CENTERSTONE INVESTORS

OPPORTUNITY KNOCKING?

JUNE 30, 2024

DEAR FELLOW PARTNERS & FRIENDS,

Over the past few quarters, we have highlighted the expanding roster of attractively priced franchise companies on our watchlist. This quarter, we observed a continuation of that trend. We believe many mid-sized companies still suffer from neglect and when they post disappointing earnings, the resulting stock price reaction can be quite sharp. However, the nature of these companies has shifted somewhat from a few years ago, when "cigar butt" or "deep value" stocks were primarily in focus. This shift, in our opinion, is where the current opportunity lies.

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As I attempted to weave a cohesive story or theme to unify the diverse companies recently added to our portfolios, I found it challenging. It would certainly have made for a more compelling narrative. For instance, what commonalities exist among Barry Callebaut[1] (a chocolate manufacturer), Worldline[2] (a payment processor), AIA[3] (a Hong Kong-listed insurer) and Disney[4] (entertainment)? These companies span various sectors: some are global, others regional; some cater to consumers, others to businesses or governments. Some have commodity risks, most do not. Economic sensitivity varies as well. The only true common factors are their positive attributes: solid market positions in their respective categories, management teams focused on shareholder returns, rationally structured balance sheets and trading prices well below their intrinsic values.

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On Edge

With that said, the overall global investment environment is, in our opinion, clearly on edge. The upcoming US election will soon impact stocks, as will the unexpected political shifts in Europe. For instance, the recent and possibly ill-advised gambit by French President Macron to call early elections could lead to major hurdles to further reforms of the country's expansive entitlement regime. Additionally, China remains on a recovery track but faces significant structural issues and their continued aggression with the Philippines could draw in the US due to their mutual defense treaty. In other words, there is plenty that could go wrong,

1 1.23% position in the Centerstone Investors Fund and 3.03% position in the Centerstone International Fund as of March 31, 2024.
2 0.76% position in the Centerstone Investors Fund and 1.35% position in the Centerstone International Fund as of March 31, 2024.
3 1.01% position in the Centerstone Investors Fund and 1.27% position in the Centerstone International Fund as of March 31, 2024.
4 0.92% position in the Centerstone Investors Fund as of March 31, 2024.

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yet there is also potential for positive developments, even if they seem difficult to envision right now. Primarily, macro indications suggest that the global economy is still growing and inflation has come down. This bodes well for earnings, which ultimately is the driver of stock prices.

Deep Dive

Let us give you a deep dive into the aforementioned companies. Barry Callebaut is the dominant player in chocolate production and is also the market leader in cocoa bean processing. It is vertically integrated and has scale across every step of the value chain, from the sourcing and processing of cocoa beans to the production of chocolate. With its global chocolate manufacturing footprint and significant chocolate production, it can cluster production volumes to be closer to its customers and to drive higher capacity utilization of its production lines. In its chocolate production business, Barry Callebaut has a cost-plus pricing model in which it passes on price fluctuations of raw materials and other production costs directly to its customers, which makes its margins less volatile. Cocoa bean prices can be volatile and Barry Callebaut's cost-plus pricing model is critical in driving less risk.

Over the past year, cocoa bean prices have risen significantly and reached record highs. In this challenging environment, Barry Callebaut's cost-plus pricing model worked as expected and its chocolate production business generated solid profit per ton in its most recent earnings report. It also demonstrated the benefits of having an integrated model. As one of the only vertically integrated players, Barry Callebaut has a competitive edge in sourcing. It proactively prepared for this challenging environment and indicated it has secured its cocoa bean supply for its 2024 fiscal year. With its strong competitive position, we believe Barry Callebaut is well-positioned to take market share in a volatile environment.

Worldline is a European payment service provider (PSPs). While PSPs can provide a variety of different services, Worldline focuses on merchant acquiring and payment processing. It supports over 1.4 million merchants primarily in central/western Europe (Germany, Switzerland, France and the Benelux region). Facilitating digital payments is a high fixed cost (infrastructure investment), low marginal cost (supporting additional merchants or payment volume costs very little) business. Scale is a significant advantage. Worldline is the largest merchant acquirer in continental Europe by revenue and dollars of payments managed. It is over 30% larger than the number two player and over two times the size of the number three player. Having a local footprint is essential for merchant acquirers in Europe, in order to support the specific needs of merchants in each country. Each country has its own language, payment habits, regulations, payment networks, banks and merchants. Worldline has a good competitive position with a strong local market share across its geographic footprint. It also has a solid balance sheet.

