



Auxier REPORT

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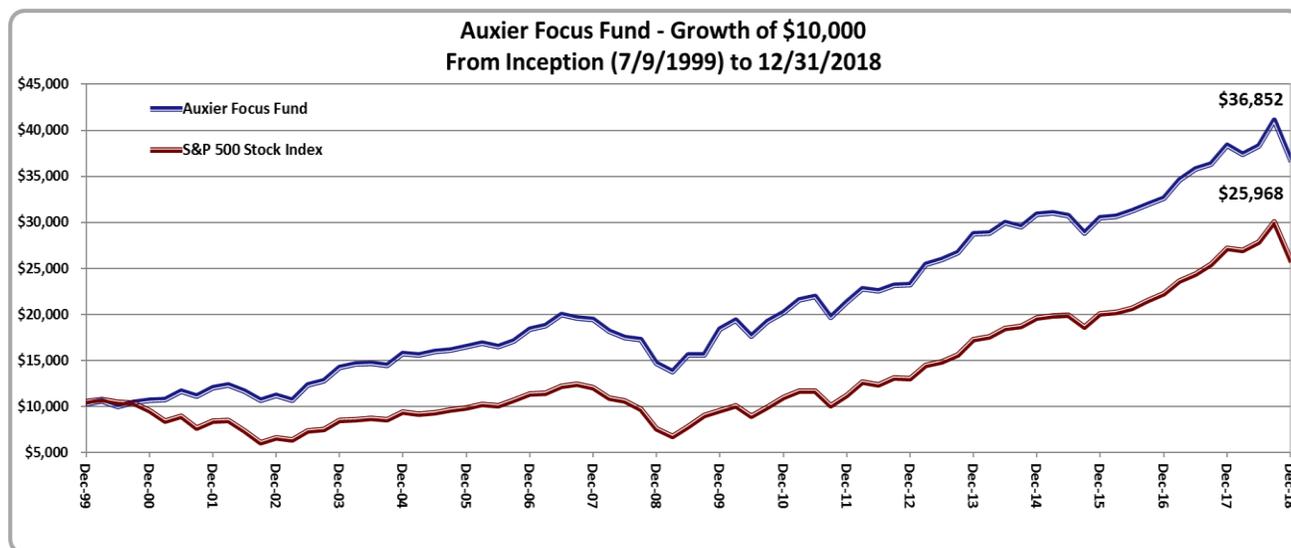
Winter 2018 Market Commentary

In the fourth quarter, the S&P 500 fell 13.52%. We just endured the worst December market downturn in 88 years. For the first time since 1994, Treasury bills beat most major investment classes as over 95% of global assets declined in 2018. Speculation in the energy sector over Iranian sanctions was purged in the quarter as oil prices plunged 39% from their peak in early October. The energy sector was the worst performer, down 24%. Due in large part to amazing output from the Permian Basin, US crude production grew to a record 11.9 million barrels per day late last year. The US is now the number one producer in the world. This is like a huge tax cut for Americans who are traveling more in larger vehicles and valuing “experiences.” Global travel and tourism have outstripped growth in GDP the past seven years by a large margin. With consumer spending comprising over two thirds of the US economy, oil declines are a big plus. The deep economic downturns in the 1970s were largely a result of parabolic price increases in oil. Today just the opposite. Oil, natural gas, wind, solar, battery storage, etc. point to ample supplies while technology is helping to mitigate demand. This together with strong employment gains are a stabilizing force for the US economy. Skilled workers are finally seeing a real reward for their labor. There now is a shortage of 60,000 truck drivers. While the domestic economy has been strong, we are seeing a deceleration in earnings growth for many sectors of the S&P as the world economy slows.

It is estimated that over 85% of trading on the exchanges is now tied to momentum-based mathematical algorithms. With the proliferation of exchange traded funds, investors may have miscalculated liquidity. An exchange traded fund can't be more liquid than the underlying securities. It was the high expectation momentum stocks that suffered the most in this correction. In a momentum market it is easy to lose price discipline, to overpay and over-borrow both for acquisitions and stock buybacks. The good news on the buy side, we are seeing a meaningful compression in price earnings multiples which benefits long-term investors seeking double-play returns. The semi-informed electronic herd is creating great opportunities for the diligent investor, armed with cumulative knowledge of underlying facts, fundamentals and cycles. Rigorous day-to-day research can pay off big in bad markets by understanding where you are in the cycle and being able to quantify and minimize risk while increasing odds.

