



DEAR FELLOW PARTNERS & FRIENDS,

The second quarter of 2023 included a much-needed rest for international markets and for the “value trade” generally. Many times, there is a link between such pullbacks and fundamental factors. In this case, however, the link seems to be that of unmet, and probably unrealistic, expectations that China’s reopening would create the sort of stimulus that could help the world escape its recessionary course. Maybe it should not have been surprising that people in China would take time to shake off the lockdown mentality, considering how long it lasted and how much self-inflicted damage was done in that time. It is also not a coincidence that China’s manufacturing sector remains sluggish, given weak global demand for manufactured goods as consumers around the world rebalance their spending away from such goods and towards travel and leisure. Nonetheless, we continue to believe that the ongoing normalizing of economic activity in China and globally will continue to progress, even if not at the pace that some would like.

Another lingering influence on investor sentiment is the perceived poor state of the US banking system. Although as of this writing, it seems that the panic has passed, we are keeping a watch on a variety of credit and lending factors. Because such large excesses accumulated between the Global Financial Crisis and COVID, we cannot help but wonder how it could all just simply be over, without more of a hangover. As best we can tell, the piper still needs to be paid – i.e., there could be more pain to come for the banking system – even if the timing is uncertain.

One concern we have is if inflation has largely corrected from its high of 9.1% last year to a recent reading of 4%. If most of that correction is behind us, then long-term bond yields do not have much room to decline from recent levels without a debilitating recession, which we do not expect. In other words, the mark-to-market issues that have hamstrung the regional banks may provide little relief in the medium term and in a scenario where commercial credit losses begin to bite, such banks could face a combination of earnings and capital headwinds. That is just one of many scenarios that keep us on the watch.

Finally, this past quarter also featured an echo of the post-COVID meme-bubble in which a narrow group of stocks led the way higher for much of the period. The pop in AI-related stocks dominated the news cycle and seemed to come out of nowhere, as things do nowadays. The most notable example of this was the stock price of Nvidia. One key difference between the meme-bubble and the environment over the past few months is that the increase in share price of Nvidia

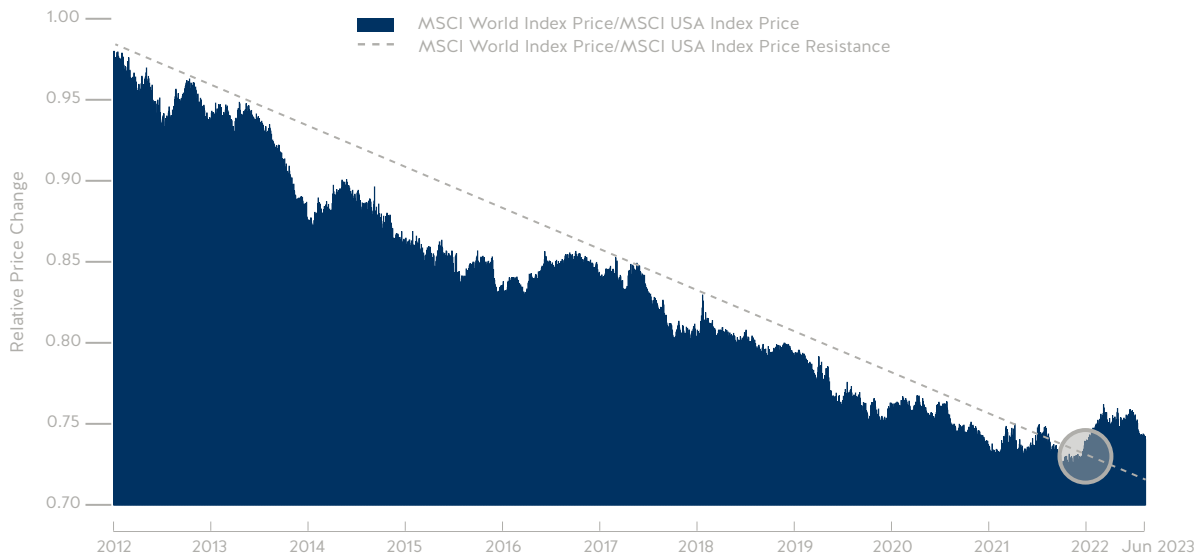
has at least been paced by a legitimate increase in potential profitability and business value rather than a temporary government-funded consumer spending spree. Conversely, what is similar to the meme-era is that there is only passing attention paid to the valuations of these names, with Nvidia trading now at approximately 41x sales.

