Fund Profile

Seafarer Overseas Growth & Income (SFGIX)

Mutual Fund Observer

"There are few more-attractive emerging markets options available."

Fund name Seafarer Overseas Growth & Income (SFGIX)

Objective and Strategy Seafarer seeks to provide long-term capital appreciation along with some current income; it also seeks to mitigate volatility. The Fund invests a significant amount – 20-50% of its portfolio – in the securities of companies located in developed countries. The remainder is investing in developing and frontier markets. The Fund can invest in dividend-paying common stocks, preferred stocks, convertible bonds, and fixed-income securities.

Adviser Seafarer Capital Partners of San Francisco. Seafarer is a small, employee-owned firm whose only focus is the Seafarer fund.

Managers Andrew Foster is the lead manager. Mr. Foster is Seafarer's founder and Chief Investment Officer. Mr. Foster formerly was manager or co-manager of Matthews Asia Growth & Income (MACSX), Matthews' research director and acting chief investment officer. He began his career in emerging markets in 1996, when he worked as a management consultant with A.T. Kearney, based in Singapore, then joined Matthews in 1998. Andrew was named Director of Raesearch in 2003 and served as the firm's Acting Chief Investment Officer during the height of the global financial crisis, from 2008 through 2009. Andrew is assisted by William Maeck and Kate Jaquet. Mr. Maeck is the associate portfolio manager and head trader for Seafarer. He's had a long career as an investment adviser, equity analyst and management consultant. Ms. Jaquet spent the first part of her career with Credit Suisse First Boston as an investment banking 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. Her responsibilities included the metals & mining, oil & gas, and utilities industries as well as emerging market sovereigns and select emerging market corporate issuers.

Management's Stake in the Fund Mr. Foster has over $1 million in the fund. Both Maeck and Jaquet have between $100,000 and $500,000 invested.

Opening date February 15, 2012

Minimum investment $2,500 for regular accounts and $1000 for retirement accounts. The minimum subsequent investment is $500.

Expense ratio 1.40% after waivers on assets of $35 million (as of February 2013). The fund has two fee waivers in place, a contractual waiver which is reflected in standard reports (such as those at Morningstar) but also a voluntary one which is not reflected elsewhere. The fund does *not* charge a 12(b)1 marketing fee but does have a 2% redemption fee on shares held fewer than 90 days.

Comments Investors have latched on, perhaps too tightly, to the need for emerging markets exposure. As of March 2013, e.m. funds had seen 21 consecutive weeks of asset inflows after years of languishing. Any time there is that much enthusiasm for an asset class, prudent investors should pause. But we also believe that prudent investors who want emerging markets exposure should start at Seafarer. The case for Seafarer is straightforward: it's going to be one of your best options for sustaining exposure to an important but challenging asset class.

There are four reasons to believe this is true.

1 First, **Andrew Foster has been getting it right for a long time**. This is the quintessential case of "a seasoned manager at a nimble new fund." In addition to managing or co-managing Matthews Asian Growth & Income for eight years (2003-2011), he was a portfolio manager on Asia Dividend for six years and India Fund for five. His hallmark piece, prior to Seafarer, indisputably was MACSX. The fund's careful risk management helped investors control the impulse to panic. Volatility is the bane of most emerging markets funds (the group's standard deviation is about 25, while developed markets average 15). The average emerging markets stock investor captured a mere 25-35% of their funds' nominal gains. MACSX's captured 90% over the decade that ended with Andrew's departure and virtually 100% over the preceding 15 years. The great debate surrounding MACSX during his tenure was whether it was the best Asia-centered fund in existence or merely one of the two or three best funds in existence.

2 Second, **Seafarer is independent.** Based on his earlier research, Mr. Foster believes that perhaps two-thirds of MACSX's out-performance was driven by having "a more sensible" approach (for example, recognizing the strategic errors embedded in the index benchmarks which drive most "active" managers) and one-third by better security selection (driven by intensive research and over 1500 field visits). Seafarer and its benchmarks focus on about 24 markets. In 14 of them, Seafarer has dramatically different weightings than do the indexes (MSCI or FTSE) or his peers. It's striking, on a country-by-country level, how closely the average e.m. fund hugs its benchmark. Seafarer dramatically underweights the BRICs and Korea, which represent 58% of the MSCI index but only 25% of Seafarer's portfolio. That's made up for by substantially greater positions in Chile, Hong Kong, Japan, Poland, Singapore, Thailand and Turkey. While the average e.m. fund seems to hold 100-250 names and index funds hold 1000, Seafarer focuses on 40.

3 Third, **Seafarer is cautious**. Andrew targets firms which are well-managed and capable of sustained growth. He's willing to sacrifice dramatic upside potential for the prospect of steady, long-term growth and income. The stocks in his portfolio receive far high financial health and slightly lower growth scores from Morningstar than either indexed or actively managed e.m. funds as a group. Concern about stretched valuations led him to halve his small cap stake in 2012 and move into larger, steadier firms including those domiciled in developed markets.

Combined with a greater interest in income in the portfolio, that's given Seafarer noticeable downside protection. E.M. funds as a group have posted losses in five of the past 12 months. In those down months, their average loss is 2.9% per month. In those same months, Seafarer posted an average loss of 1.3% (about 45% of the market's). In three of those five months, Seafarer made money. That's consistent with his long-term record. During the global meltdown (10/07 – 03/09), his previous charge lost 34% but the average Asia fund dropped 58% and the average emerging markets fund dropped 59%.

4 Fourth **Seafarer is rewarding**. In its first year, Seafarer returned 18% versus the MSCI emerging market index's 3.8%. It outperformed the only e.m. fund to receive Morningstar's "Gold" designation, American Funds New World (NEWFX), the offerings from Vanguard, Price, Fidelity and PIMCO, its emerging markets peer group and First Trust/Aberdeen Emerging Opportunities (FEO), the best of the EM balanced funds.

Bottom Line Mr. Foster is remarkably bright, thoughtful, experienced and concerned about the welfare of his shareholders. He thinks more broadly than most and has more experience than the vast majority of his peers. The fund offers him more flexibility than he's ever had and he's using it well. There are few more-attractive emerging markets options available.

Fund website Seafarer Overseas Growth and Income. The website is remarkably rich, both with analyses of the fund's portfolio and performance, and with commentary on broader issues.

Disclosure the Observer has no financial ties with Seafarer Funds. I do own shares of Seafarer and Matthews Asian Growth & Income (purchased during Andrew's managership there) in my personal account.