Centre Funds Insight – Fall/Winter 2015 Market Review & Outlook - International Equities

Within the Asia Pacific region, industrial overcapacity and overbuilt infrastructure have led to weak domestic demand in China. To spur economic momentum, China has reduced its required reserve ratio for banks, cut interest rates, lowered second home down payment requirements, and overhauled the country's State Owned Enterprises (SOEs). China's myriad of government actions has done little to resuscitate growth. To slow equity market declines, China's government banned pension funds from selling shares, halted initial public offerings, and limited futures selling by retail investors. While China's economic growth has slowed markedly, Chinese corporate profitability has remained resilient. Driven by lower raw materials and energy costs, operating margins increased from 13.8 percent to 14.5 percent over the one year period ended September 30, 2015. We believe the best investments going forward in China are secular growth stories uncorrelated with GDP[1] growth, firms with predictable and high amounts of recurring sales, and finally, firms with strong balance sheets showing little net debt. Based on our assessment of the environment and current market conditions, we own Chinese stocks such as Tencent, NetEase, and Techtronic Industries.

In Japan, industrial production has been negative for most of the year. While Japanese economic growth has been elusive, corporate profitability has improved. Prime Minister Abe's 'Third Arrow' structural reforms started to show results. During the one year period ended September 30, 2015, operating margins rose from 7 percent to 7.5 percent. The country's new Investor Stewardship Code aims to increase institutional investor involvement in the companies in which they are in invested; this code demands that this involvement extend beyond proxy voting. If institutional investors fail to comply with the new code, they must explain their lack of compliance to the government and cannot participate in managing the country's large pension assets. To further institutional shareholder responsibility, Institutional Shareholder Services (ISS), the proxy voting firm, will no longer recommend re-election of a management team if the company’s return on equity is below 5 percent. Japan also launched the Corporate Governance Code, a policy which requires corporations to increase their disclosure to shareholders in order to increase corporate transparency. The Corporate Governance Code aims to reduce cross shareholdings between companies and to establish an environment for appropriate risk-taking by senior management. To publicly praise firms in compliance with this code, the government created an index, the Nikkei 400[2], that lists the companies that are efficiently using capital. Since the announcement of the Corporate Governance Code, shareholders have benefited from increased share buybacks and higher dividends. Despite the positive operating momentum with Japanese corporations, valuations have declined as investors worry about the slowing business cycle. Our analysis predicts that improving Japanese profitability will mitigate some of the negative effects of the slowing business cycle. Additional operating margin expansion is possible because, despite recent improvements, Japanese corporate performance still lags that of other developed markets substantially. While U.S. operating profit margins are 12.5 percent, China's are 14.5 percent, and Europe's are 9.2 percent, Japan's operating margins are at 7.5 percent. The use of more technology in Japan's service sector, matching the levels employed in its manufacturing sector, would aid in closing the margin gap with other regions. Based on our assessment of the environment and current market conditions, we own Japanese stocks such as Japan Airlines, Bridgestone, Nippon Telephone and Telegraph, and Sony in the Fund.

Within the European region, corporate profitability in Western Europe has been mixed over the one year period ended September 30, 2015 with pockets of strength in Germany and Scandinavia, but pockets of weakness in the United Kingdom and France. Germany's operating margin strength was the result of its

[1] Gross domestic product (*GDP*) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.
[2] To highlight companies doing right by shareholders, a new equity benchmark of "good" companies was created in 2014. This benchmark, the Nikkei 400 Index, screens for 400 companies that have the highest returns on equity and operating profits and that also employ shareholder-friendly practices, such as having external directors.

exporters benefitting from the cheaper euro. France has not benefited from the weaker euro to the same extent as Germany. In the United Kingdom, overall corporate margins were lower due to the country's exposure to the mining and energy sectors. The operating margins of corporates from Europe's periphery, including Italy and Spain, stopped declining, which many investors interpreted as a positive signal for Europe overall. On the negative side in the periphery, the European Central Bank (ECB) stopped emergency Greek bank funding after Greece missed an International Monetary Fund payment. The resulting bank closures and capital controls rattled markets. More importantly, the ECB announced €1.2 trillion of quantitative easing in order to stimulate the economy; the amount equates to 12 percent of European GDP. While the amount was double what economists were expecting, the disbursement timeframe over 20 months was at a slower velocity than some hoped. The biggest benefit of quantitative easing has been the weaker euro which averaged 1.15 over the one year period ended September 30, 2015, versus 1.36 in the prior year. Going forward, Europe's exporters should perform well in a weak euro environment. Europe's auto producers and aerospace manufacturers receive a substantial amount of sales in U.S. dollars but have material euro cost bases. A weak euro improves the cost competitiveness of such firms. Additionally, the weak euro can help these manufacturers price more aggressively, aiding in market share gains. In the late 1990s, the euro experienced a similar decline (reached parity with the U.S. dollar) and it aided aerospace manufacturers like Airbus, for example, in growing their civil aerospace market share from 20 percent to 50 percent in the case of Airbus. In Europe, we believe the best investments going forward are exporters benefiting from the lower euro, secular growth companies uncorrelated with GDP growth, firms with predictable and high amounts of recurring sales, and firms with strong balance sheets showing little net debt. Based on our assessment of the environment and current market conditions, we own European stocks such as EasyJet, Cap Gemini, Safran, Roche, and Novo Nordisk.

We expect that our bottom-up research process, with its focus on large capitalization companies that measure favorably in the EVA[3] framework, combined with a smart beta[4] approach to portfolio construction that is focused on GDP-driven regional weightings rather than market capitalization should lead the Fund to take advantage of the current secular fundamental trends in Asia Pacific and Europe and, to a lesser degree, opportunities in the Americas, Middle East, and Africa. The Fund seems well positioned to perform well relative to less dynamic and opportunistic strategies by investing in what we view as the most attractive large capitalization blue chip companies from the developed markets and emerging blue chips from the developing world markets.

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Centre Asset Management, LLC

[3] Economic Value Added (EVA) - An estimate of a firm's economic profit - being the value created in excess of the required return of the company's investors (being 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.

[4] Smart beta defines a set of investment strategies that emphasize the use of alternative index construction rules to traditional market capitalization based indices. Smart beta emphasizes capturing investment factors or market inefficiencies in a rules-based and transparent way.

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. Foreign investing involves special risks such as currency fluctuations and political uncertainty. Investing in emerging markets typically involves greater risks due to the smaller size and less liquid nature of those markets.

The statements and opinions expressed are those of Xavier Smith and are as of the date of this report. All information is historical and not indicative of future results and subject to change. Readers should not assume that an investment in the securities mentioned was or should 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, 2015.

Top 10 Holdings – As of 10/30/2015 (subject to change)

Tencent Holdings 2.9%
China Mobile 2.2%
Nestle SA-REG 2.2%
Unilever NV-CVA 2.2%
Intesa Sanpaolo 2.1%
Netease Inc-ADR 2.1%
China State Const 2.0%
BT Group PLC 2.0%
Roche Holding 2.0%
China Const 2.0%

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