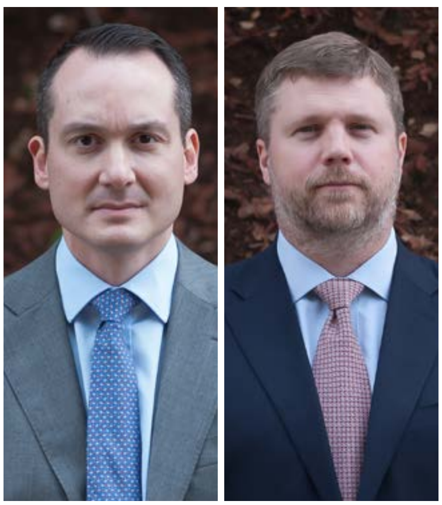
ValueInvestor INSIGHT
The Leading Authority on Value Investing
November 27, 2019

Sources of Value

Seafarer Capital's Andrew Foster and Paul Espinosa describe how they believe emerging-markets investing has changed, the seven "sources of value" they expect to be unlocked in target companies, how they're processing events in Hong Kong and China, and why they see unrecognized value in Shangri-La Asia, Moneta Money Bank and HRnetGroup.



Seafarer Capital
Paul Espinosa, Andrew Foster

As a preeminent emerging-markets investor – first at Matthews International and since 2012 at his own Seafarer Capital Partners – Andrew Foster has employed a value-conscious but more growth-focused strategy. But in 2016 he teamed with Paul Espinosa to launch Seafarer's Overseas Value Fund. "There are certain requisites of success to enable a value strategy to work," Foster says, "and I thought the conditions in emerging markets had changed sufficiently that a Graham & Dodd approach could work."

More confident in that assessment than ever, Espinosa and Foster are finding value today in such areas as Asian luxury hotels, Singaporean staffing services, Czech Republic banks and global pork production.

You've had a long and successful history investing in emerging markets with more of a growth-and-income approach. Why start a value fund in 2016?

Andrew Foster: It's one thing for patient investors to identify unrecognized value, but to be successful they also need to have a reasonable chance of realizing it. That requires certain conditions to be met that I thought were largely absent from emerging markets.

One would be a good rule of law and independent judiciaries that protect minority shareholders and allow them to defend their rights when "control" shareholders act in a way that's detrimental to minority shareholders' interests. Another would be accounting standards that are consistent and transparent, which facilitates the recognition of potential value and better guards against attempts to mask it or siphon it off. Finally, you need a sufficient number of institutional-class investors applying a similar patient and value-based approach, which increases the probability that the value you see is eventually recognized. All of this had improved in most emerging markets to an extent that I thought the time was right for a value-based approach.

In describing your value approach you lay out seven individual "sources of value" that you believe can give rise to opportunity in emerging markets. Can you briefly describe each and provide a current representative example?

Paul Espinosa: This framework helps us to focus our attention on ideas where we not only see unrecognized value but also where we can identify what needs to happen for value to be realized. Stocks tend to be cheap for a reason and you need to be comfortable that something will change to make them re-rate.

The first two categories, "balance-sheet liquidity" and "breakup value," capture generally when the value of assets accumulated on the balance sheet would appear to have a higher private-market value than the public markets are ascribing. The potential indicators of that would include an HRnetGroup [HRNET], which is a staffing and recruiting company based in Singapore, having cash on its balance sheet that makes up 50% of the market cap and 89% of book value. Or a luxury hotel operator like Shangri-La Asia [Hong Kong: 0069] trading at 60% of what is arguably a conservatively stated book value. In companies with strong corporate governance, particularly around capital allocation, the value in these types of situations has a better chance of being realized.

The next category we've identified as a potential source of value would be when management is changing in a way that unlocks latent value in a heretofore dormant enterprise. This type of situation is clearly not unique to the emerging markets, but it is particularly relevant in developing economies when there is a generational shift at a company toward more sophisticated management.

A good example of this in our portfolio today would be WH Group [Hong Kong: 288], which is based in China and is the world's largest pork producer. A legacy of the country's development, the food production system in China remains generally antiquated, inefficient and uneconomical. But WH Group has for years owned U.S.-based Smithfield Foods and it has been intent on adapting best practices from the U.S. to its operations in China, which we believe over time will have a dramatic and positive impact on the efficiency, safety, environmental friendliness and profitability of its business there. Yes, the Chinese will consume more pork as disposable incomes increase, but our investment thesis for the company rests much more on the impact of an overhaul of its supply-chain dynamics for the better – an effort driven by what we consider intelligent management directive.