I like to study high achievers in any field. I am reading a biography on the champion New England Patriots football coach Bill Belichick. He was watching game film at age six. He talks about the grinding day-to-day process. Not the results. There are no easy formulas. It is day-to-day nitty gritty grinding focus on details. Costco founder Jim Sinegal was famous for his saying “retail is detail.” That is what serious investing is all about. Otherwise you are speculating. With a normalization of interest rates and the reduction of the Fed's balance sheet at \$50 billion a month, there seems to be a shift from momentum and “growth at any price” to cash flow and valuation. Our most profitable investments have usually started with bad headlines, some pain and a bargain price. Conversely, investment cycles end when everything looks great. In 2000 market darling Cisco looked terrific. Then, over the 13 months ended April 6, 2001, it plummeted from \$82 to \$13.83. We remain focused on the operating fundamentals and cash flow of individual businesses and where we are in each industry cycle.

Fourth Quarter 2018 Performance Update



Auxier Focus Fund’s Investor Class declined 10.36% in the fourth quarter vs. a drop of 13.52% for the S&P 500 Index. For the full year the investor class returned -4.06%. The S&P gave back 4.38%. The NYSE Composite Index which includes all the common stock listed on the New York Stock Exchange lost 11.2%. Foreign emerging markets declined 17% with China’s Shanghai Index surrendering 24.6%. In the Fund, domestic stocks comprised 77%, foreign 14%, with cash and “workouts” 9%. From inception at the top of the market in July 1999 to December 31, 2018, a hypothetical \$10,000 investment in the Fund has grown to \$36,852 with an average equity exposure of 80%. This compares favorably to \$25,968 for the fully invested S&P 500. We would encourage investors to check out our risk-adjusted results in the most difficult down markets over the past 19 years. Our focus is on a systematic low risk approach to the markets and in harnessing the power of compounding.

Auxier Focus Fund – Investor Class
 Average Annual Total Returns (12/31/2018)
 Since Inception (07/09/1999) 6.93%
 10-year 9.61%
 5-year 5.10%
 1-year -4.06%
 3-month -10.36%

Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. As stated in the current prospectus, the Fund's Investor Class Share's annual operating expense ratio (gross) is 1.10%. The Fund's adviser has contractually agreed to waive a portion of its fee and/or reimburse Fund expenses to limit total annual operating expenses at 0.98%, which is in effect until October 31, 2019. Other share classes may vary. The Fund charges a 2.0% redemption fee on shares redeemed within six months of purchase. For the most recent month-end performance, please call (877) 328-9437 or visit the Adviser's website at www.auxierasset.com. The recent growth rate in the stock market has helped to produce short-term returns that are not typical and may not continue in the future.

Contributors to the quarter: Our outlook on a cross section of portfolio positions with a positive return for the quarter ended 12/31/2018.

Yum! Brands, Inc. (YUM)

The parent company of some of the largest chain restaurants in the world, Yum! Brands manages Taco Bell, KFC, Pizza Hut and WingStreet outside of China. Between all their brands, Yum! operates over 46,000 restaurants with over \$46 billion in annual sales. KFC, Pizza Hut and Taco Bell are number one globally in the chicken, pizza and Mexican food categories respectively. With approximately 98% of their restaurants franchised, Yum! Brands has managed to create a global fast food empire while remaining capital light and reducing their own risk.

The Coca-Cola Co. (KO)

Coca-Cola is working to expand into other markets and make strategic acquisitions that align with their expertise while continuing their current dominance in the carbonated beverages market. They recently acquired Costa Limited to enter the \$500 billion annual hot beverage market and have launched Smartwater in 20 new markets in 2018.

Top Equity Holdings	% Assets
UnitedHealth Group Inc.	4.5
Mastercard Inc.	4.1
Bank of New York Mellon Corp	3.7
Medtronic PLC	3.6
Microsoft Corp.	3.3
Pepsico Inc.	3.3
Johnson & Johnson	3.2
Merck & Co.Inc. New	2.7
Philip Morris International	2.6
Kroger Co.	2.5

McDonald's (MCD)

Management led by CEO Steve Easterbrook has been aggressively offering delivery, mobile order and digital menu boards. They have reduced overhead costs while improving the quality and consistency of their stores. So far this year, their company-operated restaurant expenses are down 17% and their selling, general and administrative expenses are down 9%. McDonald's recently partnered with Uber Eats to deliver their food and launch a new ad campaign.

Merck & Co. (MRK)

Merck is known for its signature drug, Keytruda, an immunotherapy drug currently registered to treat seven different types of cancer that brings in nearly \$2 billion quarterly. Despite having a blockbuster drug that is still on the upswing, Merck has continued to strengthen their pipeline and invest in new drugs such as Gardasil, an HPV vaccine that is already bringing in over \$1 billion per quarter, and Bridion, the first selective relaxant binding agent on the market.

