CENTERSTONE INVESTORS

INDUSTRIAL UPCYCLE RESUMED

SEPTEMBER 30, 2020

DEAR FELLOW PARTNERS & FRIENDS,

Centerstone continues to ply its trade in global value stocks, a fertile ground as global markets largely remained fixated on a narrow universe of momentum stocks. The first cracks in the otherwise impressive rally of the "big 5" (Facebook, Apple, Amazon, Netflix and Google) stocks did emerge, but its future significance remains to be seen. I have my suspicions but I am biased being of the view that common sense should prevail over time. In that universe, the Centerstone Investors Fund (CENTX) and Centerstone International Fund (CINTX) may begin to shine as the world slowly gets back to normalcy and what we believe to be the glaring gaps between price and value among the Funds' holdings close.

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Over the third quarter, we purchased a number of new companies that were on our watch list. Aside from our new positions, we sat and watched while the stock markets continued to be pushed around by mostly non-fundamental factors. These include the monetary policies of global central banks, the influence of COVID-19 vaccine-related news, geopolitical noise, the mob rush into technology stocks, and I think I am forgetting something. Oh, no I just wish I could forget. The political cycle.

I will leave the latter topic for experts to opine on. On the others, though, while the business world is on pause, it makes sense that other factors would mostly influence the direction of stock prices. After all, individual stock prices are driven in the short-term by earnings and without that signal, markets can trade on other news. That said, intrinsic values are generally linked to long-term earnings power and it does not seem to be the case that earnings power has been impaired, outside of areas where they were already at risk due to technological disruption. At least that is what I gather from company reports of current and prospective trends. Therefore, we continue to eye companies whose stock prices are significantly depressed versus their peaks but where we believe the business itself is going to grow over time. It is that time element that seems to be providing the biggest bang for the buck right now. It can be challenging to have patience and perhaps maybe even harder to be optimistic.

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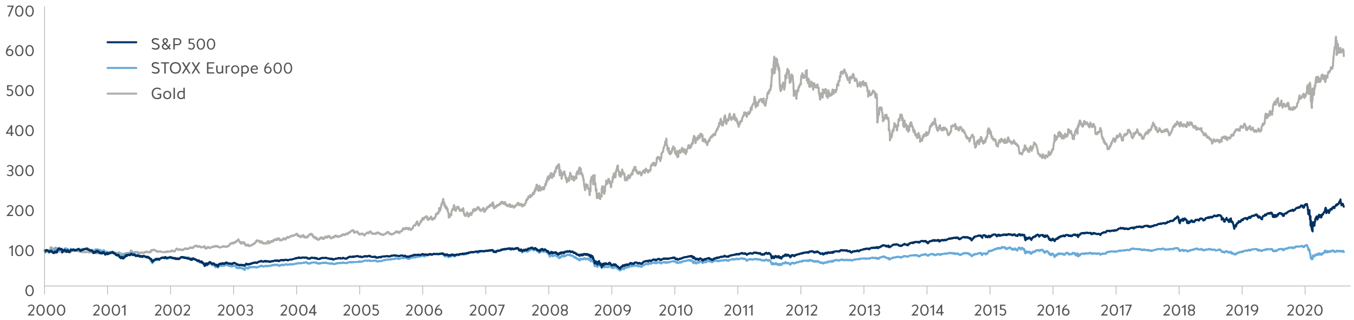
Just In Case

Where that positive outlook finds some tension though is in the fiscal situation of most of the world's governments. Another concern is the second-order effect of the Federal Reserve's creative intrusion into the capital markets, in particular the market for low-rated corporate debt. I am a little surprised how closely they are following Ben Bernanke's prescription for deflation as laid out in his 2002 speech *"Deflation: Making Sure 'It' Doesn't Happen Here."* The policy is institutionalized (pun intended) which I did not appreciate until a few months ago. That said, in my opinion, it makes the Fed predictable at least. And the good news is that there are still a few more steps that they have ahead of them. Therefore, I do not think the worst-case scenario, when looking at the mountain of sovereign debt is a landslide, for now. In my opinion, it is still not a bad idea to have some gold just in case.

GOLD HAS OUTPERFORMED US & EUROPEAN EQUITIES OVER THE LONG-TERM



Past performance is no guarantee of future results. Investors cannot invest in an index.
Source: Bloomberg
Note: Values indexed to 100

Gold has a few things in its favor. In no particular order, it is its own asset class. It is no one's liability, unlike a currency note. It cannot be created and is therefore finite. It is virtually impermeable to erosion which means it lasts forever. Its use as a store of value has been documented for most of the history of mankind and as currency 3,000 years ago. The current version of the dollar is 49 years old. The euro is 20 years old. In my view, if ever there was a hedge against the "final chapter" of the Fed's fight to stave off deflation in our global fractional-reserve dollar-standard banking system, that hedge would be gold—as it always has been. That said, gold also has costs that should not be ignored. It can be stolen, confiscated, taxed and otherwise abused. This means it must be stored and there is a cost associated with that. It also pays no income. Other than as a store of value, it is essentially useless. With that said, on balance, we believe gold's appeal outweighs its costs and the Centerstone Funds have always held some gold and had some exposure to gold equities. While gold is often dismissed as an inert asset that does not generate cash flow, it has in fact delivered incredible appreciation to investors over that last 20 years, even compared to equities.

