2020 IN HINDSIGHT

DEAR FELLOW PARTNERS & FRIENDS,

If I just looked at this year's calendar returns for the two Funds, the Centerstone Investors Fund (CENTX) and Centerstone International Fund (CINTX), I would have thought the year was nothing special. Like 2020, many calendar years begin and end on different notes. 2009 also began with a market plunge and ended with a strong rally. Conversely, 2000 began with a spike and ended with a market plunge. The common thread seems to be the crowd's tendency to overreach and thus its likelihood to be wrong at the extremes. 2020 was another good example of this tendency. This repetition of crowd behavior seems innate of public markets and endures even though most participants are aware of these behaviors. Maybe this is because the crowd tends to self-reinforce existing trends, proving itself right in the short-term and rewarding those that chase the momentum. Early entrants that are rewarded act as great advertisements to those who have yet to take the plunge. As more participants join, momentum builds until critical mass is achieved. Whether these trends temporarily correct or reverse altogether depends on many factors. While valuation acts as a measuring stick, in our experience it seldom triggers a market reversal by itself.

Different Flavor

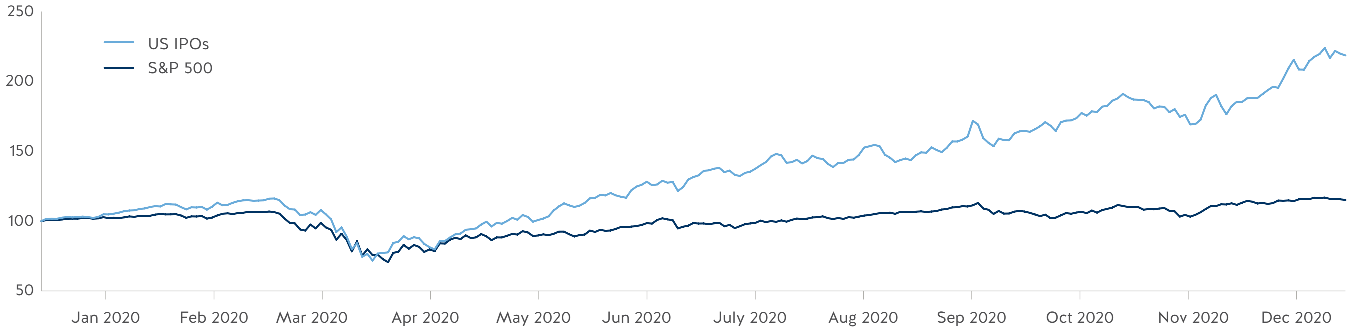
Many labels have been applied to these exuberant market phases over the years: momentum markets, growth markets, bubbles, or simply bull markets. Regardless of what they are called, they typically seem to be dominated by "everyday" people, a theme that is reflected in the hot stocks of the day. You can recognize those markets by revisiting Peter Lynch's mantra, loosely stated, that if you use it, buy it or shop at it, then buy the stock. In those environments, valuations take a back seat and story stocks light it up.

If there is a risk here it has a different flavor than the bubble most skeptics compare this period against (i.e. the late 1990s). Back then it was clear Wall Street was bringing companies public that had no business listing on the exchanges. Many did not even generate revenues. This time, a casual look at the sponsors of recent IPOs would highlight investors such as Berkshire Hathaway (Snowflake), Softbank (DoorDash) and Sompo (Palantir). Silicon Valley startup investor Sequoia Capital also features large in all those companies. One cannot argue these IPOs are somehow fraudulent or bad businesses, but I cannot shake the feeling that something is wrong. The fault may be the public's willingness to price these companies at valuations far removed from their fundamentals. While not a recent IPO, Tesla's recent addition to the S&P 500 index makes it the sixth-largest company in the index by market cap even though it ranks 90th by revenue. BMW generates more in revenues in one quarter than Tesla does all year and with a market cap hardly 10% of its electric competitor. One may justify the valuation on growth potential, I suppose, but only if one overlooks that its revenue growth rate has been declining since its 2018 peak. Palantir's $50 billion market cap compares with one billion dollars in revenues, a 50-1 ratio. Its operating loss exceeds its revenues. Snowflake's $100 billion valuation compares against its $500 million in revenues, a ratio of nearly 200-1. It also loses more money than it generates in revenues. Were Snowflake to find its way into the S&P 500 index, it would rank 70th by market cap terms but its revenues would be half that of the smallest company in the index.

