



**DEAR FELLOW PARTNERS & FRIENDS,**

One of this past quarter's main highlights was the ongoing tug-of-war between parties on either side of the recession question. While real-time data has yet to show a broad-based decline in economic activity, forward-looking indicators, such as The Conference Board Leading Economic Index (LEI), are starting to provide weight to the idea that a recession is looming. A consumer retrenchment should not come as a surprise, considering the enormous number of roadblocks that have materialized over the past 12 months. Global markets have reacted in kind, with the year full of volatility in almost every asset class.

The last time I recall a year like this was in 1994 when both bonds and stocks took a tumble. At the time, many commentators also assumed a major recession was at hand and that stocks were historically expensive and would fall significantly. Indeed, some pockets of the stock market, especially interest rate-sensitive ones, fell by more than 30% that year. However, things began to recover by early 1995 and a recession never materialized. I have no idea if something similar is in store this time but with all the gloom on the table, I think some perspective is needed. First, no one knows the future. Second, no one knows how markets will react to whatever the future holds. The only strategy I have found that works consistently over the long run is investing in good businesses run by capable managers. That explains why, despite all the gloom, we have added several new securities to the portfolios this year.

## Weighing Machine

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As global investors at Centerstone, top-down uncertainties have always been a part of our landscape. For the better part of the three decades that I have been investing on behalf of clients, I cannot recall a year where all was calm across our investing universe. Since 1990, we have had a litany of wars, bubbles, terrorism, banking and political crises and currency shocks. The fall of communism and the rise of China was an ever-present backdrop as well. And oh, a viral outbreak as

the cherry on top. Each time the crisis has a different name, but the only thing that is known for certain is that the crisis eventually ends. However, while these or any others emerge, stock prices can fluctuate wildly. The reason for this volatility relates to Ben Graham's wisdom that "in the short run, the market is a voting machine but in the long run it is a weighing machine."

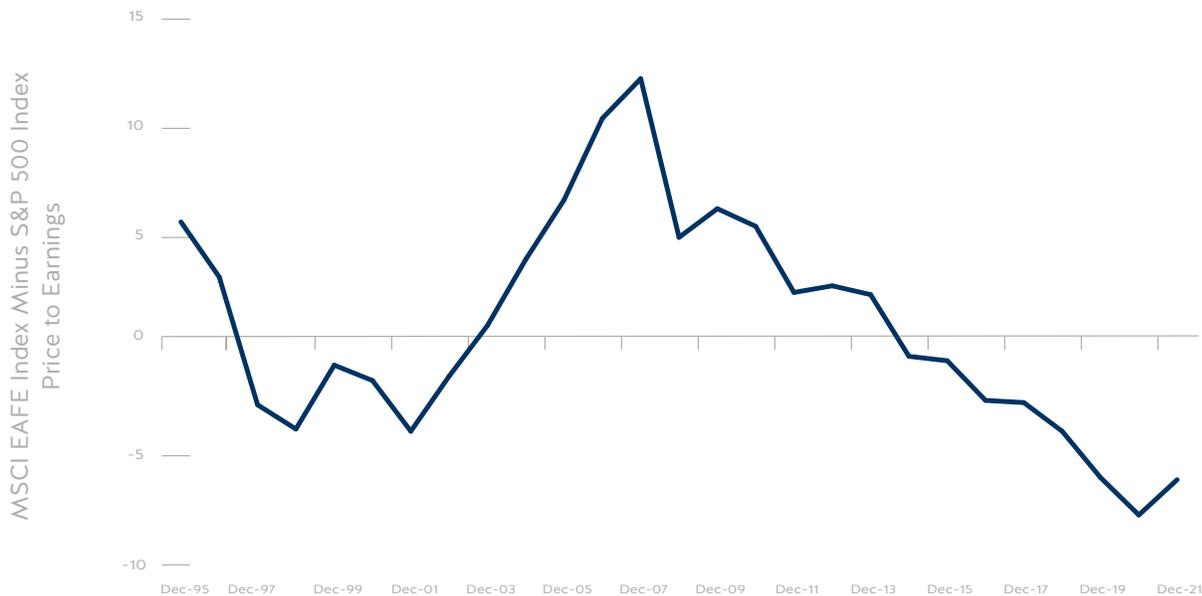
Fear causes a lot of people to do the wrong thing at the wrong time. It is my belief that the root cause of that fear is not knowing what something is worth. If you had perfect knowledge and knew all the details of the company you invested in and knew what its actual value was, you would be better placed than someone who was merely speculating on rumors, guesses, or economic forecasts. At Centerstone, we attempt to do the former by applying a rigorous analytic process to a broad array of publicly available information to gauge the intrinsic value of a company. Our goal is to know the companies in our portfolios better than anyone else. In that sense, we are firmly on the "weighing" side of Graham's scale. To paraphrase Graham, although the market offers to buy or sell your stock every day, there is no requirement to transact until the offered price and the company itself meets one's criteria.

