AAM AUXIER•ASSET MANAGEMENT LLC

Auxier REPORT

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Fall 2016 Market Commentary

This past quarter I have spent a great deal of time visiting companies (over 55), managements and looking at new disruptive technologies. The goal is to catch the turn up in fundamentals, especially in beaten down sectors of the market. The seemingly exponential growth of data analytics, together with easy money, has contributed to excess capacity and supply "gluts" across a number of industries. Data sharing will only improve as the next generation 5G wireless promises to boost web speeds 10-50 times. I recently attended the largest commercial drone conference in North America. Open source software is fueling the rapid advances in drone technology, transforming agriculture, shipping, logistics, supply chains as well as search and rescue. Soon drones could be delivering groceries to your house. We are on the lookout for well-nurtured businesses with a "heart and soul" and drive that can successfully navigate, innovate and implement new technology often in dull businesses. I met with Sherwin Williams – a very well-managed company in coatings under the leadership of John Morikis. With many painting contractors charging $35 an hour, you aren't typically going to skimp on low quality paint. While general market levels are high there are opportunities as rolling corrections within industries and stocks take place. We have had a "profits recession" now for over 5 quarters−a very challenging time. It is so critical to constantly assess the estimated long-term profits and cash flow for a business. That is our daily focus—the economics of each business we own. Many well run industrial names like Fastenal, Celanese, and LyondellBasell have been hurt by the strong dollar and cutbacks in capital spending. In the past couple of years an estimated $1 trillion cutback in energy infrastructure alone. The farm economy is suffering from the worst downturn since the 1980s, and many commodities are now selling for less than the cost of production. This is predictable as we had one of the longest booms (118 months) in history peaking in 2011. Fertilizer company Mosaic traded over $160 in 2008 and now trades at $24 with over a 4% yield. Generally, it is a good time to buy when a commodity is selling under cost of production. In the past 8 months, food prices have seen the steepest drop since the 1960s. Meats and dairy have suffered sharp declines. This has hurt grocers like Kroger, Walmart and Costco. It has led to stiff competition in the restaurant industry as well. We still believe longer term there are tremendous opportunities as businesses marry nutrition with healthcare and the ties of base minerals and immunology become more widely known. Ingredient sourcing is growing in importance for 83 million millennials.

Biotech companies which were bid to extreme price-to-sales ratios two years ago have now corrected by over half in many cases. World class research organizations like Amgen and Biogen are selling for very low historic valuations. The best health care buys typically have taken place in the face of negative political headlines. Recall for example the early 1990s when the Clintons took office, proposed legislation led to a great buy in Johnson and Johnson that declined from 58 to 36. More recently, with the rollout of the Affordable Care Act, we were able to buy quality names like UnitedHealth at steep discounts (over 20% free cash flow yields) to intrinsic value. We prefer strong cash flows and negative headlines. In today's world of blind pools, it is more important than ever to do the homework on individual securities, to seek facts, fundamentals and dissect balance sheets - especially in difficult declining markets. It is better to be a "business analyst" as opposed to a "market analyst." Investing is the craft of the specific. Having an edge requires dedicated research, cumulative knowledge and knowing where we are in the cycle of supply and demand. This is crucial in bull markets where the highly valued, high expectation stocks tend to dominate the indexes and torpedo returns in sharp downturns. In 2000, passive indexing reached peak popularity and Cisco led the indexes, trading at 170 times earnings with a valuation in excess of $600 billion. Everyone was an expert in technology. By 2002 it had dropped over 80%, sinking the indexes. Today you have similar price extremes in the pre-public "Unicorns" ($1 billion valuations) with aggressive accounting that have been able to sell products at losses because of the plethora of easy money. Veteran venture capitalist Bill Gurley of Benchmark recently warned that there's too much money in the startup ecosystem. Gurley says "there will be consequences" of excessive risk-taking in tech "with interest rates so low, you just have people looking for yield, and so money sloshes around." We continue to appreciate and focus on the power of compounding and inherent risks of investing. To quantify the downside, and to make great buys in gloomy markets, you need to really know what you own.

