COUNTER-CYCLICAL INVESTING

DECEMBER 31, 2018

DEAR FELLOW PARTNERS & FRIENDS,

The fourth quarter held quite a few surprises starting with October's steep price declines and ending with December's sharp and sudden market panic. The headlines pointed to growth scares within the technology sector and interest rate-related concerns as well. This was against the ever-present backdrop of geopolitical noise, Trump tweets, trade wars, Eurozone threats and Brexit[1]. Such macro-influenced volatility was the main event in each quarter of 2018, with 2017's historically narrow price swings a distant memory. The good news is that the S&P 500 fell in December to near our estimate of its intrinsic value with many subsectors becoming substantially undervalued, while non-US equities became even cheaper.

As the year progressed it also became apparent that the divergence in global growth intensified as a slowdown in China started to take hold and spread to Europe, even as the US economy kept firm. We highlighted this possibility last year in our fourth quarter letter titled *Idiosyncratic Portfolios*; however, we did not get more evidence until later in the year when we started to see some softening in industrial and interest rate sensitive companies globally. It appears for now at least, that the global economy is back to its pre-Trump path of muddling through the world's challenges, assuming the Federal Reserve does not commit a policy mistake by raising interest rates too high.

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Another more immediate challenge for global markets is the upcoming separation of the UK from the EU, i.e. Brexit. On that note, I recently went on a research trip to the UK, mostly London, to get a better handle on this issue. I spent several days there learning about Brexit by speaking with everyone from cab drivers and bellhops to real estate developers, entrepreneurs and CEOs. As context, I originally assumed after Brexit was voted on in 2016 that "cooler heads would prevail." After learning more about the intractable Irish-border issue, it became abundantly clear to me that there is almost no clear and easy path forward. This brings up the possibility of contagion effects spilling into Europe and possibly the US as the Federal Reserve is again needed as "lender of last resort." Seemingly far away from all this, the scene on the ground in London was surreal—from beautiful weather, bustling streets to busy restaurants. It is like waiting for a hurricane—you know it is coming and you have plenty of warning but the days leading up to it are inevitably the fairest days in recent memory and you can easily be lulled into a false sense of safety. In any case, we have added Brexit to the top of the list of worries for 2019.

As far as other risks, the top headline these days is regarding "yield curve inversion," whereby long-term interest rates fall below short-term interest rates. Historically, such inversions have been associated with growing recessionary risks. While it is true that such correlations have held in the past, there have also been plenty of false signals. Also, I do not want to rely too much on this indicator given the huge amount of yield curve manipulation there has been throughout the world over the past decade. That said, I would submit that the economy will soften but there does not necessarily have to be a cliff on the other side of the hill, there could also be a valley.

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1 Brexit is an abbreviation of "British exit" which refers to the June 23, 2016 referendum by British voters to exit the European Union
Definitions for the indices can be found on the last page.

Emerging Markets Exposure

As a continuation from the third quarter, emerging markets suffered another rough few months to end the year. As we alluded to in last quarter's commentary titled *Emerging Opportunities*, we took the opportunity to add to our emerging market company exposure, one of which is a new holding, Prosegur Cash[2]. Prosegur Cash is a cash-in-transit and cash management services business that is domiciled and listed in Spain but generates approximately 70% of its revenues in Latin America. Prosegur Cash picks up, transports and delivers cash and other high worth valuables in its armored trucks. In cash-in-transit and cash management services, profitability tends to be correlated with market share. A market leader can have a higher number of stops per route and better leverage the fixed costs of its cash management centers. In all of its important markets, it is the clear number one player. In many of these markets, it is also much bigger than the number two player. Its scale and its efficient operations have enabled it to generate best in class margins and cash flows.

Towards the end of the third quarter, the Argentine peso depreciated significantly against the euro and Prosegur Cash's stock price declined sharply on this development. This is not the first-time significant devaluations against the euro have occurred. Historically, Prosegur Cash has been able to offset the devaluation of the Argentine peso with inflation-driven price increases, accelerating organic volume growth and ad valorem (getting a percentage of the value transported and with rising inflation this typically increases) with a caveat that there is a lag. They have historically been able to grow their Argentina revenues and operating profit on a euro basis after two to three quarters. They have already begun implementing price increases in Argentina and there are early signs that its model is working.

"In the markets, when something happens to break the negative spell there is suddenly a rush to cheap discarded assets. We have little doubt that this same pattern will play out. Eventually price tends to enter the orbit of intrinsic value."

Despite its high market share in Latin America and in some countries in Europe, Prosegur Cash only has a market capitalization of approximately $3.3 billion. In addition, it has a control shareholder that owns most of the company and the float is only 27.4%. While its size and float may pose an issue for other investors this highlights our edge by being able to invest in attractive opportunities like Prosegur Cash due to our size and market capitalization agnostic approach.

