BUILDING OUR FUTURE

SEPTEMBER 30, 2019

DEAR FELLOW PARTNERS & FRIENDS,

As the year has progressed so have political tensions all over the world. In our view, the most serious one remains Brexit but the Hong Kong situation deserves some discussion as well. There, long-simmering tensions over Hong Kong's diminishing special status boiled over and has, to date, led to months of civil disobedience. The police force has not been able to contain the protests and the Chinese army has not yet intervened. This status quo probably cannot last much longer but we are unsure of the outcome, much less the long run ramifications for the markets there. In any case, it is probably the last thing the Party needs right now. With faltering growth on the Mainland and with food price inflation running rampant due to an outbreak of swine fever among their pig population, contagion of the unrest to the Mainland is surely a worry. On that score, though, there is some good news. With the US entering silly season (i.e. elections) while China faces its homegrown problems, the odds are better for at least a temporary ceasefire on the trade front. Both leaders need a win.

Beyond that, we have our own political problems in our home country, to say the least. The latest news is all about impeachment and on this front, the only certainty is that the current Congress does not have the supermajority votes to judge the President guilty unless there is overwhelming evidence of "high crimes and misdemeanors." If he were to be judged guilty based on anything less than that standard then we could be in for some serious violence, however, I doubt we get there. That likely means that equities will continue to look through the noise, but that equities could also be buffeted occasionally by the news cycle. In essence, we think the long-term trend will continue to be determined by fundamentals but that we should not rule out the occasional news-led lurch downwards.

Not everyone shares that opinion though. I recently met with some well-placed political folks in Washington, DC and they are convinced that the latest drama will lead to an imminent market and economic collapse in the United States. In that, I still try to make the point that politics is driven by local factors and that local economies around the United States still seem stable if not as ebullient as a year ago. As long as people have jobs, I do not see why there should be some great collapse just because of what happens in DC. Of course, there are still major divisions within communities and I was recently pointed to a speech that spoke of some of these divisions.

> *"In essence, we think the long-term trend will continue to be determined by fundamentals but that we should not rule out the occasional news-led lurch downwards."*

"At this moment we are passing through a period of great unrest—social, political, and industrial unrest. It is of the utmost importance for our future that this should prove to be not the unrest of mere rebelliousness against life, of mere dissatisfaction with the inevitable inequality of conditions, but the unrest of a resolute and eager ambition to secure the betterment of the individual and the nation." This is a small excerpt from a speech given by Teddy Roosevelt in 1906. Although the full speech was a call to action (and overtly political of course) I only reference it to exhibit that the country has been here before and survived. The institutions of the United States were mainly formed for the purpose of protecting property rights and individual liberties utilizing the fair application of the rule of law. So long as everything occurs within that framework, these generational transitions from old to new have marked periods of great progress for the nation. As despairing as it is to see our leaders—adults in everything but demeanor—act like children, it is just a matter of time before the nation moves out of this era. As someone once said, a path without obstacles probably does not lead anywhere.

With that said, ultimately all of that goes in the pile marked "out of our control." It is not something I, or the Firm, can influence and is not something that we should try to influence. We strive to do the right thing for our clients, which means to focus on only those things we can control to provide a reasonable return without too much drama. On that score, the Centerstone Funds were impacted this past quarter by several crosswinds. As we alluded to above, some of these were unavoidable, but as we will also review, we should have done a better job anticipating

"As despairing as it is to see our leaders–adults in everything but demeanor–act like children, it is just a matter of time before the nation moves out of this era. As someone once said, a path without obstacles probably does not lead anywhere."

and managing some of those risks. As we will share, we have taken steps to bring down the chances of future missteps and we are as excited as ever about Centerstone's prospects. But the fact remains that we have some catching up to do now.

Before we dive into these errors, though, we would like to share some of the good news and progress being made by the extended Centerstone family. In particular, we have welcomed one new life into the world this year and have another two on the way! We only welcomed one last year so at this pace we will have welcomed over three million children over the next 10 years. Ah, the power of compounding. But of course, compounding also works in reverse and here we will begin our review of some unfortunate decisions made over the past several years which came home to roost this quarter. August, in particular, was a "moment of truth" month for a few of our holdings.

