



Auxier REPORT

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Summer 2019 Market Commentary

The US economy, while slowing, is still benefiting from a strong labor market, a stable service sector and robust consumer spending. Conversely big ticket “goods” producers are suffering from tariffs, a strong dollar and turmoil in the international markets. 39% of S&P 500 earnings in 2018 came from foreign countries (S&P Dow Jones Indices). Consumer facing franchises are generally seeing an improvement in sales trends and pricing. These include leaders in fast-food restaurants, coffee, snacks, beverages, skincare and other necessities. These businesses are reworking product offerings and utilizing technology to speed up service while enhancing the customer experience. Low fuel prices are helping to stimulate travel. This is particularly impactful for millennials who tend to value and spend on “experiences.” We continue to see strong fundamentals for businesses involved with the digital transformation of the economy, although prices for many of these businesses are getting prohibitively expensive.

Housing

The decline in the 30-year mortgage rate to 3.75% has stimulated refinancing activity. However high-end housing across the country has been softer partly due to the pull back of Chinese investment along with the limits on tax deductibility of mortgages over \$750,000 and property taxes over \$10,000, depending on your tax filing status. The dollar volume of homes purchased by foreigners for the 12 months ending in March was down 36%. First time buyers have been struggling to come up with down payments. Student loan debts nearing \$1.6 trillion are impeding the growth of the entry level housing market.

New Technology Can Lead to Exuberant Pricing

New technology disrupters garner excitement and often nosebleed valuations. A good example is the comparison of two transportation companies Uber and UPS. After 112 years UPS recently had their best quarterly performance in the history of the company. It operates in 220 countries and moves 3% of the global GDP of goods and 6% of US GDP. With profits exceeding \$6.5 billion and a well-compensated workforce, it trades for a lower valuation than ride-sharing Uber which is losing \$3 billion a year with a temporary workforce of drivers. FedEx is trading at ten times earnings, 40% lower than their historical valuation, over fears that Amazon will overtake them. We estimate it would cost a startup over \$110 billion to get up to speed with FedEx which has been diligent in leadership through state-of-the-art logistics technology. In the late 1990s companies with great stories and no cash flow were the rage. E-toys, Webvan food delivery and Pets.com all enjoyed great momentum and sky-high valuations until reality set in and they crashed and burned. Investing comes down to the cash an investment generates not just a story. We aggressively follow industry cycles and those with the most euphoria that are going parabolic tend to be late cycle. Excitement amid a merger frenzy marked the peak in commodities in 2011 after a 118-month boom. Commodities may have finally reached bottom after a painful eight-year correction. At the peak many commodities reached prices over double their cost of production. In farming it is so tough just to cover the cost of production. Today most of the farm sector is in a deep decline with farm incomes down over 50% from their peak while many commodities are trading for less than the cost of production. The odds favor food shortages in the next few years.

Companies in Secular Decline

While we always like a bargain price many companies can appear to be statistically cheap but are actually in secular decline. Take Eastman Kodak, once a dominant blue chip. It totally missed the digital transformation in photographs. We now take over two trillion pictures a year. That is why an investor needs to be a dedicated, investigative researcher to seek out potential technological disruption that can interrupt the compounding of returns. The power of compounded knowledge is also important to surviving and thriving over the long term.

Healthcare

Numerous health care stocks have lagged the market advance in 2019. Recurring adversarial headlines out of Washington DC have depressed valuations. The negative headlines drown out the exciting innovation that we see taking place that has the potential to cure many chronic diseases. Abbot is making great strides in diabetes and heart valves. Medtronic is combining data analytics and artificial intelligence. Both Alphabet and Apple are making meaningful advances. Merck's cancer fighting drug Keytruda is making excellent progress with sales gaining over 50% this past quarter. More competition and improved efficiency via technology is needed to drive costs lower. A total government takeover of healthcare could cost \$32 trillion (Committee for a Responsible Federal Budget). Socialism means less competition and higher prices. Venezuela's state-run economic model now has inflation exceeding 10 million percent (CNBC). So much for "safe" sovereign debt. Venezuela was the number one ranked economy in Latin America in 2000.