The share price declined significantly over the past year for three reasons: 1) a weaker economic environment in certain European countries where Worldline has a meaningful presence, specifically Germany; 2) fears of disruption from new "fintech" players, which we believe are unfounded; and 3) the announced termination of merchant relationships due to evolving regulatory requirements in October 2023. Regarding the last point, while these merchants accounted for less than 3% of annual revenue, the announcement may have created an association in the mind of investors between Worldline and Wirecard, which collapsed in one of Europe's biggest corporate scandals in 2020. We believe investors are prone to sell first and ask questions later. After conducting extensive research on the issue, we have no reason to believe it goes beyond what was announced. Shareholder activism over the last several months led Worldline to make meaningful changes to the board of directors, including the appointment of a new Chairman. These changes, in our opinion, should result in greater oversight and better communication going forward. We expect shareholder confidence to recover with time.

AIA Group is a prominent insurance and financial services company operating in the Asia-Pacific region. It was established as an independent company in 2010 and has grown to become one of the largest insurers in Asia, with a robust presence in markets such as Hong Kong, Mainland China and Southeast Asia. The company specializes in life insurance, retirement planning, and wealth management, catering to a diverse clientele across different demographic segments.

The company generates approximately half its revenue from Hong Kong, reflecting its longstanding dominance in the local insurance market. Mainland China contributes around 20% of the company's total revenue, while Southeast Asia, encompassing markets like Singapore, Malaysia, Thailand, and Vietnam, typically accounts for another 10% to 20% of AIA's revenue. It is generally a market leader in these markets as well.

The stock price has declined materially from its 2021 highs due to several factors. Among these is the broader economic environment in Asia, which has faced periods of slowdown and volatility, affecting consumer spending and investor confidence. Additionally, regulatory changes in key markets, such as adjustments to insurance policies and compliance requirements, have added operational challenges and impacted profitability. Moreover, competition within the insurance sector has intensified, with new entrants and innovative digital platforms altering market dynamics. Lastly, the reluctance among global investors to consider China-related stocks has certainly added another dimension. For all these reasons, and perhaps more, the stock currently trades at a historically low valuation which we believe is unjustified given its positive attributes. Among these is its status as a profitable, growing and dominant insurer in a region with an ample appetite for its products.

Disney has unique assets – differentiated content – that have enabled it to earn franchise-like profits and returns over time. It is through this content that Disney creates the universes and characters that drive movie theater revenue, TV licensing revenue, subscription revenue, music revenue, merchandise revenue and more. The universes and characters are then brought to life at Disney's parks, resorts and other experiences around the world. Certain aspects of the business are undergoing significant changes, which are pressuring near-term earnings and cash flow generation. However, we believe the intrinsic value of the unique assets remains intact. As Disney adjusts its monetization methods to match a new reality, its earnings and free cash flow generation will eventually reflect the franchise nature of its unique assets.

At Centerstone, rather than obsess over the countless potential economic and geopolitical outcomes, we believe that the companies we own are capable of navigating through various eventualities. People will continue to enjoy chocolate, seek entertainment and demand vouchers. As explained above, it is our view that Centerstone strategies are well-positioned to benefit as the strengths of these businesses become apparent amidst uncertainty.

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

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

"At Centerstone, rather than obsess over the countless potential economic and geopolitical outcomes, we believe that the companies we own are capable of navigating through various eventualities."

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, Barry Callebaut, Worldline, AIA and Disney are not affiliated with Northern Lights Distributors, LLC.

Important Risk Information and Disclosure:

The commentary represents the opinion of Centerstone Investors as of June 2024 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.

Investing in the commodities markets through commodity-linked ETFs, ETNs and mutual funds will subject the Funds to potentially greater volatility than traditional securities.

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.