Even though I am not personally interested in IPO investing I do read through many of the offering documents just to keep current on emerging trends and, importantly, new-issue quality. On that point, the quality of IPOs easily out measures that of the late 1990s. No comparison there. However, I do notice versions of the same cautionary language repeated in several of the documents relating to future growth potential. Airbnb says that among the risk factors faced by the company's investors is that "our revenue growth has slowed" since 2017, "and we expect it to slow" in the future. Snowflake, while touting its strong recent revenue growth, also cautions that its major service providers are also its major competitors (Amazon, Microsoft and Google), which seems like an obvious limiting factor to growth. But no worry, they will just sell themselves to the highest bidder? Not with the share class that is being sold to the public. Insiders will retain voting control and the company has anti-takeover provisions written into the company's charter.

Another common thread is that almost all Silicon Valley businesses are focused on maximizing market share regardless of the profit implications (i.e., the "winner takes all" business model). This has been a successful strategy

RECENT IPOS HAVE TROUNCED THE S&P 500



Past performance is no guarantee of future results. Investors cannot invest in an index.

Source: Bloomberg

Note: Values indexed to 100

since the outset of the digital revolution, but it was much easier when attacking markets and incumbents with large legacy fixed costs. Lest one thinks this strategy is unique to Silicon Valley now, one just need look east to Japan which pioneered the strategy beginning in the 1970s. Their relentless focus on cost and quality, augmented by their high market share/low profit business model allowed them to build an almost insurmountable manufacturing cost advantage that laid waste to much of US manufacturing. Of course, soon most of that was copied by their neighbors and the rest is history. Understanding that these environments eventually balance out, that there is no permanence in a free market and that crowds can overshoot, I think it is important to not get too carried away investing in high growth companies at multiples that cannot bear any disappointment.

If I gave you the option to invest in a company that was eight years old, exempt from reporting on its financial controls, with losses that exceeded its revenues, competing against companies with revenues a combined 1,340 times greater, using an untested pricing model, with reduced votes and no chance of ever being sold—wouldn't you demand any sort of margin of safety when investing in Snowflake? For investors in this and similarly valued growth companies, the answer seems to be no.

Tailwinds

At Centerstone, we emphasize valuations, management, balance sheet strength and business model durability, rather than stories, which has not been a favored investment style lately. That said, I have never thought that our way is superior to all others or the only way to generate attractive stock market returns, just that this fundamental value-oriented practice made sense to me. And over the years, this investing style has withstood a variety of challenging market environments which reinforced its many benefits. It is why I stubbornly stick with it, for better or worse.

Over my three-decade career, there have been two extremely trying times for our particular style of global value investing. The first was the late 1990s when the Asian Financial Crisis turned cheap stocks into giveaway stocks. The second period was the past couple of years. I do not know if there is an obvious common thread but I am sure someone will find one with some hindsight. And although I am not sure that the recent period of frustration has come to an end, I do find it encouraging that so many of the headwinds for non-US markets suddenly seemed to have reversed this year. Fiscal tightness in Europe has turned to fiscal expansion, inflation seems to have taken some hold and the demand for dollar assets seems to have moderated. Layered on top of many years of underperformance and lower valuations, the return potential for non-US markets has rarely looked as compelling as it does now. If one invested on the basis of "catalysts," there sure are a lot of them.

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Trending Small

The portfolios' compositions continue to trend toward small and mid-cap non-US stocks even as such stocks have had a strong rebound from their bottoms. This area of the global market continues to offer ample opportunities likely because of the depth of its down cycle which began several years ago. For example, small value stocks underperformed the MSCI EAFE index which itself lagged the large cap US index. I guess a second derivative of disappointing. But starting in the summer, within that disappointment we began to see some rays of light. Portfolio companies as varied as Kerry Logistics[1] to Air Liquide[2] (from Asia to Europe and from industrial gases to logistics) have been releasing surprisingly strong results and have been noting encouraging trends. Whereas I initially assumed these positive trends were more "snap back" from the spring, the momentum is persistent enough to question that assumption.

