

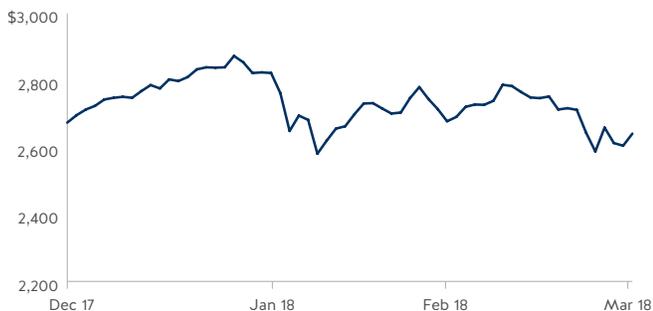


DEAR FELLOW PARTNERS & FRIENDS,

The New Year brought volatility following more than a year's worth of steadily increasing stock prices. Although the declines were sudden and rather steep, equity prices declined enough to simply return to similar levels of late last year, as illustrated below. In fact, if you just checked the market every few months, you might be wondering what the big deal was all about. At Centerstone Investors we do not find much use in day-to-day market-moving news, rumors or politics when it comes to researching the intrinsic value¹ of a company. Rather than focusing on the short-term drivers of price action, our attention is on the long-term drivers of business value, which is reflected in our team's focus on the sustainability of a company's business model, the quality of management and the balance sheet. These are narrow enough subjects for us to research and understand and in our experience, among the most important factors to consider when aiming for long-term investment success.

Risk management is another important key to success. While we understand that we are on the same playing field as any other investment manager, we are however taking a different approach. Rather than trying to match a benchmark or category of funds on a calendar year basis, we think in terms of full market cycles. We believe by managing risk we can increase the chances of attaining our goal of equity-like returns with less risk than equity benchmarks over that term. I have seen many market cycles where our investment style falls from favor, even compared with other value investors, but the tendency is for our style to eventually reward the patient. Generally speaking, our expectation is that both the Centerstone Investors Fund (CENTX) and the Centerstone International Fund (CINTX) should exhibit relatively muted returns, particularly in down markets.

MARKET PRICE OF S&P 500



Source: Bloomberg

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 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.

Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

¹ Intrinsic value refers to the price a knowledgeable investor would pay in cash to control an asset.

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We have the expectation of a muted risk/return profile because the Centerstone Funds tend to err on the side of caution when it comes to certain types of risks. First, we are absolute value investors, which means we will tend to have significant reserves when valuations are generally rich. Second, we are debt averse, therefore, most of our equities are of companies with well-capitalized balance sheets. Third, we tend to avoid turnaround situations and “deep value” names, instead tilting to companies with stable market positions. The stocks of such high quality companies are rarely undervalued, but even good businesses have their cycles and sometimes disappoint the market, which can present us with the margin of safety we demand. Over my 25-plus year career, these have been among the most successful types of investments and it is a special moment when you are presented with one. Finally, a modest amount of diversification goes a long way in minimizing our overall risk profile.

Investment success is not all about defense and that is true in any competitive situation. As a college basketball fan (I am from Kentucky after all), March Madness had a surprisingly relevant lesson for investors this year when number one seeded Virginia—which relied this season almost exclusively on defense—lost to 16-seeded UMBC. The latter’s shockingly efficient offense in the second half of the game proved too much for Virginia to overcome and although one could argue that luck played a huge roll, in the end Virginia succumbed and was the first number one seed in history to lose to a 16-seed team. I bring this up only because although I mostly focus on our defense, success also should incorporate an effective and strong offensive capability as well. It is important to be nimble enough to move quickly if needed, small enough to have a wide universe, organizationally lean with few distractions and to have clearly communicated expectations to our investors. A tested and successful investment approach is paramount, too. I believe that our organizational structure, which was designed to help deliver on both our defensive and offensive goals, meets all the criteria listed above, though of course time will tell.

The Centerstone Model in Practice

I enjoy researching and buying high quality companies that other investors put into the penalty box. Last year we started to research O’Reilly Auto Parts², a leading aftermarket auto parts retailer in the US (now a member of our “Amazon threat basket”), after the company announced a set of disappointing earnings reports that hit the stock. Investors were concerned that Amazon was expanding its auto parts business and its overall focus on the auto sector. In this environment, O’Reilly reported disappointing same store sales growth and its stock dropped steeply on the news. Our research indicated that Amazon or other online players would have a limited impact on O’Reilly itself.

O’Reilly’s stores have trained staff that can help walk-in “do-it-yourself” customers select the right part to fix their car. Many customers may not be familiar with the part they need to buy and they value this advice. They also value having more immediate access to the parts they need to fix their car; going to a nearby store is a lot faster than potentially waiting days for Amazon to ship the part to their home. O’Reilly uses its stores almost like local warehouses and can ship parts to its auto repair shop/garage customers quickly. It can typically deliver auto parts to its repair shop/

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garage customers in under an hour. Companies that operate an online-only model cannot deliver parts this quickly—not even Amazon. The garages and repair shops value the quick delivery times as it enables them to repair their customers’ vehicles faster and improve their own productivity.

