CENTERSTONE
INVESTORS

WHY INTERNATIONAL?

DECEMBER 31, 2016

DEAR FELLOW PARTNERS & FRIENDS,

As a global investor for over two decades, one of the most often asked questions over the years has been whether there is more value domestically or internationally. Our assessment and answer may change depending on the environment. At times, we can clearly see when one is more or less attractive than the other, while other times the answer is not as clear-cut and absolute. In fact, they can often both be overvalued (as in 1999) or undervalued (as in 2009). We have also observed that after long periods of underperformance by one or the other, the performance advantage may flip to the previous laggard.

As illustrated below, when comparing the S&P 500 Equal Weighted index versus the MSCI EAFE Equal Weighted index from the top of the technology bubble in 2000 to the trough in 2003, the international index fell by 33% versus the 18% loss posted by US stocks. That would reverse from 2003 to the end of the credit bubble in 2007, as non-US stocks ran ahead of US stocks by a cumulative return of 199% versus 125%. The credit bust proved to be the great equalizer, however, with both measures declining roughly 50% during that period. The post-financial crisis bull market again reversed the previous trend as US stocks have risen nearly 250% versus 142% for their non-US counterparts (as of November 30, 2016).

We believe that there are several reasons which partially explain the relative weakness of non-US equity returns since the financial crisis. Among others, these include growing doubts over the viability of the European experiment, the cyclical collapse of raw-material prices, the global impact of China's decision to alter its growth model and Japan's ongoing saga as the "canary in the coal mine" of global deflation and aging demographics.

S&P 500 EQUAL WEIGHTED INDEX VS MSCI EAFE EQUAL WEIGHTED INDEX

■ S&P 500 Equal Weighted Index ■ MSCI EAFE Equal Weighted Index

March 31, 2000 – March 31, 2003

March 31, 2003 – May 31, 2007

May 31, 2007 – March 31, 2009

March 31, 2009 – November 30, 2016

Source: Bloomberg

Definitions for the indices can be found on the last page.

Investors are not able to invest directly in the indices referenced in these illustrations and unmanaged index returns do not reflect any fees, expenses or sales charges. The referenced indices are shown for general market comparisons and are not meant to represent the Centerstone Funds.

Certainly the US has had its own share of challenges, but global investors seem to have given the benefit of the doubt to the US and its stock markets. In fact, the S&P 500 index trades at a forward Price to Earnings (P/E)[1] ratio of 16.9x versus 14.6x for the MSCI EAFE index. This increasing P/E premium versus non-US stocks has also contributed to the relative outperformance of US stocks post financial crisis.

As bottom-up global value investors, we have observed the tendency towards mean reversion[2] over the years — not always, but often enough to acknowledge the presence of a metaphorical "pendulum" that swings from one extreme to another over time. In our case, the Centerstone Funds are substantially exposed to foreign markets and, in theory, could benefit if non-US stocks regained favor. In addition to foreign market exposure, the Funds also have several US companies with substantial foreign presence. Indeed, when looking at exposure from a revenue-sourcing perspective (as opposed to domicile), the Centerstone Investors Fund's (CENTX) foreign equity exposure is nearly two-thirds its total equity exposure. This exposure has not changed much from launch despite the many crosswinds in 2016, perhaps not surprising given our long-term investment approach.

US Dollar Impact

In addition to the effect of the noted factors on non-US equity markets is the impact that the dollar's moves have had on the performance of non-US investments. For instance, since July 2014, the beginning of the recent move higher in the US dollar, major European markets (as represented by the Euro STOXX 50 index) have risen 1% annualized in Euro terms, but this compares with minus 9% in US dollar terms. Clearly, performance measured in dollars can be influenced by moves in counterpart currencies, which is one reason why the Centerstone Funds tend to partially hedge their foreign currency exposure.

"When looking at our foreign equity allocation, a majority of our exposure is in European companies. Our bottom-up search for value has led us to this region, however most of these companies are exposed to markets outside the Eurozone."

Centerstone's currency hedging policy is straightforward. We aim for a 50% hedge under normal circumstances, but may deviate from that based on a number of factors. First is valuation, for instance with the British pound we are lightly hedged, which due to its recent depreciation is now relatively undervalued on a purchasing power parity basis. The second factor is the tendency for many foreign companies to be naturally hedged due to their global presence, in which case we will adjust the target hedge accordingly. Finally, real interest rate differentials may elevate one currency versus a basket of others even if the currency is already overvalued, which we will also consider.

Foreign Equity Allocation

When looking at our foreign equity allocation, a majority of our exposure is in European companies. Our bottom-up search for value has led us to this region, however most of these companies are exposed to markets outside the Eurozone. For example, Air Liquide[3] of France derives the majority of its revenues outside Europe, including 43% now from the US. Swatch Group[4] of Switzerland derives the majority of its sales outside Europe. These are just two examples showing that domicile does not necessarily tell the full story.

1 Price to Earnings is the ratio for valuing a company that measures its current share price relative to its per-share earnings. It is calculated by dividing market value per share by earnings per share.

