**DEAR FELLOW PARTNERS & FRIENDS,**

The future is brightening but the path to the present has certainly had its challenges. 2019 proved no exception for Centerstone Investors. On the one hand, the business continued to grow and on the other hand, our equity returns, though positive, could have been better. Most of the time we can look back and find room for improvement. This past year was no different, as I discussed in our third quarter commentary titled *Building Our Future*. I am pleased to already see positive results from this period of self-reflection and I am encouraged that future returns can bear this out.

Looking back at the past few years, the Centerstone Investors Fund (CENTX) and the Centerstone International Fund (CINTX) have posted reasonable absolute returns, generally with relatively muted downside and upside capture. The result is acceptable absolute returns since inception considering our cautious approach to investing and I judge our performance in those terms. In other words, our returns could have been better if we were fully invested in equities the entire time but that would go against the expectations I have set with our client base as well as our instincts. I see our role as one in which we are partners with our clients and believe that a partnership mentality is at the root of success in anything in life, including in this case, the business of investment management.

## Catalysts

We have written about many subjects since the launch of Centerstone's two Funds in 2016. We often provide bottom-up examples of our approach, both hard-learned lessons and our successes. However, the backdrop for much of our commentaries has always been that of a huge and almost one-sided preference for US dollar-based assets. The performance of non-US markets and foreign currencies has been woeful in comparison to that of US assets for about a decade. The valuation gap in the respective stock markets has been extremely wide as a result as written about in our fourth quarter 2016 commentary titled *Why International?*

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While we have pointed to this valuation gap as a reason to have some allocation to non-US equities, we justifiably have been asked: "What is the catalyst to close the gap?" In fact, it was difficult to come to an answer in terms of timing due to the reality of the malaise in European economies, the leveraged financial system, Brexit* and the zombie-like state of private companies there. Among the few signs, until now, of a potential shift of long-term prospects for Europe was the election of Macron as Prime Minister of France. As we suggested in our second quarter 2017 commentary titled *Atypically-Positioned* it was a long-term economic positive for France, much like that of the Thatcher-Reagan revolution but the results could take some time to play out. Policy changes often take time to take hold but when they do, they can last for years. Since then, the underlying conditions have improved (granted, hidden behind more hook-worthy headlines) and likely will not be reversed for a long time to come. Perhaps a surprise to most is that French consumer confidence is nearing an all-time high. As a sign for the future of European economies generally, this is an important item.

A second, more recent positive signal is that of the election in the UK which for now settles the question of whether or not "cooler heads would prevail." The answer is that the British have finally settled the question with a landslide victory for the ruling party. Indeed, it appears that cooler heads have prevailed. Considering the lack of investment that has occurred while the situation dragged on, I believe the Brexit uncertainty was another key factor in explaining the persistence of the preference for US assets. There will be many play-by-play comments from the media in the coming year but the likely path is set in that there will be an orderly negotiated exit by year end 2020.

* Brexit is an abbreviation of "British exit" which refers to the June 23, 2016 referendum by British voters to exit the European Union.

| **2016 Europe:** | | **2020 Europe:** | |
|---|---|---|---|
| ☑ Valuations positive | ☑ Monetary policy accommodative | ☑ Valuations positive | ☑ Monetary policy accommodative |
| ☐ Fiscal policy – austerity | ☐ Brexit uncertainty | ☑ Fiscal policy beginning to turn positive | ☑ Brexit resolution at hand |
| ☐ Euro trending lower | ☐ Earnings prospects (industrial slowdown) | ☑ Euro stabilizing | ☑ Earnings prospects (industrial slowdown receding) |

A third positive development concerns the coming policy changes within Europe as signaled by Christine Lagarde's appointment as President of the European Central Bank (ECB). Europe seems to have accepted that monetary policy alone cannot accomplish what needs to be done in order to create lasting growth. There needs to be reforms in the labor market, as has begun in France and also an accommodative fiscal policy. Both of these are political problems and thus the significance of a politician being appointed to the ECB. If anyone can convince Germany to allow for greater borrowing within the Eurozone, it is another politician. These items together are clear and present signals of significant policy changes in Europe that could mark the end of the long period of Europe's post-financial-crisis malaise.

Considering the uncertainty in Europe until now, it is no wonder that US assets won by default. Not only was the economy more advanced in its post-financial-crisis development but its technology sector led the way in disruptive business models and capital gains potential. Recently, though, a peculiar thing occurred. The private equity model turned into a "greater-fool" market as successive rounds of capital raising happened at ever-higher prices without regard to valuation. Sound familiar? The supposed smart money got caught in the same trap as anyone else could in groupthink mentality. Without the scrutiny of cooler heads, the private market became quite overvalued. In addition, many of the recent IPOs of such Unicorns happened after their growth sweet spots. For instance, online pet supply retailer Chewy came to market *after* it attained roughly 50% share of the online market. (Although, I guess that is better than the late 1990s when companies came to market with no sales.) It is likely then that the bar will be set higher by the public markets for such firms (WeWork's failed IPO could be an indicator) which will likely complicate the exit plans of many private investors. From my standpoint, the fatal flaw for investors in many of these disruptive companies is the presumption that Amazon's winner take all approach could be replicated in all manner of industries. But even Amazon shifted models to become a host, for both retailers and web services, making it unique. Winner takes all primarily works when the cost of delivery is zero and the product is unique (think also of Facebook and Google). There just are not that many concepts that fill both requirements. At the moment it seems that the private equity community has seen that prices got out of hand but it is unclear if they realize yet how few companies should rely on endless capital to pursue a winner takes all business model. What the investors in such companies may soon realize, though, is how lopsided the preference for private markets was versus public markets. There is a huge amount of unused capital that eventually could go elsewhere. All the investment capital that has been squeezing into a narrow slice of the investment universe needs to now find an alternative. Why not non-US equity markets and in particular the largest economic bloc in the world?

