VALIDATION OF VALUE?

DECEMBER 31, 2021

DEAR FELLOW PARTNERS & FRIENDS,

I chose the name of our Firm, Centerstone Investors, with the emphasis being on *Investors*. I have always invested in companies that I viewed as undervalued and have a combination of a good balance sheet, management team and business model. The basic idea is that good companies sometimes face challenges but overcome them provided there is motivation and time to do so. Motivation is driven by a management team that is properly incentivized while the time element is a function of the business' durability along with its balance sheet. We often seek to buy good companies facing temporary challenges at prices that assume the challenges will persist. It is our view that price is paramount. If we have analyzed the company correctly, price should eventually rise towards intrinsic value. Management's actions can play a significant role in closing the gap, even if external factors temporarily upset the path. In our opinion, COVID-19 was an external factor that muddied the path for many of our companies, but the paths were not destroyed. The safety net provided by strong balance sheets and durable business models indicates that they are still on track to deliver results, even if delayed.

My preference for undervalued companies driven by self-determination has consequences, sometimes for the better but sometimes not. The portfolios tend to be light in highly valued and popular areas, such as technology today. Additionally, we are mostly absent from certain parts of the "value universe," specifically banks and energy stocks. The explanation for the latter is straightforward. As a rule—and there are exceptions—these areas are more influenced by external factors which, in my view, are not predictable. For instance, determining the intrinsic value of a typical downstream energy company requires knowing the future price deck of a commodity. To value a bank, I must know the future direction of both interest rates and their term spreads. Moreover, companies in both industries are typically highly leveraged. Without the ability to know the future I cannot compute a reasonable range of potential intrinsic values, meaning I am not as confident of the margin of safety. The inherent leverage only magnifies the uncertainty. Consequently, I generally avoid these areas.

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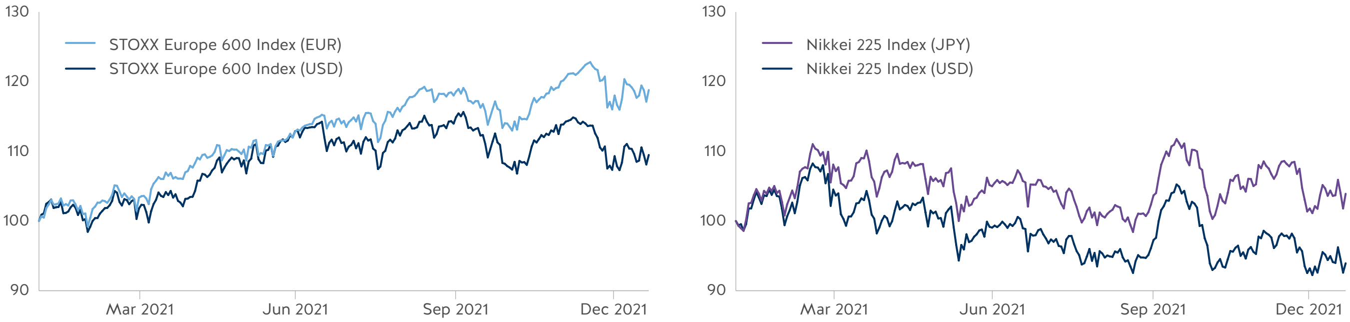
A Look Back at 2021

The year 2021 was positive, albeit masked by external factors. There were several takeovers of portfolio companies that validated our fundamental analysis and intrinsic values. That validation adds to the confidence I have in the portfolios' positioning as the remaining businesses in both Funds continue to trade at steep discounts to their intrinsic values. Our approach seems to be working as intended despite the headwinds.

The headwinds were a grab bag of items related to the ongoing normalization process from the COVID-19 shock. For instance, benchmarks were highly influenced by expanding valuations, particularly by financial and energy stocks. Both areas have proven over time to be both volatile and unpredictable. And perhaps like most people, I believe the biggest factor in the spread of returns across sectors, including these, was the erratic series of responses to COVID-19 over the last couple of years. Contrary to most, however, I believe the amplitudes of the shockwaves are contracting back to normal.