The fourth value opportunity we're looking for are instances where companies are deleveraging. The high growth rates in developing countries often lead to rapidly expanding asset bases financed with debt, which diverts cash flows from providers of equity capital to suppliers of debt. The process should reverse over time as the asset base matures and debt is reduced, leading to meaningful gains for equity holders. This can be a particularly fertile area for value investors as companies paying down debt are also often seeing a downward shift in growth, leading to an exit of growth investors and lower valuations.

Qatar Gas Transport [Qatar: QGTS], an owner and operator of liquefied natural gas (LNG) vessels, fits this deleveraging category. Qatar is the largest producer of LNG in the world and Qatar Gas's ships are engaged in very long-term supply contracts, giving the company more predictable revenue streams than probably any other company I know. While the nature of the business can support a lot of debt, we think there's no question that over time Qatar Gas will work down its debt burden, resulting in more of the company's growing stream of cash flows accruing to shareholder benefit.

The next category we call "asset productivity." These are more traditional cyclical opportunities, where a company's assets may be operating at low capacity utilization due to a demand downturn or following a period of capacity expansion, but rather than extrapolate the short-term dynamics we instead see self-correcting supply and demand resulting in significant performance improvement.

A perfect example here would be Pacific Basin Shipping [Hong Kong: 2343], which competes in the smaller-ship end of the dry-bulk shipping market. The company over time has proven more profitable than peers through the cycle due to better fleet management, an incremental ability to develop long-term client relationships, and a willingness to invest countercyclically. Shipping has been in a down cycle for years, but when that changes the company's economics should result in a valuation significantly higher than the 0.4x book value we paid or the current 0.8x book value at which the stock [at HK$1.65] trades today.

ON NEGLECT:

In certain countries it isn't necessary to look for complicated ideas that you need to analyze to death.

Category number six is where we see a structural shift in a maturing business as it is perceived to moving toward a lower growth profile. This often leads to a reshuffling in the company's investor base as growth investors depart, which can result in the share price short-changing the company's ongoing potential.

We own shares in an interesting company based in Abu Dhabi called Tabreed [Dubai: TABREED], which builds water-cooling plants that provide primarily commercial districts with cooled water that helps air conditioners in the district operate at higher efficiency and lower cost. The company has matured in its home market but we believe it has considerable opportunity to expand elsewhere in the Middle East and in places like India. The biggest opportunity we think is in Saudi Arabia, where as the government is looking to diversify the economy from oil we would expect to see an important buildup in the country's basic infrastructure. Tabreed can be a significant beneficiary of that. Investors who have left the stock because home-market growth has slowed don't seem to recognize the potential from here that we do.

Last but not least, what we call our "segregated market" category would consist of well-managed companies that trade at a discount for no other reason than that their stocks have low liquidity. These are typically in markets that are small, obscure and disconnected from the global flow of liquidity, and the source of value is that a stock's liquidity has no bearing on the cash flows accruing to shareholders. We think patient investors can harvest these "illiquidity" premiums.

We'll talk more about it later, but one company that fits this profile is Moneta Money Bank [Prague: MONET], a well-run bank specializing in lending to consumers and small and medium-sized enterprises in the Czech Republic. When you go to a country like this, it often isn't necessary to look for complicated ideas you need to analyze to death in order to get comfortable with why the stock is cheap now but won't be in the future. This is just a good emerging-market business operating very well and not being adequately recognized by the market. It's obviously rare to find that in developed markets.

A year ago you made a fairly significant shift in the composition of Seafarer's much larger Overseas Growth and Income fund. Was that driven as well by the value opportunity you're seeing?

PE: There were a couple important aspects to it. There has always been some overlap between the two funds, but one aspect of the change was to devote more assets to the types of value opportunities I'm pursuing with the Overseas Value fund. So, yes, that is in response to how we see the universe evolving. I was responsible for roughly 12% of the fund prior to the change, and that number today is closer to 30%.

AF: At the other end, we've also increased what might be considered the more pure-growth component of the Growth and Income fund. Much of the growth in emerging markets over the past two decades has been driven by rising domestic production and consumption. Call that the emerging-markets growth story version 1.0, and while it's still there, in most countries it's starting to fade.

But an increasingly important growth driver we see now is when individual companies develop enough operating expertise, distribution knowhow, technological prowess and scale to expand not just at a country level, but also at a regional or global level as well. Companies like Samsung Electronics, for example, have broken out here and there, but we believe there are and will be more of these and that I need to understand and own some of them or I will be doing a disservice to my investors.

