Centre Funds Insight – Spring/Summer 2016 Market Review & Outlook - International Equities

Within the Asia Pacific region and China in particular, industrial overcapacity and overbuilt infrastructure have led to weak domestic demand and weak equity market returns. Global investors questioned whether China will experience a soft or hard economic landing. Our analysis predicts a soft landing in the world's second largest economy. Through analyzing various economic indicators, we see a mixed environment with both pockets of improvement and areas of stubborn weakness. In real estate and retail the country experienced positive growth trends, while auto sector sales deteriorated. Additionally, fourth quarter 2015 earnings reports from Chinese bank were not as negative as some investors feared, supporting the soft landing scenario. ***While China's economic growth has slowed markedly, Chinese corporate profitability has remained resilient. Driven by lower raw materials and energy costs, operating margins were resilient*** at 14.8 percent over the six month period ended March 31, 2016. This profitability level was similar to the prior year. In response to weak economic growth, China's government engaged in aggressive policies to revive economic momentum. The People's Bank of China cut its one- year deposit rate to 1.5 percent from 1.75 percent, lowered the required reserve ratio by 50 basis points, and reduced the minimum down payment required for first- time homebuyers from 30 percent to 25 percent. In response to equity market declines, China's government banned pension funds from selling shares, halted initial public offerings, and limited futures selling by retail investors. We believe the best investments going forward in China are secular growth stories uncorrelated with GDP 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, the Fund has invested in Chinese stocks such as Tencent, NetEase, and Techtronic Industries.

In Japan, industrial production has been negative for most of the six month period ended March 31, 2016. 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 six month period ended March 31, 2016, operating margins rose from below 7 percent to 8.2 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. Additionally in institutional shareholder responsibility, Institutional Shareholder Services (ISS), a 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[1], which 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 corporates, 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. ***We believe that additional operating margin expansion is possible because, despite recent improvements, Japanese corporate performance still lags other markets substantially.*** While U.S. operating profit margins are 12.5 percent and China's are 14.8 percent, Japan's

[1] 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.

operating margins are at 8.2 percent. An interesting new development is that Japan has closed the operating profit margin gap with Europe; a year ago this was not the case. 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. As in China, Japan's central bank engaged in monetary policy to spur growth. In its latest policy action, the Bank of Japan cut its interest rates to negative territory, - 0.1 percent.

Despite corporate efforts to improve profitability, Japan’s fourth quarter 2015 earnings season was disappointing. Japanese corporates saw negative sales growth of 3 percent and negative earnings growth of 18 percent. According to Bloomberg estimates, Japanese firms missed sales expectations by 2 percent and earnings expectations by 14 percent with the biggest disappointments coming from the Industrials and Materials sectors. We believe the best investments going forward in Japan are secular growth stories uncorrelated with GDP growth, firms with predictable and high amounts of recurring sales, exporters benefiting from the lower yen, and finally, firms with strong balance sheets showing little net debt. Based on our assessment of the environment and current market conditions, the Fund is currently invested in Japanese stocks such as Japan Airlines, Bridgestone, Nippon Telephone and Telegraph, and Sony.

As in the Asia Pacific region, ***the European Central Bank (ECB) announced further quantitative easing actions in an attempt to accelerate Europe’s ailing economy despite the lack of success thus far***. In addition to the expected deposit rate cut***, the ECB expanded quantitative easing to include the potential purchase of corporate bonds***. The ECB hopes that this policy will lower funding costs for banks and lower asset spreads to encourage lending. Additionally, the ECB announced a new series of Targeted Long Term Refinance Operations, thereby enabling banks to be paid for both borrowing and lending. The ECB President Mario Draghi announced that future rate cuts were unlikely. Also in Europe, Italy and the European Commission created a "bad bank" structure for Italian banks to offload their bad debts in order to encourage lending. ***Within the European region, corporate profitability in Western Europe has been mixed over the six month period ended March 31, 2016 with pockets of strength in Germany and Scandinavia, but pockets of weakness in the United Kingdom and Spain***. Germany companies overall operating margin strength was the result of its exporters benefitting from the cheaper euro whereas, companies in France have not benefited from the weaker euro to the same extent. In the United Kingdom, overall corporate margins were lower due to the country's exposure to the mining and energy sectors. The biggest benefit of quantitative easing has been the weaker euro which averaged 1.15 over the six month period ended March 31, 2016, 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 (parity with the U.S. dollar) and it aided aerospace manufacturers like Airbus, for example, which grew its civil aerospace market share from 20 percent to 50 percent.

Xavier Smith, MBA, CFA

Fund Manager – Centre Global ex-U.S. Select Equity Fund

Investment Director – Global Select Equity

Centre Asset Management, LLC

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.

Centre Funds are distributed by ALPS Distributors, Inc. Centre Asset Management, LLC is not affiliated to ALPS Distributors, Inc.

The content of this document is part of the Centre Funds semiannual report covering six-month period ending March 31, 2016.

Top 10 Holdings – As of 3/31/2016 (subject to change)

Tencent Holdings 2.7%
Unilever NV 2.4%
Nippon Telegraph & Telephone Corp 2.4%
Nestle 2.3%
Novo Nordisk 2.1%
Bridgestone 2.0%
Safran SA 2.0%
Infosys, Ltd 1.9%
BT Group Plc 1.9%
China Mobile 1.9%

DRX000527 Exp. 12/31/2016