May 20, 2019

Centre Funds Insight – Spring/Summer 2019 Market Review & Outlook – Global Infrastructure

Securities in the global infrastructure sector remain a compelling investment option at this stage of the global business and market cycle, characterized by high dividend yields, stable cash flows, attractive risk-adjusted performance, better relative performance during periods of market drawdowns, lower correlations with other asset classes, and a long-term hedge against inflation. Infrastructure's uniquely defensive attributes are driven by underlying long lived assets with high barriers to entry, economies of scale, inelastic demand, and high operating margins. We divide infrastructure in two types: economic infrastructure (*e.g.*, transport, utilities, communication, and renewable energy) and social infrastructure (*e.g.*, schools, healthcare, and datacenters). Since the global financial crisis, significant funding gaps for infrastructure in developed markets have emerged, and despite the years of debate about replacing outdated backbone systems, infrastructure investment has declined as a percentage of GDP in more than half of the G20 economies. Years of underinvestment in mission critical areas such as transportation, water treatment, and power grids could erode future growth potential and productivity of developed economies. To mitigate the economic impact on stressed governmental finances, the federal government and municipalities are now focusing efforts to incentivize public companies to take on projects that have capital requirement gaps, creating an expanded role for publicly listed infrastructure companies.

Historically, infrastructure-related investments generally show superior performance over broad equity market indexes prior to an economic downturn. To this point, the Federal Reserve's univariate probit regression relating the probability of a U.S. recession at some point over the next year to the slope of the yield curve predicts that the near-term recession probability has risen significantly. Also, using five-year peak-inflation-adjusted price-to-earnings (P/E) ratios[1], international developed markets remain at a discount to those for the U.S., providing a relatively favorable long-term valuation backdrop for non-U.S. stocks. 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 that are inflecting higher and which are poised to outperform and complement our U.S. companies exposure. With non-U.S. stocks sitting at decade-low relative performance and valuation levels, there is a broad opportunity set that matches our targeted criteria.

From a sectoral point, we believe Energy is favorable from a risk-reward perspective. Specifically, we favor energy infrastructure companies operating crude oil and liquids pipeline systems, those involved in international energy projects, and natural gas transmission and midstream businesses. Brent Crude is now trading at approximately $74/barrel (bbl.) levels, which will likely provide a significant cash flow windfall to producers going forward. The year-to-date recovery in crude prices now ranks among one of the most impressive in modern oil trading history. The Organization of the Petroleum Exporting Countries (OPEC) supply cuts as well as the rise in political tensions in Venezuela and Iran, have contributed to the sharp turnaround in fundamentals despite the tepid economic growth levels in most countries outside the U.S. The price shock from escalating tensions with Iran is likely to only increase with the U.S. government's demand that all buyers of Iranian oil stop purchases by May 1st, a move that sent crude prices to six-month highs recently. As noted, Venezuela has also factored into the move, with recent power blackouts reportedly wiping out roughly half of the country's rapidly diminishing output. More fundamentally-driven upside risks to oil prices include positive outcomes from U.S.-China trade negotiations, which may boost demand

[1] The price-to-earnings ratio (P/E multiple) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS).

growth. The Trump administration recently announced two executive orders aimed at freeing up construction for more pipelines to supply the United States with oil and gas as well as for export. The Presidential orders could give the federal government more power over states in approving energy projects such as pipelines, where certain projects were formerly held up. The United States today is producing more oil and gas than any point in its history, in large part because of the shale boom in the Permian Basin in West Texas. But producers have had trouble getting the excess supply to customers due to constraints on the number of pipelines completed. In the Fund, we prefer the large-cap midstream companies given their diversified footprints, better balance sheets and lower external equity needs. When coupling midstream assets' starting enterprise value / earnings before interest depreciation amortization (EV/EBITDA)[2] valuations (~10.6x) and current yields (~6.7%), we believe investors seeking a mix of income and capital appreciation will be rewarded. Furthermore, we view the pending acquisition of Anadarko Petroleum favorably from a macro standpoint for midstream assets, as consolidating Permian acreage/upstream investment should yield higher volume growth for midstream assets. Midstream buyouts in the Permian are now being valued in certain transactions at up to 18x EBITDA, an example being the recent acquisition of Glass Mountain Pipeline, which are at a significant premium when compared with a 11–13x cash-flow multiple for most publicly traded midstream energy companies and, thus, we believe the Fund is well positioned to take advantage of the upward re-rating of public company valuations. Midstream MLPs and U.S. midstream both trade at a 1.0x discount to their 24-month average (~10% discount). The Fund's top energy holdings are well positioned to capitalize on secular trends within their transmission and midstream businesses including Enbridge (ENB), TransCanada (TRP), Kinder Morgan (KMI), Williams Companies (WMB), ONEOK (OKE), Pembina Pipeline (PBA), and Cheniere Energy (LNG).