I'm not trying to invest in a more undisciplined way, I'm trying to recognize companies like these that are worth owning and value them in a way that fully recognizes their growth potential. It is somewhat of a stretch from what I've typically done as an investor.

This certainly calls for an example.

AF: A good one that is not technology focused is Orion Corp. [Seoul: 271560], which is located in South Korea, has a market cap of approximately $4 billion, and produces snack cakes and other confectionery products. Its best-known product is the Choco Pie, which is kind of equivalent to our Ding Dongs.

It was exceedingly rare to see a company like this 20 years ago, but Orion has become a thriving regional food company which now gets more than half of its sales from China and another 12-15% from Vietnam. It's proven that it has the product-development, marketing, manufacturing and distribution knowhow necessary to compete on a broader stage and we believe it's capable of becoming a much bigger regional player. The stock [at a recent ₩103,000] is a bit expensive for us, trading at about a 5% free-cash-flow yield, but if it does become that much bigger regional player that could be pretty valuable – quite a bit more valuable than the current $4 billion market cap.

At the end of September 36% of your Overseas Value portfolio was in Hong Kong and China. Have the macro issues in either place impacted how you're managing that exposure at all?

PE: We own stocks for very company-specific reasons, so thus far I have not bought or sold anything directly related to things like the U.S.-China trade war or political unrest in Hong Kong. That may change if the sources of value we've identified are impaired in a material and lasting way from either of these developments, but that has not yet been the case.

ON CHINA/U.S. TRADE:

I'd argue the U.S. complaints are wholly legitimate, but that the mode of negotiation has been grossly detrimental.

AF: Paul's response quite rightly focuses on companies and individual fundamentals. Putting on my Chief Investment Officer hat, however, I do worry about concentrations of risk that might get too high if we're not taking adequate consideration of the bigger picture.

I never thought Hong Kong would deteriorate to the extent it has at the political level. With respect to China overall, I believe the momentum for political and economic reform is no longer there, to the detriment of the nation. That reversal has given rise to what we're seeing in Hong Kong today and I'm concerned that deterioration becomes something more structural than temporary.

I constantly remind everyone here to be acutely aware of how structural deterioration might manifest itself in company-level risks. In the short term, say, if the Hong Kong stock exchange closes down for indeterminate periods, do we have enough liquidity to deal with that? Longer term, are the outlooks for industries that have historically prospered in Hong Kong or China as strong as they once were? Are there risks that will arise if regulatory reform is reversed or if capital controls are imposed? Those are questions we absolutely have to ask.

I don't tell anyone we have to sell, but I do say to go over your numbers again and make sure you're comfortable with what we're doing. We don't want to be frogs in pots where the temperature is rising slowly – I'm trying to note that the temperature is rising and to make sure we want to be in this pot.

To comment briefly on the trade war, I don't believe this is something that goes away quickly. I'd argue that the U.S. complaints at the center of the dispute are almost wholly legitimate, but that the administration's mode of negotiation to rectify those complaints has been grossly detrimental to our interests as well as China's. Unless that changes in a material way, while there may be short-term "wins" from time to time, I'm afraid that's going to mean a further deterioration in the trade relationship.

Walk through the investment thesis for one of the Asia-focused ideas you mentioned earlier, Shangri-La Asia [Hong Kong: 0069].

PE: As I mentioned, the first thing that jumps out here is that the stock trades at 0.6x book value. You could say, well, the book value must be significantly overstated. But it's not. While the investment properties on the balance sheet – consisting of office, retail and residential buildings throughout Asia – are marked to market, the larger component of hotel properties are shown at their depreciated value. If anything, the current book value is understated.

So then you could say, the balance sheet must be wildly over-levered. But that's not true either. The interest coverage ratio is

3x and net debt to equity is at 62%. All within normal parameters.

You could say okay, maybe it's cheap on the balance sheet, but who cares? It's probably a value trap and it's going to stay cheap. No, I don't think so, because of the cash flows. Even though the company is just wrapping up a five-year capital spending plan focused on increasing its number of hotels in mainland China, Shangri-La generated around $500 million in cash flow from operations in 2018. The company has guided to annual maintenance capex and renovation spending of around $150 million. That means normalized steady-state free cash flow from the existing portfolio at current operating rates is about $350 million per year. Hardly the distressed situation implied by the current valuation.

Can we attribute the market skepticism to Hong Kong unrest and the U.S./China trade war?

