



# Auxier REPORT

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## AUXIER FOCUS FUND PERFORMANCE UPDATE December 31, 2012

### ANNUALIZED

|   | Inception * | Ten Year | Five Year | Three Year | One Year |
|---|-------------|----------|-----------|------------|----------|
| Auxier Focus Fund Investor Class Shares | 6.45%       | 7.52%    | 3.54%     | 8.12%      | 8.73%    |
| S&P 500 Index                           | 1.99%       | 7.10%    | 1.66%     | 10.87%     | 16.00%   |

### CUMULATIVE

|   | Inception * | Ten Year | Five Year | Three Year | One Year |
|---|-------------|----------|-----------|------------|----------|
| Auxier Focus Fund Investor Class Shares | 132.14%     | 106.39%  | 19.02%    | 26.38%     | 8.73%    |
| S&P 500 Index                           | 30.48%      | 98.58%   | 8.59%     | 36.30%     | 16.00%   |

\* 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 1.29%. 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).*

### Year End 2012 Market Commentary

Auxier Focus Fund returned 0.20% in fourth quarter 2012, versus a 0.38% decline for Standard & Poor's 500 Index (S&P). The Fund returned 8.73% for the full year, compared with a 16.00% gain for the S&P. Our 2012 underperformance is partly due to the portfolio's lower-risk 75% exposure to stocks (the S&P is 100%). The Fund's stockholdings returned 12.12% last year. What's more, market returns were not broad based. Even with historic low interest rates, the Dow Jones Utility Average only increased 1.64% for the year. The Dow Jones UBS Commodity Index declined 1.06% despite the Federal Reserve's massive \$85 billion a month bond buying program (think printing money). The Dow Jones Credit Suisse Hedge Fund Index climbed 5.4%. And we continue to trounce the market longer term. Since inception in 1999, the Fund has an annualized returned of 6.45%, more than triple the S&P's corresponding 1.99%.

Outperforming the market so significantly over time demands stringent risk management. We are constantly gauging a security's risk profile to make sure our investors are adequately compensated. The power of compounding is so phenomenal that a long-term investor should strive to avoid losses that interrupt the process. We did not believe the Federal Reserve would instigate an \$85 billion a

| Top Holdings on 12/31/12     | % Assets |
|------------------------------|----------|
| Pepsico Inc.                 | 3.3      |
| Tesco PLC ADR                | 3.3      |
| Molson Coors Brewing Co      | 3.2      |
| Bank of New York Mellon Corp | 2.3      |
| BP p.l.c.                    | 2.2      |
| Philip Morris International  | 2.1      |
| Merck & Co.Inc. New          | 2        |
| Hospira Inc.                 | 1.9      |
| Procter & Gamble Co.         | 1.9      |
| Wal Mart Stores              | 1.7      |

month bond buying campaign, dubbed “unlimited QE,” that’s focused on the unemployment level. Allocating roughly a trillion dollars at today’s record-high bond prices makes no sense. Excessive borrowing to buy wildly overpriced assets are common causes of capital destruction. Misallocation based on extremely easy credit has contributed materially to the two major market declines in the past 12 years. This past year the mindless rush for yield drove investors into the danger zone once again. “Stretching for yield” without understanding the source or true risk for yield contributed to the financial crisis in 2008. This year, across the globe, total central bank stimulus could exceed \$8 trillion. This is unprecedented, can’t be ignored, and provides a powerful but artificial tailwind for equities. However, we are always looking ahead to identify tempests that can undermine compounding of the portfolio.

### **Capitalizing on the Fiscal Cliff**

The budgetary high-wire act staged in Washington, DC in the fourth quarter of 2012 spooked many investors, permitting us to scoop up some high-return enterprises with growing free cash flow yields. We’ve often found the best investment to be the nurtured business, blessed with exceptional management and a superior product or service, temporarily and substantially mispriced by the stock market. The goal is to achieve a double or triple play together with growing dividend yields as the valuation expands with improving fundamentals. Our experience of investing in superior business franchises, selling at 10-11 times earnings, has been a winning proposition over the long term. Discipline, rationality and selectivity are critical. We are more comfortable taking a time risk than a price risk. This approach to compounding is the best way we have found to outpace purchasing power risk (a.k.a. inflation). This is especially true given today’s record low interest rates and central banks printing money aggressively. We try to make sure the portfolio has a compelling risk/reward basis, lately priced at a 20-30% discount to the market by most financial metrics. We review hundreds of companies a year and are very selective in the few businesses we buy based on price and value.

