



**DEAR FELLOW PARTNERS & FRIENDS,**

By all accounts, 2023 was a mostly positive year for global indices after an unusual 2022 when both equities and fixed income posted losses. The year had its challenges, though, as the trends of the past many years remained in place – contrary to earlier signs of an impending change in fortunes for non-US value-oriented stocks. Perhaps the most familiar trend that persisted this year was the dominance of a narrow group of large US-listed growth stocks.

After another year of this dominance – a more than a decade-long trend – we must try to answer the inevitable question: what will change the status quo? I think some perspective might be useful. When I entered the industry in the early 1990s, “value investing” was generally a niche pursuit. It did not pay much and those attracted to the style were innately attracted to it rather than the money. It was an era full of opportunities for hard-working investors to gain advantage, as information on smaller and non-US companies was not readily available. New markets were opening to the world after the fall of communism, globalization was accelerating and accounting standards differed across countries. It was a fun time to be a value investor.

---

*“When I entered the industry in the early 1990s, ‘value investing’ was generally a niche pursuit.”*

---

Fast forward to the internet bubble and the Asian Financial Crisis of the late 1990s, which laid waste to the industry and many talented investors decided to close shop. The value investors that survived this period benefited greatly from the bursting of the internet bubble in 2000. As assets flooded to value managers over the following several years, demand for analytical talent far exceeded the limited supply. This contributed to a rise in analyst compensation, and I began noticing a subtle change in the mindset of the analysts that I interviewed. I increasingly found analysts to be “job seekers,” rather than having a genuine passion for the trade. All the while, globalization proceeded apace along with a global consolidation trend. The latter was a tailwind for value strategies, which could profit from the difference in market prices and the prices that were paid in a merger or acquisition. Access to information also improved dramatically after the turn of the century

and accounting standards around the world improved and converged. An increase in assets, talent, information and information accessibility inevitably reduced the number of “undiscovered” opportunities. As our niche became mainstream, the value world became somewhat efficient – as one would expect given the developments – and the cycle reached its peak. We have been experiencing the other side of that cycle ever since.

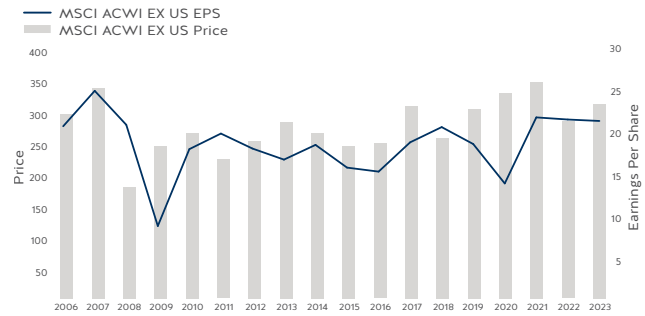
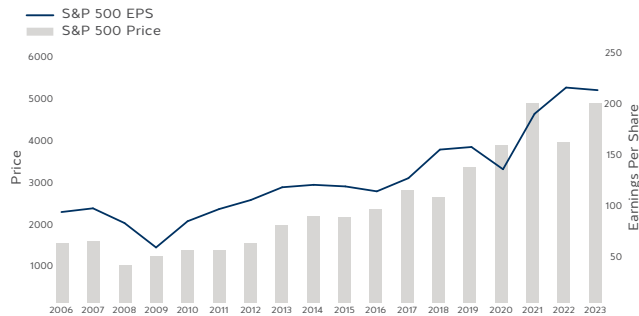
As often happens on the other side of a cycle, bad news seems to come out of the woodwork and there have been many false bottoms. For instance, globalization’s peak and possible demise may remove an important catalyst for value investments by reducing private market activity (i.e., mergers and acquisitions). Private markets often convey a sense of fair value for securities to the market. China is another major variable, with its declining growth rate and its expanding presence on the stage. Certainly, COVID and the various wars have also added to the tapestry. These factors have affected the corporate world by muting the growth rates of many companies. This is important because, ultimately, aggregate stock prices should follow aggregate earnings. As depicted in the graphs below, there is an important distinction between the path of earnings for non-US companies versus those in the US. The challenges we face as value investors have thus been compounded by the growth headwinds faced by non-US listed companies in recent years.

