May 2, 2022

Centre Funds Insight – Spring/Summer 2022 Market Review & Outlook

Inflation, war, deep domestic societal divisions, and seemingly impending recession. There are many risks facing investors and, for portfolio managers that are not truly active in approach, we believe the ability to meet growth of capital investment objectives will be challenging in the near to mid-term. As we discussed in our prior Market Review & Outlook (please see November 1, 2021 - Centre Funds Insight - Fall/Winter 2021/22 Market Review & Outlook at https://www.centrefunds.com/news), price trends evident from the past five to ten-year period will likely prove meaningless and deductive quantitative models, that almost uniformly have their foundations in the short-term analysis of historical price data, will continue to expose their vulnerabilities as momentum persistence fades. Fundamentally, the unwinding of the unprecedented misallocation of capital investment over the past decade away from real durable assets and towards intangible asset only companies with, in most cases, sky high valuations, very high replacement risk, and negligible societal benefit, still has significant persistence and the recent shift away from certain investment themes will not be transitory. The slowness of the asset management industry to recognize the inflection and change in the investment environment since last October stupefies us but allows us to stay grounded in the basics of fundamental securities analysis and allows us clarity and focus on continuing and new opportunities.

Much like we raised the potential of a stagflationary environment almost two years ago to our Funds' shareholders, now we have in our sights the possibility that the U.S. will see a recession sooner than we expected just a few months ago based upon the data we're witnessing bottom-up across the transportation, consumer durable, and warehousing industries. This is occurring at the same time that the Federal Reserve is tightening monetary conditions, raw material input and labor costs are rising, and the war in Ukraine and other risks are leading to a higher cost of capital for businesses.

Repeating what should be obvious to any securities analyst, we believe the sources of stock market returns are a function of 1) earnings growth; 2) change in the valuation or rating of stocks; 3) dividend yield; and 4) net change in shares outstanding from repurchases or issuance. Thus, we are entering a challenging period where earnings growth will likely disappoint in aggregate, and the higher cost of capital due to higher interest rates and risk premiums will lead to the further lowering of valuation multiples. In essence, it will likely be the (bad) mirror image of the environment that has existed since 2016.

Our truly active fundamental approach currently has Centre emphasizing companies that can achieve higher sales growth from rising prices. This, even in the face of reduced or flat unit demand, which leads to operating leverage and margin expansion, will remain a key driver of current and future stock price performance but only in select sectors - commodity, infrastructure-related and real asset oriented. On the other hand, disinflationary beneficiaries such as unprofitable but higher growth business in technology and elsewhere as well as areas exposed to consumer discretionary spending are likely to continue their struggle and feel the one-two punch of decelerating earnings driven by profit margin compression from higher costs and valuation multiple de-rating.

In understanding the seeds of a potential recession in the U.S., during COVID, fiscal and monetary policies were implemented and put trillions of dollars into the economy in an effort to blunt the impact on businesses, consumers, and workers. Despite the shutdown of many businesses to the public, consumers maintained and, in some cases, increased their purchases of physical goods. At the same time, industrial production was shut down or limited. The combination of stimulating consumption and limited production resulted in the American consumer drawing down a large portion of existing inventories, a fact that a visit to any car dealership would confirm. Now, as retail inventories are being replenished, consumers are beginning to curtail their purchases on autos, housing, and other durable items as interest rates rise and inflation suppresses real wages (real wage growth, now sharply negative, is currently down to a multi-decade low), just as production is almost back to prior utilization levels, leading to excess inventories. A confirming indicator to this is the recent drop into negative territory in the so-called "forward ISM Index", which is the ISM purchasing managers sub-index of new orders less inventories. The ISM Index is one of the most efficacious economic indicators we follow due to its strong historical relationship to S&P 500 Index profits and the recent coincidental reading, which is still indicating economic expansion, diverging from the forward ISM is something to take note of. An opportunistic emphasis on more defensive consumer sectors, as opposed to discretionary, as well as a de-emphasis to the Industrials sector is now likely to occur much sooner than we originally expected given our awareness of traditional business and market cycles. This said, we'll remain disciplined and let our bottom-up stock research guide any portfolio shift of emphasis in sector positioning.