PE: That's the only way I can explain why the share price is not much higher than it was in 2008 even though the number of owned hotels is 80% higher. The impact from the trade war is more indirect, to the extent drawn-out and acrimonious discussions impact business activity, business travel and hotel occupancy. The Hong Kong problems are more direct, given that the company earns close to 12% of its overall EBITDA there. Occupancy rates at the flagship Island Shangri-La hotel in Hong Kong have fallen from more than 80% earlier this year to around 50% more recently. That will have a material profit impact.

The point, however, is that I'm not deterred by that. I consider both of these macro issues to be cyclical factors impacting the company and that the market has already fully priced them into the shares. That's why the stock trades at 60% of book value.

If the shares just traded at book value, the share price, now around HK$8.50, would be nearly two-thirds higher. Do you think that's a reasonable ambition?

PE: We believe a company like this one that earns a return on equity over time above its cost of capital should trade at least at 1x book value. What causes the current situation to change? In the short term, there likely has to be a significant improvement in the situation in Hong Kong. Beyond that, I mentioned the recent five-year capex plan, which means a number of new hotels are operating at below-normal occupancy rates. As those hotels continue to mature, occupancy rates, average daily rates and revenue per available room should go up and cash flow will increase significantly. That should drive up the price to book.

In the meantime, at the current share price the free-cash-flow yield on the $350 million (U.S.) steady-state annual level I mentioned earlier is just under 10%. The stock also pays a 2.7% dividend yield. This is a case where we're more than happy to be patient.

Anything to note here about corporate governance?

INVESTMENT SNAPSHOT

Shangri-La Asia
(Hong Kong: 0069)

Business: Hong Kong-based owner and/or operator of more than 100 hotels and resorts worldwide under the Shangri-La, Traders, Kerry and Hotel Jen brand names.

Share Information
(@11/26/19, Exchange Rate: $1 = 7.83 HK$):

Price	**HK$8.45**
52-Week Range	HK$7.31 – HK$12.12
Dividend Yield	2.7%
Market Cap	HK$30.30 billion

Financials (TTM):

Revenue	HK$2.54 billion
Operating Profit Margin	12.3%
Net Profit Margin	6.1%

Valuation Metrics
(@11/26/19):

	0069	S&P 500
P/E (TTM)	20.0	24.2
Forward P/E (Est.)	n/a	18.9

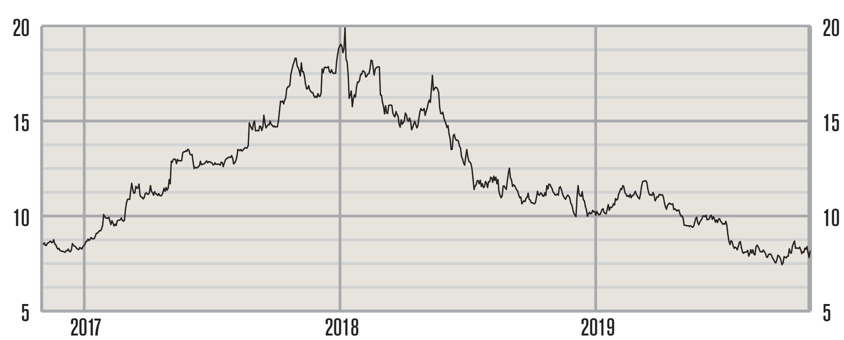
Largest Institutional Owners
(@9/30/19 or latest filing):

Company	% Owned
Fidelity Mgmt & Research	3.7%
Capital Research & Mgmt	1.7%
Vanguard Group	0.9%
Skagen AS	0.8%
Seafarer Capital	0.7%

Short Interest (as of 11/15/19):

Shares Short/Float	n/a

SHANGRI-LA PRICE HISTORY



THE BOTTOM LINE

While negative geopolitical news appears to be behind the market treating the company as a distressed asset, that isn't at all justified, says Paul Espinosa. He sees no reason why over time continued improvement in normalized company earnings power and free cash flow won't result in the shares trading at least at book value, vs. 60% of book today.

Sources: Company reports, other publicly available information

PE: The Kuok family owns about 65% of the company and they have historically been good stewards of capital. We like the measured pace at which the company grows, maintaining responsible debt leverage. There's never been shenanigans to the detriment of minority holders. We have no issues with the corporate governance.

Describe in more detail the bright future you see for the Czech Republic's Moneta Money Bank.

PE: Moneta used to be owned by General Electric, which sold it in an initial public offering in 2016 so that now it's 100% free float. The current CEO came from GE and we believe is an excellent manager, bringing a developed-market sophistication and professionalism to an emerging-market business, which can be a very good combination.

