WHAT TO BELIEVE?

JUNE 30, 2019

DEAR FELLOW PARTNERS & FRIENDS,

The second quarter ended as the year began, with a sharp rally in June following a dreadful May. This inconsistent action by global equity markets continues to confound many investors and it is no wonder–this was the best June since the 1950s following the second-worst May since the 1960s. This follows December's dire headlines such as *Stocks on Track for Worst December Since the Great Depression* (CNN, December 18, 2018), which was followed in January by the headline *The Best January in 30 Years Could Mean Good Things for 2019* (CNBC, January 31, 2019). Which headline should one believe?

It is during these times that we are especially grateful for finding our way to the shores of "Intelligent Investing," as espoused by Benjamin Graham and whose main guideline was to focus on the fundamentals rather than exogenous factors. With the broad array of information sources directed at us today, it may seem almost impossible to ignore all the noise but if we admit that most of what we hear is indeed noise, it is a little easier to focus on what really is important. For Centerstone Investors, that normally means a focus on competitive dynamics, management skills and business model durations of the individual companies we own and are researching.

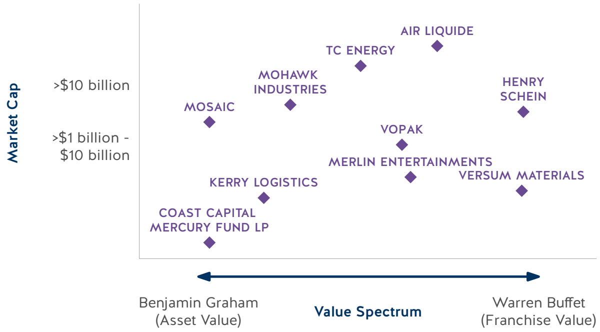
The result of this "bottom-up" work is a number of securities across the value spectrum which we believe are well positioned, well managed and well capitalized. On one hand, some can be described as "cyclical," such as Coast Capital Mercury Fund LP (whose sole underlying security is Greyhound operator FirstGroup PLC) while others could qualify as long-duration franchises, such as Air Liquide. There are also many securities which lie in between the two extremes of the value spectrum, such as Vopak, TC Energy, and Merlin Entertainments as illustrated on the following page. The two common elements among all our holdings are that we have identified a margin of safety, whether in terms of price or in terms of qualitative factors and we have an estimate of each holding's intrinsic value. Focusing on those fundamentals, then, allows us to take market volatility for what it often is for contrarian minded folks like us—an opportunity.

"The two common elements among all our holdings are that we have identified a margin of safety, whether in terms of price or in terms of qualitative factors and we have an estimate of each holding's intrinsic value. Focusing on those fundamentals, then, allows us to take market volatility for what it often is for contrarian minded folks like us–an opportunity."

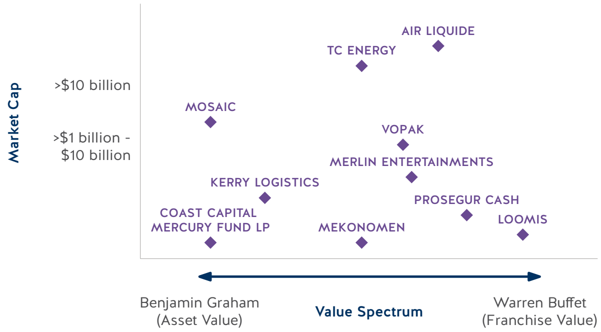
With that said, though, there is an awful lot of noise out there and although most of it is worth ignoring, there are some macro data that is worth paying attention to currently. For long-term investors, here is what we believe you can ignore—tweets, trade talks, warmongering and anything else that sounds like it comes straight from Reality TV. Essentially, most everything! However, I will quickly share my reasons to ignore the biggest headlines. As far as China is concerned, my opinion is that this rivalry will impact the younger generations similarly to how the Soviet threat affected the generations growing up in the 1960s, '70s and '80s. America seems to thrive when it has a clear rival and maybe China's rise is a sign of such emerging rivalry. Either way, though, America's grievance with China is less about trade and more about a strategic realignment of the entire relationship and regardless, if history is any guide, investors will eventually become just as desensitized to the "China" narrative as they became to the Soviet one. For many, Trump is more of a threat to the economy than China but those who despise Trump and his policies will eventually be rid of him. If it is neither China nor Trump, then perhaps it is Brexit which may flare up, but I suspect that will be dealt with shortly as well. In the end, if most of today's noise is irrelevant to long-term business fundamentals, then we are able to more narrowly focus on just a few macro data points and for the first time in a while, we are starting to see some light at the end of the tunnel.