In the case of O’Reilly, it is difficult to see how Amazon can materially impair the value. O’Reilly will have its share of challenges over its life but the business is purposely built to serve its customers in the timeliest way in an industry where service and physical locations are still important. This is an example of how we at Centerstone actively analyze and manage material risks to intrinsic value.

Opportunities in the Year Ahead

In our recent communication at the end of 2017 titled *Idiosyncratic Portfolios*, I wrote that US stocks appeared modestly overvalued. While that generally remains true today, the recent volatility has provided us with more opportunities to research in the US. Since the epicenter of the volatility is interest rate-related in nature, stocks of many interest rate sensitive companies have seen their prices drop substantially, as illustrated on the next page. We are taking a deeper look into utilities and Real Estate Investment Trusts (REITs), while being cautious as such companies in these industries typically support quite a bit of debt. In such cases of beaten-down industries we do not typically favor, we tend to choose the higher quality companies, even if they are not the absolute cheapest. We put a premium on staying power because we know that it is possible we may be wrong or too early.

Additionally, we continue to research companies that fall into the “Amazon threat basket.” I recently spent time in rural Maryland and Pennsylvania where I visited several Ahold Delhaize³-operated stores and their local competitors,

² 0.93% position in the Centerstone Investors Fund as of December 31, 2017

³ 1.02% position in the Centerstone Investors Fund and 1.63% position in the Centerstone International Fund as of December 31, 2017

**PERCENT CHANGE OF S&P 500 VS
 FTSE NAREIT ALL EQUITY REITS & S&P 500 UTILITIES**


Source: Bloomberg

competitors of O'Reilly and several Target⁴ and CVS⁵ locations. I also visited some dentist and doctor's offices, related to a new company we recently purchased that falls into this "Amazon threat basket." I came away with a few observations: first, Target faces a lot of competition, but they have a different form of convenience that simply cannot be matched by Amazon in that almost everyone in the country is within about a 10-minute drive of a Target store. The sales experience is tough to match, with clean stores, quality private label offerings and attention to detail. The same can be said of the auto parts retailers we own. When it comes to grocery, I was impressed with how omnipresent Ahold was throughout the region, but also how they managed to concentrate in appropriate geographic areas for their high quality offering. When visiting competitor locations such as

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Aldi (a European "hard-discount" grocer which is expanding in the region), I was impressed by their low prices, but then noticed how many alternatives there already were in their surrounding area, including Walmart. Why a foreign retailer would choose to take on Walmart, of all companies, in its home country is beyond me, but I think the threat to Ahold is overstated and it appears they are competing for a different customer. As far as our evolving "Amazon threat basket" is concerned, I view Amazon as just another competitor in an already competitive market. They are not pre-ordained to win the retail battle when it comes to the companies that we have chosen to invest in. As an anecdote, during my week in the region I found myself in CVS and Target on four different occasions—location in my case was important.

In addition to interest rate sensitive companies and "Amazon threat basket" companies we continue to find ideas in Europe and a select few in Asia. Japan remains tough for us, which is actually an irony. There, the stock market is filled with small companies that trade for attractive absolute valuations, a potent and rare combination these days. That said, although statistically cheap, many of these same Japanese companies have poor records of shareholder return and the nascent "going-private" industry seems rather unsophisticated with buyouts occurring at very low multiples. This is weighing on intrinsic values from our standpoint. Notwithstanding its market dynamic, we continue to look there as well.

Building Out Our Team

On a Firm-level the New Year also brought in two new members to our team—an Investment Analyst and a Midwest Business Development Director. Since the Advisor's launch two years ago, we have been scouring candidates to round out our investment team. Much like our research process, the hiring process is bottom-up and organic. For our analyst search the entire investment team is involved in order to help us avoid potentially making a mistake and to correct for each other's biases and on the business development front much of the organization was involved. In our hiring

The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of US equity REITs. Constituents of the index include all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property.

The S&P 500 Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS utilities sector. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

⁴ 2.17% position in the Centerstone Investors Fund as of December 31, 2017

⁵ 0.73% position in the Centerstone Investors Fund as of December 31, 2017



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process the goal is to identify folks who add to the team’s intellectual armory—perhaps individuals who are smarter or more knowledgeable than us as a whole or someone who adds a different perspective. We are all excited and energized to welcome our newest team members and add to our intellectual breadth.

As we continue through 2018, it is a good time to remember the greatest lesson ever taught by “Mr. Market” is that no one can have all the answers in this business as there is no crystal ball. With interest rates and inflation increasing, upcoming US elections and all of the unknowns to come, there certainly will be a vibrant debate over the future direction of stocks and bonds globally. On my regional trip, I observed escalating labor shortages and a local economy that seems to

be overheating. There seems to be an acute shortage of both skilled and unskilled labor. While checking into my hotel in York, Pennsylvania there was a sign advising customers that we would be asked to pay extra for daily cleaning service on the weekend as they did not have enough housekeeping staff to service the hotel. Parked outside of the hotel were vans of local businesses with help wanted signs attached to them. We are not macro investors but it is something to be aware of and it is good to know where we are in the cycle. While we will be aware of the debate around us, you can expect us to continue playing both defense and offense and to also continue taking a different approach.

Thank you for your continued support and interest in Centerstone.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

The commentary represents the opinion of Centerstone Investors as of March 2018 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.

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. 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 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.

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.