Utilities as a sector are accelerating investments in the grid as they push to address aging asset challenges, a changing generation landscape, and hardening the grid by upgrading old distribution pipes to mitigate downtime. The stocks of North American Utilities sector companies now possess a relative valuation (ex-California and PPL Corp. with its U.K. exposure) of a 20% P/E premium to the S&P 500 Index and absolute valuations near prior peak levels, with Utilities now trading at an 18.5x P/E multiple mainly due to the significant fall in bond yields. That said, with a lower yield backdrop and continuing directional uncertainty over the macro and global growth outlook, it is not too surprising that Utilities have proven to be resilient despite trading close to prior highs in terms of valuation multiples; the sector continues to be supported by lower yields. We believe infrastructure or power generation focused utilities, as opposed to distribution, remain an attractive total income return (dividend yield plus growth) investment option with a relatively low beta[3] in comparison to other sectors. In North America, the Fund sees opportunity with Edison International (EIX) given the fast-growing regulated utility is exposed to clean renewables migration and is trading at a significant discount to peers given the speculation of liabilities from the wildfires that occurred in California. Governor Newsom's team recently called for less utility liability on wildfire and we believe the most likely outcome is that California creates a state fund to provide EIX access to cash to pay wildfire damage claims while state regulators decide if the utility can pass the cost to ratepayers. Internationally, we see continued momentum for Brazilian utilities given positive sector outlook post the election of President Jair Bolsonaro, together with the expectation of reforms and a solution to legal and regulatory disputes. The Fund favors Companhia de Saneamento Básico (SBS) and Enel Américas (ENIA) given smaller, provincial utilities will find it difficult to compete with large international players such as

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[2] The EV/EBITDA ratio is a popular metric used as a valuation tool to compare the value of a company, debt included, to the company's cash earnings less non-cash expenses. EV (the numerator) is the company's enterprise value and EBITDA (the denominator) stands for earnings before interest, taxes, depreciation, and amortization.
[3] A beta coefficient is a measure of the volatility, or systematic risk, of an individual stock in comparison to the unsystematic risk of the entire market.

SBS and ENIA for renewable buildout contracts due to the higher cost of capital as well as scale and expertise factors. We believe the privatization program on both federal and state levels is achievable with the federal government (*i.e.*, Economy Minister Paulo Guedes) vocally in favor of the need to attract more investments in the sanitation sector, alongside a state government that seems determined to pursue privatization. We also see opportunity in the European Utility sector including Enel, Iberdrola, RWE, EDP/EDPR, Engie and Orsted, which have significantly upgraded their renewable ambitions. The new renewable targets are supported by the expansion in the addressable wind and solar markets in Europe, the U.S. and Latin America. We view the ongoing improvement in renewable economics (lower costs, corporate PPAs) as an important catalyst in 2019.

In Telecom, the next advancement in cellular technology, fifth generation (5G), is expected to be so fast that it will be able to surpass the speed of fiber wire internet service now provided by cable companies. We believe the carrier investment in LTE[4] densification and 5G will lead to increased subscriber growth, sales, and average revenue per user (ARPU) for select service providers (carriers). In President Trump's latest comments, he made it clear that the United States' 5G roll-out will be led by the private sector. The U.S. wireless industry praised Trump's move, and we believe that a private sector led roll-out will allow for faster migration from 5G non-standalone to 5G standalone. While certain semiconductor and communication companies (primarily Towers and Fiber) have been early beneficiaries of 5G, the stock prices of carriers are yet to reflect the meaningful benefit of 5G coverage/use cases becoming more widespread. The prior generation cycle change from 2011 to 2012 shows that ARPU growth serves as a strong catalyst for service provider shares, as investors begin to net buy in earnest when concerns over capex[5] shift to confidence in the success of a service driven by ARPU growth. Verizon's pricing for mobile 5G (~$10/month extra per unlimited line) represents an approximate 15-20% premium over its rates for LTE unlimited plans. We believe 5G is far more significant as a potential incremental tailwind for the carriers given their spectrum position and Small Cell/fiber footprints. We favor the large cell phone carriers such as Verizon (VZ) and AT&T (T), as small cells present a cost-effective solution for filling coverage gaps, increasing bandwidth, and getting the networks ready for 5G without the need to build more expensive macro sites. While Sprint/T-Mobile and other smaller carriers will also see some benefit, their lack of significant owned fiber holdings and limited capex will push them toward leasing other companies' fiber/pole infrastructure. President Trump is also working to streamline the permitting process for Small Cell infrastructure companies across state and local governments. Also, as local authorities review applications for small cells and potentially revise the current capping fees local governments can charge wireless companies, we believe consensus forecasts will prove to be conservative for the Small Cell sector.