Interest Rate Inflection

Today's insanely low interest rates threaten the solvency of financial intermediaries. Witness the collapse of Germany's giant Deutsche Bank. You can't grow the economy by destroying the banks. According to *The Economist*, collective balance sheets of the most active central banks (U.S. Federal Reserve, Bank of Japan, European Central Bank, Swiss National, Bank of England and Bank of China) grew from $3 trillion in 2002 to over $18 trillion recently. Such aggressive action has driven interest rates to the lowest yields in recorded history. This is totally unsustainable. There used to be "bond vigilantes" that would act as an early warning mechanism for credit quality deterioration. That function has been virtually eliminated with central bank intervention removing the market and pricing mechanism. Governments never effectively price risk. Bond volatility traditionally has been on par with stocks, but that volatility has been repressed. These policies, due in large part to the damage to banks, pensions, and insurers, are under increased criticism and may be about to change. Fiscal spending may start to replace monetary stimulus as both U.S. presidential candidates are pushing hard for massive infrastructure repair. A more normalized interest rate environment would help refocus investors on the fundamentals of price vs. value.

Low Energy

Today's energy costs remain reasonable thanks to a combination of higher fuel efficiency (cars and buildings, for example) plus technological advances in capturing shale oil, solar, and wind sources of power. According to the Energy Information Administration (EIA), average generation costs for new onshore wind farms fell 30% between 2010 and 2015. Solar panels fell by 66%. U.S. oil and gas drilled but uncompleted wells (DUCs) now total over 5,000. Virtually all are profitable at $50 a barrel oil, with production potential of 250,000 barrels a day, or equal to half of California's current output. The lowest stock market valuations in the past 50 years have occurred when energy prices went parabolic. The highest valuations followed energy crashes in 1986 and 1998. These price swings are crucial indicators of the health of the U.S. economy dominated by consumption of goods and services.

Monitor Supply and Demand

The pool of U.S. publicly traded stocks has been shrinking through buybacks, mergers and buyouts by private equity funds. In 1996 there were about 7,000 public companies. That number is now close to 4,000 thanks in part to the growth in private equity deals. According to Preqin, there were 24 private equity firms in 1980. Today there are 6,628. The market for initial public offerings (IPOs) of stock also has been very slow to bring new supply, with less than 20 in 2016 through September. This compares favorably to the bubble top in 1999 when 480 IPOs hit the U.S. market.

Risks to Fixed Income

Risks far outweigh potential rewards in fixed income investments including high-dividend stocks. Wally Weitz of Weitz Investments recently commented that if a 10-year bond rises in yield from 2% to 4%, the decline in principal is 16.4%. If a 30-year bond yield rises from 4% to 6%, the decline in principal is 27.7%. The proliferation of bond exchange-traded funds sets up the market for a potential liquidity crisis, as the number of bond dealers has shrunk in the face of increasing regulatory burdens. Prior to 2008, bond dealers generally held inventory levels of more than 2% of the market. Today it is closer to a tenth of the size. (*Economist*). Low energy costs historically have provided a big boost to a service economy. In 1986 after energy prices dropped over 60%, interest rates rose from 7% to 10% in less than two years as the economy picked up steam. If politics favor ramped up fiscal spending like in the 1980s, the resulting inflation could be painful for bondholders. They not only get whacked by loss of principal but also loss of purchasing power over time. Like Warren Buffett has stated, $1 in 1965 requires over $7 today in purchasing power. It took an average annual 4.3% return (before taxes!) just to maintain purchasing power risk over that entire period. That is why we strive for the "double play" investments. Straight income can't come close to maintaining purchasing power over the long term. Thus our favorite investments have historically high returns on equity, low capital needs, and growing free cash flows. Plus we aim to purchase at prices below intrinsic value and wait patiently for expansion of temporarily depressed earnings multiples.

Elections

Regarding elections, our main concern is that the constitutional checks and balances remain strong and incorruptible. High grade ethics in leadership is needed to endure in any field. Gridlock is a favorable outcome. But the good news− internet transparency tends to clean up bad behavior. An example of a government without checks can be seen in Venezuela, which sits on more oil reserves than any other country in the world. It is suffering a GDP decline of 10% this year, starving citizens and stoking runaway 480% inflation heading to 1,600% next year. This resulted largely from autocratic socialistic policies and the collusion of a corrupt executive and judicial branch that went on to control the military.