DOLLAR HEADWIND TO INTERNATIONAL INVESTORS



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

An additional consideration for 2021's returns was the strength of the dollar, which was a major headwind for unhedged international investors as otherwise respectable local currency returns across the world were whittled away in dollar terms. For instance, European markets posted a gain of 22% in euros, but only 14% when measured in dollars. Similarly, Japan's Nikkei index rose 5% in yen terms but fell 6% in dollar terms. This is not unusual and my experience over the years is that currency effects mostly wash out over time. The timing of the dollar's strength was, however, disappointing as it masked what went right in the Funds' portfolios.

Private Market Activity

In 2021 the portfolios had several meaningful transactions including Kerry Logistics[1] and ICA Gruppen[2], both of which occurred at or above our estimate of intrinsic values. For reference, Kerry's undisturbed pre-announcement price was around HK$16.5 versus the private market transaction valuation of HK$26.1. ICA Gruppen was trading at SEK 414 before rumors of a takeout emerged. The takeout offer was SEK 534 per share, which is a 29% takeover premium. This dynamic is key to understand when investing in our Funds. At times, like now, there can be a large gap between the quoted price of the Funds' holdings and their intrinsic values. Over time these gaps usually converge, with private market activity as just one means by which that can happen.

Another catalyst to close the gap is when a company's financial results begin to exceed market expectations. Since the expectations are usually low for such undervalued companies, the gap between price and value can close rapidly when the time comes. A current holding that we believe exemplifies this phenomenon is Perrigo[3]. We have mentioned this company in the past, but it is worth reviewing again. Perrigo is a manufacturer of store-brand over-the-counter (OTC) drugs in the US and branded OTC drugs in Europe and dominates certain niches in both economies. In the US they have approximately 65% market share in the OTC categories in which they compete and their products can be found in drug stores and online channels. It is a mundane business, selling cough and cold medications and the like.

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1 No longer held in the Centerstone Investors Fund and the Centerstone International Fund due to takeout. Pre-takeout 3.17% position in Centerstone Investors Fund and 3.55% position in the Centerstone International Fund as of December 31, 2020

2 4.27% position (including Coast Capital Mercury Fund) in the Centerstone Investors Fund and 6.61% position in the Centerstone International Fund as of March 31, 2021

3 1.75% position in the Centerstone Investors Fund and 2.79% position in the Centerstone International Fund as of September 30, 2021

COVID-19 impacted the business but going back to the first part of this letter—management is motivated, the business model is sound and the balance sheet is secure and provides flexibility and time. As the world normalizes, I believe it is likely that earnings recover rapidly and that the stock could today be trading as low as 11x recovered earnings. Similar businesses have been taken over for higher multiples. In this case, management has a large amount of stock and the CEO has an enviable track record of fixing and selling businesses for large premiums. I rather like these types of investments where we do a lot of work upfront and then let the business do everything else.

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Since the dot.com bubble peak of 2000, the price returns for the NASDAQ and S&P 500 have amounted to 6% and 8% annualized, respectively. If that sounds low, it is because the starting point for both indices was a historically overvalued one. Ironically, the only reason that the returns were even as high as they were, is because we have returned to those rich valuations. The point is that valuations do matter over time, both high-priced and low-priced ones. While the future is uncertain, considering the latent opportunities available to us, I believe more than ever that Centerstone's Funds are outstanding counterweights for investors seeking balance in their portfolios.

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We continue to plow ahead with our craft and the periodic validation of our approach tells us that indeed our investing style is not dead, just maybe hibernating. It is my belief that the various crosswinds I mentioned will at some point work in our favor as the environment continues to evolve. The Funds continue to be positioned in a differentiated manner to most alternatives which I believe proves the point we set out from the beginning; Centerstone offers something distinct. Our goal remains to provide a reasonable rate of return over time without what we see as undue risk (defined as permanent loss of capital) and we will continue to pursue that objective. All of us at Centerstone are in this together with you.

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

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

Important Risk Information and Disclosure:

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.

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).

The Nikkei 225 Index is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

The commentary represents the opinion of Centerstone Investors as of December 2021 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 invest, 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. Securities in small and mid-cap companies may be more volatile and less liquid than the securities of companies with larger market capitalizations.