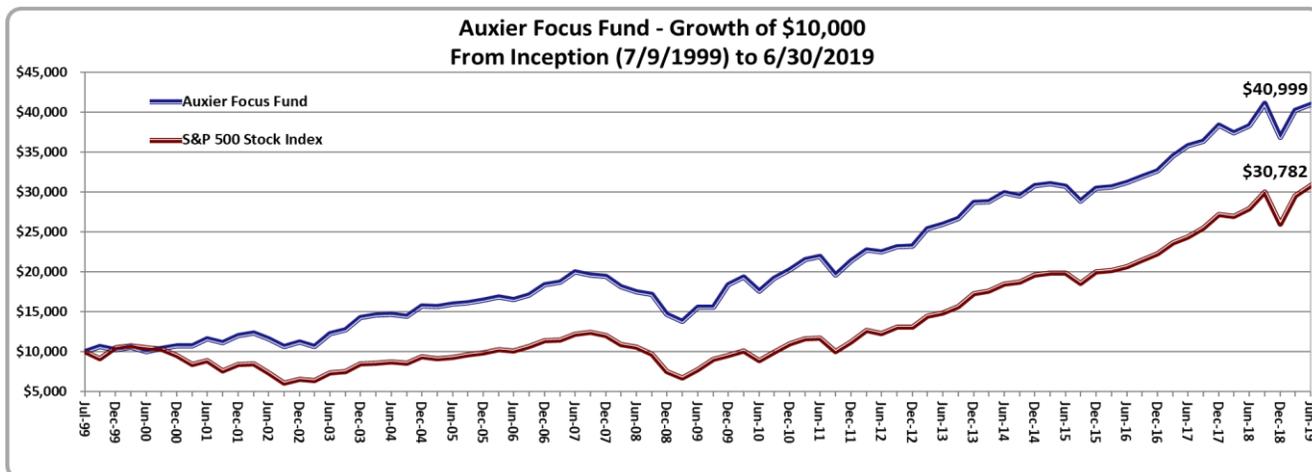
Central Bank Distortion—Negative Interest Rates

Nearly \$13 trillion face amount of bonds from outside the US are priced to yield negative interest rates. If you deposit money in a savings account in a German bank you pay the bank interest. It is a form of competitive currency devaluation that gives an export advantage in the global markets. A risk is a prolonged trade/currency war. It is a man-made (central banks) distortion that leads to the misallocation of investments. It is killing European banks. Germany's largest bank, Deutsche Bank recently dropped to less than one third of book value. Europe has relied heavily on monetary policy and has failed to make the tough policy decisions needed to restructure in order to unleash the potential of a market-based economy.

Hemp as a New Disrupter

The outlawing of hemp in 1937 (due to its relationship with its sister cannabis plant, marijuana) froze the development of the nation's ability to understand the crop. However, with the passage of the 2018 Farm Bill, hemp was federally legalized. Through recent research, CBD effects on the body are being explored at greater lengths and scientists are finding beneficial uses across a vast array of medical applications. CBD has entered the market rapidly in accordance with recent deregulation and has created an unprecedented number of opportunities for development and investment. Due to the explosion of the hemp industry in a relatively short period of time, the supply chain has proven to be challenging. These bottlenecks are where investments could prove to be the most advantageous. CBD is positioned to eventually overshadow traditional over-the-counter pain relief (such as acetaminophen or ibuprofen). The health and wellness, beauty products, beverage and pet health industry have all championed this emerging hemp market and have benefited from this major introduction. The industrial side of hemp poses a similar number of disruptions as there is an incredible number of products that could soon be replaced by the hemp crop including certain textiles, plastics, building materials and insulation. Levi's now makes a hemp shirt. Oregon State University, in our back yard, has some of the best research in the country allowing us to gather unrivaled data and insights for identifying attractive investments.