Importance of Maintaining Price/Value Investment Disciplines

In allocating capital, the sins of over paying and over borrowing can linger for years. Global banks have suffered over $200 billion in fines and lawsuits since 2008. Bigger is not safer as the operators of large institutions often have very little of their own money at risk. Time and time again CEOs combine ego and emotion with borrowed money to overpay and destroy good businesses.

Fall 2016 Performance Update

AUXIER FOCUS FUND
PERFORMANCE UPDATE
September 30, 2016

ANNUALIZED

	Inception *	Ten Year	Five Year	Three Year	One Year
Auxier Focus Fund Investor Class Shares	6.97%	6.45%	10.21%	6.16%	10.72%
S&P 500 Index	4.54%	7.24%	16.37%	11.16%	15.43%

CUMULATIVE

	Inception *	Ten Year	Five Year	Three Year	One Year
Auxier Focus Fund Investor Class Shares	219.46%	86.41%	62.58%	19.63%	10.72%
S&P 500 Index	114.71%	101.14%	113.44%	37.36%	15.43%

* Fund inception: July 9, 1999

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, 2017. 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 Advisor'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.

Portfolio Highlights

For the third quarter of 2016, Auxier Focus Fund's equities gained 3% with the Fund returning 2.23%. The Fund had an average 78% exposure to U.S. stocks, 10% to international companies with 12% in cash and workouts. By comparison, the S&P 500 index rose 3.85%, and the Dow Jones Industrials gained 2.78%. Lower food prices hurt such Fund holdings as Kroger and McDonalds. Foreign holdings like Carlos Slim's America Movil have also been hurt by Latin American devaluations, and is the cheapest valuation in years. The perception that easy monetary policy will be displaced by fiscal spending and higher interest rates has given a boost to financial names like Bank of New York and Aflac. Biogen, which is developing treatments for spinal muscular atrophy and leads in the Alzheimer's battle, recently declined to a compelling buy point and was a major positive contributor for the quarter. We like research-driven healthcare organizations innovating to solve today's health problems with new solutions. Microsoft continues to lead in cloud, although we are worried about the massive capital investment going into the space. MasterCard continues to excel operationally in the credit card payment space, but competition is building. In media there is currently a glut of content, but AT&T recently announced the takeover of Fund holding Time Warner and we would expect the industry to further consolidate with names like Discovery. We often see markets where the most overpriced issues outperform for long periods. Longer term there tends to be a reversion to the mean. We are starting to see that as many overpriced stocks are correcting. We are seeing better value in some quality industrial names.

Top Holdings on 9/30/16	% Assets
Pepsico	4.0
Bank of New York Mellon	3.4
Unitedhealth Group	3.4
Medtronic	3.3
Philip Morris International	3.2
Molson Coors Brewing	3.1
Johnson & Johnson	2.8
Microsoft	2.6
Merck & Co.	2.6
Zimmer Biomet Holdings	2.5

For the past 30 years, we have made a study of great investors, business operators and enduring capital allocators. Central to their success was a rational temperament with a determined dedicated quest for knowledge on a daily basis. We have studied both success and failure. We have learned to be wary of "investment products." Talk is cheap; that is why we spend our day seeking facts and truth. When interest rates are rock bottom, investment products far outnumber the individual securities, and promoters proliferate. We believe in the principal, not the agent mentality. We want to own the same well researched businesses with our clients because we believe it is the best way to compound returns over the long term. In 1987 we witnessed the introduction of "portfolio insurance" designed to protect during a crash—it didn't, as the market dropped over 30%, forcing sells at the lows. We saw Long Term Capital, with more PhDs on staff than any firm in the world, collapse in 1998. They borrowed over $200 billion on a $2 billion capital base using mathematical formulas. We watched insurance companies issue variable annuities guaranteeing against stock market loss, leading to a drop in Hartford shares from $100 to $2. West Coast Bank tried to automate their lending, only to suffer a $30 million loss and forced sale. Today, exchange traded funds are the hottest craze. In our study of panics over centuries, we see how a semi-informed public will pool up in rising expensive markets only to unwind in down markets. We seek to capture the power of compounding with a constant eye on the downside and quantifying risk through a diligent research effort. There are no shortcuts in risk management.

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. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. 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.