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Brighter Skies Abroad

As the year has progressed, we have become more confident in our view that the world is on the mend and that non-US markets are well on their way to recovery. In certain cases, the comparisons between the state of US and non-US economies are stark. For instance, while New York City's unemployment rate stood at 20% in July, that rate in London was 4%. Judging by stock index returns, though, this difference has been slow to be noticed, with the major US averages greatly outperforming those overseas. This is perhaps due to foreign economies' greater reliance on more cyclical industries to drive growth, compared to the dominance of technology companies over US indices. While a benefit for US indices in the past decade, the over-reliance on technology stocks can have its drawbacks. In particular, there have been many times over the years when a long-running industrial cycle has elevated earnings growth to a material enough degree to drive sustainable bull markets. Much of the 2000s was that way. Durable earnings momentum drove a long cycle of outperformance for "dull and boring" companies. The setup today is similar in that the industrial cycle, which in hindsight peaked in early 2018, began already showing early signs of recovery by year end 2019. I thought until recently that the recovery had been shelved but there are enough reports from our companies now to suggest that the upcycle has resumed.

Considering that our portfolios are oriented towards such businesses our optimism has been reinforced that the Funds are indeed "skating to where the puck is going." What is especially nice about this is that many of the stocks which we have chosen are down steeply from their peaks and we believe this means that there may be ample returns to be had if our analysis is correct. For instance, German airport operator Fraport[1] peaked at nearly €100 in 2018 and bottomed recently near €30. This is a company with a dominant operation and valuable real estate and is a very long duration business that has little chance to be materially impaired by this crisis. Hurt? Yes, of course. But has the intrinsic value declined 70%? Certainly not.

Over and over, we find such names in the "old economy." But at the same time, there are many special situations that remain ignored, companies that we have often described as "grey area" companies. One such company is Perrigo[2]. Perrigo is the largest manufacturer of store brand over-the-counter (OTC) products in the US. It makes the private label version of Advil, Tylenol, Mucinex and many other products for retailers such as CVS, Walgreens, Walmart, Target and even Amazon. While there has been lower foot traffic at some of its brick and mortar customers, this has been more than offset by the robust growth in its e-commerce business. Perrigo is the major supplier for Amazon's OTC product line, which is called Basic Care. Some traditional brick and mortar retailers have grown their OTC e-commerce business and Perrigo is also the major supplier for them.

We believe its improving results in the OTC business is being overlooked by investors due to concerns over its non-core generic pharmaceuticals business and a tax liability. It has committed to separating its generic pharmaceuticals business and the tax liability is working its way through the courts. These issues have created uncertainty and investors are not appreciating the improving fundamentals of its OTC business. With a highly capable and consumer-oriented CEO now at the helm, Perrigo has been making investments to drive innovation. We believe that innovative new products will enable it to generate solid organic growth and higher profitability in the years to come.

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Another interesting example is Gudang Garam[3] which is the second largest tobacco company in Indonesia. Indonesia's government sharply increased excise taxes in 2020, pre-COVID-19, following a year without an increase, driving share prices across the tobacco industry lower. An annual tax increase is normal and tobacco companies can typically raise prices, given the inelastic nature of demand, to pass the higher cost on to consumers and then some. Lumpy tax increases are a short-term profit headwind, but prices eventually rise to pass the higher cost on to consumers. Share prices frequently negatively overreact to lumpy tax increases, potentially creating an opportunity for long-term shareholders like Centerstone. Gudang Garam's products skew toward the "value" category, which consumers trade down to when affordability declines (i.e., prices increase). The pandemic-driven economic slowdown is exacerbating the tobacco affordability issue and driving more consumers to trade down than is typical. The company has gained significant market share year-to-date as a result. While the entire industry is negatively affected by the economic situation, Gudang Garam is relatively winning. Over time, we expect Gudang Garam to raise prices to offset the 2020 excise tax hike and for profits to rise back to historical levels. The shares trade for less than 8x our estimate of normal operating income.

It remains to be seen whether the outcome is as favorable as some of the other stocks we have mentioned this year in our commentaries but again, it is these situations that drive our confidence that we are in just the beginning stages of a value rebound and a rebound for non-US listed stocks. There is no shortage of potential ideas. We continue to see brighter skies

1 1.71% position in the Centerstone Investors Fund and 2.59% position in the Centerstone International Fund as of June 30, 2020
2 2.37% position in the Centerstone Investors Fund and 3.20% position in the Centerstone International Fund as of June 30, 2020
3 1.54% position in the Centerstone Investors Fund and 2.52% position in the Centerstone International Fund as of June 30, 2020

CENTERSTONE INVESTORS

"There is no shortage of potential ideas. We continue to see brighter skies ahead, though probably with some interruption over the next couple of months as the markets work through the elections."

ahead, though probably with some interruption over the next couple of months as the markets work through the elections. I would not be surprised to see continued weakness among some of the market's popular stocks, moreover, I remain encouraged that our Funds are well-positioned for the long-term.

Thank you for your trust and interest in Centerstone.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

Important Risk Information and Disclosure:

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's 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.

The STOXX Europe 600 Index is a stock index of European stocks. The index has a fixed number of 600 components representing large, mid and small capitalization companies among 17 European countries, covering approximately 90% of the free-float market capitalization of the European stock market (not limited to the Eurozone).

Gold is a metallic chemical element that has the form of a dense, soft, shiny yellow metal. Gold has been widely used as a vehicle for monetary exchange, either through gold coins and bullion, or through paper currency backed by gold reserves. The Gold spot price is quoted as US dollars per Troy ounce.

The commentary represents the opinion of Centerstone Investors as of September 2020 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.

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.

Past performance is no guarantee of future results.

The value of the Funds portfolio holdings may fluctuate in response to events specific to the companies or markets in which the Funds invests, as well as economic, political, or social events in the United States or abroad. The impact of the coronavirus (COVID-19), and other epidemics and pandemics that may arise in the future, could affect the economies of many nations, individual companies and the market in general in ways that cannot necessarily be foreseen at the present time.

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 Funds' 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.

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.