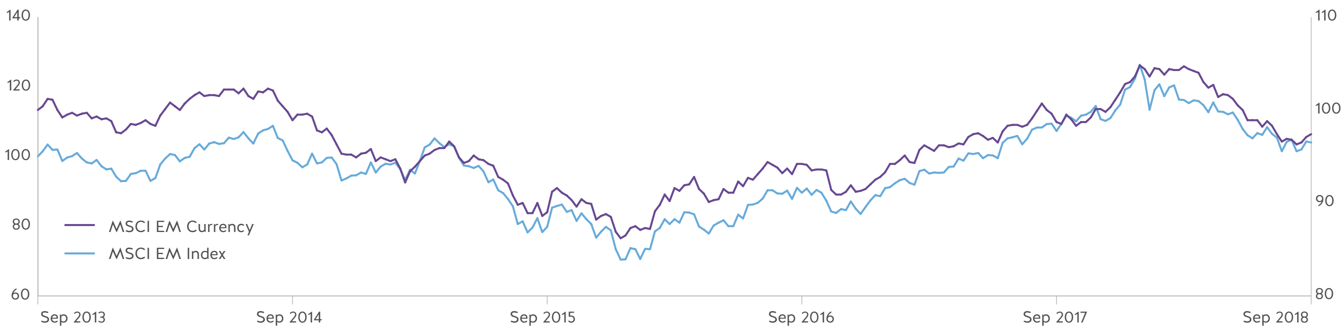
DEAR FELLOW PARTNERS & FRIENDS,

The third quarter introduced more volatility into the global markets with emerging markets suffering the brunt of the weakness, as is often the case during periods of interest rate driven dollar strength. The Centerstone Funds were affected by these declines as the Funds are directly and indirectly exposed to emerging markets to some degree. In fact, in just this quarter we witnessed the prices of many high quality emerging market-based companies drop by up to 50% (in dollar terms). We have reacted to that volatility in the quarter and year to date by adding to existing names and buying some new emerging market companies as well. In our experience, it is not unheard of for such wild moves, even with better businesses, as many emerging equity markets are often driven as much by foreign investor sentiment than by fundamental factors. The graphic below illustrates this by comparing emerging market stock prices with their currencies. There is an almost perfect correlation between the two. Obviously, today's sentiment towards emerging markets is poor and that could continue to affect the regions' equity markets, including our businesses, regardless of underlying fundamentals. Over the long-term, though, fundamentals seem to win out in emerging markets, albeit with some drama.

EMERGING MARKET STOCK PRICES VS EMERGING MARKET CURRENCIES

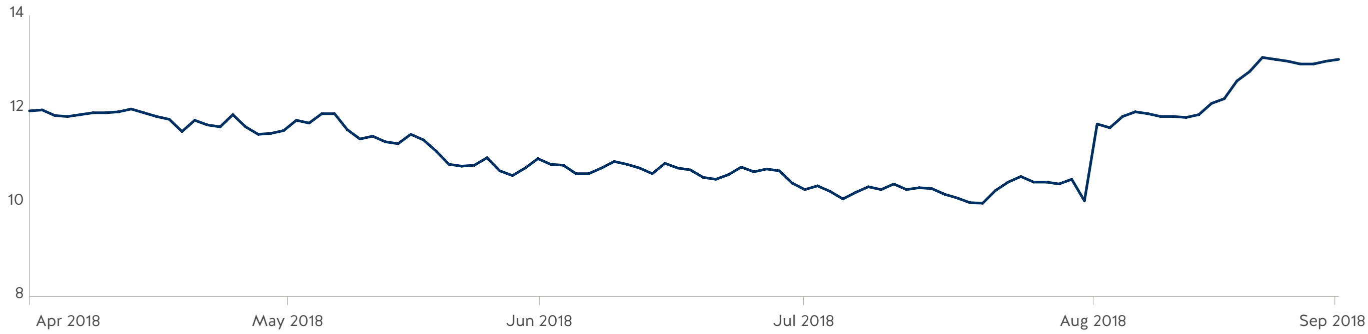


Source: Bloomberg

Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance is no guarantee of future results.

Kerry Logistics is a recent example of a company we own with emerging market exposure. Kerry Logistics is an Asia-focused Hong Kong-listed logistics company that has been building out a modern logistics network throughout Southeast Asia alongside China's multi-billion dollar Belt and Road Initiative. This Chinese plan is meant to link China with the rest of Asia and Europe to recreate a modern-day Silk Road. The recent US-China trade spat has caused ripple effects throughout the world, including volatility in companies such as Kerry Logistics which is dependent on trade for its livelihood. However, just to show how resilient and integrated the global trade ecosystem is, Kerry Logistics recently reported significantly higher results as global businesses began to adjust to potential tariffs by adjusting their sourcing to other countries in Asia, where Kerry Logistics is very strong. As illustrated in the stock chart below, you will see a steep drop during the quarter but then a recovery as the fundamentals reasserted themselves. In other words, Kerry Logistics exhibited a familiar pattern for an emerging market stock—a steep price drop based on worsening foreign investor sentiment followed by a recovery based on fundamentals. In the end, there was hardly any change in price but a lot of volatility. Over time, we believe Kerry Logistics is well positioned to benefit from either the success of China's new Silk Road project or the reorientation of trade routes due to a US-China trade war and so we are confident that the fundamentals will likely remain strong.

KERRY LOGISTICS



Source: Bloomberg
Past performance is no guarantee of future results.