Second Quarter 2019 Performance Update



Auxier Focus Fund's Investor Class returned 1.92% in the second quarter vs. 4.30% for the S&P 500 Index and 3.21% for the DJIA. Stocks in the Fund comprised 95% and gained 2.24%. The equity breakdown was 81% domestic and 14% foreign. Health care stocks hurt performance for the year. A hypothetical \$10,000 investment in the Fund since inception in July 1999 to June 30, 2019 is now worth \$40,999 vs. \$30,782 for the S&P 500. The equities in the fund have returned over 450% since inception. This was achieved with an average exposure to the market of less than 79% over the entire period.

Contributors to the quarter: Our outlook on a cross section of portfolio positions with a positive return for the quarter ended 6/30/2019.

Visa (V)

Visa Inc. saw strong performance in revenues and earnings for the quarter led by continued growth in payments volume, cross-border volume and processed transactions. During the quarter, the company repurchased 14 million shares of common stock using \$2 billion of cash on hand. They have \$8.3 billion of authorized funds available for further stock repurchases. Management expects revenue growth for the full-year 2019 to be in the low double-digits. Visa recently partnered with Razer to allow their 60 million users to make payments wherever Visa is accepted. This partnership will increase Visa's reach in Southeast Asia, a region which has a large underserved population of over 438 million. Visa also launched their payment system called Visa B2B Connect to offer seamless and secure cross-border payment processing for businesses.

PepsiCo Inc. (PEP)

Auxier Focus Fund – Investor Class
 Average Annual Total Returns (06/30/2019)
 Since Inception (07/09/1999) 7.32%
 10-year 10.14%
 5-year 6.48%
 1-year 7.08%
 3-month 1.92%

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.

PepsiCo is showing strong performance in their snacking and international segments. Shares have increased by 20.0% in the past six months, outperforming the S&P's increase of 17.2%. The company's growing snack business has largely offset slight dips in the beverage industry. PepsiCo has instituted a cost savings program that could achieve \$1 billion in annual savings through 2023. They expect to generate cash flows of about \$9B and return \$8B to shareholders in the form of dividends and share repurchases. PepsiCo has cemented itself as one of the best dividend stocks on the market with 47 consecutive years of dividend hikes.

| Top Equity Holdings | % Assets |
|------------------------------|----------|
| Mastercard Inc. | 5.4 |
| UnitedHealth Group Inc. | 4.2 |
| Pepsico Inc. | 3.6 |
| Medtronic PLC | 3.6 |
| Microsoft Corp. | 3.4 |
| Bank of New York Mellon Corp | 3.3 |
| Johnson & Johnson | 3.1 |
| Philip Morris International | 2.9 |
| Merck & Co.Inc. New | 2.7 |
| BP p.l.c. | 2.6 |

Microsoft Corporation (MSFT)

Microsoft's revenue increased by 14% for the quarter while earnings increased by 19%. Revenue growth was led by increased demand for Microsoft's Azure cloud offerings. Microsoft plans to increase their investment in cloud-based systems to continue to shrink the gap between them and Amazon in the cloud service segment. Microsoft has almost doubled its market share in the public cloud infrastructure industry over the last few years. They are now #2 in the cloud industry and well ahead of other competitors. Management is very optimistic about the continued growth of the company providing guidance of double-digit revenue and operating income growth over the next year. Microsoft's debt is dwarfed by its near \$1 trillion market cap. This should give the company the flexibility to continue investments in more growth-oriented projects.

Mastercard Inc. (MA)

Mastercard, the largest holding in the fund, continued its strong performance with another quarter of solid growth. Revenues were up 9% and net earnings were up 25% for the quarter. Revenue was boosted by a 12% increase in global gross dollar volume. Mastercard returned over \$2 billion to shareholders in the form of share repurchases and dividends during the quarter. Year-to-date, Mastercard stock has increased by 40% versus a 17% increase in the S&P 500. Mastercard's underlying infrastructure means that they can continue to increase the number of total transactions they can handle with only a minimal increase in expenses. Mastercard seems likely to benefit from the continued growth in the e-commerce industry which is currently growing five-times as fast as face-to-face transactions (eMarketer).