We believe that our true value and pragmatic approach rooted in the financial theory and empirical evidence of economic value added (EVA) will allow us a sustained period of alpha generation simply because the number of investors on one side of the boat remains incredible to us and the shift away will be longer than what occurred after the internet-related collapse in 2000-2002. What we mean is that the number of thematic funds has dramatically expanded in number and breadth, each in an attempt to harness secular growth themes, mostly within technology such as artificial intelligence or disruptive business models, and physical world themes like renewable energy. According to Morningstar, assets have poured into thematic funds; a record 589 new thematic funds debuted globally in 2021, more than double the previous record of 271 funds launched in 2020 and these funds' assets under management grew nearly threefold to $806 billion from $255 billion worldwide in the trailing three years to the end of 2021 and, as of year end, there were 1,952 funds in Morningstar's global database fitting their definition of thematic*. Unfortunately for investors, thematic fund launches tend to be a bull-market phenomenon as these funds have generally performed poorly longer-term versus broad market indexes. Having firsthand experience in managing equity funds, including technology focused, during the 1990's dot-com bubble, witnessing factor-based quantitative value strategies based off the Fama French 3 Factor Model take the spotlight shortly thereafter, to then be followed by smart-beta funds and now, thematic funds by nature stimulate our cynicism. That said, the academic case for trying to find the next Amazon or Microsoft that revolutionizes or creates a new industry has economic foundation; well-known Professor Hendrik Bessembinder's research that quantifies long-run stock market outcomes in terms of the increases or decreases in shareholder wealth**. His research shows the very high degree to which stock market wealth creation is concentrated in a few top-performing companies over time and has increased in more recent periods. Thus, according to Bessembinder, even though investments in the majority of stocks actually underperformed one-month Treasury bill returns over time, U.S. stock market investments on net increased shareholder wealth by $47.4 trillion between 1926 and 2019. Moreover, technology firms accounted for the largest share. Our issue with thematic funds is that

very few if any mutual fund managers have demonstrated the same futuristic insights that our venture capital peers have, including the Adviser. Perhaps more importantly in the present moment is that the inherent long-duration, i.e., high proportion of stock price assigned to uncertain and very distant future cash flows, for many thematic-type stocks is their high dependency on the persistence of disinflation and low interest rates as well as very low equity risk premiums to support the capital appreciation link to ever expanding valuation multiples.

On the opposite side of the dependence upon ever-expanding valuation multiples and on the bulk of uncertain profits projected far into the future being assigned to so-called thematic growth stocks, it seems that investors remain highly suspect in embracing cyclical and commodity producing companies despite the very recent relative outperformance driven by strongly positive profit inflections, asset efficiency, and disciplined capital expenditures. It goes without saying that better awareness of climate change and improved sustainability are a good thing; we know firsthand from being a "gentleman farmer" and growing various fruit crops commercially and toiling on the weekends over the past two decades (somewhat unique way to "relax" from the weekday stress of portfolio management). However, ESG is now one of, if not the single most important investment parameter when making investments by large institutional investors. Lack of investment, however, leaves commodity producing companies in developed markets with a higher cost of, and less access to capital which, in turn, leads to consumer energy insecurity, ruinous energy bills, agricultural shortages, and potential stagflation. In a stock market environment like today where earnings growth is necessary to outweigh the de-rating of valuation multiples across the market, we remain willing to embrace ownership in the cyclical and commodity producing companies whilst they remain in wealth creation mode driving economic profits higher for shareholders and also appreciate the leadership many of these companies are taking in terms of efficiency and carbon reducing initiatives recognizing that the transition to renewables will be a multi-generational endeavor and not overnight as some wish for.

After suppressing the risk-free rates of interest from overnight deposits out to thirty-year maturities via its Quantitative Easing (QE), the Federal Reserve now finds itself being supplanted by the marketplace as the determining factor in setting yields for the foundational reference points to value all assets as inflation premiums demanded by investors have risen dramatically. Borrowing from the French expression "esprit de l'escalier", or wit of (the) staircase, which denotes a retort or remark that occurs to a person after the opportunity to make it has passed, we see multiple former Federal Reserve officials all talk now about how aggressive the Federal Reserve needs to be in tightening monetary policy but, who when part of the Fed, all actively participated in creating the artificially flattened yield curve and low interest rates that distorted the pricing mechanism for all assets, creating the current environment of the "everything bubble". Despite our own surprise in how quickly the Federal Reserve has changed its verbal guidance on tightening monetary conditions and the market movement in yields higher from the resurgence of the bond vigilantes, we continue to be somewhat cynical about comments such as those from Fed Governor Lael Brainard where she reiterated that "getting inflation down is going to be the Fed's most important task". While we expect that interest rates will increase meaningfully, unlike the 1980 and 1975 episodes when the Federal Reserve independently took action to raise interest rates reverting real interest rates into the sensical threshold of being positive, we're likely to witness a prolonged period of negative real interest rates as the political will to crowd out social, military, and other service expenditures will take a back seat to fiscal austerity and very tight monetary conditions since the government, as the largest debtholder, benefits disproportionally from negative real yields. The consequences to the U.S. dollar, however, may likely be profoundly negative if

such policy is pursued indefinitely and we believe that gold, in particular, may serve as an excellent hedge against the systematic risks to equities associated with a falling dollar.