Our holding in Indocement is another case of investor sentiment disconnecting from fundamental value. Indocement is the second largest cement producer in Indonesia, with dominant local market share that translates into significant economies of scale. Profitability is cyclical, however, and for various reasons the company is currently earning much less than what we believe it could earn in a normal environment. As such, we believe the correct reference point for Indocement's fundamental value is not current earnings, but the replacement cost of its production capacity. Private market transactions can be a good proxy for replacement cost as private owners are the ones making the build-or-buy decisions and they typically invest with a long-term time horizon (i.e., with less focus on current earnings). As regional cement production has consolidated over the years, there are ample private market reference points. In fact, just a couple of months ago, the third largest cement producer in Indonesia announced that it was putting itself up for sale. The rumored price range has highlighted the value of cement assets in the fast-growing Indonesian market, as well as the premium that Indocement's assets could potentially command. Indocement's stock price had been impacted by the negative sentiment affecting many emerging market companies and has been down as much as 50% (in dollar terms) during the year but as of this writing, it has recouped much of those losses. We see this as another example of how sentiment can temporarily overshadow fundamentals—until the latter reasserts itself.

"Over the long-term, though, fundamentals seem to win out in emerging markets, albeit with some drama."

Similar But Not The Same

Even though we continue to be confident in our emerging market-based companies, hopefully it does not sound like we are taking any of this emerging market noise lightly (our exposure to such markets is 9.30% in the Centerstone Investors Fund (CENTX) and 13.54% in the Centerstone International Fund (CINTX) as of September 30, 2018). There are many investors like me who were introduced to emerging market volatility in the late 1990s and carry that psychological baggage with them. That crisis worsened in earnest in 1998 and was like nothing I had seen before or since including the Global Financial Crisis. I was working at Oakmark Funds at the time as a Research Analyst and I still remember walking into the office of one the Portfolio Managers who had a research report on his desk titled simply ".5x EBITDA." The company was the leading clothing retailer in Hong Kong whose stock price had fallen more than 90% from its peak. We also owned the number one brewer in South Korea which at its nadir traded for .1x book value. We calculated that at the time Anheuser Busch could have purchased its 50% market share of the Korean beer market for one weeks' worth of Anheuser Busch's cash flow. There was example after example of high quality companies trading for prices that made no sense in the long-term, yet there they were. The Oakmark Funds certainly suffered but in watching my boss at the time, who is still successfully plugging away at the firm, a few things were hammered home—have

> *"Regardless, our preference in the region is for well-managed companies with good business fundamentals and if things get rocky enough we at least have a playbook for that—have patience, do not panic and focus on the fundamentals."*

patience, do not panic and focus on the fundamentals. Indeed, within a few short years, the stock prices of many of those beaten down companies had recovered much of their losses as investors flocked back to those high quality companies and we made a very sizable profit for our shareholders.

I am not expecting a repeat of that era this time and in any event, the reality of what is an "emerging market" probably does not match the typical investor's vision. The best cure for that is to travel around and notice for oneself, but in general my opinion is that there are important differences when looking into the emerging market basket of countries. Turkey and Argentina have nothing in common with Thailand or Chile and as bottom-up investors we can pick and choose our spots. Furthermore, we typically only invest in countries which respect property rights and have adequate minority investor protection. Regardless, our preference in the region is for well-managed companies with good business fundamentals and if things get rocky enough we at least have a playbook for that—have patience, do not panic and focus on the fundamentals.

Amazon Threat Basket Review

Outside of the emerging markets, which have depressed international equity market returns this year, a source of strength for the Funds, particularly the Centerstone Investors Fund (CENTX), has been the strong recovery of the components of the "Amazon threat basket" in 2018. We initially wrote about our thoughts on the matter in our third quarter letter last year titled *Operating In The Grey Area*. Essentially investors were in a "shoot first ask questions later" mode with companies caught in Amazon's crosshairs, which allowed us to pick up the shares of many solid companies such as Grainger, Target, Ahold Delhaize and O'Reilly Auto Parts.

Take O'Reilly Auto Parts. Last summer investors became concerned that Amazon was expanding its auto parts business and its focus on the overall auto sector. Our research indicated that Amazon and other online players would have a limited impact on O'Reilly's business. A recent meeting with O'Reilly reaffirmed that it provides value that online-only competitors cannot match. O'Reilly uses its stores almost like local warehouses and can ship parts to auto repair shop/garage customers typically in under an hour. Each O'Reilly store serves auto repair shop customers within a set radius of the store. This enables O'Reilly to have delivery times that online-only players cannot come close to matching. There are some well-run independent auto parts stores, but they do not have the same resources or scale that O'Reilly has. We believe O'Reilly remains well positioned and that there is a lot more business it can gain with its auto repair shop/garage customers.

Similar to the experience with Kerry Logistics (noted at the top of the letter), the fundamentals have proven to be quite resilient for most of the companies in the "Amazon threat basket" and the prices have risen dramatically in the past 12 months. For instance, Grainger +99%, Target +49%, Ahold Delhaize +25% and O'Reilly Auto Parts +61%. This has proven especially useful in a year where our international portfolio has been retrenching after last year's gains. We believe it is an early validation of our approach amid our effort to hopefully ensure its continuity. It is also another illustration of why we focus on the facts on the ground rather than opinions over the airwaves.

Thank you for your trust and interest in Centerstone.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

Risks and Disclosure:

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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.

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