---

*“As our niche became mainstream, the value world became somewhat efficient – as one would expect given the developments – and the cycle reached its peak.”*

---

## DIVERGENCE IN EARNINGS SET FOR REVERSION?



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.

With this perspective, the question remains: what will change the status quo? Slowly but surely the industry, anecdotally, seems to be returning to its niche status. The opportunity set is robust with a number of high-quality companies trading at discounts to their intrinsic values. We believe it is possible, even likely, that foreign economies in aggregate will begin to grow again after this post-COVID inflation wave recedes. These are all starting conditions from which a lasting trend may emerge, but we must emphasize that anything can happen in the short run. It is important to remember that cycles go both ways – down and up. Retaining exposure to a niche strategy like ours may be a good way for investors to participate in the eventual reversal of the current cycle.

### Charlie Munger Franchise-Like Investments

In any scenario, the team continues to plow ahead. As noted in prior commentaries, many franchise-like companies have become mispriced. As the late Charlie Munger noted many

*“Retaining exposure to a niche strategy like ours may be a good way for investors to participate in the eventual reversal of the current cycle.”*

years ago, franchise-like companies can be easier to own. We purchased several such companies over the last two years. They tend to have stable and defensible businesses that can more easily manage risks. In all cases, balance sheet strength and management competence were paramount, but the purchase decisions were driven by different factors. Some examples to illustrate: T Hasegawa<sup>1</sup> was purchased due to its valuation relative to peers. It is a leader in the flavors and fragrances market, with strong positions in its home market of Japan, other countries in Asia and the United States. Despite its strong competitive position and

*“As the late Charlie Munger noted many years ago, franchise-like companies can be easier to own. We purchased several such companies over the last two years. They tend to have stable and defensible businesses that can more easily manage risks. In all cases, balance sheet strength and management competence were paramount, but the purchase decisions were driven by different factors.”*

<sup>1</sup> .73% position in the Centerstone Investors Fund and 1.80% position in the Centerstone International Fund as of September 30, 2023.



improving profitability, it trades at a substantial discount to its competitors International Flavors & Fragrances and Givaudan; Hitachi<sup>2</sup> was a catalyst-driven investment, as the company aggressively reshapes its business profile to focus on high-value-added segments. What was once a mix of mature, capital-intensive businesses has been increasingly transformed into a more focused conglomerate with a focus on renewable energy, IT services and digital infrastructure; Eurofins<sup>3</sup> is a market leader in food and feed testing, environment testing, pharmaceutical testing and cosmetic product testing whose share price declined for what appear to be temporary factors. It has spent more than a decade building its hub and spoke laboratory network infrastructure and as these investments moderate, its profitability and free cash flow should improve. With its scale and hub and spoke laboratory network infrastructure, it has a competitive advantage that is difficult to replicate; and Ryanair<sup>4</sup> is a franchise company in an industry (airlines) believed to be devoid of such enterprises. Its fanatical focus

on low costs and low prices gives it a structural advantage over competitors across Europe. With low costs and balance sheet strength that is uncharacteristic of an airline, it has consistently found itself in a position of strength at the points in the cycle that airline investors fear most.

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

Sincerely,

**Abhay Deshpande, CFA**  
**CHIEF INVESTMENT OFFICER**

<sup>2</sup> 1.12% position in the Centerstone Investors Fund and 1.11% position in the Centerstone International Fund as of September 30, 2023.

<sup>3</sup> 1.47% position in the Centerstone Investors Fund and 1.59% position in the Centerstone International Fund as of September 30, 2023.

<sup>4</sup> 1.10% position in the Centerstone Investors Fund and 1.93% position in the Centerstone International Fund as of September 30, 2023.

**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.**

**Important Risk Information and Disclosure:**

The MSCI ACWI ex US Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 24 Emerging Markets countries. With 2,321 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

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 commentary represents the opinion of Centerstone Investors as of December 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.