December 3, 2018

Centre Funds Insight – Winter 2018/19 Market Review & Outlook – Global Infrastructure

With respect to inflation-adjusted price-earnings ratios (price-earnings ratios), international developed markets remain at a substantial discount to the United States, providing a relatively favorable long-term relative valuation backdrop for non-U.S. stocks. The global expansion remains solid, but many major economies have progressed toward more advanced stages of the business cycle, and one which we believe favors the attributes from an investment in actively managed global exchange listed infrastructure companies. In addition, with the U.S. itself in the late stages of a protracted economic recovery, we believe the Fund is well positioned to take advantage of the pro-cyclical nature of a selective group of global energy, infrastructure, and industrial holdings while attempting to limit downside risk, as these companies provide a myriad of essential services in their respective regions and industries.

Historically, high valuations are not enough to trigger a correction or drawdown in stock markets. That said, valuation multiples across most stock markets have started to de-rate (or decrease) year to date, which has offset the increase in aggregate profits. To increase bear market risk in equities, bonds, or both, there needs to be a material negative growth or upside inflation shock, but typical late cycle drivers remain absent thus far despite the length of the current business cycle. As an active manager, the Adviser expects its investment strategies to thrive in an environment of increased volatility, and we are now observing an increasing set of opportunities in stock price dislocations because of, in our view, investors taking a "sell first, ask questions later" stance to risk-off events. We believe the market has entered a new regime, as global central banks seem to be in lockstep in their attempts to prevent asset prices from overheating further by gradually raising interest rates after nine years of accommodative monetary policies. That said, in our view, higher interest rates do not necessarily lead to a protracted bear market if earnings are strong and equity risk premiums remain stable. As rates continue to creep higher following the Federal Reserve's dot plot*, we are increasingly mindful of valuation risk over earnings risk in the Fund's portfolio.

There is a growing list of political issues for investors to fret over (e.g., tariffs, the Italian budget, Brexit), which weigh increasingly on international markets, while the pressure of a robust U.S. economy weighs on the rest of the world via higher U.S. interest rates and a stronger dollar. Still, we believe select global (ex-U.S.) equities remain attractive due to several factors and are well positioned to close the valuation gap with their U.S. counterparts. As active managers we intend to take advantage of undervalued international stocks with strong balance sheets and free cash flows, solid dividend yields and cyclically depressed profits which, in our view, are poised to outperform. With non-U.S. value stocks sitting at decade-low relative performance and valuation levels, there are many investable assets that match our targeted criteria for the Fund. Also, the combination of low embedded growth and relatively high dividend yields of many infrastructure related companies effectively lowers the duration of the Fund and, if interest rates rise as we expect, this should help protect against a contraction in valuation multiples.

In the Fund, from a sector perspective, we believe the latest price divergence between energy prices and energy shares presents attractive investment opportunities as fundamentals will ultimately triumph over short-term negative sentiments. The energy sector's stock price performance has been volatile driven by fluctuating crude prices over the past several months, with investors seemingly attempting to balance a U.S. demand that its allies stop using Iranian oil, trade friction with China, and other inventory and supply concerns. These crosscurrents will, in our view, present active managers with tactical broad sector opportunities. That said, American oil production continues to move higher, according to the Energy Information Agency, causing a bit more concern among investors relying upon a higher oil price. This illustrates a key risk that the production discipline shown thus far on the supply side with Organization of Petroleum Exporting Countries ("OPEC") and in the U.S. that led to higher crude prices won't last as companies and countries chase shorter-term profits at the expense of longer-term stability. Regardless, we believe the energy sector looks attractive in the short to intermediate term and have positioned the Fund accordingly as the stock prices of many oil-related companies have yet to catch up to the rise in spot oil prices and see more potential for upside as the belief in electric cars and renewables leading to a near-term collapse in demand for crude oil seems premature. As countries make headlines with plans to ban fossil fuels by 2040, our research indicates that growth in oil demand is still rising by 6% in China, while petrol-fueled cars and trucks will remain over 90% of the global fleet at least until 2025.