One smaller non-US company we purchased during 2020 was Pax Global Technology[3]. Pax, based in Hong Kong, is one of the three largest producers of point of sale (POS) terminals in the world (the machines that accepts your credit card at the store). Pax is especially strong in emerging markets, such as Brazil. There are only three global suppliers of these terminals. Certain regions have regional suppliers as well, but there are significant barriers to becoming a global player. Pax generates high returns on capital, has a net cash balance sheet and its management team has recently become more shareholder-oriented. To illustrate the last point, during 2020 Pax increased the regular dividend twice, repurchased shares nearly every month and paid a special dividend in December.

Global demand for Pax's products accelerated throughout the year, partially in response to the COVID-19 pandemic. While the trend away from cash was already in place, many businesses around the world accelerated their transition to reduce exposure to the virus from handling cash. A significant portion of transactions in emerging markets are still completed in cash and there remains significant long-term growth potential. While the share price has more than doubled since our initial purchase, Pax only trades at 10x the net income guidance for 2020. We believe Pax continues to be a highly attractive investment at the current valuation.

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COVID-Recovery Basket

The Funds generally remain fully invested, with some gold exposure. Cash has been close to fully invested since late March. This after holding quite a bit of cash and equivalents (up to about 25%) since our launch. It seems to take extraordinary circumstances for me to fully deploy cash. The last time I was fully invested was April 2009. In that case, as now, the Funds focused their holdings among a basket of high quality franchises and statistically cheap companies. The common thread as 2020 wore on was that the Funds' exposure grew more tilted to "recovery" stocks. Both portfolios are now heavily invested in such companies.

Henry Schein[4] is an example of a company in our recovery basket. It is the world's largest distributor of health care products to office-based dental and medical practitioners. Its primary customers are dentists and medical practitioners that operate small and medium-sized enterprises. Henry Schein has developed a high-touch, full-service model to best serve its small customers and help them deal with their day-to-day business and practice issues. Historically, it has generated organic growth throughout the business cycle. However, the Covid-19 pandemic had a significant impact on dental and medical practices. Beginning in mid-March, dental practices worldwide suspended all non-emergency procedures and medical practices limited patient visits. In April Henry Schein's global dental sales, for example, were down 70% versus the prior year.

Henry Schein has a strong balance sheet and access to ample liquidity and we believed it had the flexibility to manage through this challenging environment, while also helping dentists and medical practitioners navigate through the disruption to their practices. We added to our position as we

1 3.51% position in the Centerstone Investors Fund and 5.54% position in the Centerstone International Fund as of September 30, 2020
2 4.50% position in the Centerstone Investors Fund and 4.93% position in the Centerstone International Fund as of September 30, 2020
3 0.73% position in the Centerstone Investors Fund and 1.17% position in the Centerstone International Fund as of September 30, 2020
4 1.47% position in the Centerstone Investors Fund as of September 30, 2020

believed that dental and medical practices would ultimately resume normal operations and demand would recover. By late May dental patient volumes had improved significantly and are now back to approximately 80% of pre-COVID-19 levels. Even though patient volumes have not fully recovered, Henry Schein is already back to positive revenue growth year-on-year.

In addition, Henry Schein had expanded its capabilities to procure personal protective equipment (PPE) and it began distributing PPE to dental and medical offices so they could safely operate their practices. In recent months, dental practices have resumed normal operations and the dental market has broadly recovered as patients have felt comfortable visiting their dentist again. Henry Schein has been a critical partner for its customers as they reopened and ramped back up their practices. Even though patient volumes have not fully recovered yet, with dentists resuming normal operations and the sale of PPE to its customers, Henry Schein generated double-digit organic growth in the third quarter of 2020.

As always, the future is uncertain and time will tell, but as of this writing it does appear that the global economy is able to absorb the most recent virus surge and still emerge rather strong in the summer. If that is what is in store, I am looking forward to watching our Funds' performance.

Thank you for your continued trust and support. We wish you a happy and healthy New Year.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

Important Risk Information and Disclosure:

The Renaissance IPO Index reflects approximately the top 80% of newly public companies based on full market capitalization, is weighted by free float capitalization and imposes a 10% cap on large constituents.

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 commentary represents the opinion of Centerstone Investors as of December 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.