Detractors to the quarter: Our outlook on a cross section of portfolio positions with a negative return for the quarter ended 6/30/2019.

Bank of New York Mellon Corp. (BK)

After coming over from Visa in July of 2017, CEO Charles Scharf has worked to transform Bank of New York Mellon just as he did with Visa. Under Scharf Visa nearly tripled in price due particularly to his focus on improving their technology infrastructure and diversifying the company through international expansion. At Bank of New York Mellon Scharf has also focused on diversification and technology. While the diversification has hurt margins in the short-term and the investments in technology have lowered current earnings, we believe that the improvements Scharf has made will pay off in the long run. In the short-term Bank of New York Mellon continues to return capital to their shareholders with a recent 11% dividend increase and a nearly \$4 billion share repurchase authorization.

Kroger Co. (KR)

In the second year of their Restock Kroger program, Kroger is continuing to invest in their technology and infrastructure to make good on their goal to "deliver anything, anytime, anywhere." The results from Kroger's investments can already be seen as their total sales, excluding fuel and the effect of their sale of their convenience store business, were up 2%. They have a long history of success and are trading at a steep

discount of around nine times earnings. Kroger used their \$1.4 billion in free cash flow in the quarter to invest in their business and reduce their debt.

Philip Morris International (PM)

Philip Morris has been facing extreme currency pressure due to the strength of the US dollar. Despite the foreign exchange headwinds, they continue to dominate the international tobacco market with total market share increasing by a point to 28.4%. Their in-market sales were up 1.7% led by strong growth from their IQOS heated tobacco devices which grew by nearly 35%. IQOS has taken off in Japan and is starting to pick up steam across the rest of the globe with the EU and Russia both seeing double-digit growth. Philip Morris has marketed the IQOS devices as a substitute to traditional cigarettes that releases fewer chemicals since the tobacco is not burned. The rapid growth of IQOS is only projected to increase as local governments push this alternative.

Zimmer Biomet Holdings (ZBH)

Zimmer Biomet has faced some fixable issues with their supply chain hampering current operating results. However, they are a low-cost provider with a strong history in hip and knee replacements. Their rapidly growing S.E.T (surgical, sports medicine, extremities and trauma) and Spine & CMF (craniomaxillofacial) divisions leave them well positioned to take advantage of the growing demand for medical devices. The peak demand for hips and knees is 68 years old—just about the average age of the baby boomer today. Zimmer Biomet is planning on using their strong free cash flow generation to further reduce their debt in 2019.

Our primary focus is to take advantage of the power of compounding with businesses and management teams that appear likely to successfully navigate through the most challenging environments. We search for solid businesses and managements, priced right, that can pursue compelling returns over long periods. The explosion of data has contributed to the power of networks and platforms. With network effects businesses can leverage their users with the potential to grow returns with greater scale. By utilizing data analytics and artificial intelligence they are better able to identify customer needs. This is especially true in digital advertising, Facebook, Google Search and YouTube are a few examples. As users increase, the value of the experience or product can increase exponentially.

Shortage of Shares

Supply and demand is still favorable for publicly traded US stocks as buybacks are running close to \$950 billion annualized (Standard & Poor's). Private equity demand has exploded with over 8000 firms armed with over \$2 trillion in buying power (Bain & Co.). We favor businesses with high free cash flow yields which private equity buyers seek. Industry mergers are common as well. With investors fear of volatility in public auction markets together with disclosure and regulation we think some of the best odds for success come when dealing with smaller sums of money in the markets where investors can take advantage of the periodic waves of irrational behavior to score bargains not available in the private markets.

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.

Foreside 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.