Over the coming year, we view the telecommunications sector as favorable from a risk-reward perspective, as fundamental and macro perspectives are likely to benefit from improving dynamics. We believe non-U.S. carriers will benefit from the 5G (fifth generation) network investment cycle with strong sales growth over the coming years fueled by increased networks sales. Also, U.S. carriers are planning for commercial deployments of their technology as early as the end of this year. AT&T anticipates launching its 5G wireless service in 12 cities by the end of 2018, while Verizon is already bringing fixed 5G to homes in multiple U.S. cities. Other regions, including South Korea, China, Japan, and the Middle East, are expected to commence their 5G build-outs in 2019. We believe Europe could be more competitive with the U.S. and Asia by overhauling its digital industrial policy. We believe an active management strategy is critical as auctions for 5G typically sell 10- or 20-year leases to airwaves, so if a carrier misses out now, it may have to wait a decade or two for its next chance. We note that when 4G launched in 2009, mobile operator revenues showed flat or tepid growth despite their investments in 4G infrastructure, and in a few regions, including Europe and Latin America, revenues even dropped after 4G's introduction. That said, the 5G network build-out could provide investors greater opportunities in adjacent markets rather than with the carriers themselves, including broadband, mobile, and the Internet of Things (IoT) companies. Ericsson projects that there could be 3.5 billion IoT connections on networks running 5G by 2023, with roughly 1 billion mobile customers, which translates to roughly 12% of total projected mobile subscriptions. For companies providing communication and broadcast towers to wireless telecommunication service providers, we believe the recent market pull back provides a compelling entry point in higher-quality infrastructure names in this industry, poised to benefit from ramping carrier spend. Overall, the prospect for aggregate carrier spend should continue growing into 2019, as operators densify LTE networks for unlimited offers and begin early 5G builds. Also, we see opportunities within Chinese telecommunication providers that are well positioned in the 5G race but face regulatory hurdles in Western markets, which have been overly discounted by investors.

In the utilities sector, we expect to have greater visibility following the release of earnings results which include the seasonal summer peak for U.S. electricity demand and, as such, also tends to be the quarter where companies may be more apt to revisit annual guidance. An improving housing market could lead to higher electricity demand in developing areas, and we're seeing signs that such demand may be occurring as electricity production is growing again strongly. We believe investors can benefit from exposure to global utilities that are stepping up investment in renewables, where, despite rising competition, margins are likely to remain attractive due to subsidies. Although power prices have risen sharply in Britain, and across European markets more broadly, the spreads have mostly flat-lined. Power prices have been driven higher by increasing gas, coal and carbon prices, so the "dark and spark" spreads have not significantly improved. Asian liquefied natural gas demand is likely to remain strong over winter, between $14-17 per MMBTU. In this case, European gas prices and power prices are likely to remain elevated, with fixed cost generators the most likely to benefit, provided unplanned outages are kept to a minimum. While China's trade war with the U.S. is shaking commodities markets, demand for gas in its liquid form is holding up as the government in Beijing seeks to shift away from coal. We believe China may become the world's biggest liquefied natural gas ("LNG") importer by 2021, surpassing Japan. We believe the Fund is well positioned to benefit from exposure to China's natural gas market as consumption continues to benefit from the adjustment of energy consumption structure and environmental protection pressure, which will in our opinion likely drive natural gas consumption higher in the long-term. China's policies on environmental protection, accelerated execution on "coal-to-gas" projects for local governments and increased gas supply all combined to stimulate gas consumption.

The transportation sector has underperformed the market indexes in 2018. However, we believe the outlook for the sector remains fundamentally positive based on supply and demand expectations going forward. The macro-economic outlook looks robust for 2019, with economists forecasting real global gross domestic product ("GDP") growth of 4.7%, which is at a similar level to 2018's 4.5%. Volume growth across the sector is typically a multiplier of 1.0x to 1.5x GDP, which suggests that market volume growth should be around mid-single digit in 2019. On the supply side, we think sector consolidation should help to keep a disciplined approach in both the container shipping and airlines sectors. Transportation companies have historically benefitted from the nascent stages of prior recoveries driven by increases in capital expenditures. In addition, transportation stocks are currently trading at low valuations relative to their own history and their profit margins have been in a persistent uptrend; all constructive signals for the industry group moving forward. While a complete resolution to the U.S.-China trading tensions is unlikely, we believe that tariffs on $200B worth of Chinese exports will likely be put on hold until the negotiations are over, particularly to avoid hurting US consumers ahead of the midterm elections. This is a positive development for U.S. Transportation companies, and we remain positive on companies with disproportionate exposure to China imports. Judging by shareholder returns over the past year, it seems that solid demand for air travel and the improving unit revenue scenario weren't enough for instilling investors' confidence as far as the industry's growth prospects are concerned. Headwinds like high fuel and labor costs, capacity-related issues, and technological glitches have contributed to investors' pessimism surrounding the airline space. Due to the industry's underperformance over the past year, valuations look relatively attractive now. The sector currently has a trailing 12-month EV/EBITDA ratio of ~6x, near the lowest level of the past year. The space also looks inexpensive when compared with the broader market, as the trailing 12-month EV/EBITDA ratio for the S&P 500 is 11.5x EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortization) ratio is often used to value transportation stocks, particularly airlines and railroad, given their historically high debt levels and significant depreciation and amortization expenses.

