



Auxier REPORT

15668 NE Eilers Rd, Aurora, OR 97002 • Phone 503.885.8807 • 800.835.9556 • Fax 503.885.8607 • Email info@auxierasset.com

Spring 2023 Report

Large dominant cash-rich US technology companies with new innovations in artificial intelligence (AI) and a focus on cost cutting were major contributors to the S&P 500's 7.50% first quarter advance, which followed a decline of 18.11% in 2022 for the index. The rapid bank failures of Signature, Silicon Valley, First Republic and Silvergate negatively impacted all banks and other financial-related stocks. That, together with declining energy prices, hurt the DJIA, up only 0.93%, as well as many value-oriented names with the Russell 1000 Value Index up 1.01% for first quarter. The bank failures so far have tended to be institutions dealing in more speculative investment areas where dramatic deposit flight took place due in part to the behavior of the "electronic herd." They also suffered "duration risk" on their bond portfolios as 2022 saw the worst bond decline in 250 years. To compound matters bond maturities were extended when rates hit historic lows. The banking industry suffered unrealized losses of \$620 billion in the fourth quarter of 2022. The typical bank has \$20 in assets for every \$5 in equity. That leverage hits hard when asset prices suffer major declines. A big culprit was the stretch for yield by many banks into mortgage-backed securities. On the downside these securities trade like 30-year bonds when rates go up and short-term bonds when rates drop. I remember back in 1986 after rates had plummeted there was an investor rush into GNMA pools. Many were shocked at the large losses that resulted as interest rates rose sharply in 1987. This serves as a reminder of the value of diligent, rigorous risk management. So often today we see automated models that substitute for nitty-gritty detail. Jim Sinegal, the founder of Costco would preach "retail is detail." The same kind of attention to detail is critical just to survive in today's competitive business environment as only 25% of US companies are still operating after 15 years. In less than 36 hours Silicon Valley Bank, a franchise and reputation built over forty years, was wiped out. This company had 22 buy recommendations just prior to the failure.

Auxier Focus Fund – Investor Class
Average Annual Total Returns (3/31/2023)
Since Inception (07/09/1999) 7.38%
10-year 7.86%
5-year 7.71%
1-year -3.77%
3-month 0.70%

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 (gross) is 1.08%. 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 0.92%, which is in effect until October 31, 2023. Other share classes may vary. The Fund charges a 2.0% redemption fee on shares redeemed within 180 days of purchase. For the most recent month-end performance, please call (877) 328-9437 or visit the Adviser's website at www.auxierasset.com.

Following an 11.21% return in the fourth quarter of 2022 the Auxier Focus Fund gained 0.70% in the first quarter of 2023. For the twelve months through March 31, 2023 the Fund lost 3.77% vs a loss of 7.73% for S&P 500.

Detractors

At the start of the quarter bank exposure in the Fund was 6%, with 85% of that in Bank of America and Bank of New York. The balance was in smaller “tracker” positions where we monitor industry fundamentals. The Fund was hurt by regulatory uncertainty surrounding managed care insurance companies (UnitedHealthcare, Cigna, Elevance). Still, the demographic trends for health care services are strong and earnings, which tend to hold up well during recessions, are good. UnitedHealthcare has suffered only four down years since 1990. A correction in oil and natural gas prices negatively impacted energy stocks in the portfolio although most have very high free cash flow yields. The S&P GSCI Energy Index was down 10.36%. The uncertainty over losses in commercial real estate led to further selling pressure in the insurance sector. However, the property casualty industry continues to benefit from strong pricing and Fitch Ratings is forecasting further gains for the year. Our industry checks confirm severe weakness in urban office real estate, especially in areas where technology firms are downsizing, workforces are more mobile and crime is accelerating. In Portland, Oregon the commercial office vacancy rates are exceeding 50% and major life insurers are taking material property write-downs. Regional banks with large office exposure look vulnerable as well.