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## PRICE TO EARNINGS DIFFERENCE OF MSCI EAFE INDEX VS S&P 500



Source: Centerstone Analysis and Bloomberg Data

Mean reversion is the assumption that a stock's price will tend to move to the average price over time.

Past performance does not guarantee future results. Investors are not able to invest directly in the index referenced in this illustration and unmanaged index returns do not reflect any fees, expenses or sales charges. The referenced index is shown for general market comparisons and is not meant to represent the Centerstone Funds.

## Reversion To The Mean?

Our preference is for companies with good balance sheets, good businesses and good management teams. Provided the company's stock price is also well below its intrinsic value, we are interested buyers. And we are willing to hold that position for years. Frequently we have companies that are acquired by competitors, management teams, or private equity. These events verify our internal valuation methodology. By and large, over the life of the Centerstone Investors Fund (CENTX) and the Centerstone International Fund (CINTX), private market transactions have confirmed our process, as takeout values have tended to be close to our intrinsic value estimates. At least two more companies we currently own appear to be acquisition targets, with potential acquisition prices well above the pre-negotiation prices.

Beyond these two, most companies in the Funds continue to trade significantly below intrinsic value, providing some potential latency for the future. This should come as no surprise as non-US stocks continue to trade for relatively

low valuations. At this point, we believe foreign stocks are now both relatively and absolutely undervalued. The value components of the foreign markets, which are even cheaper, now seem attractive enough to offset even the worst-case possibilities that the doom-and-gloom crowd expects. It is often said that the best time to invest is when prospects appear the bleakest.

The fairly fertile field for value investors overseas has led us to purchase several new securities in the last year. At the

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end of 2021, we purchased a software reseller, SoftwareOne<sup>1</sup> based in Switzerland. It is a leading value-added reseller of software and provides a wide range of consulting services and other solutions to business customers. These businesses complement each other and enable it to offer an end-to-end value proposition for its business customers. Its end markets are growing in the double-digits and it has generated robust organic growth since its initial public offering in 2019. However, it has generated disappointing operating margins as it has invested to scale up its solutions and services business. It has lowered its margin targets several times and its stock price has declined significantly. It recently appointed a new CFO and has indicated that its business, particularly its solutions and services business, has reached meaningful scale and the focus is now on operating efficiently. Most of its customers are on multi-year contracts or monthly subscriptions and this should make it easier for it to manage its staffing levels and cost structure. In the first half of 2022, its margins reached its target level ahead of schedule. We expect it to meet its margin targets and generate profitable growth going forward.

Another new security purchased a few months ago is Japanese fragrances company T. Hasegawa<sup>2</sup>. It is a leader in flavors and fragrances with global exposure, half of which is within its home market of Japan. Many Japanese companies tend to be thought of as inefficient capital allocators without much regard for shareholders. Recently, however, the company transitioned from family leadership to outside leadership for the first time in the firm's history. The new management seems receptive to shareholders' ideas for improving capital returns, even opening an English-speaking investor relations department. This is significant because the company's market valuation is nearly half that of its competitors International Flavors & Fragrances (IFF) and Givaudan and some of that may be due to a lack of self-promotion. The valuation difference is likely not due to its operating metrics, which are within the ballpark of its more-pricey competitors. This can also be an example of some

high-quality companies the Funds can purchase due to their small size. With significantly more assets, I would be unable to purchase this \$1 billion franchise at half the valuation of the competitors listed above, which each have a market cap greater than \$30 billion.

Over the years, we have experienced the tendency towards mean reversion. When foreign markets become leaders again, the Funds are set up to benefit from this potential leadership change.

Thank you for your trust and interest in Centerstone.

Sincerely,

Abhay Deshpande, CFA  
CHIEF INVESTMENT OFFICER

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<sup>1</sup> 0.62% position in the Centerstone Investors and 0.70% position in the Centerstone International Fund as of June 30, 2022

<sup>2</sup> 0.64% position in the Centerstone Investors Fund and 0.58% position in the Centerstone International Fund as of June 30, 2022

**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 Standard & Poor's 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 Standard & Poor'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 MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 799 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

The commentary represents the opinion of Centerstone Investors as of September 2022 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.