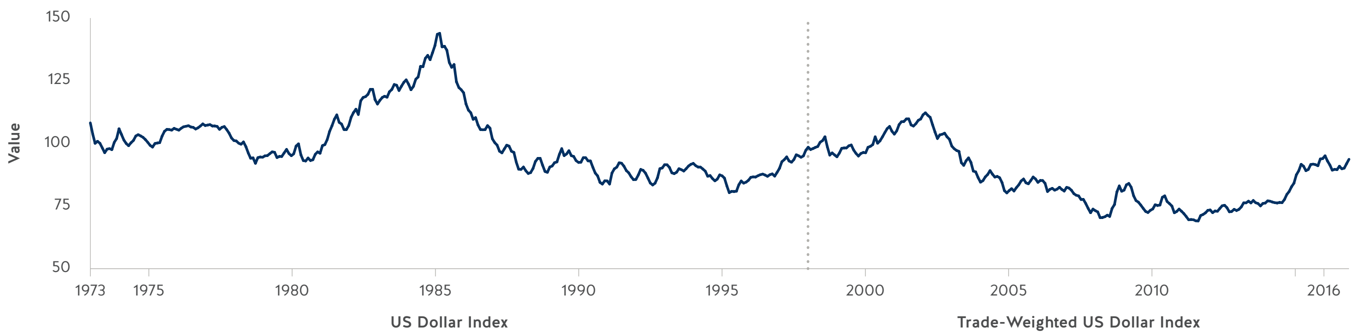
2 Mean reversion is the assumption that a stock's price will tend to move to the average price over time.

3 Air Liquide: 1.82% position in the Centerstone Investors Fund, 3.31% position in the Centerstone International Fund as of September 30, 2016.

4 Swatch Group: 1.27% position in the Centerstone Investors Fund and 2.07% position in the Centerstone International Fund as of September 30, 2016.

Definitions for the indices can be found on the last page.

TRADE-WEIGHTED US DOLLAR INDEX[5]



Source: Bloomberg

5 The Trade-Weighted US Dollar index was introduced in 1998, before that it was considered the US Dollar index.

Are We There Yet?

It seems fairly obvious that non-US equities are facing and have been facing a great deal of headwinds. Nonetheless we believe it might be helpful to try to understand where the "pendulum" might currently stand in regards to international versus US stock returns (assuming that one accepts the concept of "reversion to the mean"). Since international markets have already been lagging US stocks for the bulk of the bull market, we can at least say that we are somewhere in the middle of the cycle. Second, as it relates to the dollar, as illustrated above, the Trade-Weighted US Dollar index has risen 35% since bottoming in 2011 and it has been rising nearly uninterrupted for almost six years. There have been two other dollar bull markets since the end of the Bretton Woods agreement in 1971 (AKA the "Nixon Shock"). The bull market from 1995 until 2002 lasted nearly seven years and resulted in a 40% gain for the dollar. The bull market from 1980 through 1985 lasted nearly five years and resulted in a 55% gain for the trade-weighted dollar. That is not to say that the dollar bull market could not continue. In fact, while the dollar rose 55% during the Volcker years against a basket of currencies, it rose 100% versus the Deutsche Mark for instance.

As we move into another year, I am sure we will face a new set of circumstances and the many previously heretofore "unknowns" will make themselves "known" whether in the currency market, interest rate market, equity market or elsewhere. This is why at Centerstone we tend to focus on quality businesses with little balance sheet and business model risk and why we take a somewhat pragmatic and balanced view on currency hedging — you just never know what is around the corner.

Thank you for your continued interest and support and we wish you a happy and prosperous New Year.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

Definitions for the indices can be found on the last page.

The **S&P 500 Equal Weight index (EWI)** is the equal-weight version of the widely-used S&P 500 index. The index includes the same constituents as the capitalization weighted S&P 500 index, but each company in the S&P 500 EWI is allocated a fixed weight – or 0.2% of the index total at each quarterly rebalance.

The **MSCI EAFE Equal Weighted Index** represents an alternative weighting scheme to its market cap weighted parent index, the MSCI EAFE Index. The index includes the same constituents as its parent (large and mid cap securities from 21 Developed Markets countries). However, at each quarterly rebalance date, all index constituents are weighted equally, effectively removing the influence of each constituents current price (high or low). Between rebalances, index constituent weightings will fluctuate due to price performance.

The **EURO STOXX 50 Index**, Europe's leading Blue-chip index for the Eurozone, provides a Blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 11 Eurozone countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

The **Trade-Weighted US Dollar index** is a measure of the value of the United States dollar relative to other world currencies. It is similar to the US Dollar Index in that its numerical value is determined as a weighted average of the price of various currencies relative to the dollar, but different currencies are used and relative values are weighted differently.

The Centerstone Funds are new and have a limited history of operation. 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. In addition, the Advisor is newly formed and has not previously managed a mutual fund.

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. Value investing involves buying stocks that are out of favor and/or undervalued in comparison to their peers or their prospects for growth. 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.

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.

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. The Funds may invest, directly or indirectly, in "junk bonds." Such securities are speculative investments that carry greater risks than higher quality debt securities.

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. 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. There can be no assurance that the Fund's hedging strategy will reduce risk or that hedging transactions will be either available or cost effective.

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. The Centerstone Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. Centerstone Investors, LLC is not affiliated with Northern Lights Distributors, LLC.

Centerstone Investors ◆ 135 Fifth Avenue, Suite 3 ◆ New York, New York 10010 ◆ 212.503.5790 ◆ **centerstoneinv.com**

5710-NLD-12/22/2016