Contributors

Global leisure and business travel continues to improve, especially with the reopening of China after a three-year Covid-19 lockdown. In 2019 Chinese tourists contributed an estimated \$253 billion to the global economy. Companies like Booking, Visa and Mastercard are direct beneficiaries. Cross-border transactions are up 24% at Visa and 35% at Mastercard. CAE trains pilots and sees a continued shortage. Innovative advances in artificial intelligence with ChatGPT have put a spotlight on the scale players who can best integrate AI into their platforms. Microsoft is now the second largest holding in the Fund. Alphabet has been a leader in this space since their acquisition of AI research company DeepMind in 2014. Meta is a leader as well through their product Reels. It looks like AI can help to boost demand for cloud services when the two are bundled. Medical procedures are finally picking up after Covid-19 delays and the return of nurses back to hospitals. We see fundamentals improving in med-tech medical device companies like Medtronic, Zimmer and Johnson & Johnson. Solid franchises dealing in low ticket necessities like Unilever, PepsiCo, Coca-Cola, Sally Beauty, Yum! Brands, McDonalds, Arcos Dorados and Monster Beverage have been able to survive and thrive with higher inflation. Walmart and Kroger private label sales are surging as well. Foreign holdings out of Europe and Latin America are finally outperforming. China’s reopening as well as plummeting natural gas prices have helped European equities rebound. We like the recurring revenue in replacement and maintenance businesses like Gates and FirstService. We search for businesses that have high returns on capital, freedom to price, low mandatory capital spending and a history of disciplined capital allocation. These sorts of businesses not only can better withstand higher inflation but tend to outperform in recessions. We see the markets purging speculative excesses but savers and companies with cash-rich balance sheets are benefiting from higher short-term rates and sharp declines in energy. Diesel prices are now down by 50% since last May, while natural gas has corrected by 70%. Quality companies that can execute and drive earnings and free cash flow are being rewarded with premium valuations, especially with bank failures in the headlines inspiring a flight to quality.

The Downfall of Silicon Valley Bank

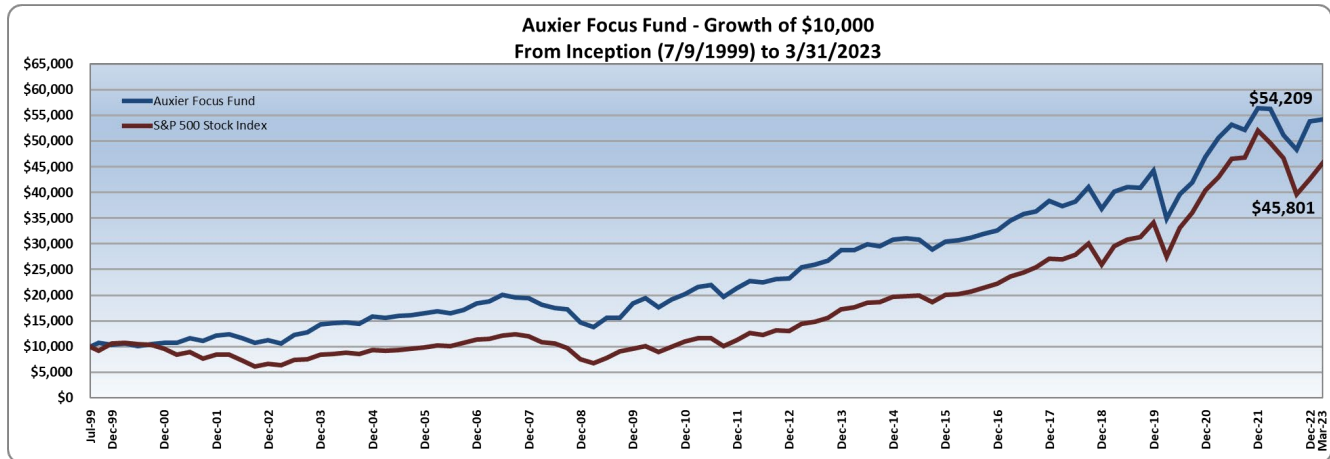
Silicon Valley Bank (SVB) failed when depositors initiated \$42 billion of withdrawals in one day. The bank thrived during the tech boom in 2020 and 2021 as they were the banker to about 50% of all venture

capital-funded tech and life sciences companies in the US. Due to a majority of their customers being high net worth, 93.9% of the deposits were uninsured at the end of 2022, the second highest percentage for all banks in the US. This led to a run on the bank. SVB was not able to withstand this run as they had tied up 94.4% of deposits in long-term hold-to-maturity securities and loans. Rising interest rates led to a drop in the value of those investments which they were forced to sell at a significant loss to meet demand. This event shined a light on many other large banks with their money locked up in long-term holdings that had fallen in value due to rising rates and caused significant turmoil in the banking industry. Regional banks experienced the largest oversold reading on record according to data from Nasdaq. Thanks to years of loose monetary policy and near-zero rates, banks bet a higher percentage of their deposits on riskier long-term securities and were not ready for the shock of rapidly rising rates and inflation.