Most investors don't realize that stock buybacks were illegal throughout most of the 20th century because they were considered a form of stock market manipulation. However, in 1982 the Securities Exchange Commission (SEC) changed its policy and now investors routinely lump the net impact of stock buybacks with dividends to calculate a cash yield for equities. We have discussed stock buybacks in the past and our quibble has not been with companies who recognize that they must wisely contract and re-direct their cash flow usage of their business after, in hindsight, a too-aggressive period of expansion, its directed towards those companies who undertake stock buybacks for other non-economically beneficial reasons. Namely, in our opinion the vast majority of buybacks over the past two decades when analyzed objectively seem to have been mainly an attempt to water down the dilutive impact of executive stock compensation plans, which is a polite way of saying a stealth transfer of wealth from shareholders to company executives. As we've pointed out from our research, the fact that corporations in the S&P 500 Index execute stock buybacks with an indifference to stock prices at best, or rather tied to price momentum at worst, is evidenced by the fact that share repurchases in aggregate came to a halt broadly following the collapse in stock prices during the COVID panic of 2020 and the longer lasting episode arising from the financial crisis in 2008 and 2009. If our prognosis of an impending recession comes true, we would expect a similar fear to grip Boardrooms and any benefit from a net decrease in shares outstanding from repurchases will not exist and cash dividends will be deemed a much more reliable component of shareholder yield. Whilst we firstly remain focused on capital appreciation, given the investment backdrop and capital spending discipline in some of the commodity-oriented sectors, sustainable dividend yield to essentially shorten the duration along with historically higher yielding infrastructure-related sectors should gain increasing favor as the cost of capital increases. Therefore, we have further emphasized sustainable and growing dividends as an attribute in our stock selections.

We continue to believe that now is one of the more challenging market outlooks during our careers, as essentially all four drivers of stock market return have become significant headwinds after being tailwinds for the past decade. Despite the current challenges, we believe pockets of opportunity exist, and portfolio construction skills as well as cognizance of risk management remains extremely important. In the American Select Equity Fund, we continue to emphasize our stagflationary bias in Energy and Materials, barbelled against some of the FAANG stocks as well as certain historically higher-quality industries within the Consumer Staples and Health Care sectors. In sum, a portfolio designed to benefit from what we expect to be continued global shortages in commodities, and to be defensive in an environment of a possible emerging consumer recession in the U.S. In the Infrastructure Fund, diversification across regions and developed countries as well as being balanced across Telecommunication Infrastructure; Utilities; and the Energy, Transportation, and Social Infrastructure sectors should aid in returns and risk management. With the significant challenges from systematic risks, the Funds continue to concentrate the number of positions in each portfolio to maximize individual stock risk and we believe our disciplined high-conviction approach to stock selection, with a cognizance of risk management, seems positioned to perform well relative to less risk aware and less historically appreciative strategies.

About Us

Our aim at Centre Funds is to deliver strong, long-term performance results for investors through an exceptional focus on producing returns and managing risk and downside volatility in select investment strategies. We want investors to associate Centre Funds with high-conviction, differentiated fund strategies that may not be available elsewhere and are tactical, pragmatic, and opportunistic. Each Fund's investment strategy aims to capitalize on defined market opportunities with consistent methodology and repeatable investment and processes to achieve differentiated returns and risk profiles. We remain focused on fundamentally-driven investment approaches within truly active, high conviction, disciplined and research-intensive processes. At Centre Funds, we place service excellence at the core of everything that we do and are committed to providing useful information on the Funds.

Centre American Select Equity Fund

The Fund is a U.S. large capitalization valuation sensitive capital appreciation stock fund that seeks long-term growth of capital and is focused on risk adjusted returns through active and pragmatic management; the Fund may complement its equity securities with hedges and other capital preservation strategies when deemed appropriate. The Fund is intended to be a risk managed core growth fund.

Centre Global Infrastructure Fund

The Fund is for investors seeking to potentially benefit from a renewed focus on infrastructure spending but wish to have liquidity in publicly traded investments in developed global markets. The Fund pursues a bottom-up, active management approach and invests in what we deem the most attractive infrastructure-related companies from the United States and developed international economies. Also, the Fund seeks to balance its exposures to where the weights of the Telecommunication, Utilities, Energy, Transportation, and Social Infrastructure industries are broadly represented. The Fund's objective is to seek long-term growth of capital and current income, and distributes dividend and interest income monthly.

