China’s Emergence, In Context

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As of June 26, 2015, the Fund had no economic interest in Chinese A-Shares. If the Fund had been invested in Chinese A-Shares, please note the following: 1) any reduction or elimination of access to A-Shares could have a material adverse effect on the ability of the Fund to achieve its investment objective; and 2) uncertainties regarding China’s laws governing taxation of income and gains from investments in A-Shares could result in unexpected tax liabilities for the Fund, which could adversely impact Fund returns.
Recent Performance – What’s Going On?

Performance of Selected China-Related Securities Baskets
3/31/15 - 6/19/15; 3/31/15 = 100

MSCI China Index
Shenzhen A-Share Index
Shanghai A-Share Index

Past performance does not guarantee future results.
Sources: MSCI, Bloomberg, Seafarer.
## Valuation Characteristics

Past performance does not guarantee future results.
Sources: MSCI, Bloomberg, Seafarer.

<table>
<thead>
<tr>
<th>Index</th>
<th>Dividend Yield</th>
<th>Price / Book (Trailing)</th>
<th>Price / Earnings (Trailing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shenzhen A-Share Index</td>
<td>0.4%</td>
<td>6.0</td>
<td>68.2</td>
</tr>
<tr>
<td>Shanghai A-Share Index</td>
<td>1.5%</td>
<td>2.6</td>
<td>22.4</td>
</tr>
<tr>
<td>MSCI China Index</td>
<td>2.6%</td>
<td>1.6</td>
<td>11.7</td>
</tr>
</tbody>
</table>
A Large Market Emerges

Real GDP / capita * (U.S. dollars)

Real stock market capitalization / capita * (U.S. dollars, log scale)

Emerging Market

Developed Market

Base Year

25 Years Later

50 Years Later

$100

$1,000

$10,000

$2,000

$4,000

$6,000

$8,000

$10,000

$12,000

* Measured in 1990 International Geary-Khamis dollars
*Real GDP / capita estimated by Seafarer

GDP = Gross Domestic Product

Sources: Seafarer; Bloomberg; Angus Maddison Project; World Bank; MeasuringWorth.com; U.S. Census Bureau; Lyndon Moore, “World Financial Markets, 1900-1925.”
Historical Context – U.S. as an Emerging Market

Real stock market capitalization / capita * (U.S. dollars, log scale)

Real GDP / capita * (U.S. dollars)

* Measured in 1990 International Geary-Khamis dollars
* Real GDP / capita estimated by Seafarer

Sources: Seafarer; Bloomberg; Angus Maddison Project; World Bank; MeasuringWorth.com; U.S. Census Bureau; Lyndon Moore, “World Financial Markets, 1900-1925.”
Historical Context – U.S. as an Emerging Market

Real stock market capitalization / capita * (U.S. dollars, log scale)

Real GDP / capita * (U.S. dollars)

1900: U.S. 10 Year CAPE P/E = 21

* Measured in 1990 International Geary-Khamis dollars
*Real GDP / capita estimated by Seafarer

CAPE = Cyclically Adjusted Price to Earnings Ratio
Sources: Seafarer; Bloomberg; Angus Maddison Project; World Bank; MeasuringWorth.com; U.S. Census Bureau; Lyndon Moore, “World Financial Markets, 1900-1925”; Robert Schiller, Irrational Exuberance.
China's Emergence In Context

Real stock market capitalization / capita * (U.S. dollars, log scale)

Real GDP / capita * (U.S. dollars)

* Measured in 1990 International Geary-Khamis dollars
* Real GDP / capita estimated by Seafarer

Sources: Seafarer; Bloomberg; Angus Maddison Project; World Bank; MeasuringWorth.com; U.S. Census Bureau; Lyndon Moore, “World Financial Markets, 1900-1925.”
The Present Day

Real stock market capitalization / capita *
(U.S. dollars, log scale)

Real GDP / capita *
(U.S. dollars)

Sources: Seafarer; Bloomberg; Angus Maddison Project; World Bank; MeasuringWorth.com; U.S. Census Bureau; Lyndon Moore, “World Financial Markets, 1900-1925.”
Frenzied – But Essential – Reallocation of Wealth


- Housing and Real Estate (excl first home), 76.3%
- Bank Deposits, 13.7%
- Equities, 3.7%
- Foreign Currency Assets, 0.2%
- Other Financial Assets, 1.8%
- Cash, 4.2%
- Gold, 0.1%