Procter & Gamble Co. (PG)

Management has focused on reducing their costs of products sold and their selling, general and administrative expenses in order to maximize the amount of capital they can return to shareholders. In the first quarter of their fiscal year, Procter & Gamble returned \$3.2 billion to shareholders through dividends (\$1.9 billion) and stock repurchases (\$1.3 billion). Led by activist investor Nelson Peltz, PG has restructured its business around six "small business units" each with their own management team. They have reduced brands from 165 to 65 in order to compete with smaller, more nimble companies such as Harry's Shave Club while still granting them the cost synergies of a massive company.

Arcos Dorados Holdings Inc. (ARCO)

The largest McDonald's franchisee in the world, Arcos Dorados exclusively operates and manages McDonald's restaurants in twenty countries in Latin America and the Caribbean. Despite taking severe losses in Venezuela due to the country's problematic macro environment, Arcos Dorados has managed to increase revenues by 8.3% on a constant currency basis while increasing their net income

by 68%. Brazil's newly-elected president Jair Bolsonaro and finance minister Paulo Guedes are working to privatize more industries and instigate pension reform, while rooting out corruption. Guedes was educated at the University of Chicago.

Detractors to the quarter: Our outlook on a cross section of portfolio positions with a negative return for the quarter ended 12/31/2018.

Zimmer Biomet Holdings (ZBH)

Fundamentals at Zimmer Biomet are steady with a powerful franchise in hip and knee replacements. ZBH generates over \$1 billion annually in free cash flow. They are close to an FDA approval for their total knee replacement Rosa robot. A Zimmer Biomet manufacturing plant in Indiana has been hampered by regulatory issues the past two years but management is showing steady progress in fixing the problem. We see good upside in the stock when this problem is ultimately corrected.

Discovery, Inc. (DISCA)

Discovery continues to build their media influence of unscripted content. As the leading provider of nonfiction content, Discovery has built a global market focusing on "superfans." They have tapped into offering shows that no other platform runs, while also picking up the rights to niche sports like golf and tennis. Recently, news was released that CBS is looking to grow their balance sheet, in order to renew the rights to the NFL. Bankers have pitched Discovery as a merger target. While we don't know if CBS will acquire them, we do feel consolidation in this space will happen due to the need to scale up against players like Amazon and Netflix. The stock seems really cheap at nine times earnings with a double-digit free cash flow yield.

Altria Group, Inc. (MO)

Altria has aggressively pushed its way into the new E-cigarette (also known as vaping) and cannabis markets by making deals with Cronos and Juul. With Cronos, Altria gets a 45%, with an option to increase to 55%, stake in a Canadian marijuana company with a strong research division and an asset-lite approach that avoids the actual cultivation of marijuana. With Juul, Altria gets a 35% stake in one of the fastest growing E-cigarette companies while also providing it with the cash to continue its rapid growth. Sales for Juul grew from \$200 million in 2017 to over \$1 billion in 2018. However, they paid a very steep price for entry.

Microsoft Corp. (MSFT)

Microsoft has been transitioning away from personal computing and toward services, which now make up over 60% of revenues. Under the leadership of Satya Nadella the company has made huge strides in cloud computing. The Azure cloud business has been growing over 75%. Like many companies, their stock has taken a hit since reaching record highs in the fall of 2018, yet they have a fortress balance sheet with over \$135 billion in cash and short-term assets and less than \$70 billion in long-term debt. Microsoft had over \$10 billion in free cash flow in their last quarter.

Bank of America Corp. (BAC)

Management at Bank of America, led by CEO Brian Moynihan, is working on reducing risk and becoming more efficient while enhancing the customer experience. In early 2019, Bank of America was awarded the first J.D. Power and Associates' website certification for online experience while last year they were awarded J.D. Power's first mobile app certification. The stock looks inexpensive at less than ten times 2019 earnings estimates.

Mastercard Inc. (MA)

Despite strong performance with currency neutral revenue growth of 17% and earnings growth of 36%, Mastercard has fallen from its peak in the fall of 2018 due to macroeconomic concerns. Mastercard has done a great job in fending off the competition in the digital payments space while taking advantage of the digital trends away from cash payments.