Lessons Learned

Starting with General Electric[1]—This is the smallest offender. For now, we do not consider this an error, more of a "wrong place wrong time" situation because this seemed to us an old school Wall Street bear raid. We do not see these types of raids very often anymore, especially with well-known companies because they tend to be, as this one seemed to us, blatant stock manipulation schemes. With only circumstantial evidence to go by, the stock behavior before and after the short seller report was released in mid-August suggested a well-orchestrated scheme with selective leaks and with a heavy-handed hammer blow of a report (120 pages) timed to fall during the slowest days of the summer (mid-August). Indeed, the selection of the release date of August 15, the exact middle of the month, was overly cute. As far as Centerstone is concerned, even at its worst, the Funds were still in the money.

Moving on to our undeniably unforced errors of Prosegur Cash[2] and Tapestry[3] here you will see how our decisions were made against our own principles and how, once trapped, bad decisions compounded upon each other. From our perspective, these are true value traps. I have made a career avoiding these errors, so it is especially humiliating to have fallen victim to avoidable mistakes. We do not get any joy reviewing mistakes but it is necessary and maybe these lessons can help others avoid some of the same pitfalls.

Prosegur Cash is a cash-in-transit business, armored cars that shuttle cash around cities from retailers to banks. As noted, we like businesses with dominant market shares in growing markets and that have good management teams. Who wouldn't? Even better if those companies have a market price below intrinsic value. However, in some markets, these favorable company-level attributes can easily be overwhelmed by macro-level matters such as the well-publicized problems in Argentina, where Prosegur Cash has a large presence. The reality of a money panic and currency controls have become dominant drivers of the company's intrinsic value and was not something we fully appreciated when first purchasing the stock. Having avoided Argentina for my entire career, I fell into the trap of thinking that this time would be different when the country elected a market-oriented leader and that Prosegur's market position would serve as a ballast to value. But recent polls, against a macroeconomic background of swelling deficits and dwindling foreign exchange reserves, proved again that the country is as fiscally reckless as it ever was and that indeed the macro can still outweigh the micro. This might seem familiar to most anyone—if we choose to buy more, then inevitably the stock may continue declining. If we choose to sell, then, of course, that could likely mark the bottom. This is the essence of a value trap. To answer the obvious question, we sold a little and are waiting on the sidelines for now.

Tapestry is one of our longer-term holdings. We initially purchased the company's stock (previously known as Coach) during the luxury downturn in 2016 and held as the company began to turn itself around. In general, I am not a big fan of retail but will sometimes make exceptions if the brand is strong and has tight control of its inventory. In practice that means historically relevant brands, like Coach, with their own operated stores. The power of the brand is usually reflected in its gross margin, which in the case of Coach was quite high. We also prefer single brand concepts and this is where we were slow to react. Soon after our purchase, the company began to

1 1.01% position in Centerstone Investors Fund as of June 30, 2019
2 1.54% position in Centerstone Investors Fund and 2.32% position in Centerstone International Fund as of June 30, 2019
3 1.34% position in Centerstone Investors Fund as of June 30, 2019

implement a change in strategy whose goal was to become a more multi-brand group relying less on its core Coach concept. Soon after, they purchased Kate Spade, a mass-market fashion company. This is a company I had looked at before and passed on due to its heavy reliance on a particularly fickle part of the mass market. What we should have done, and did not, was to have sold the stock based on this strategy change. I have always been skeptical of transformative acquisitions and again am reminded why. However, we did not sell the stock because of the allure of the cash flows generated by its core brand. A high dividend yield and share buybacks indicated a shareholder-friendly disposition but that was overwhelmed by the very shareholder unfriendly decision to purchase Kate Spade. The board of Coach came to the same conclusion recently and fired their long-time CEO.

Again, these simple rules we have—invest in quality businesses with good balance sheets, managed by pragmatic leaders—are there for a reason. That is to simply steer us away from potential capital impairments. Most impairments are driven by a failure to follow those rules and it is why we do not usually make that many mistakes. In these cases, at least the position sizes were small. It is not ideal, clearly, but our other risk controls, such as limitations on size when dealing with such companies and our diversification helped to moderate the impact on the total portfolios. Regardless, we will redouble our efforts and incorporate these mistakes into our lesson book.