The basic thesis is that this is a conservatively capitalized bank operating in a stable macroeconomic environment with a solid road map for profitable growth and shareholder return. The country has a well functioning central bank which has kept inflation low and gives us security with respect to the currency. Overall credit growth in the country is growing modestly faster than GDP, and Moneta's loan book is growing materially faster than the market because its capital position is much stronger than most competitors and it can lend responsibly when others are pulling back. The company's gross loan book in the most recent quarter increased more than 11%.

They're also doing more behind-the-scenes types of things that should accrue to the benefit of shareholders. The bank's capital adequacy ratio already well exceeds regulatory requirements, but they are continuing to reduce risk-weighted assets in a way that should free up more capital to go to lending or to return to shareholders. They're also issuing bonds that can replace equity in the capital structure, again freeing up capital to lend out at attractive returns or to buy back shares or pay dividends. These efforts may be less easy for the market to see, but they should ultimately increase value available to shareholders.

How inexpensive do you consider Moneta's shares at today's price of around 79 Czech koruna?

PE: As a shareholder I'm interested in the total return. We think normalized loan growth can drive at least 5% annual book-value and profit growth. The current dividend yield is close to 8%. The company under a currently approved buyback plan is repurchasing 2% of the outstanding shares this year. There's also the potential of excess capital on top of that being returned.

The beauty here is that we don't need to rely on other investors figuring out that the stock is cheap. We're quite surprised investors haven't bid the dividend yield down more, but we think that's because it's a small bank in the Czech Republic and not enough people are paying attention. The company should be giving enough back to us that we don't care if that changes. If it does, that would be even better.

INVESTMENT SNAPSHOT

Moneta Money Bank
(Prague: MONET)

Business: Provider of a broad range of banking and financial services primarily for small and medium-sized companies as well as consumers located in the Czech Republic.

Share Information
(@11/26/19, Exchange Rate: $1 = 23.2 Czech Koruna):

Price	**CZK 79.05**
52-Week Range	CZK 70.00 – CZK 80.70
Dividend Yield	7.8%
Market Cap	CZK 40.52 billion

Financials (TTM):

Revenue	CZK 9.88 billion
Operating Profit Margin	49.0%
Net Profit Margin	39.5%

Valuation Metrics
(@11/26/19):

	MONET	S&P 500
P/E (TTM)	10.4	24.2
Forward P/E (Est.)	n/a	18.9

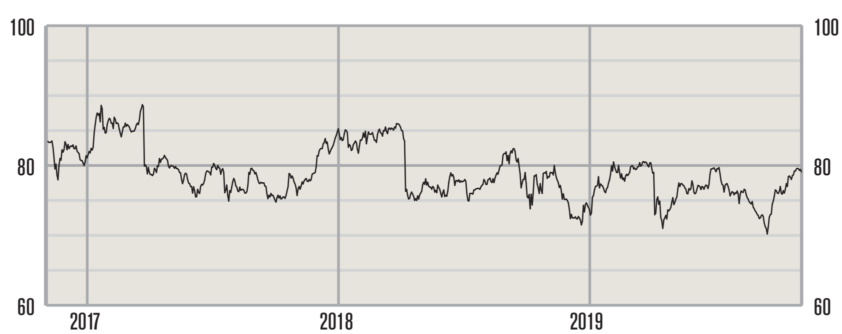
Largest Institutional Owners
(@9/30/19 or latest filing):

Company	% Owned
GIC Pte Ltd	4.1%
Vanguard Group	3.8%
Artemis Inv Mgmt	3.0%
Franklin Templeton	2.4%
CI Investments	2.0%

Short Interest (as of 11/15/19):

Shares Short/Float	n/a

MONET PRICE HISTORY



THE BOTTOM LINE

"Not enough people are paying attention" to this conservatively capitalized bank operating in a stable macroeconomic environment and with a solid road map for profitable growth, says Paul Espinosa. From book-value growth, dividends and share buybacks he's expecting from today's share price to earn at least a 15% total annual shareholder return.

Sources: Company reports, other publicly available information

How do you expect the balance-sheet liquidity of Singapore's HRnetGroup to translate into shareholder benefit?

PE: HRnet provides flexible-staffing and professional recruiting services and has prospered as Singapore has continued to grow as an Asian economic and financial business center. One reason it has so much cash is that it raised in its 2017 IPO more money than it has needed so far to fund investment spending to grow outside of Singapore.

