

TOOL TO TRADE BY, TRAPS TO AVOID



Just like his favorite rockers, Centerstone Investors' **Abhay Deshpande** knows that it's often best to wait for quality to come along

ANDREW JONES

Portfolio managers find inspiration in many different places. Sometimes it's philosophy, sometimes it's academia and just occasionally it's the work of alternative rock pioneers Tool.

While the link between a progressive metal band from Los Angeles and value investing may not be immediately clear, Abhay Deshpande, founder and chief investment officer of Centerstone Investors, is quick to make the connection.

'Tool takes a view that I love to try to incorporate, which is that they only come out with an album every seven to eight years,' he said. 'They decide that they aren't pushing anything out until it's perfect, so they wait for quality and they don't care about time.'

The band has only ever released four albums. The first was in 1993, and the most recent came out back in 2006. Another is apparently on the way, but no date has been set. Like most of the band's fans, Deshpande is happy to wait, knowing the payoff will be worth it.

He takes the same approach to stock-picking, seeking out undervalued companies that may not offer an immediate upside, but which he believes will reward investors in time.

For example, while Amazon and Whole Foods stole the limelight in groceries in 2017, Deshpande was happy holding onto the less-heralded Royal Ahold Delhaize, which owns Stop & Shop and Hannaford.

'The basic misconception by the stock market or investors is that Amazon, through its Whole Foods purchase, is going to do a lot of damage to traditional grocery retailing,' he said.

'In our view, there is little likelihood that Amazon can do much damage outside of maybe New York City and San Francisco.'

Deshpande added that on an average \$100 basket of groceries, the grocery store margin is about \$3. When that profit is realized in conjunction with extra delivery expenses such as fuel, an e-commerce provider such as Amazon would have to make almost 10 deliveries just to break even.

'There are not many markets that Amazon can beat, and that is because the costs of last-mile delivery are exorbitant,' he said.

Deshpande looks for price dislocations and fundamental misunderstandings such as this – which he calls the 'Amazon threat bucket' – to find stocks that he believes are undervalued by the wider market.

BREAKING OUT

After a 15-year spell at First Eagle Investment Management – where he oversaw close to \$100 billion in assets across three funds – Deshpande set out on his own in January 2016, starting up a new shop: Centerstone Investors.

The firm offers two mutual funds – the \$225.7 million Centerstone Investors fund and the \$124.3 million Centerstone International fund.

The Centerstone Investors fund invests in all-cap equities, both domestic and international, and sits in the Citywire Mixed Assets – Flexible Portfolio category as it holds bonds too.

BEATING THE HOUSE

While Deshpande believes Amazon's impact on grocery stores will be limited, he is only too aware of how business models can change with the march of technology.

He pointed to Kodak as one example of this trend, explaining that the company was not a value trap but instead had a business model that simply came unstuck due to competition from digital alternatives. It was the camera firm's inability to recognize those threats that ultimately hurt investors.

This focus on business models is the reason why Deshpande is the value investor he is today. It even helped him get into the asset management business in the first place.

He grew up in a household where the stock market and investing were perceived as gambling and something that had more to do with luck than with any kind of repeatable process.

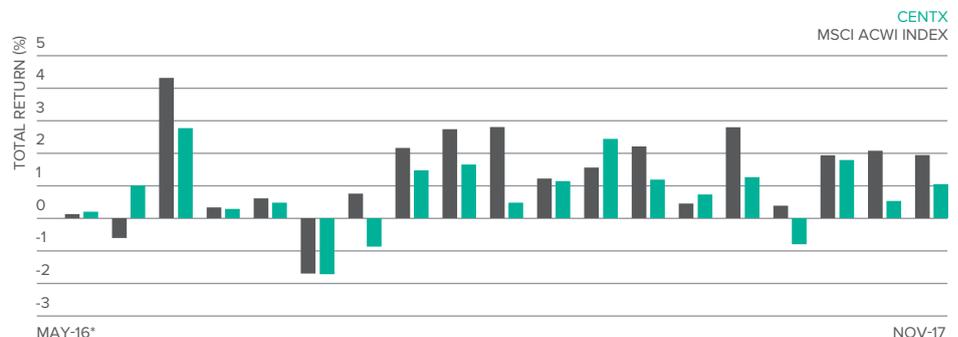
It was not until he stumbled upon the principles of margin of safety and intrinsic value – made famous by the likes of Warren Buffett, Benjamin Graham and his old boss, Jean-Marie Evillard – that he was able to frame investing in a different way.

'It became less about gambling and more about a business where you could actually apply principles to it in an effort to reduce the odds of losing,' Deshpande said.

'Then you can apply the principles to potentially take advantage of the market's very emotional state over time.' ■

THE CENTERSTONE INVESTORS FUND'S DISCRETE MONTHLY PERFORMANCE

SOURCE: CENTERSTONE INVESTORS



*THE FUND OPENED ON MAY 3, 2016. INDEX RETURNS ARE FOR THE WHOLE MONTH OF MAY.

CENTERSTONE INVESTORS FUND PERFORMANCE AS OF DECEMBER 31, 2017

	1-MONTH	3-MONTH	6-MONTH	1-YEAR	SINCE INCEPTION*
CLASS I (CENTX)	1.69%	3.30%	5.63%	13.93%	10.48%
CLASS A (CETAX)	1.64%	3.16%	5.40%	13.49%	10.13%
CLASS A (CETAX) WITH SALES CHARGE**	-3.41%	-2.03%	0.16%	7.83%	6.77%
CLASS C (CENNX)	1.55%	2.99%	4.95%	12.71%	9.63%

* Inception date is May 3, 2016

** Class A Maximum Sales Charge is 5.00%

The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's investment advisor has contractually agreed to reduce its fees and/or absorb expenses of the Fund, at least until March 31, 2019, to ensure that the net annual Fund operating expenses will not exceed 1.35%, 2.10% and 1.10% of the Investors Fund's average net assets, for Class A, Class C and Class I shares, respectively, subject to possible recoupment from the Fund in future years. Without these waivers, the Fund's total annual operating expenses including acquired fund fees of 0.03%, would be 2.58%, 3.89% and 2.45% respectively. Please review the Fund's prospectus for more information regarding the Fund's fees and expenses. For performance information current to the most recent month-end, please call toll-free 877.314.9006. Investors are not able to invest directly in the indices referenced in the illustration above and unmanaged index returns do not reflect any fees, expenses or sales charges.

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.

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. 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.

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. 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 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. Centerstone Investors, LLC is not affiliated with Northern Lights Distributors, LLC.