



DEAR FELLOW PARTNERS & FRIENDS,

I am pleased to report the Centerstone Investors Fund (CENTX) and the Centerstone International Fund (CINTX) were successfully launched on May 3, 2016. We spent the months leading up to the launch building our infrastructure. It is probably not a novel statement to say that setting up a new advisory business in the current environment is more challenging and expensive than ever as the increased scrutiny over compliance standards and regulatory oversight directly impacts us. The benefit of our timing is that our own compliance standards and policies were created under these conditions. Furthermore, we have implemented and tested trading, compliance, accounting, custody, disaster recovery technology and systems and have set-up our business to conform to best practices. It took hard work from the entire team and I am indeed fortunate to be surrounded by great people, as I noted in my [Founder's letter](#). Their character is clearly reflected from the start in their attention to detail, investment acumen, client relationships and marketing support.

A Quality Approach In A Fairly Valued Market

While I was on garden leave last year I spent much of my time building the portfolios in anticipation of a mid-2016 launch. During those 18 months I had ample time to diligently dive into the world's markets and discover many new and interesting companies in which to invest. Our small size greatly broadens our opportunity set enabling us to research a larger universe of companies. For instance, there are many small developed countries with well-established and stable companies. In some cases, these companies are purely local businesses that, although dominant, are fairly small.

Our equity portfolios are generally split into two parts. The top halves of the portfolios favor companies that we believe are stable and of high quality. Historically, they have tended to have low debt, high free cash flow conversion and above-average returns on capital. Weightings are generally driven by our assessment of their long-term stability and shareholder friendliness, combined with our assessment of their respective margins of safety. We expect these holdings to remain in the portfolios for the long haul. The bottom

halves of the equity portfolios are generally comprised of companies undergoing cyclical deterioration or do not have as great of a margin of safety embedded in their current prices. We expect that many of these holdings will be sold should their prices reach their intrinsic values.

Our size also allows us to participate in the high yield space and the volatility in the past quarter has provided us with entry points. We target our high yield exposure to potentially provide equity-like returns plus a premium to help offset the Funds' expenses. We employ a risk-managed strategy for the portfolios and therefore are relatively more conservative in our high yield selection. Specifically, we seek to avoid apparently distressed issuers, which may mean foregoing higher returns in exchange for less likelihood of default.

In regards to our active reserve management, that portion has recently generated modest yield without taking undue risks using a combination of cash, high quality short-term corporate bonds and Treasuries. The Funds also have exposure to gold, which reflects our long-standing belief that it may offer some diversification benefits in extreme market environments. Finally, the Funds' foreign currency exposures are partially hedged with forward currency contracts to potentially protect against unfavorable currency swings.

With global long-term interest rates at close to zero, stock prices at historically high levels and increased uncertainty across the globe, we believe this combination of reasonably priced, high quality companies and statistically cheap cyclical companies, in addition to a healthy level of reserves, offers the best solution for investors in the Centerstone Funds.

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A Tilt Towards Developed Markets

Geographically the Funds are most directly exposed to the developed markets, with the least being to Japan. Many of our favorite Japanese names rose during the “Abenomics” experiment to well beyond their intrinsic values. However, we continue to monitor the small capitalization space in Japan, as it remains statistically cheap. According to S&P Capital IQ, of the nearly 2,000 non-financial-related Japanese companies with market capitalizations greater than \$100 million, 44% trade for less than their tangible book values. In many cases these low valuations are deserved due to a widespread corporate mindset which has traditionally ignored the voice of shareholders in regards to capital allocation. For instance, critics often point to large cash balances which could be reinvested for growth or returned to shareholders via buybacks and dividends. Nevertheless, we continue the search in this peculiar developed market, one which in many ways resembles that of an emerging market.

While the Funds currently do not have a large direct exposure to traditional emerging markets, they do have quite a bit of indirect exposure through developed-market-listed companies. As a result we believe they may still benefit if emerging market economies grow in the future.