While we think the expansion strategy makes considerable sense – the company's normalized growth level should improve as it becomes more of a regional player – the issue is simply that they haven't been able to put money to work very quickly. They will tell you that's because it's hard to do acquisitions with so many family owners in the space who aren't prepared to give up their livelihoods in a good market unless they can get an extremely high price. We think a number of growth-oriented investors look at that and say the company hasn't delivered. We'd say that shows the type of capital discipline we want to see. If it takes them longer to execute the strategy, fine.

It's important to point out that this company is not at all burning cash. Singapore is going through a bit of a deceleration, which has hurt HRnet's earnings, but the company in 2018 still produced $38.5 million in cash flow from operations, against which it has almost no capital-spending requirements. Management is very focused on productivity per employee and has generally been willing and able to adjust the asset-light cost base to reflect the business environment. Gross profit per employee did come down somewhat in the past two quarters but is now starting to come back up.

The point is that we consider the liquid balance sheet very much an upside option on future growth. It's ironic that we as value investors often hope for a recession, but that's very likely what would allow the company to put the money it has to work and buy assets on the cheap, significantly improving earnings power when the upturn eventually comes. We'd expect to be happy to own this through any downturn and to buy more of it if the share price comes down.

With the shares currently trading at around 60 Singapore cents, how are you looking at valuation?

PE: Here we're focused primarily on the free-cash-flow yield. Using the $38.5 million free-cash-flow figure I mentioned earlier as the current run-rate level, the yield ex-cash today is on the order of 15%. If value is accruing at that type of rate – while, by the way, we're also earning a 4.5% dividend – we can be patient for the company to eventually put the cash on hand to work for incremental benefit. If they can't do so, we believe they'll just return the cash and let us put it to work elsewhere.

Emerging-markets investors always have interesting trips to speak about. Describe one or two you've made recently and any important takeaways.

INVESTMENT SNAPSHOT

HRnetGroup
(Singapore: HRNET)

Business: Singapore-based provider of employee-recruitment and temporary-staffing services primarily to corporate clients; operations in thirteen cities throughout Asia.

Share Information
(@11/26/19, Exchange Rate: $1 = S$1.37):

Price	**S$0.61**
52-Week Range	S$0.56 – S$0.82
Dividend Yield	4.6%
Market Cap	S$614.4 million

Financials (TTM):

Revenue	S$427.7 million
Operating Profit Margin	13.7%
Net Profit Margin	11.5%

Valuation Metrics
(@11/26/19):

	HRNET	S&P 500
P/E (TTM)	12.4	24.2
Forward P/E (Est.)	n/a	18.9

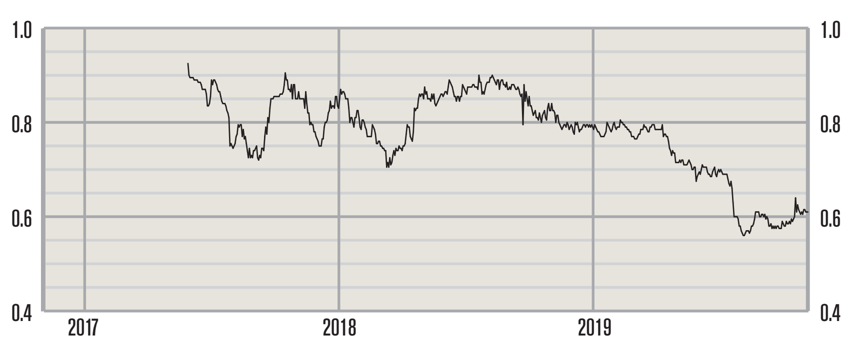
Largest Institutional Owners
(@9/30/19 or latest filing):

Company	% Owned
Mawer Inv Mgmt	1.8%
Aberdeen Standard Inv	1.1%
HSBC Global Asset Mgmt	0.9%
Schroder Inv Mgmt	0.4%
Norges Bank Inv Mgmt	0.4%

Short Interest (as of 11/15/19):

Shares Short/Float	n/a

HRNET PRICE HISTORY



THE BOTTOM LINE

The market seems to view the company's inability to put its large cash hoard to work as a negative, but Paul Espinosa sees it as reflecting capital discipline and considers the liquid balance sheet a valuable option on future growth. With the shares' free-cash-flow yield, ex-cash, at 15% and a current dividend yield of 4.5%, he says, "we can be patient."

