Yet Another Sequel?

March 31, 2023

DEAR FELLOW PARTNERS & FRIENDS,

The year started with a bang for non-US equities. The month of January was particularly strong and continued the upward trajectory that began in the 4th quarter of 2022. Through the 1st quarter of 2023, the MSCI EAFE Index's total return for the trailing year surpassed both that of the S&P 500 Index and the NASDAQ Composite. The value subcomponent of the MSCI EAFE Index faired even better. As they say, past returns are not indicative of the future, but it was a welcoming sign, nonetheless.

All seemed to be going well until the end of the quarter when problems began to surface at Silicon Valley Bank and Signature Bank, echoes of the beginnings of last decade's financial crisis. Then, it was a string of supposedly isolated failures of small financial institutions which morphed into a contagion that would sweep the entire world's financial system into chaos and to the brink of insolvency. With memories from the 2008 crisis still fresh, the most recent depositor exodus from a few relatively small West Coast banks has led many to shoot first and ask questions later. This highlights one of the risk factors for financial companies that is largely absent in other industries–sudden loss of confidence combined with inherently leveraged balance sheets that can lead to such contrary situations as Credit Suisse and Silicon Valley Bank being "well capitalized" one day and bankrupt the next.

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Centerstone's Three Pillars In Action

Centerstone Investors' strategies do have exposure to a small basket of financial companies, and we attempt to guard against this risk by investing alongside management teams that conservatively manage the balance sheets. Another way we attempt to manage this risk in other industries is by holding businesses that do not require day-to-day access to financial markets in order to function. We have often written about the "three pillars" of our fundamental analysis which includes a thorough review of management quality, business quality and balance sheet quality. The current environment is a good example of why we focus on those three elements. High-quality management teams manage a business with long-term goals in mind and are shareholder-oriented. High-quality businesses enjoy enduring competitive advantages. Finally, high-quality balance sheets can include those with some leverage, but those liabilities tend to be termed out over time. Businesses that rest on those three pillars will tend to be stable, self-funding, cash-flow-generating businesses. In other words, we believe the companies that Centerstone gravitates towards are quite the opposite of the companies that have been failing lately.

As an example, long time holding Air Liquide[1] is a producer of industrial gases. It is a France-listed company serving markets across the world. Its management team has treated shareholders well over the years through thoughtful investment and dividend policies that have led to a low double-digit percentage annual return over the past 20 years. Its business, which is best described as a collection of local monopolies, provides it with the foundation to deliver those steady profit increases over time without undue variation. Lastly, its debt maturities are distributed such that they generate roughly twice the income they would need in any given year to pay off a maturing liability.

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1 2.79% position in the Centerstone Investors Fund and 3.14% position in the Centerstone International Fund as of December 31, 2022

Another example is IAA, Inc.[2] which was spun off from KAR Auction Services in 2019. IAA is a leading salvage auction company in the US, Canada and the UK. After an accident occurs or a vehicle is damaged, the vehicle is consigned and moved to an IAA salvage yard. IAA stores totaled and damaged vehicles in its salvage yards and then sells these vehicles in its online auctions. Almost all the vehicles that are sold on IAA's auction platform are on consignment, which means these vehicles are not included on IAA's balance sheet. It is asset light and its business is counter-cyclical. IAA's business model is resilient and it generates robust cash flows throughout the business cycle.

In November 2022, IAA announced it was being acquired by Ritchie Bros. Auctioneers and in January 2023 an amended merger agreement was announced. Under the amended merger agreement, Ritchie Bros. would acquire IAA for approximately $44 per share and IAA shareholders would receive cash and Ritchie Bros. stock. The consideration mix was 29% cash and 71% Ritchie Bros. stock. This enables IAA shareholders to participate in the potential upside from this merger. Ritchie Bros. is an auction company that serves an adjacent vertical, primarily construction and commercial transportation assets. Ritchie Bros. has similar business processes to IAA and is also asset light and counter-cyclical. The management and Board of Directors of Ritchie Bros. are focused on creating long-term shareholder value and realizing the cost synergies from its merger with IAA. It is such companies that tend to populate the portfolios.

As of this writing, the aftershocks of the recent bank failures are unknown. Sometimes it feels as if we are more in the acid-management business than the asset-management business, but before anyone reaches for Zantac, I believe it would be prudent to allow for the possibility that the recent failures are isolated. As a possible indication, unlike the past, the US dollar has not yet spiked higher, which suggests that the macro picture may not be analogous to the period of contagion exhibited from 2008 to 2011. It used to be said that when the US catches a cold the rest of the world catches pneumonia, but it is possible that the rest of the world is vaccinated against the disease. As always, the future is uncertain and we keep an open mind as to the destination of the path ahead.

We thank you for your continued support and interest in Centerstone.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

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2 0.96% position in the Centerstone Investors Fund as of December 31, 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.

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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.