James A. Abate, MBA, CFA, CPA
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Centre Global Infrastructure Fund
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Centre Asset Management, LLC

James A. Abate, MBA, CPA, CFA, is the Chief Investment Officer of Centre Asset Management, LLC, and the portfolio manager of the firm's American Select Equity and Global Listed Infrastructure Strategies. He also serves as the firm's Managing Director and as the President and Trustee of the Centre Funds. Prior to founding Centre Asset Management, LLC, Mr. Abate was U.S. Investment Director, North America, for GAM Investments. Prior to GAM, Mr. Abate served as Managing Director & Fund Manager/Head of U.S. Active Equity at Credit Suisse Asset Management responsible for its U.S. Select Equity Strategy and stable of Global Sector Funds. While at GAM and Credit Suisse, Mr. Abate achieved Standard & Poor's Funds Research AAA rating, has received numerous "Category King" mentions in The Wall Street Journal, as well as multiyear Investment Week award nominations. Prior to transitioning to asset management, he was a Manager in Price Waterhouse's Valuation/Corporate Finance Group and served as a commissioned officer in the U.S. Army and Reserves, achieving the rank of Captain. Mr. Abate holds a B.S. in accounting from Fairleigh Dickinson University and an MBA in finance from St. John's University, and is a visiting Adjunct Professor in the graduate and honors academic programs at the Zicklin School of Business, Baruch College. Mr. Abate is a contributing author to several John Wiley published books: Applied Equity Valuation, Focus on Value, Short Selling and The Theory and Practice of Investment Management; his article writings have appeared in The Journal of Portfolio Management, Investment Week, FT Investment Adviser, The Wall Street Journal, Mergers & Acquisitions and other various publications; and other writings - with Professor J. Grant, Ph.D. - on EVA, or economic value added approach to security analysis have been adopted by the CFA Institute candidate study programs. Mr. Abate is a former member of the editorial advisory board of The Journal of Portfolio Management.

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Definitions and References

1. A valuation multiple measures some aspect of a company’s financial well-being, determined by dividing one metric by another metric.
2. The S&P 500 is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists.
3. The Nasdaq 100 is a stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock market. It is a modified capitalization-weighted index.
4. The MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries.
5. The S&P Global Infrastructure Net Total Return Index is designed to track performance of the stocks of large infrastructure companies in developed or emerging markets that must be domiciled in developed markets, or whose stocks are listed on developed market exchanges around the world. The Index includes companies involved in utilities, energy and transportation infrastructure, such as the management or ownership of oil and gas storage and transportation; airport services; highways and rail tracks; marine ports and services; and electric, gas and water utilities.
6. A risk premium is the return in excess of the risk-free rate of return an investment is expected to yield; an asset's risk premium is a form of compensation for investors who tolerate the extra risk, compared to that of a risk-free asset, in a given investment.
7. The risk-free rate of return is the theoretical rate of return of an investment with zero risk. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.
8. Economic Value Added (EVA) is an estimate of a company’s economic profit. Economic profit, which refers to the profit earned by a company minus the cost of financing the company’s capital, is an amount that may be considered in the assessment of a company’s overall value.
9. Stagflation refers to an economy that is experiencing a simultaneous increase in inflation and stagnation of economic output.
10. Real income is how much money an individual or entity makes after accounting for inflation and is sometimes called real wage when referring to an individual's income. Individuals often closely track their nominal vs. real income to have the best understanding of their purchasing power.
11. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. It is considered to be a key indicator of the state of the U.S. economy.
12. Environmental, social, and governance (ESG) criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company’s leadership, executive pay, audits, internal controls, and shareholder rights.
13. A bond vigilante is a bond market investor who protests monetary or fiscal policies considered inflationary by selling bonds, thus increasing yields.
14. Stock buybacks refer to the repurchasing of shares of stock by the company that issued them. A buyback occurs when the issuing company pays shareholders the market value per share and re-absorbs that portion of its ownership that was previously distributed among public and private investors.
15. Quantitative easing (QE) is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. Buying these securities adds new money to the economy, and also serves to lower interest rates by bidding up fixed-income securities. It also expands the central bank’s balance sheet.
16. The financial crisis of 2007-2008, also known as the global financial crisis, was a severe worldwide financial crisis. Excessive risk-taking by banks combined with the bursting of the United States housing bubble caused the values of securities tied to U.S. real estate to plummet, damaging financial institutions globally, culminating with the bankruptcy of Lehman Brothers on September 15, 2008, and an international banking crisis.
17. A put option is a contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a pre-determined price within a specified time frame. This pre-determined price that buyer of the put option can sell at is called the strike price.
18. “FAANG” is an acronym that refers to the stocks of five prominent American technology companies: Facebook (FB), Amazon (AMZN), Apple (AAPL), Netflix (NFLX); and Alphabet (GOOG) (formerly known as Google).
19. * Source: Thematic Funds: Know Your Merit, Know Your Mirage by Valerio Baselli, 14 April, 2022; and Thematic Funds Continue to Capture Investor Cash, Kenneth Lamont, 30 March, 2022.
20. ** Source: Wealth Creation in the U.S. Public Stock Markets 1926 to 2019, Hendrik Bessembinder, Department of Finance, W.P. Carey School of Business.