Sources: Company reports, other publicly available information

PE: The first way we look for ideas is through screening, with screens specifically designed to identify companies in the seven categories I described earlier. But the next most important way we prospect for ideas is through big trips, which we each try to make at least once a quarter.

When I was in Prague last December I was there to meet with Moneta, but I also attended an investor conference and one of the companies there was Georgia Capital [London: CGEO], an investment holding company that trades in London. The country of Georgia is actually a pretty amazing success story, with a well-functioning democratic government and a vibrant economy. Georgia Capital owns stakes in a variety of companies there – from the Bank of Georgia, to Georgia Healthcare Group, to the monopoly water utility in the capital city of Tbilisi – and is actively engaged in upgrading the competitiveness and profitability of each one. As we dug in, we got excited about both the returns on capital the company is generating overall and the long growth runways for many of its holdings. We ended up adding it to our portfolio in the second quarter.

Two months ago I went to Singapore, Dubai and Istanbul and probably the most interesting takeaway had to do with the Middle East. We think the diversification in these countries away from oil is giving rise to a variety of new opportunities. In contrast to China, there's more emphasis in the Middle East on bringing in expertise from Western companies in order to take advantage of those new opportunities or at least to improve the operation of what have been lackluster state-owned enterprises. These are markets few investors are paying attention to, with new managements looking to capitalize on structural shifts going on at company, industry and country levels. That's an interesting place for us to be looking. VII

Disclosures

Seafarer Overseas Growth and Income Fund
Total Returns as of 9/30/19

						Annualized			Cumulative		
	NAV / Index Level (9/30/19)	YTD	1 Mo	3 Mo	1 Yr	3 Yr	5 Yr	Since Inception	Since Inception	Inception Date	Gross Expense Ratio[1]
SFGIX (Investor Class)	$11.38	12.79%	1.52%	-0.35%	1.68%	2.83%	3.33%	5.03%	45.39%	2/15/12	0.99%
SIGIX (Institutional Class)	$11.43	12.86%	1.51%	-0.35%	1.78%	2.94%	3.44%	5.16%	46.73%	2/15/12	0.89%
MSCI Emerging Markets Total Return Index[2]	2297.20	6.22%	1.94%	-4.11%	-1.63%	6.37%	2.71%	2.16%	17.66%	*n/a*	*n/a*

Seafarer Overseas Value Fund
Total Returns as of 9/30/19

						Annualized			Cumulative		
	NAV / Index Level (9/30/19)	YTD	1 Mo	3 Mo	1 Yr	3 Yr	5 Yr	Since Inception	Since Inception	Inception Date	Net Expense Ratio[1]
SFVLX (Investor Class	$11.62	15.28%	0.35%	-1.69%	4.88%	6.72%	*n/a*	7.03%	25.44%	5/31/16	1.15%
SIVLX (Institutional Class)	$11.64	15.48%	0.43%	-1.61%	4.94%	6.85%	*n/a*	7.15%	25.89%	5/31/16	1.05%
MSCI Emerging Markets Total Return Index[2]	2297.20	6.22%	1.94%	-4.11%	-1.63%	6.37%	*n/a*	9.84%	36.76%	*n/a*	*n/a*

Gross expense ratio: 1.60% for Investor Class; 1.50% for Institutional Class[1]

All performance is in U.S. dollars with gross (pre-tax) dividends and/or distributions reinvested. *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 Funds' most recent month-end performance at www.seafarerfunds.com/performance.*

[1] Seafarer Capital Partners, LLC has agreed contractually to waive and/or reimburse fees or expenses in order to limit Total Annual Fund Operating Expenses After Fee Waiver / Expense Reimbursements (inclusive of acquired fund fees and expenses, and exclusive of brokerage expenses, interest expenses, taxes and extraordinary expenses) to 1.15% and 1.05% of the Fund's average daily net assets for the Investor and Institutional share classes, respectively. This agreement is in effect through August 31, 2020.
[2] 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. It is not possible to invest directly in an index.

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 may be obtained 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.*

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.*

The Seafarer Overseas Growth and Income Fund seeks to provide long-term capital appreciation along with some current income; it also seeks to mitigate adverse volatility in returns.

The Seafarer Overseas Value Fund seeks to provide long-term capital appreciation.

