

Launch Alert: Centerstone Investors Fund (CETAX/CENTX)

June 2016



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Centerstone Investors and its sibling **Centerstone International** (CSIAX/CINTX) launched on May 3, 2016. The Investors fund will be a 60/40-ish global hybrid fund. Their target allocation ranges are 50-80% equity, 20-40% fixed income and 5-20% cash. Up to 20% of the fund might be in high-yield bonds. They anticipate that at least 15% of the total portfolio and at least 30% of their stocks will be non-U.S.

The argument for being excited about Centerstone Investors is pretty straightforward: it’s managed by Abhay Deshpande who worked on the singularly-splendid **First Eagle Global** (SGENX) fund for 15 years, the last seven of them as co-manager. He spent a chunk of that time working alongside the fund’s legendary manager, Jean-Marie Eveillard and eventually oversaw “the vast majority” of First Eagle’s \$100 billion. SGENX has a five star rating from Morningstar. Morningstar downgraded the fund from Silver to Bronze as a result of Mr. Deshpande’s departure. Before First Eagle, he was an analyst for **Oakmark International** and **Oakmark International Small Cap** and an acquaintance of Ed Studzinski’s. During his callow youth, he was also an analyst for Morningstar.

Here’s the goal: “we hope to address a significant need for investment strategies that effectively seek to manage risk and utilize active reserve management in an effort to preserve value for investors,” says Mr. Deshpande. “It’s our intention to manage Centerstone’s multi-asset strategies in such a way that they can serve as core holdings for patient investors concerned with managing risk.”

Given that he’s running this fund as a near-clone of SGENX, is there any reason to invest here rather than there? I could imagine three:

- 1** Mr. Deshpande was seen as the driver of SGENX’s success in the years after Mr. Eveillard’s departure, which is reflected in the Morningstar downgrade when he left. So there’s talent on Centerstone’s side.
- 2** SGENX has \$47 billion in assets and is still open, which limits the fund’s investable universe and largely precludes many of the small issues that drove its early success. Centerstone, with \$25 million in assets, should be far more maneuverable for far longer.
- 3** First Eagle was recently taken over by two private equity firms after generations as a family-owned business. Centerstone is entirely owned by its founder and employees, so its culture is less at-risk.

The opening expense ratio for “A” shares is 1.36% after waivers and the minimum initial investment is \$5,000. The “A” shares have a 5% front load but Mr. Deshpande expects that load-waived shares will be widely available. The investment minimum for institutional shares



is \$100,000 but the e.r. does drop to 1.11%. In lieu of a conventional factsheet, Centerstone provides a [thoughtful overview](#) that works through the fund's strategy and risk-return profile. [Centerstone's homepage](#) includes a thoughtful letter from Mr. Deshpande that's well worth tracking down.

The Centerstone Investors Fund Class A Total Annual Operating Expense is 2.53%. The Centerstone Investors Fund Class I Total Annual Operating Expense is 2.28%.

The Centerstone International Fund Class A Total Annual Operating Expense is 2.58%. The Centerstone International Fund Class I Total Annual Operating Expense is 2.33%.

Pursuant to an operating expense limitation agreement between Centerstone Investors LLC (the "Advisor") and Centerstone Investors Trust, the Advisor has agreed to waive its fees and/or absorb expenses of the Investors Fund and International Fund to ensure that Total Annual Fund Operating Expenses (excluding any front-end or contingent deferred loads, brokerage fees and commissions, acquired fund fees and expenses, borrowing costs (such as interest and dividend expense on securities sold short), taxes and extraordinary expenses such as litigation) for the Funds do not exceed 1.35% and 1.10%, of each Fund's average net assets, for Class A and Class I shares, respectively, through March 31, 2018.

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 Adviser 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 invests. 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.

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.

In general, a rise in interest rates causes a decline in the value of fixed income securities owned by the Fund. The Fund may invest, directly or indirectly, in "junk bonds." Such securities are speculative investments that carry greater risks than higher quality debt securities. 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. 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 Funds 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 1-877-314-9006. The prospectus should be read carefully before investing. The Centerstone Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC.

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