Regardless of market environments and “bubbles of the month”, at Centerstone we focus on our three pillars when investing in companies: 1) a good balance sheet; 2) a good management team; 3) a good business model. Case in point, O’Reilly Automotive¹, a long-term top holding in the [Centerstone Investors Fund \(CENTX\)](#). O’Reilly Automotive is a market leader in the automotive aftermarket parts industry in the US. It operates a dual market strategy in which it sells parts to repair shops and to do-it-yourself customers in its retail stores. With its unique distribution infrastructure and dual market strategy, O’Reilly provides industry-leading parts availability. Customers typically buy automotive

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¹ 2.18% position in the Centerstone Investors Fund as of March 31, 2023.

MSCI WORLD INDEX VS MSCI USA INDEX



Source: Bloomberg

Investors are not able to invest directly in the indices referenced in these illustrations and unmanaged index returns do not reflect any fees, expenses or sales charges. The referenced indices are shown for general market comparisons and are not meant to represent the Centerstone Funds.

aftermarket parts to repair a vehicle and O'Reilly can typically provide the specific automotive parts they need to complete a repair faster than competitors. These are usually not discretionary purchases and O'Reilly has generated robust results across different operating environments.

Since the onset of COVID, the scarcity of vehicles and high vehicle prices have forced many consumers to keep their vehicles for longer. The average age of vehicles on the road has been increasing and consumers have been making investments to maintain their vehicles, which benefits the automotive aftermarket parts industry. In this favorable environment, O'Reilly has continued to provide industry-leading parts availability and has continued to take market share. In the beginning of 2022, it launched its professional pricing initiative which has enabled it to accelerate its market share gains with its repair shop customers. As a result of this robust operating performance, O'Reilly's stock price is near all-time highs.

Growing Evidence

The recent value resurgence seemed to take a breather over the quarter, but there is growing evidence that the era of US stock-market dominance is waning. Graphically, the chart above shows the performance of a broad global index relative to the US equivalent (a declining value means the US equivalent index is outperforming). Note that the 10-year trend of international equity underperformance stabilized last year before being broken late in the year. That break was accompanied by valuation support, money flows, normalizing interest rates and improving fundamentals overseas, which

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in sum gives us a strong indication that the future for globally diversified investing styles continues to brighten. For instance, in Europe, the large energy-dependent countries are already almost fully stocked up for the winter while forward inflation indicators are falling quickly. This is a completely different backdrop for the region compared to this time last year.

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Evaluating A Bid

We believe the odds still favor a “muddle-through” scenario and that equities remain the most attractive asset class for global investors. On that note, we continue to find high quality companies to purchase overseas and the portfolios continue to shift towards such companies large and small. At the same time, the Centerstone Funds’ holdings continue to attract buyers. In June, Swiss-based SoftwareOne² received an unsolicited offer from Bain Capital. Bain offered to acquire 100% of SoftwareOne at 18.5 CHF per share, which represents an approximately 23% premium to the company’s closing price before the offer was announced. SoftwareOne’s Board of Directors concluded that the proposal materially undervalues the company and rejected Bain’s offer.

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We agree with SoftwareOne’s Board and external industry experts that Bain’s offer materially undervalues the company. SoftwareOne is a leading value-added reseller of software and provides software and cloud services. It just focuses on the fast-growing software and cloud markets and we believe it is an attractive acquisition target. If it does not receive a more attractive offer, we believe that SoftwareOne’s new management team and its new Chairman of the Board can create significant shareholder value as an independent company. Its end markets are growing in the double-digits and we expect SoftwareONE to continue to generate robust growth and improve its profitability.

We believe the sky continues to brighten for Centerstone’s distinct brand of value investing. The future will hold plenty of surprises, but we are as always of the mind that the best strategy is to hold good businesses for the long-term. As we have been spending the year visiting our client base, we feel especially blessed that we can pursue this goal alongside such good, honest and client-focused partners and clients.

Thank you for your continued trust and support. We hope you have a great summer.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

² 1.39% position in the Centerstone Investors Fund and 2.83% position in the Centerstone International Fund as of March 31, 2023.

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 MSCI World Index captures large and mid-cap representation across 23 Developed Markets countries. With 1,506 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. With 625 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

The commentary represents the opinion of Centerstone Investors as of June 2023 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.