



DEAR FELLOW PARTNERS & FRIENDS,

I am delighted to share it has been over one year since the Centerstone Investors Fund (CENTX) and the Centerstone International Fund (CINTX) launched. Establishing a new Firm and launching two mutual funds has been exciting and lots of hard work. We are still in the early days of our journey, but with the benefit of hindsight, I am pleased with the way our Funds behaved. I believe during the first year we posted respectable absolute returns while holding up reasonably well in those admittedly few moments of market weakness. This risk/return profile is what I am accustomed to and it is gratifying to see the Funds exhibit this behavior.

Economic Deja Vu?

As a global value investor for over two and a half decades, I spend the majority of my attention mining regulatory and financial filings in addition to traveling the world to uncover companies. We do not tend to spend much time on macro or politics as it is usually counterproductive. We do, however, keep an eye on top-level developments and occasionally important signals do emerge. At times, momentous changes happen from a political perspective that can profoundly affect economic activity for a long period. A past example and one that is relevant today is the late 1970s and early 1980s when the Western world elected leaders that led us out of the stagnation and political chaos of the 1970s. Both Thatcher and Reagan were considered somewhat long shots and the establishment was shaken up. But those surprising choices led to an unexpected and positive outcome for the Western world. The early 1980s clearly included plenty of drama and the measures that were taken to fix stagnation drove the economy into a recession. However, policy, which is an important driver of resource allocation and therefore an important influence on productivity, was reoriented away from rent-seekers* and towards productive ends. Those policy changes were in large part responsible for the long stretch of economic growth which began in the early 1980s, and the positive economic effects lasted for over 20 years. I believe something similar is happening today and it would be worthwhile to consider what that means for the world of investing.

Recently there was a notable election that echoes the “Thatcher-Reagan revolution” and I am not referencing Donald Trump. I am referring to 39-year old Emmanuel

Macron, who the French recently elected in a landslide. He started a political party from scratch 18 months ago to represent the center, a change from his predecessor. The electorate veered towards Macron who, for the French, is business-oriented but liberal-minded as it relates to social policy. This reorientation has potential to spread outside of France and possibly to our home-country as well. It also has implications for investing over the long-term.

Since this reorientation began in mainland Europe, I believe we should first think about the impact on their stocks, interest rates and Euro. As we have previously written, European indices have done basically nothing for ten years so maybe a reversion to the mean is in order. On the other hand, in the 1980s we had the demographic dividend ahead of us, historically low stock prices and interest rates on the verge of a multi-decade decline. Today none of those things are in place and with that in mind, the outcome will be different. Nevertheless, it is important for us to keep dry powder, just in case, as we always seek a margin of safety as Benjamin Graham counseled.

Collision of Economic and Stock Market Prospects

This potential reorientation in Europe could well be placed to serve Europe’s long-term economic growth rates. However, there is some risk to stocks in Europe and by extension to our home-country as well. In particular, there is risk that inflation expectations take a dramatic shift upwards and along with that a material rise in long-term interest rates. As many are aware, interest rates are near zero in much of Europe and this potential shift could have

* Rent-seekers are those who use the resources of a company, an organization or an individual to obtain economic gain from others without reciprocating any benefits to society through wealth creation.

a negative impact on equities as well. As with the Thatcher-Reagan elections, the first impact to stocks could be negative even if the longer-range impact may be highly positive.

In the case of the Centerstone Funds, Europe is our largest non-US exposure and within that, France is our largest country exposure. We are approximately 20% hedged, therefore, we have a fair amount of Euro exposure as well. Our European positioning is not because of the election, rather just a coincidence, granted a happy coincidence. From a valuation perspective, there is more opportunity outside than inside the US which is reflected in the Centerstone Investors Fund's (CENTX) relative allocation to foreign versus US equities, of nearly two to one. One should infer from my comments that even though we are flagging some concerns we still find equities to be the best long-run choice.