Risks

It is difficult to endure long term without a vigilant eye on risk. Risk management is most valuable in expensive markets as torpedo drops interrupt the compounding process. Rapidly growing debt loads are often a precursor to economic panics and downturns. Rising interest rates tend to expose poor capital allocation. As the Federal Reserve has been reducing their balance sheet by \$50 billion a month, that has led to increased volatility and shifted investor focus away from just revenue growth to cash and balance sheet strength. This past year digital speculation in the form of Bitcoin crashed from over \$20,000 at the peak to under \$4,000. US venture-backed companies raised a record \$131 billion in 2018 topping the \$105 billion set in 2000 according to PitchBook. This combined with record funding out of Japan with Softbank and China points to the potential for oversupply in many areas of technology. This could get worse if the tech initial public offerings overheat in 2019. The cash burn¹ on startups in Silicon Valley is far greater than the mania peak in 2000. The growth in borrowings out of China and the lack of price discipline in foreign acquisitions is very similar to the behavior of the Japanese in the late 1980s. They were paying crazy prices for trophy properties like Pebble Beach and Rockefeller Center. The past few years the Chinese have overpaid for the Waldorf Astoria and many other “trophy” names. This led to the seizure in 2018 of the largest Chinese insurance conglomerate Anbang. The Japanese Nikkei Stock Index hit a peak over 39,000 in 1989 only to drop to 7,500 twenty years later after their debt binge. The true cost in investing is not knowing what you own or what you are doing.

Other misperceptions of risk include the safety of utilities and big companies. Recently the largest utility in the country, Pacific Gas and Electric, declared bankruptcy over wildfire liabilities in California. In 2007 Texas Utilities went bankrupt. In 2001 Enron was the largest bankruptcy in history, a year after Fortune magazine featured them as having industry best practices. In 2000 CFO magazine named Enron’s Andrew Fastow CFO of the year. Enron had acquired our local utility Portland General Electric and we saw the rapid buildup of off-balance sheet debt and sold the stock at \$80 before it dropped to zero. Overpaying and overborrowing are the recurring sins of capital allocation.

Opportunities

Corrections and recessions are necessary to purge imbalances in a market-based economy. They should be welcomed as an opportunity to shop for the best quality investments at bargain prices. I remember like yesterday personally investing in 1994, the last time T-bills outperformed stocks (S&P 500). The number two economy at the time was Japan which suffered from crushing debt, crashing stock and real estate markets. The fears proved to be overblown. Fast forward to today, and China’s slowdown has captivated the investment news. In 2017 US exports to China were \$130 billion or .6% of our \$21 trillion economy. Imports from China were \$506 billion. Our portfolio’s valuation is an attractive 13.9 times forward earnings with good free cash characteristics. Our greatest investments have been made in the time of market panics or recessions. Today, emerging markets (MSCI Emerging Markets Index) are interesting at 12 times earnings. The Fund is positioned for a slowdown

based on quality, balance sheet strength and free cash flow yields. Being late in the economic cycle, we have remained weighted in healthcare despite negative headlines. Since 1946 healthcare has outperformed the market, as measured by the S&P 500, 75% of the time in down markets. We like the innovation we are seeing in medical technology with data analytics leading to rapid advances in tackling cancer, brain and other chronic diseases.

We appreciate your trust.

Jeff Auxier

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling (877) 328-9437 or visiting the Fund's website. Please read the prospectus carefully before you invest.

Fund returns (i) assume the reinvestment of all dividends and capital gain distributions and (ii) would have been lower during the period if certain fees and expenses had not been waived. Performance shown is for the Fund's Investor Class shares; returns for other share classes will vary. Performance for Investor Class shares for periods prior to December 10, 2004 reflects performance of the applicable share class of Auxier Focus Fund, a series of Unified Series Trust (the "Predecessor Fund"). Prior to January 3, 2003, the Predecessor Fund was a series of Ameriprime Funds. The performance of the Fund's Investor Class shares for the period prior to December 10, 2004 reflects the expenses of the Predecessor Fund.

The Fund may invest in value and/or growth stocks. Investments in value stocks are subject to risk that their intrinsic value may never be realized and investments in growth stocks may be susceptible to rapid price swings, especially during periods of economic uncertainty. In addition, the Fund may invest in mid-sized companies which generally carry greater risk than is customarily associated with larger companies. Moreover, if the Fund's portfolio is overweighted in a sector, any negative development affecting that sector will have a greater impact on the Fund than a fund that is not overweighted in that sector. An increase in interest rates typically causes a fall in the value of a debt security (Fixed-Income Securities Risk) with corresponding changes to the Fund's value.

¹ Cash burn aka burn rate is normally used to describe the rate at which a new company is spending its venture capital to finance overhead before generating positive cash flow from operations; it is a measure of negative cash flow.

Forside Fund Services, LLC, distributor.

The S&P 500 Index is a broad-based, unmanaged measurement of changes in stock market conditions based on 500 widely held common stocks. One cannot invest directly in an index or average.

The views in this shareholder letter were those of the Fund Manager as of the letter's publication date and may not reflect his views on the date this letter is first distributed or anytime thereafter. These views are intended to assist readers in understanding the Fund's investment methodology and do not constitute investment advice.