Within information technology, there are several mission critical areas emerging to support global infrastructure projects, including public cloud deployments, data center monitoring, cybersecurity, and IIoT (Industrial Internet of Things). We believe public cloud infrastructure spending could increase by 200-300% over the next 3 years as Chief Information Officers invest in digital transformation of key strategic business processes and U.S. corporate tax reform boosts enterprise software investments. Data center monitoring is in high demand as corporate development and operations teams and information technology managers increasingly need to monitor cloud infrastructure deployments. Security spending is increasing rapidly due to more internet access points and higher traffic, which is a net benefit for firewall vendors, though overall growth impacted by price cuts and cheaper virtual appliances in public cloud and IoT could give additional impetus. Governments and infrastructure owners will need to sharpen their focus on cybersecurity, as standards have improved and most governments have now identified their strategically important assets and started to set clear guidelines for protecting them against the threat of cyberattack. Asset management techniques have also moved into the digital era and security protocols (both physical and virtual) have become more sophisticated. Over the coming year, we expect infrastructure security and resilience concerns to rise on the agenda. We believe infrastructure investors will also benefit from the growing market for IIoT (Industrial Internet of Things) in which a variety of vendors compete, including: 1) large industrial vendors of operational technology; 2) traditional information technology vendors; and 3) focused players, including new entrants and vertical software providers. The impact of the industrial internet spans many major industries, including oil and gas, transportation, manufacturing, healthcare, and energy. Benefits of implementing IIoT include reduced maintenance costs, energy savings, reduced waste, gains in workforce productivity, revolutionary products and services, and improved service. According to International Data Corporation, at least 50% of global GDP will be digitized by 2021, and digital transformations are driving a sustainable secular increase in spending beyond the cyclical. Technology investments as a share of total U.S. fixed investment have surged from 10% in 1965 to 28% today. Software and cloud solutions have represented a growing share of total spend, now accounting for 14% of total US fixed investment ($382B). Capital investment in technology is now critical for businesses to improve efficiency, gain new market share, or fend off disruption. After reaching new highs in August, growth software stocks have suffered steep declines, with the latest correction (and the biggest since Jan – Feb 2016) creating an attractive entry point for companies positioned to capitalize on secular trends in software. We believe recent investor concerns about crowded positioning and stretched valuations within technology is an opportunity given the following: 1) the ongoing transition from cyclical to stable growth; 2) premium profitability, which is typically associated with high valuations; 3) limited stock price sensitivity to macro variables, such as economic growth and interest rates; and 4) strong cash flow generation for returning to cash to shareholders or investing for future growth.

To conclude, we believe the Fund will perform well with exposure to out-of-favor areas of the world's equity markets rather than chasing the winners ever higher; the weakness in markets since the beginning of October may well be a sign that the growth momentum trade is ending and focus on value becoming more important. We believe undervalued international stocks with strong balance sheets and free cash flows, solid dividend yields, and cyclically depressed profits are poised to outperform. In our view, the Fund is well positioned for this shift by targeting energy, telecommunications, industrials, and other undervalued areas of the global exchange listed infrastructure industries. With non-U.S. value stocks sitting at decade-low relative performance and valuation levels, we believe there is ample investment opportunity meeting our targeted criteria for the Fund. The combination of low embedded growth and a robust stream of income payments effectively lowers the duration of the portfolio, and if interest rates rise, as we expect, this combination will help protect against a contraction in valuation multiples. Lastly, we believe the Fund's unique exposure to public cloud deployments, data center monitoring, cybersecurity, and IIoT (Industrial Internet of Things) and other next-generation global infrastructure-related companies is a key differentiator against managed infrastructure portfolios that overlook these powerful trends within the industry.

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Managing Director & Chief Investment Officer
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James A. Abate, MBA, CPA, CFA, is the Chief Investment Officer of Centre Asset Management, LLC, and the portfolio manager of the firm's Global Infrastructure Strategy. 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. 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 formerly was a Visiting Professor in the graduate program 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.

