



# Auxier REPORT

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## AUXIER FOCUS FUND PERFORMANCE UPDATE March 31, 2012

ANNUALIZED					
	Inception **	Ten Year	Five Year	Three Year	One Year
Auxier Focus Fund *	6.68%	6.29%	3.93%	18.18%	5.71%
S&P 500 Index	1.87%	4.12%	2.01%	23.42%	8.54%

CUMULATIVE					
	Inception **	Ten Year	Five Year	Three Year	One Year
Auxier Focus Fund *	127.71%	84.00%	21.26%	65.04%	5.71%
S&P 500 Index	26.64%	49.72%	10.48%	87.99%	8.54%

\* Investor Shares \*\* 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 1.35%. The Fund's adviser has contractually agreed to reduce a portion of its fee and reimburse Fund expenses to limit total annual operating expenses at 1.25%, which is in effect until October 31, 2015. 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 Fund's website at [www.auxierasset.com](http://www.auxierasset.com).*

### Spring 2012 Market Commentary

First quarter 2012 was bittersweet for Auxier Focus Fund. Our investors earned a sweet, three-month return of 6.66%. But this feat soured by comparison with the 12.59% advance in Standard & Poor's 500 Stock Index (S&P 500), the broad market's best first quarter since 1998. The Fund's stockholdings (71% of assets for the period) also trailed the S&P 500, returning 9.55%. Our steadfastly low-risk portfolio just couldn't keep pace with a runaway stock rally stoked by the continuing monetary stimulus of the Federal Reserve and other central banks around the globe. In a liquidity aided, momentum market where technology stocks and a plethora of initial public offerings (IPOs) are the craze, we surely will not be the top performer. During the quarter Apple shares soared an amazing 48% to become the world's biggest company by market value and 4% of the S&P 500's capitalization. The potential for the portfolio "torpedo" that results when a high expectation popular stock disappoints then crashes leads us to be more cautious as excitement builds.

Despite a subpar quarter, Auxier Focus continues to outperform the market over the long term. The Fund has returned 127.71%, cumulative, since inception (July 1999) versus the S&P 500's corresponding 26.64%, a nearly fivefold lead that includes the WORST decade for U.S. stock performance (1999 to 2009). This return advantage underscores our primary objective as the Fund's manager to provide long-term capital appreciation and mitigate permanent capital loss. It demands rigorous research for compelling buys, in terms of risk versus reward and a comfortable margin of safety. We strive to capture the power of compounding over time by materially outpacing the market during downturns and refusing to load up on hot stocks during rallies.

## Updating Our Top Holdings

Top Holding on 3/31/12	% Assets
Pepsico	3.4
Philip Morris	2.3
Tesco PLC ADR	2.1
Molson Coors Brewing	2.1
Microsoft	1.9
Merck	1.9
Procter & Gamble	1.8
Avon Products	1.6
Wal-Mart	1.6
Medtronic	1.6
Hospira	1.5
BP (British Petroleum)	1.4
Medco Health Solutions	1.3
Johnson & Johnson	1.3
Unilever NV	1.3

Among our 15 most heavily weighted holdings, top performers for the quarter were Medco, +27%; Microsoft, +25%; Hospira, +23%; Philip Morris, +14%; and Avon Products, +12.30%. Note that four of the five top performers were purchased in the last nine months, an illustration of the viable benefits of having cash on hand then waiting for favorable odds and compelling undervalued price points. The current portfolio is comprised of businesses that have strong free cash flow and, we believe, the ability to increase dividends. The average earnings yield of the portfolio is well in excess of bond yields. Returns on invested capital are high, while mandatory capital spending tends to be low. Generally our buys are bargain priced, and “hopelessly out of favor,” on the flip side of momentum-driven markets in which IPOs are the focal point.

Today, as Apple and IPOs dominate headlines, I am reminded of 1983. That year over 30 personal computer companies went public, many soaring in value. Boring, high quality blue chips were cheap and facing problems. Among them: Waste Management and Pepsico. Waste Management was stumbling. Six years later, Waste Management had doubled earnings and expanded its earnings multiple from 9 to 40 times—an eight-fold return in share price. Pepsico had a Mexican accounting scandal that led to panic selling. Pepsico overcame this problem and returned more than 200% over the same time. Today the majority of those PC companies are gone. That period taught me the beauty of dull and enduring.

## Dealing with Uncle Sam’s Debts

High structural debt levels continue to plague developed economies around the globe. Noted economists Carmen Reinhart and Kenneth Rogoff recently concluded a 22-nation study that tracked instances where central government debt exceeded 90% of GDP for at least 5 consecutive years. The U.S. has exceeded the 90% mark the past two years and is expected to remain at that level or higher through 2017. The findings: prepare for subpar growth for the following 20 years, even when interest rates are at historically low levels. Given this backdrop, it is necessary to work harder to make exceptional investment selections, as investors cannot count on a robust economy to bail out mediocre capital allocation decisions.

## **Tapping America's Competitive Advantages**

The United States is starting to see positive developments from the technological advances in energy extraction—namely hydraulic fracturing (fracking) and horizontal drilling. Natural gas production is up 28% since 2005. Total domestic energy production is the highest since 1988. Oil production has doubled since 2008 in the Bakken shale field straddling North Dakota's and Montana's border. Recent estimates put recoverable reserves at 18 billion barrels. The natural gas supply in the U.S. is now believed to exceed 100 years. This abundance of BTUs is contributing to a renaissance in American manufacturing, as are global supply chain advantages, rising Chinese wages and our long tradition of a strong rule of law. Caterpillar recently had better operating comparisons out of America than China. Advances in 3D manufacturing technology should provide exciting opportunities in new product innovation and development. As an investor and a risk officer, it is so important to be a persistent, voracious learning machine that can stay one step ahead of the creative destruction constantly shaping free markets. For example, our best investments typically have taken place during a crisis or recession times when quality businesses encounter formidable but surmountable obstacles that lead to bargain prices. The recession in Europe may be setting up to be a generational buying opportunity. I remember Cifra (now Wal-Mart de Mexico) in the teeth of the Peso devaluation in the early 1990s. It since has appreciated 14-fold. Having experienced numerous crashes and recessions over 30 years, I have vowed to always have an above-average store of cash to take advantage of violent downturns. We count on exceptional individual buys for our returns, not a strong stock market.

## **Warning: Bond Market Bubble Ahead**

Investors buying government bonds at these price levels and low yields are virtually guaranteed to lose money over the next 10 years just from loss of purchasing power alone, with inflation likely to outpace the coupon return. The free market is not dictating interest rates. In a normal functioning bond market, balance sheet deterioration leads to higher rates to compensate for greater risk. In the U.S., rates are being artificially repressed by the Federal Reserve, which acquired over 60% of government bonds issued in 2011. This masks the growing structural debt problem. Furthermore, some 40% of U.S. Government notes roll over in the next four years. A small rise in rates would act to swell already staggering deficits. The recent resurgence of "covenant-lite" corporate bonds is an added red flag as lending standards deteriorate in easy money conditions. Despite these risks, investors continue to pile into bonds and bond funds.

## **In Conclusion**

Some of the strengths we see that add value to our shareholders include:

- An enduring approach that has historically survived the most severe economic and market challenges
- A passion for day-to-day grinding research, necessary to mitigate new and always changing risk
- Independence of thought, a business-like temperament, flexibility, a focus on compounding returns over time and diligent risk management
- Decades of cumulative knowledge on individual businesses and managements combined with experience navigating through markets since 1983

Your trust and support is appreciated.

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.*

*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.*