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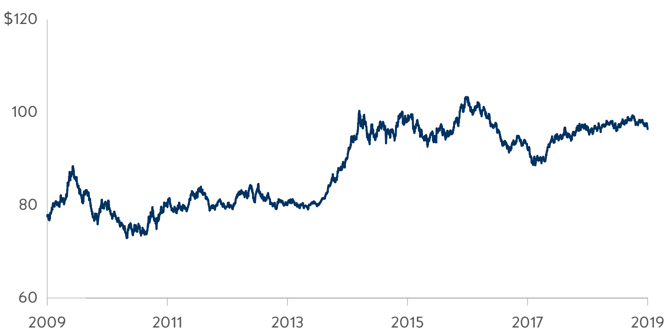
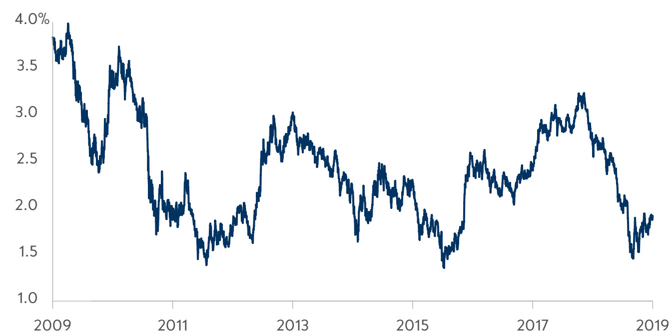
Whereas in the past I could not point to any catalysts to favor non-US markets, I believe that the combination of the above factors could serve as the catalysts to shift preferences toward non-US markets and currencies. The signal for that preference shift, should it occur, likely would be in both the US dollar and Treasury markets, with the former trending down and the latter's yields trending up.

### US DOLLAR INDEX




Source: Bloomberg

### 10 YEAR US TREASURY YIELD




Source: Bloomberg

## Strategically Positioned

From a valuation perspective, there is more opportunity outside than inside the US which is reflected in our World Allocation Fund, the Centerstone Investors Fund's (CENTX) relative allocation to foreign versus US equities. A majority of our non-US equity exposure is in European companies. Our bottom-up search for value has led us to this region. With all the aforementioned catalysts, I believe the Funds are strategically positioned to benefit from a potential shift in preference towards smaller non-US companies trading at reasonable valuations, particularly in Europe. They also continue to carry some reserves in cash and gold and they are unhedged on their currency exposures.

Finally, an important difference between us and the crowd is that our portfolios are differentiated and actively managed. I bring this up now because I am a bit troubled to see the degree of concentration of passive holders in most US equities. For instance, passive holders own on average 25% of the top 100 companies in the S&P 500 (the S&P 100 index). This amounts to two and a half months of trading volume for the respective stocks. I suppose that index ownership could go to 100% but I wonder what the point is of a stock market then? There have been other times when concentration reached the 20% threshold, including when technology and financial stocks amounted to 20% or more of the indices during the technology and credit bubbles. Obviously, neither bull market ended well. As I mentioned at the start, I find value in being a reliable partner for you. I have from the beginning held our differentiation up as a reason to include us in your mix and our bottom-up search for value has resulted in differentiated portfolios. Contrasted with most of our peers and certainly the indices, our passive exposure is approximately 13% in the Centerstone Investors Fund (CENTX). Its non-US holdings have a mere 10% exposure to passive holders. In other words, in the event that I am seeing things clearly regarding a long-term preference shift towards non-US assets, I believe the Funds are well-positioned for the future. And if not, at the very least the Funds are not as exposed to the stocks most exposed to concentration risk.

*"I have from the beginning held our differentiation up as a reason to include us in your mix and our bottom-up search for value has resulted in differentiated portfolios."*

On behalf of the Centerstone family, thank you for the trust you have placed in us and know that we appreciate and will continue doing our best to pay back that trust. This past decade flew by but in many ways, it feels like an end of an era. Appreciating that the future is uncertain we are nonetheless optimistic about the next era to come and look forward to navigating with you the many challenges that lie ahead.

We wish you a happy and healthy New Year.

Sincerely,

Abhay Deshpande, CFA
**CHIEF INVESTMENT OFFICER**

**Important Risk Information and Disclosure:**

The S&P 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 S&P'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 S&P 100 Index is a sub-set of the S&P 500 designed to measure the performance of large-cap companies in the US. The index comprises 100 major blue chip companies across multiple industry groups.

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

Past performance is no guarantee of future results.

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.**