. It's worthy of serious consideration and will be the subject of a fund profile after it has a few months of operation.

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*The Seafarer Overseas Growth and Income Fund is new and has limited operating history.*