GLOBAL INVESTING ACROSS THE VALUE & MARKET CAP SPECTRUM

CENTERSTONE INVESTORS FUND



CENTERSTONE INTERNATIONAL FUND



TOP 10 EQUITY HOLDINGS†

as of June 30, 2019	% of Portfolio
Coast Capital Mercury Fund LP (GBR)^	2.46%
Vopak (NLD)	2.05
Kerry Logistics (HKG)	2.02
Henry Schein (US)	1.97
Mohawk Industries (US)	1.87
TC Energy (CAN)	1.82
Air Liquide (FRA)	1.82
Mosaic (US)	1.67
Merlin Entertainments (GBR)	1.60
Versum Materials (US)	1.58
TOTAL	**18.86%**

TOP 10 EQUITY HOLDINGS†

as of June 30, 2019	% of Portfolio
Air Liquide (FRA)	3.16%
Vopak (NLD)	3.09
Kerry Logistics (HKG)	3.04
TC Energy (CAN)	2.74
Coast Capital Mercury Fund LP (GBR)^	2.72
Mosaic (US)	2.53
Merlin Entertainments (GBR)	2.35
Prosegur Cash (ESP)	2.32
Mekonomen (SWE)	2.26
Loomis (SWE)	2.23
TOTAL	**26.44%**

Merlin Works Up Some Magic

For a good example of why cutting through the noise is so important in investing, consider the recent experience with one of our top portfolio holdings, Merlin Entertainments. Merlin is the second largest visitor attractions company globally after Walt Disney, with a portfolio that includes indoor aquariums, Madame Tussauds wax exhibits and LEGOLAND theme parks. In the case of the latter, the Kirk Kristiansen family that controls LEGO has granted Merlin exclusive worldwide rights to operate LEGOLAND theme parks, a valuable asset given the potential for opening additional parks in places like China, a country of over a billion people that still has not gotten its first LEGOLAND park. Merlin has had the same CEO since its inception roughly 20 years ago, and the track record over that time is quite good: the company has gone from £20 million of revenue in 1999 to about £1.7 billion of revenue in the most recent fiscal year, a 26% compound annual growth rate. Over the past few years, however, Merlin has been impacted by a slew of negative factors including bad weather, terrorism and the delayed release of The LEGO Movie 2. We saw these short-term hiccups as an opportunity to buy into a well-managed, long-duration franchise at a substantial discount to our estimate of intrinsic value in the beginning of 2018.

† Holdings in cash, cash equivalents, short-term instruments and gold have been excluded.

^ FirstGroup PLC (a security traded on the London Stock Exchange) is the main underlying holding of Coast Capital Mercury Fund LP.

The security holdings are presented to illustrate examples of the securities that the Fund has bought and the diversity of areas in which the Fund may invest, and may not be representative of the Fund's current or future investments. Portfolio holdings are subject to change and should not be considered investment advice.

In May of 2019, Merlin was the subject of two negative research reports by Wall Street investment banks. At Centerstone, sell-side research plays almost no role in our investment process—these reports are mostly just noise from our point of view. But apparently, for many other investors, the negative sell-side reports on Merlin meant it was time to head for the exits; in the three sessions following the first report's release, Merlin shares sold off about 11%. We instead took the sell-off as an opportunity to add to our holdings, since the research reports changed nothing about our fundamental outlook for the business or our estimate of intrinsic value. As value investors, we are well aware of the fact that in the short-term stock prices fluctuate based on noise, be it sell-side research reports or tweets or the latest trade war rumors. But in the long-term prices tend to converge with intrinsic value. Sure enough, on June 28th a consortium of investors including Blackstone and the LEGO family (already a 30% shareholder in the company) agreed to acquire Merlin for 455 pence per share—a substantial premium to our cost and 37% higher than where the shares closed on May 22nd in the wake of the aforementioned negative sell-side reports.

"At Centerstone, sell-side research plays almost no role in our investment process– these reports are mostly just noise from our point of view."

Macro Aware

As a reminder, Centerstone is a bottom-up oriented investment boutique and we do not often opine on macro data. Occasionally though it is worthwhile to pay attention to such data, such as during the lead up to the financial crisis and we have been doing so again for the past few months or so. As we have been saying for the past several quarters, we still see no obvious signs of a global recession judging by the mostly healthy updates from our investee companies ("There is stability in Europe, increasing demand in China and a slowdown outside China in rest of Asia" CFO, LVMH). But that ongoing positive news has, until now, been masked by poor macroeconomic news from Europe in particular. Recently, though, macro data from Europe has had quite a few upside surprises and the data is suggesting that domestic growth, outside of manufacturing, is on an upswing which would be quite a surprise for the Euro-skeptics and scaremongers out there.

In addition, in reaction to the growing confusion of US CEOs as to the status of America's trade commitments, US employment prospects have softened dramatically enough to warrant possible interest rate cuts by the Federal Reserve. This would be a surprising turnaround given comments just months ago from some Fed officials who were more worried about a strengthening economy than anything else. There are not many precedents for the Fed to lower rates in the absence of a clear and present danger of recession, but this suggests that we may be open to a fairly positive background for equities.