As of September 30, 2019, Shangri-La Asia, Ltd. comprised 3.4% of the Seafarer Overseas Value Fund, Moneta Money Bank AS comprised 2.6% of the Fund, HRnetgroup, Ltd. comprised 3.2% of the Fund, WH Group, Ltd. comprised 4.3% of the Fund, Qatar Gas Transport Co., Ltd. comprised 4.1% of the Fund, Pacific Basin Shipping, Ltd. comprised 1.4% of the Fund, National Central Cooling Co. PJSC (Tabreed) comprised 3.8% of the Fund, and Georgia Capital PLC comprised 3.6% of the Fund. As of September 30, 2019, Shangri-La Asia, Ltd. comprised 1.5% of the Seafarer Overseas Growth and Income Fund, Moneta Money Bank AS comprised 1.5% of the Fund, WH Group, Ltd. comprised 1.8% of the Fund, Qatar Gas Transport Co., Ltd. comprised 1.7% of the Fund, Pacific Basin Shipping, Ltd. comprised 1.3% of the Fund, National Central Cooling Co. PJSC (Tabreed) comprised 1.2% of the Fund, Samsung Electronics Co., Ltd. comprised 4.7% of the Fund, and Orion Corp. comprised 3.5% of the Fund. As of September 30, 2019, the Seafarer Funds did not own shares in Smithfield Foods, Inc., General Electric, Bank of Georgia, or Georgia Healthcare Group. View the Seafarer Overseas Value Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ovl/composition. View the Seafarer Overseas Growth and Income Fund's Top 10 Holdings at www.seafarerfunds.com/funds/ogi/composition. Holdings are subject to change.

The currencies for the stock prices shown on the "Price History" charts are as follows: 0069:HK (Shangri-La Asia) – Hong Kong Dollar (HK$); MONET:CZK (Moneta Money Bank) – Czech Koruna (Kč); HRNET:SG (HRnetGroup) – Singapore Dollar (S$).

Balance Sheet Liquidity: a company's assets that can be readily converted into cash within a reasonable amount of time and under normal market conditions.

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.

Breakup Value: the aggregate value of a company if each of its parts operated independently, less net liabilities.

Capital Adequacy Ratio (CAR): a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. Two types of capital are measured: Tier 1 Capital, which is the capital that is permanently and easily available to cushion losses suffered by a bank without it being required to stop operation; and Tier 2 Capital, which can absorb losses in the event of a bank winding up and provides a lesser degree of protection to depositors and creditors. Capital Adequacy Ratio is calculated as follows:

CAR = (Tier 1 Capital + Tier 2 Capital) / Risk-weighted Assets

Capital Expenditure (CAPEX): 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 dictate the useful life of said assets.

Deleveraging: the act of repaying debt, or the act of becoming less reliant on debt.

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.

EBITDA: an acronym that refers to “Earnings Before Interest, Taxes, Depreciation and Amortization.” It is calculated as follows:

EBITDA = Operating Revenues **–** *Operating Expenses (excluding interest, taxes, depreciation and amortization).*

EBITDA is used as a very rough proxy for a company’s ability to produce gross cash flow (cash flow itself being a proxy for a company’s profitability). Analysts often utilize EBITDA because it is easy to calculate, and because it is fairly comparable from one company to another. EBITDA is a very superficial, basic measure, and consequently it might not always serve as an accurate guide to a company’s long-term profitability; however, one of its chief benefits is that it precludes many of the accounting and financial decisions that a company’s management might utilize to influence (or even distort) ordinary operating profits.

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 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.

Initial Public Offering (IPO): the process of offering shares of a private company to the public in a new stock issuance. Public share issuance allows a company to raise capital from public investors.

Interest Cover Ratio: the ratio of *cash flow before payment of interest and income taxes* to *interest on bonds and other contractual debt.*

Liquidity: the ability to buy or sell an asset readily and with reasonable volumes without affecting the asset’s price.

Market Capitalization: the value of a corporation as determined by the market price of its issued and outstanding common stock. It is calculated by multiplying the number of outstanding shares by the current market price of a share.

Mark to Market (MTM): a measure of the fair value of accounts that can change over time, such as assets and liabilities. A mark to market measure aims to provide a realistic appraisal of an institution’s or company’s current financial situation.

Net Profit Margin: a ratio of profitability calculated as net income divided by revenues. It measures how much of each dollar earned by the company is translated into profits.

Operating Profit Margin: a ratio of profitability calculated as operating profit divided by revenues.

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).

Risk-weighted Assets: a measure of assets used to determine the minimum amount of capital that must be held by banks and other financial institutions in order to reduce the risk of insolvency. This capital requirement is based on a risk assessment for each type of bank asset.

State-owned Enterprise (SOE): a legal entity that is created by the government in order to participate in commercial activities on the government's behalf. A state-owned enterprise can be either wholly or partially owned by a government.