About The 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 rather than illiquid private investments. 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 offers several key differentiators from broad global equity indexes and other funds, including: 1) historically, the MSCI Global Infrastructure Index has generated a dividend yield greater than the yield on conventional core equity indices like the MSCI World Index; 2) the Fund historically pays distributions of dividend and interest income monthly rather than annually; 3) hard assets like infrastructure tend to retain their "real" value through the long-term; 4) historically, infrastructure indices' volatility is lower than on conventional equity indices like the MSCI World Index; and 5) many infrastructure companies in which the Fund may invest have assets, concession agreements or other contracts that link their pricing or revenues to inflation.

In identifying companies with sustainable pricing power, the Fund seeks investments that exhibit high barriers to entry in their segments and that create positive externalities in their regions. The Fund also focuses on companies with lower volatility, such as toll roads, power stations, hospitals and schools. Also, by targeting high EVA growth companies, the Fund narrows its focus to high quality infrastructure-related companies that make, in the view of the Fund's investment adviser ("Centre", "we", or the "Adviser"), wise capital allocation decisions. Through the Adviser's "bottoms-up" analysis, we seek to avoid investing Fund assets in companies that we believe destroy shareholder wealth by either "empire building" or under-investment. Additionally, our stock-selection approach includes standardizing accounting across countries, which facilitates cross-border comparisons among potential investments, including U.S. and non-U.S. companies. From a portfolio management perspective, the Fund while bottom-up in research its focus is able make active strategic and tactical investments across sectors and regions based on opportunities the Adviser sees in the market.

Definitions and References

1. The price-earnings ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio is also sometimes known as the price multiple or the earnings multiple.
2. Brexit is an abbreviation for "British exit", referring to the UK's decision in a June 23, 2016 referendum to leave the European Union (EU). The vote's result defied expectations and roiled global markets, causing the British pound to fall to its lowest level against the dollar in 30 years.
3. The Internet of Things refers to a network comprised of physical objects capable of gathering and sharing electronic information. The Internet of Things includes a wide variety of "smart" devices, from industrial machines that transmit data about the production process to sensors that track information about the human body. The goal behind the Internet of Things is to have devices that self report in real time, improving efficiency and bringing important information to the surface more quickly than a system depending on human intervention.
4. The spark spread is a standard metric for estimating the profitability of natural gas-fired electric generator. It is the difference between the input fuel costs and the wholesale power price. For electric power generation fueled by natural gas, this difference is called the spark spread; for coal, the difference is called the dark spread.
5. MMBTU refers to one million British Thermal Units.
6. Capital expenditure (capex) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, industrial buildings, or equipment. Capex is often used to undertake new projects or investments by the firm. This type of financial outlay is also made by companies to maintain or increase the scope of their operations.
7. EV/EBITDA is a ratio that compares a company's Enterprise Value. It looks at the entire market value rather than just the equity value, so all ownership interests and asset claims from both debt and equity are included. (EV) to its Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA).
8. The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. The index is widely regarded as the best single gauge of large-cap U.S. equities.
9. A dividend yield is a financial ratio that indicates how much a company pays out in dividends each year relative to its share price. Dividend yield is represented as a percentage and can be calculated by dividing the dollar value of dividends paid in a given year per share of stock held by the dollar value of one share of stock.
10. Economic Value Added (EVA) is an estimate of a firm's economic profit - the value created in excess of the required

return of the company's investors (shareholders and debt holders). Quite simply, EVA is the profit earned by the firm less the cost of financing the firm's capital. The idea is that value is created when the return on the firm's economic capital employed is greater than the cost of that capital. EVA® is a registered service mark of EVA Dimensions LLC.

11. * Source: In the 2010s, the Federal Reserve Open Market rate-setting committee (FOMC) began publishing dot plots to tabulate all individual committee member projections of target interest rates in a single graphic.

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.

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 annual report covering the twelve-month period ending September 30, 2018.

Top 10 Holdings – As of 9/30/2018 (subject to change)
AT&T, Inc. 6.9%
Verizon Communications, Inc. 6.2%
New York State, Environmental Facilities Corp. 6.2%
Enbridge, Inc. 4.0%
Gwinnett County, GA, Water & Sewerage Authority 3.1%
HCA Healthcare, Inc. 2.8%
TransCanada Corp. 2.6%
Kinder Morgan, Inc. 2.6%
SoftBank Corp. 2.4%
The Williams Cos., Inc. 2.4%

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