Just these two data points alone—a basing of European macro prospects and possible interest rate reductions in the US—could be enough to act as the long-awaited catalysts for a revival in unhedged non-US equity performance. In fact, in the absence of a *force majeure* (unforeseeable) event, this environment of low but sustainable US growth, reviving European growth and falling global interest rates could be a potent spark to the kindling of large relative valuation gaps that exist between the US and its overseas counterparts. Who in this world is allocated to benefit from a potential paradigm shift towards non-US equities, foreign currencies and gold? Not many, which means this potential paradigm change could last a while.

Reducing Our Reserves

In the meantime, with the recent volatility in May and late last year, Centerstone's reserves* have been drastically reduced when compared against the two years prior. Much of the additional reserves were invested in new and existing holdings. Most, if not all, of these holdings, share the common traits of balance sheet strength, high management quality and hard-to-replace business models.

One such holding is Dentsply Sirona, a global leader in dental equipment and consumables that we began purchasing in October of last year. It is the world's largest manufacturer of dental consumables with a stable business that generates a recurring revenue stream. In dental equipment, it is the dominant player and is also a leader in the imaging systems industry. In recent quarters, Dentsply Sirona faced some headwinds as it ended an exclusive distribution agreement with a distributor of its dental equipment in the US. This led to inventory destocking, which negatively affected the company's operating results. We believed this was a short-term issue and that Dentsply Sirona's strong competitive

* Reserve positions are cash & cash equivalents, treasury securities and short-term high quality bonds

> *"In our opinion, these businesses are long-term winners, though our investment style tends to be on the conservative side. In other words, the Centerstone Funds are more about endurance than speed."*

position in the dental equipment market remained intact. As the market waited for the inventory destocking to be resolved, we were able to invest in a high quality business with a margin of safety. In our opinion, these businesses are long-term winners, though our investment style tends to be on the conservative side. In other words, the Centerstone Funds are more about endurance than speed.

Finally, as many of you may have noticed, the Centerstone Funds turned three years old in May. Our little baby is not so little anymore. Importantly, we continue to have modest net inflows. Not every firm has it that way, so please accept our most humble thanks and gratitude for letting us serve you and your clients.

Thank you for your continued trust and support. We hope you have a great summer.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

Important Risk Information and Disclosure:

The commentary represents the opinion of Centerstone Investors as of June 2019 and is subject to change based on market and other conditions. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Any statistics contained here have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue hereof. The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any fund or security.

An investment in the Funds entails risk including possible loss of principal. There can be no assurance that the Funds will achieve their investment objective.

Asset Value is the value of a business' tangible assets.

Franchise Value is the earnings power of a business in a normal operating environment.

Benjamin Graham looked for businesses that were statistically cheap based on their net asset value.

Warren Buffett primarily invests in businesses with a sustainable competitive advantage which enables them to generate high returns on invested capital over a long period of time.

The securities referenced are not endorsed or recommended by Warren Buffett.

Value investing involves buying stocks that are out of favor and/or undervalued in comparison to their peers or their prospects for growth. Our value strategy may not meet its investment objective and you could lose money by investing in the Centerstone Funds. Value investing involves the risk that such securities may not reach their expected market value, causing the Funds to underperform other equity funds that use different investing styles.

Investments in foreign securities could subject the Funds to greater risks including, currency fluctuation, economic conditions, and different governmental and accounting standards. Foreign common stocks and currency strategies will subject the Funds to currency trading risks that include market risk, credit risk and country risk. There can be no assurance that the Funds' hedging strategy will reduce risk or that hedging transactions will be either available or cost effective. The Funds use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments.

Domestic economic growth and market conditions, interest rate levels, and political events are among the factors affecting the securities markets in which the Funds invest.

Large-cap company risk is the risk that established companies may be unable to respond quickly to new competitive challenges such as changes in consumer tastes or innovative smaller competitors. Investments in lesser-known, small and medium capitalization companies may be more vulnerable than larger, more established organizations.

In general, a rise in interest rates causes a decline in the value of fixed income securities owned by the Funds. There is a risk that issuers and counterparties will not make payments on securities and other investments held by the Funds, resulting in losses to the Funds. The Funds may invest, directly or indirectly, in "junk bonds." Such securities are speculative investments that carry greater risks than higher quality debt securities.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Centerstone Funds. This and other important information about the Funds are contained in the prospectus, which can be obtained by calling 877.314.9006. The prospectus should be read carefully before investing. For further information about the Centerstone Funds, please call 877.314.9006. The Centerstone Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. Centerstone Investors, LLC is not affiliated with Northern Lights Distributors, LLC.