Delivering Value in Turbulent Markets

While these mistakes have undoubtedly been frustrating for us, there have also been positive developments in other parts of the portfolio that make us confident in our ability to deliver improved performance going forward. This includes one of the Funds' largest holdings, Kerry Logistics[4]. Kerry Logistics is a collection of high-quality, but disparate, logistics assets, including a substantial amount of real estate value that may not be obvious from just a cursory reading of the financials. In our view, this complicated corporate structure has made it difficult for the public market to value Kerry Logistics' business and caused the stock to trade at a steep discount to its sum-of-the-parts value.

Earlier this year, however, Kerry Logistics announced an agreement to sell two Hong Kong warehouse properties to its sister company Kerry Properties (Kerry Properties is Kerry Logistics' largest shareholder and, like Kerry Logistics, is ultimately controlled by the same person, Chinese-Malaysian billionaire Robert Kuok). While related-party transactions in emerging markets always call for heightened scrutiny, we believe the transaction is positive for Kerry Logistics shareholders: as a real estate focused entity, Kerry Properties strikes us as the more logical owner of these assets and the purchase price being paid to Kerry Logistics implies a premium valuation of about HK$ 3,700 per sq ft (~US$ 470 per sq ft). More importantly, deals like this highlight the substantial real estate value in the portfolio—as well as crystallize a portion of that value—which should help close the sum-of-the-parts discount alluded to above.

In a similar vein, Kerry Logistics recently announced plans to IPO its Thai parcel delivery operation, Kerry Express (Thailand) Limited (aka "KETH"). KETH is a super high-growth business line within Kerry Logistics that in our view merits a premium multiple, but up until now, the value of this asset has not been readily visible to investors. With its own listing and separately reported financials, however, it will now be much easier for Kerry Logistics investors to put a value on KETH—and in turn, help to close the valuation discount.

Kerry Logistics is an example of how top-flight management teams can continually find ways to deliver value for shareholders even in turbulent market environments. In fact, all three pillars of the Centerstone investment approach select for companies that can continue to do well during challenging times. Shrewd management teams that continue to find opportunities even in downturns. Strong balance sheets that do not rely on access to capital markets that may or may not be open. Durable business models that continue to generate cash flow, no matter what point it is in the cycle. This is why we are as confident as ever in the Funds' positioning, even if markets remain choppy.

Promotions

Last but certainly not least, it has been my intention from the outset of the Firm's formation to eventually transition the management of the Funds from a single-manager driven approach to a team-managed approach. I was hoping that the Analysts that I hired would be prepared to make the leap within a three-to-five-year timeframe and I am pleased to announce that this transition will now begin with the promotion of three individuals to Associate Portfolio Manager status. I will continue to be the lead Portfolio Manager and now will be joined by Zachary Dimmerman, James Hounsell and Rafael Fernandez. These gentlemen will continue with their respective duties as Analysts and Trader, respectively but they now reside within

4 2.02% position in Centerstone Investors Fund and 3.04% position in Centerstone International Fund as of June 30, 2019

"The implementation of this simple decision-making framework, when overlaid upon our bottom-up filters of management quality, balance sheet strength and business model durability completes Centerstone's start-up phase."

the framework of our decision-making process. At its heart, the primary goal of this arrangement is, coincidentally enough, to moderate decision making by providing veto authority over new purchases and over sales of existing positions. Overlaying this framework is the prime principle of "most conservative wins." This principle relates to position sizing both at the time of initiation and afterward. I have found it to be an effective tool to limit conflicts to the matters at hand and as a supplement to the "nuclear-option" of a veto, a good safety release valve for situations where there is still a reasonable doubt among individual team members over a decision.

The implementation of this simple decision-making framework, when overlaid upon our bottom-up filters of management quality, balance sheet strength and business model durability completes Centerstone's start-up phase. When complemented by our ownership structure, our client alignment and our collection of honest and good people, you can have a better understanding of what it is we represent and with whom you have chosen to trust your hard-earned savings. As the Firm moves forward, I am more excited than ever to watch the team grow and become ever more successful. And having learned (and relearned) important lessons I am personally ever more motivated to prove my value to you and to continue earning the trust you have given me.

Thank you for your trust and interest in Centerstone.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

Important Risk Information and Disclosure:

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

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.