**Chinese A-Shares**

A class of securitized common stock in Chinese companies, traded exclusively on Chinese stock exchanges (i.e., Shanghai and Shenzhen), and denominated in renminbi, China’s currency. Historically, the renminbi has been subject to strict controls, such that foreign (i.e., non-Chinese) investors were not able to obtain or use the currency for financial purposes (i.e. savings or investment). Because of this constraint on the currency, A-shares have historically been inaccessible to foreign investors, de facto: foreigners could not legally obtain renminbi for investment purposes, and therefore they could not fund any purchase of A-shares. Over the past decade, China has liberalized the use of the renminbi for investment purposes, allowing selected, large foreign institutions to apply for “Qualified Foreign Institutional Investor” (QFII) status. Foreign institutions granted QFII status can legally purchase renminbi under a quota scheme, and that renminbi can be used to fund the purchase of A-shares and other financial assets within China. More recently, China has launched a program known as the “Shanghai-Hong Kong Stock Connect,” (“SHKC”) or colloquially, the “through train;” this program allows foreign investors to purchase selected A-shares regardless of their QFII status.

A-shares are not to be confused with H-shares (Chinese companies incorporated in China, but listed in Hong Kong) and ordinary Hong Kong-listed companies of Chinese origin (Hong Kong incorporated, and Hong Kong-listed, but with substantial economic ties to mainland China). H-shares and Hong Kong-listed companies are available for investment by foreign (non-mainland China) investors; ironically, H-shares are not necessarily available to domestic Chinese parties, who can only invest in Hong Kong via a regulated scheme called “Qualified Domestic Institutional Investor” (QDII).

**Cyclically Adjusted Price to Earnings Ratio (CAPE)**

The cyclically adjusted price-to-earnings ratio is commonly known as CAPE or Shiller P/E. It is a valuation measure defined as price divided by average inflation-adjusted earnings from the previous ten years. CAPE is calculated using a long-term earnings average in order to reduce the volatility of short-term earnings and medium-term business cycles, and therefore provide a more accurate measure of long-term earning power.

**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) Per Capita**

A macroeconomic measure of the value of a country’s economic output, divided by the population of the same country. 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.
International Geary-Khamis Dollar (1990)
The 1990 Geary–Khamis Dollar, also known as the International Dollar, is a hypothetical unit of currency that has the same purchasing power parity that the U.S. dollar had in the United States in 1990. The Geary–Khamis Dollar measures the worth of a local currency unit within the country's borders. It is used to make comparisons both between countries and over time. The year 1990 is often used as a benchmark year for comparisons that run through time. Comparing per capita gross domestic product (GDP) of various countries in international dollars, rather than based simply on exchange rates, provides a more valid measure to compare standards of living. The Geary–Khamis Dollar was proposed by Roy C. Geary in 1958 and developed by Salem Hanna Khamis between 1970 and 1972.

MSCI China Index
The MSCI China Index is a free float-adjusted equity index that tracks large and mid capitalization companies across China H-shares, B-shares, Red chips and P chips. The Index does not include China A-shares. The Index represents common stock in Chinese companies that is available for investment by foreign (non-mainland China) investors. Index code: GDUETCF. It is not possible to invest directly in this or any index. (Source: MSCI and Bloomberg)

Price to Book Value (P/B) Ratio
The value of a company’s common shares, divided by the company’s book value.

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).

Real Monetary Unit
A unit of value, tied to a specific currency (i.e. U.S. dollars), adjusted for price changes that result solely from inflation or deflation (as opposed to price changes that might arise from variation in the underlying quality or quantity of the good or service produced). Real monetary units are often indexed relative to the purchasing power associated with a currency unit in a given base year (i.e., the purchasing power associated with $1 in 1990). For an example of a real monetary unit, see “Geary-Khamis Dollars.”
Glossary, continued

Shanghai A-Share Index
The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. Index code: SHCOMP. It is not possible to invest directly in this or any index. (Source: Bloomberg)

Shenzhen A-Share Index
The Shenzhen Stock Exchange Composite Index is a capitalization-weighted index that tracks the stock performance of all A-shares and B-shares listed on the Shenzhen Stock Exchange. Index code: SZCOMP. It is not possible to invest directly in this or any index. (Source: Bloomberg)

Stock Market Capitalization Per Capita
Total market value of all publicly listed stocks in a given country, divided by the population of that country.