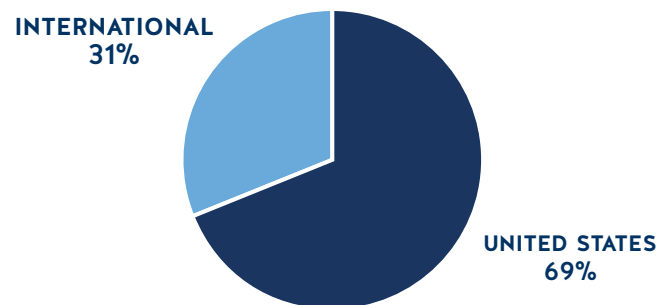
Operating Principles Revisited

Centerstone is a **long-term, global, bottom-up** investor. First, we have a **long-term** investment horizon as we believe the greatest chance for successfully navigating the financial markets, from our experience, is to act as investors and not as speculators. It has also been our experience that a risk-managed approach can lead to periods of lackluster returns, especially in strong market environments with narrowing

opportunity sets. On balance, we believe that it is less about “timing the market” and more about “time in the market.” Patience is key.

Second, we are **global** investors as we believe that the perspective gained from investing around the world adds to our competitive edge. For instance, well before the Global Financial Crisis of 2008–2009, we observed similar events in other regions of the world, such as the Asian Financial Crisis of 1997–1999 which taught us that “anything can, and will, happen.” It is also important to note that a company’s domicile may tell you little about its actual geographic exposure from a business perspective. Examples in the portfolio include a large food company domiciled in Switzerland which has the vast majority of its sales outside Switzerland and a large manufacturing company domiciled in the US which derives 60% of its revenues from international markets. In fact, as illustrated below, the S&P 500 Index derives 31% of its revenues from international markets. That would be even higher if local industries such as utilities or telecommunications were excluded. It seems almost archaic to not think globally in modern times.

S&P 500*: AGGREGATE GEOGRAPHIC REVENUE EXPOSURE



Source: Q1 2016: FactSet

Lastly, we are **bottom-up** investors which means our attention is on the details of businesses. I rarely will have any original macro insight as I have never seen that to be useful in any case. In hindsight, this last bull market has had its share of macro challenges, but I think investors would have

*The Standard & Poor’s 500 Index is a widely recognized unmanaged index including a representative sample of 500 leading companies in leading sectors of the U.S. economy and is not available for purchase. Although the Standard & Poor’s 500 Index focuses on the large-cap segment of the market, with approximately 80% coverage of U.S. equities, it is also considered a proxy for the total market.



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been better off ignoring the news, pundits and strategists. The constant chatter about ultimately unknowable things can distract from the fact that business values are mostly independent of such things anyway.

Recently, a lot of attention and conversations have centered around “Brexit”** and its impact on the world’s markets and economies. Before that, the investment community was consumed by the possibility of the Federal Reserve exiting its accommodative interest rate policy (“Fexit?”) and before that China’s exit from decades of high economic growth (“Chexit?”). It is true that each of these events can have a large impact on market prices, but each also highlights the futility of managing a portfolio with a definitive view on future macro impacts. The “Brexit” vote surprised virtually everyone. The Fed raised interest rates once before backing down and China’s slowdown has so far impacted a very narrow slice of global companies. This is the main reason we do not manage to a macro view: businesses are managed to serve their constituents and their intrinsic values are almost wholly dependent on the daily grind of competition,

production and innovation. Well managed businesses are adaptable to their environments, even to a shock such as “Brexit.” Our experience has been that while asset prices can fluctuate wildly during such moments, good businesses and their underlying values just do not change that much.

It appears investors have two choices: either try to position portfolios based on a top-down view even though common sense says that no one can predict the future. Or, to simply assume that we will continue to have major challenges to overcome. In the case of the latter, which is our own approach, our portfolios will tend to be diversified among well capitalized and reasonably priced businesses, along with some reserves. This **long-term, global, bottom-up** approach has served us well over time and we believe will continue to do so.

Welcome to our small but growing family. Thank you for your trust and interest in Centerstone.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

****Brexit** is an abbreviation of “British exit”, which refers to the June 23, 2016 referendum by British voters to exit the European Union.

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. 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.

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.

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.

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 Fund’s 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 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.