Centerstone in Thailand

In mid-April, my travels led me to Thailand and I visited some existing companies in addition to companies we have been monitoring. The Centerstone Funds have modest exposure to Thailand through Siam Cement¹, Bangkok Bank² and Thai Beverage³ even though we generally do not invest in emerging markets without adequate shareholder protections. That said, Thailand is relatively sound versus many other emerging countries. A typical Centerstone investment has a good

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balance sheet, good business model and good management. Over the years I have come to appreciate that the definition of a “good” business may be different in a developed versus emerging economy. In the developed world we focus on “stable” companies where we measure stability according to such measures as operating margins, market share or returns on capital. In most cases, these stable companies have a scale advantage where our preferred investee will be much larger than its competitors. In the US and Western Europe, our preference leads us to companies such as Air Liquide⁴, Colgate⁵, etc. In emerging markets, however, there are fewer consumer-oriented choices and those companies are overrun by competition where there is no tangible market share dominance.

In the case of Thailand, a country whose gross domestic product (GDP) per capita is near \$6,000[†] (versus \$57,000[†] in the US), a “good” business is one that can act as an annuity on the future growth potential of the country. Siam Cement is the largest cement company in the country—the annuity. Common sense might apply that as economies grow, so should demand for cement. Since economic growth is dependent on population growth, by extension so should the need for housing. Fortunately, half of Siam Cement's demand is for housing. Of course, you never know how much growth there might be in the future.

1 1.50% position in Centerstone Investors Fund and 2.36% position in Centerstone International Fund as of March 31, 2017

2 0.92% position in Centerstone Investors Fund and 1.56% position in Centerstone International Fund as of March 31, 2017

3 0.27% position in Centerstone Investors Fund and 0.35% position in Centerstone International Fund as of March 31, 2017

4 1.78% position in Centerstone Investors Fund and 3.19% position in Centerstone International Fund as of March 31, 2017

5 1.74% position in Centerstone Investors Fund as of March 31, 2017

† Source: The World Bank



In addition to Siam Cement, we have a few other interesting investments and prospects in Thailand that qualify as Centerstone ideas which are stable, long-lived companies that we may hold virtually forever, even if their industry classifications might seem in conflict with the ideal Centerstone investment. For instance, as much as we tend to avoid banks, the second mention is Bangkok Bank. The main reason we shy away from banks is that they are leveraged and largely commodity businesses. To understand why Bangkok Bank is different, one must step back almost 20 years to the Asian Financial Crisis. In the run-up to the crisis, Bangkok Bank had leveraged itself using US dollar debt in order to expand overseas. They found themselves competing with much stronger competitors in a commodity business. The only differentiation you can have in such a business is price and Bangkok Bank expanded too rapidly, underpricing the risks they were taking. Ultimately, they found themselves overstretched and when the devaluation arrived they found themselves unable to pay back their debts (i.e. since the Thai currency dropped, it meant that their US dollar debt went up). They almost went under as a result but instead learned two lessons: do not over-leverage and do not compete against Singapore and Hong Kong banks for non-Thai business. Hopefully, this lesson means they will continue to stay clear of the leverage that we do not like. Furthermore, it is not really a commodity business either. The very particular and unique aspect of Thai banks is that their clients (businesses) send their payrolls to just one bank that they partner with. The employees essentially must use the bank that the business chooses. That means that there is little competition for the depositor leading to modest cost control, even if it is just a little bit. Most importantly, they have a stable source of funding. The Thai banks have also developed expertise in certain loan categories which increases pricing power for all. The end result for Bangkok Bank is that market share is high and stable, leverage is not an issue and they have some pricing power—not a bad business.

After visiting Thailand, it appears to me that the country is still early in its development. Many things need to come together to allow an economy to thrive: rule of law, consensual respect, freedom of thought, among others. With the relative stability provided by its military minders, the people's devotion to a higher power and their sheer industriousness and potential, Thailand appears to be a Centerstone country.

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In summary:

- ◆ US equities remain highly valued and potentially offer subpar long-term returns when compared to non-US equities as reflected in our allocations;
- ◆ The long-run potential for European equities has brightened;
- ◆ However, there could be some volatility as the market adjusts to a potentially new paradigm in Europe;
- ◆ Centerstone Funds retain a large reserve position of over 20% for any event;
- ◆ Opportunities have emerged in Thailand where we focus on “good” businesses that can leverage long-term tailwinds

Thank you for your support and interest in our growing family and venture.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

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.

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.

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.

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.

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.