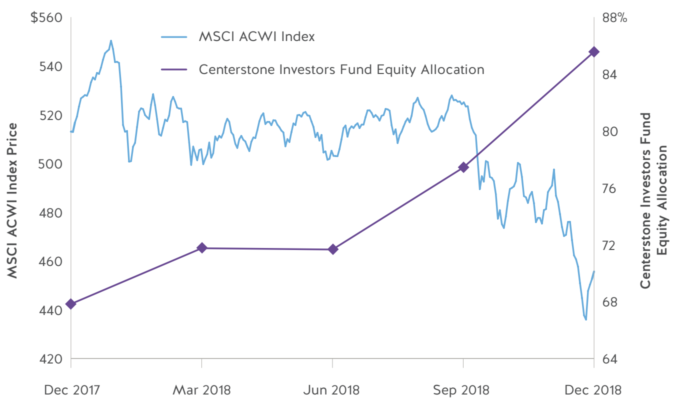
An Activist Gambit

During the year we initiated and added to Coast Capital Mercury Fund LP[3] making it one of our largest holdings. This is another of our distinct investments in that it represents an interest in a private fund rather than a company. The fund itself owns shares in a single publicly listed company called FirstGroup PLC, listed in London. I was approached by an activist investor with a fully formulated plan to go active and hopefully get the stock closer to its intrinsic value.

The main reasons FirstGroup stock is down: it is a British company whose main assets are in the US; it is a British company that pays no dividend, which is almost unheard of there; and the company has been poorly managed for years. However, it has some iconic brands. For instance, they own Greyhound and their most valuable asset is their First Student subsidiary, which is the largest private operator of school buses. If you have children that ride the school bus, there is a good chance that it says First Student on the side. The value case is pretty simple as the school bus subsidiary is close to the value of the company's market cap just by itself. The problem is that the board has been very slow to correct the easiest shortcomings; therefore, we are excited to have the activist place pressure on them to address all of our concerns.

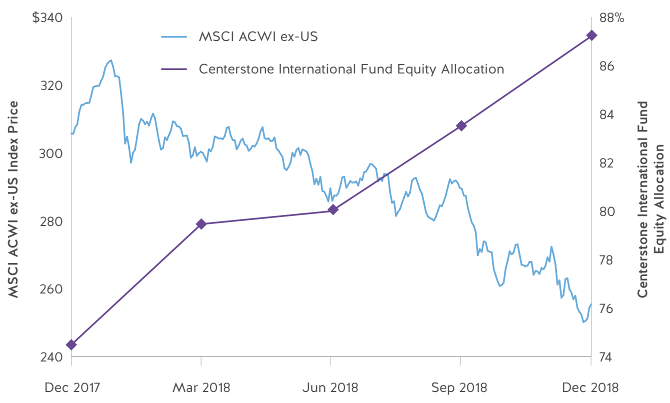
2 1.04% position in Centerstone Investors Fund and 1.55% position in Centerstone International Fund as of September 30, 2018
3 2.54% position in Centerstone Investors Fund and 2.57% position in Centerstone International Fund as of September 30, 2018

CENTERSTONE INVESTORS FUND EQUITY ALLOCATION VS MSCI ACWI INDEX PERFORMANCE



Source: Bloomberg and Centerstone Investors Data

CENTERSTONE INTERNATIONAL FUND EQUITY ALLOCATION VS MSCI ACWI EX-US INDEX PERFORMANCE



Source: Bloomberg and Centerstone Investors Data

Apart from Coast Capital and Prosegur Cash, we added nine new positions in the past several months. This is the most active I remember being since the summer of 2011. Clearly, the year's volatility has been irksome but it has allowed us to deploy more of our reserves[4]. As Benjamin Graham noted "The intelligent investor is a realist who sells to optimists and buys from pessimists." On that note, we began the year at 25.76% and 20.46% in reserves (not including gold) for the Centerstone Investors Fund (CENTX) and the Centerstone International Fund (CINTX), respectively; the year ended at 11.48% and 12.79%. As you can see in the illustration above, as the MSCI ACWI and MSCI ACWI ex-US indices declined in price we put our reserves to work into equities in 2018. This counter-cyclical behavior is normal for us and is a function of the intrinsic value-based approach that we practice. In other words, provided that intrinsic values have not been impaired, we will typically be more aggressive as stock prices decline. As discounts narrow, our reserves will usually trend upward. That said, our currently reduced ballast in the form of cash and fixed income likely exposes us to more of the market's volatility.

With all the volatility around us, try to not believe everything you hear on TV. News drives sentiment, which drives news. It is a vicious cycle which ends as suddenly as it begins and it happens everywhere. I was in Dallas as the Cowboys were getting pilloried for their uninspiring first several games. The local press was calling for a top-to-bottom reboot of the entire organization, an example of the contagious link between sentiment and the news cycle. Then the Cowboys went on a winning streak which included a win over the top-ranked team in the NFL and suddenly the news cycle broke. During this volatile environment, let this serve as a reminder that both Funds' investment objective is to seek long-term growth of capital. In the markets, when something happens to break the negative spell there is suddenly a rush to cheap discarded assets. We have little doubt that this same pattern will play out. Eventually price tends to enter the orbit of intrinsic value.

Thank you for your continued trust and support. We wish you a happy and healthy New Year.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

4 Reserves are cash & cash equivalents, treasury securities and short-term high quality bonds
Definitions for the indices can be found on the last page.

Risks and Disclosure:

The Standard & Poor's 500 Index is a widely recognized unmanaged index including a representative sample of 500 leading companies in leading sectors of the US economy and is not available for purchase. Although the Standard & Poor's 500 Index focuses on the large-cap segment of the market, with approximately 80% coverage of US equities, it is also considered a proxy for the total market.

The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The index is not available for direct investment.

The MSCI ACWI ex-US Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed and emerging markets, excluding the US. The index is not available for direct investment.

The commentary represents the opinion of Centerstone Investors as of December 2018 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.

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 Fund's 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.