We continue to believe that infrastructure forecasts of efficiency gains are underestimating the proliferation of technology use cases which are expected to reduce costs associated with maintaining infrastructure assets. Emerging areas to support global infrastructure projects that we believe aren't priced into earnings estimates include predictive maintenance, IIoT (Industrial Internet of Things), and cybersecurity. The oil and gas industry has been one of the first sectors to deploy IIoT and predictive maintenance software leading to significant reduction in downtime and elimination of breakdowns. The oil and gas industry still faces serious challenges, including the costs of maintaining its aging infrastructure. On average, 42% of offshore equipment is more than 15 years old and has 13% downtime – the majority of which is unplanned. It is estimated that refiners in the U.S. alone lose around $6.6 billion a year due to unplanned downtimes. Data

[4] Long-Term Evolution (LTE) is a standard for wireless broadband communication for mobile devices and data terminals.
[5] Capital expenditures, commonly known as capex, are funds used by a company to acquire, upgrade, and maintain physical assets such as property, buildings, an industrial plant, technology, or equipment.

optimization and predictive maintenance can push rig performance beyond 95%, increase production by 2% to 5%, improve efficiency and thus, reduce costs by 10% – and perhaps most importantly, it can help prevent disasters like oil spills or wildfires. Chevron expects to outfit oil machinery with sensors for predictive maintenance by 2019 in a wide-scale pilot program and aims to have sensors connected to much of the high-value equipment that could significantly disrupt oil and gas operations and create lost profit opportunities by 2024. IIoT's impact may span many other major industries besides energy, including transportation, manufacturing, and healthcare. Governments and infrastructure owners have also been sharpening their focus on predictive maintenance and cybersecurity, as 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 be prioritized due to more internet access points and higher traffic, while IIoT could give additional impetus. As active managers we favor select companies that are embracing technology for cost savings and revenue generation throughout the infrastructure industry, including Duke Energy (DUK), Kinder Morgan (KMI), Oneok (OKE), and Pembina Pipeline (Canada - PPL).

To conclude, we believe the Fund will perform well with exposure to undervalued U.S. and international stocks with strong balance sheets and free cash flows, solid dividend yields, and, in certain cases, cyclically depressed profits that are inflecting higher. Furthermore, the Fund is well positioned by targeting energy, telecom, industrials, and other undervalued areas of global infrastructure sector. With non-U.S. value stocks sitting at decade-low relative performance and valuation levels, there is a broad opportunity set that matches our targeted criteria to complement the Fund's U.S. investments. Lastly, the Fund's unique exposure to next-generation global infrastructure adjacencies, including public cloud deployments, data center monitoring, cybersecurity, and IIoT is a key differentiator against legacy managed infrastructure portfolios, which overlook these powerful trends within the industry.

James A. Abate, MBA, CFA, CPA
Fund Manager – Centre Global Infrastructure Fund
Managing Director & Chief Investment Officer
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 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 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.

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.

We believe the Infrastructure Fund is well positioned to continue taking advantage of the pro-cyclical nature of a selective group of global infrastructure-related holdings, while attempting to limit downside risk as these companies provide a myriad of essential services in their respective regions and industries. The Infrastructure Fund offers several key differentiators from the broader global equity set of investable companies, as well as core infrastructure universes including: 1) historically, the MSCI Global Infrastructure Index has generated a dividend yield greater than the yield on conventional core equity indexes like the MSCI World Index; 2) the Infrastructure Fund pays distributions of dividend and interest income monthly; 3) hard assets like infrastructure assets tend to retain their "real" value over the long-term; 4) historically, the volatility of infrastructure indices is lower than that of conventional equity indices like the MSCI World Index; 5) high Economic Value Added (EVA) companies, the foundation of our stock selection process, have outperformed low EVA ones; and 6) many infrastructure assets have concession agreements or long-term contracts that link to inflation in the long run. In identifying firms with sustainable pricing power, the Infrastructure Fund seeks investments that exhibit high barriers to entry in their segments and that create positive externalities in their regions. The Infrastructure Fund focuses on industries with lower volatility such as toll roads, power stations, hospitals and schools. Also, by targeting high EVA growth companies, the Infrastructure Fund narrows its focus to high quality infrastructure firms that make wise capital allocation decisions. Through our "bottoms-up" analysis, we seek to avoid names that destroy shareholder wealth by either "empire building" or under-investment. Additionally, the stock-selection approach standardizes accounting across countries, which facilitates cross-border comparisons between the best U.S. infrastructure names and international firms. From a portfolio management perspective, the Infrastructure Fund can make active strategic and tactical investments across sectors and regions based on opportunity sets we see in the market.

Definitions and References

1. 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.
2. 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.
3. 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.
4. MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries.
5. MSCI World Infrastructure Index captures the global opportunity set of companies that are owners or operators of infrastructure assets. Constituents are selected from the equity universe of MSCI World, the parent index.
6. 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.
7. 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.

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 March 31, 2019.

Top 10 Holdings – As of 3/31/2019 (subject to change)
Verizon Communications, Inc. 7.4%
AT&T, Inc. 6.9%
Enbridge, Inc. 5.6%
TransCanada Corp. 3.2%
Kinder Morgan, Inc. 3.1%
HCA Healthcare, Inc. 2.9%
The Williams Cos., Inc. 2.7%
SoftBank Corp. 2.5%
NextEra Energy, Inc. 2.5%
ONEOK, Inc. 2.3%

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