### **Seeking Profits From Hard Times and Spinoffs**

Experience has taught us that recessions are an opportunistic but short-lived time to shop for quality assets. Consider that, since 1947, the United States has been in recession less than 5% of the time. This past year we've found good value in recessionary European markets, home to some powerful franchises that have a global reach into growing emerging economies with aspiring middle classes. Hard times typically provide lower-risk entry points (although it does not feel like it at the time) for our portfolio. We like situations in which the growth of an enterprise or economy is underappreciated and thus undervalued in the marketplace. To paraphrase Chicago Mayor Rahm Emanuel, the Obama Administration's first chief of staff, a crisis (read recession) is a terrible thing to waste. Better to ignore gloomy headlines and buy the best quality cheap, which I strived to do as a portfolio manager in such earlier market meltdowns as 1982's Mexican default, 1987's Black Monday, and the 1990s savings & loan debacle.

In addition, many global blue chip conglomerates possess tremendous hidden value in the form of so-called spinoffs of attractive subsidiaries as publicly traded stocks. Unleashing the entrepreneurial spirit of a smaller enterprise can offer exciting return potential. Further, many of our holdings that have launched spinoffs also have characteristics appealing to private equity buyers. This may provide a performance catalyst in a flat market. Due to the abundance of cheap financing, 2013 may mark the return of the leveraged buyout (LBO). Buyout activity surged to the \$400 billion level back in 2006-07, when a bunch of our holdings were acquired. Efund, a credit card processor for which we paid an average of \$12.90 a share during the 2002 recession, was taken private by FIS at \$36.50 in 2007.

### **Our Take on Technology, Natural Gas and Commodities**

Prospective investors in the Fund often ask why we steadfastly avoid such high-profile tech stocks as Apple and Facebook that dominate coverage on CNBC and other financial media. Our answer is that we prefer to own comparatively mundane businesses like Unilever and Tesco PLC that actually have benefited from technology’s inexorable march toward lower unit prices and profit margins. According to Google Chairman Eric Schmidt,

every two days we now create as much information as we did from the dawn of civilization up until 2003. Your iPad is some 150,000% more powerful than the first laptop computer. Many of us still think in terms of linear growth (like simple interest). The world of data is actually growing much faster—exponentially (like compound interest). The impact on your portfolio? Through the rapid advances of technology, the toughest, seemingly insurmountable problems will be solved. The risk may not be in shortages but in gluts of supply. Natural gas is an example. Prices since 2006 are down over 70% due to new fracking and horizontal drilling technology. The same thing can happen in other problem areas like healthcare, government and education. Small teams armed with powerful technology will restructure entire industries. Swamped by data, it is imperative that investors and risk managers be rigorous researchers. After a 115 month commodity boom, despite fears of shortages, commodity prices have corrected some 18% off the 2011 highs. Again, high prices are a magnet for the forces of technology and innovation. High commodity prices have been a headwind the past five years for many businesses. The correction in commodities could benefit many of our global consumer businesses, such as the aforementioned Unilever and Tesco PLC.

### **Why We Excel Over the Long Haul**

The worst ten-year period for U.S. stocks in our history was from 1999-2009. We had two 40% declines in the past 12 years. Now consider a \$10,000 investment in Auxier Focus since its inception in July 1999 through year-end 2012. That investment grew to \$23,214, some 56% greater than a corresponding \$13,048 stake in the S&P. Moreover, on a risk adjusted basis, the Fund's results were even better because its exposure to stocks averaged approximately 75%. This highlights some of the historical benefits of our focused, long term, price/value approach and underscores the importance of outperforming markets in bad times. Our commitment and passion for research is as strong as it ever has been. Our experience in stock and bond selection dates back to the early 1980s. This knowledge is invaluable when quantifying risk, in order to seek the abundant rewards of compounding.

Your trust and support is appreciated.

Jeff Auxier

### **IMPORTANT RISKS AND DISCLOSURES:**

*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 Utility Average is a price-weighted average of 15 utility stocks traded in the United States. The Dow Jones-UBS Commodity Index is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The index is composed of futures contracts on physical commodities. The Dow Jones Credit Suisse Hedge Fund Index is an asset-weighted benchmark that measures hedge fund performance and seeks to provide the most accurate representation of the hedge fund universe. One cannot invest directly in an index or an 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.*