Disclosures

Investors should consider the investment objectives, risks, charges and expenses of the Funds carefully before investing.

To obtain a prospectus containing this and other information, please call 1-855-298 4236 or download the file from www.centrefunds.com. Read the prospectus carefully before you invest.

There is no assurance that this investment philosophy will consistently lead to successful investing. An Investment in the Funds involves risk, including loss of principal. The Fund is subject to risks including undervalued securities risk, portfolio turnover risk (which may result in tax consequences), and political/economic risk. Funds focusing on a single sector may experience greater price volatility.

Diversification does not eliminate the risk of experiencing investment losses.

Credit Risk – Risk that the issuer of a debt security will fail to repay principal and interest on the security when due, and that there could be a decline or perception of a decline the credit quality of a security.

Foreign and Emerging Market Securities Risk – The Fund's investments in foreign and emerging markets could expose the Fund to foreign exchange rate risk, lax insider trading restrictions, lack of liquidity, difficulty raising capital, poor corporate governance, increased chance of bankruptcy, political risk, and limited historical information to draw proper correlations between events and returns.

Infrastructure-Related Company Investment Risk – The Fund's investments in infrastructure-related companies will expose the Fund, and make it more susceptible, to adverse economic or regulatory occurrences affecting those companies. Infrastructure-related companies may be subject to a variety of factors that, individually or collectively, may adversely affect their business or operations.
Diversification does not eliminate the risk of experiencing investment losses.

The statements and opinions expressed are those of James A. Abate as of the date of this report. All information is historical and not indicative of future results and subject to change. Reader should not assume that an investment in the securities mentioned was or would be profitable in the future. This information is not a recommendation to buy or sell. Past performance does not guarantee future results.

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The content of this document is part of the Centre Funds semi-annual report covering the six-month period ending March 31, 2022.

American Select Equity Fund Top 20 Holdings – As of 3/31/2022 (subject to change)

Apple, Inc. 7.2%
Microsoft Corp. 6.1%
Exxon Mobil Corp. 4.5%
Chevron Corp. 4.5%
APA Corp. 4.0%
Mosaic Co. 3.9%
Amazon.com, Inc. 3.8%
EQT Corp. 3.5%
CF Industries Holdings, Inc. 3.5%
Corteva, Inc. 3.4%
BHP Group, Ltd. 3.3%
Alphabet, Inc. Class A 3.2%
Alphabet, Inc. Class C 3.0%
Teck Resources, Ltd. 3.0%
Petroleo Brasileiro SA 2.8%
Sibanye Stillwater, Ltd. 2.5%
Tesla, Inc. 2.3%
Allegheny Technologies, Inc. 2.3%
Bunge, Ltd. 2.3%
Micron Technology, Inc. 2.2%

Global Infrastructure Fund Top 20 Holdings – As of 3/31/2022 (subject to change)

Enbridge, Inc. 7.3%
Verizon Communications, Inc. 6.6%
AT&T, Inc. 4.9%
HCA Healthcare, Inc. 4.8%
The Williams Cos., Inc. 4.8%
TC Energy Corp. 4.4%
Kinder Morgan, Inc. 4.3%
NextEra Energy, Inc. 3.6%
KDDI Corp. 3.0%
Cheniere Energy Inc. 2.7%
ONEOK Inc. 2.6%
T-Mobile US Inc. 2.6%
Transurban Group 2.6%
SoftBank Group Corp. 1.9%
Deutsche Telekom AG 1.9%
Petroleo Brasileiro SA 1.9%
Duke Energy Corp. 1.8%
Pempina Pipeline Corp. 1.8%
Red Electrica Corp. SA 1.7%
The Southern Co. 1.6%

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