Artificial Intelligence and the Potential for Disruption

Bill Gates has said that OpenAI's GPT AI model is the most revolutionary advance in technology since he first saw a modern graphical desktop in 1980. The use of artificial intelligence has been around for years now but recent advancements in the space have raised concerns and uncertainties about its future uses and its potential to disrupt industries. An appealing aspect of AI is the ability to automate certain processes which could save businesses and consumers time and money. A recent advance in AI has been in generative chat with the growing popularity of OpenAI's ChatGPT which can generate complex, human-like responses to users' questions by analyzing a snapshot of the internet using machine learning. This kind of technology can be used for things like answering simple questions, summarizing PDFs or videos or even writing poems, computer code and essays. This technology has been seen as a disruptor to traditional search engines as a more personalized and human-like approach to answering questions could be appealing to many internet users. In response to ChatGPT's advancements, Microsoft invested \$1 billion into OpenAI and Alphabet has fast-tracked their own AI and generative chat programs in order to compete. AI automation could increase the effectiveness and capabilities of even small companies and make them a threat to Big Tech. Industry leaders have been forced to put significant resources into remaining competitive with these small and nimble AI companies. Microsoft and Alphabet are currently leading the charge in areas like generative chat and machine-learning language models but other big players like Meta, Amazon and Apple have shown increased interest in the space. The recent growth of AI and machine learning comes with new risks that companies and consumers will have to navigate. Since machine-learning AI programs look at the open web for training its datasets, this data could be changed or corrupted in a way that would influence the program, change its answers or even trick it into bypassing its security protocols by revealing personal user information. There have been no reports of this kind of data poisoning attack yet but that is likely due to most machine-learning algorithms being trained on data up to 2021. As time goes on attacks could become an issue for any generative chat AI. These risks can be lessened but will require investments of time and money as engineers will have to work to ensure that their datasets are not compromised. While new advancements in AI are creating interesting opportunities many are concerned that the rapid evolution of the technology could lead to unintended consequences. An open letter with more than 20,000 signatures, including Elon Musk, Steve Wozniak and researchers from Harvard and Oxford, calls for AI advancements to be slowed down to allow for proper analysis of oversight and safety mechanisms. This uncertainty indicates an industry-wide concern of the potential disruptiveness of AI not just on tech companies but on the lives of everyday people.

First Quarter 2023 Performance Update



Auxier Focus Fund's Investor Class returned 0.70% in the first quarter. The cap-weighted S&P 500 Index returned 7.50% for the quarter while the DJIA returned 0.93% over the same period. The Russell 1000 Value Index gained 1.01%. The MSCI Emerging Markets Index returned 3.96% for the quarter. Stocks in the Fund comprised 88.5% of the portfolio. The equity breakdown was 79.6% domestic and 8.9% foreign, with 11.5% in cash and short-term debt instruments. A hypothetical \$10,000 investment in the Fund since inception on July 9, 1999 to March 31, 2023 is now worth \$54,209 vs \$45,801 for the S&P 500 and \$43,884 for the Russell 1000 Value Index. The equities in the Fund (entire portfolio, not share class specific) have had a gross cumulative return of 856.71%. The Fund had an average exposure to the market of 81% over the entire period. Our results are unleveraged.

In Closing

Today's current investment environment reminds me of past markets where rising interest rates and tighter money led first to crisis then opportunity. In 1994 a series of Fed rate hikes preceded the bankruptcy of Orange County, California and the collapse of the Mexican Peso. A hypothetical investment in Mexican food retailer Cifra SA de CV purchased at its lows during the Peso collapse would have increased over tenfold in the following 10 years. In the US the correction led to the S&P 500 gaining 37.58%, 22.96% and 33.36% in 1995, 1996 and 1997, respectively. In 1998, Long-Term Capital Management, a hedge fund with more PhDs on staff than any firm in the world, borrowed \$125 billion on equity of \$5 billion. They relied on mathematical models which failed and the firm collapsed. At the same time Russia defaulted on their debt, which gave rise to a renewed appreciation of strong balance sheets and a major flight to quality companies. From 1986 to 1995 during the savings and loan (S&L) crisis, 1,043 or 32% of S&Ls failed. This led to unbelievable bargains and substantial outperformance in small banks, propelling them into the number one performing stock category from 1991-1998 – up over sevenfold. We benefited from working for Elliot Knutson, the CEO of Washington Federal in Seattle who was voted the top-ranked thrift executive during the height of the crisis. He was outstanding and introduced me to a number of great bank operators he had met during a long and distinguished career. When investing there is no substitute for knowledge and temperament to act when the consensus is gloomy. The cumulative knowledge of managements, businesses, industries and the history of market panics not only helps to mitigate risk but is also invaluable when taking advantage of crisis opportunities.

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.

Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

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 market-capitalization-weighted widely held common stocks. The Dow Jones Industrial Average is a price weighted index designed to represent the stock performance of large, well-known U.S. companies within the utilities industry. The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries. The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange. The Russell 1000 Value Index refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability. The Russell 1000 Value is published and maintained by FTSE Russell. The S&P GSCI Energy Index, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the energy commodity market. One cannot invest directly in an index or average.

Cash flow is the net amount of cash and cash-equivalents being transferred into and out of a business.

Free cash flow (FCF) represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets.

Duration risk is the risk that changes in interest rates will either increase or decrease the market value of a fixed-income investment.

As of 3/31/2023, the Fund's top 10 equity holdings were: UnitedHealth Group Inc. (6.4%); Microsoft Corp. (5.3%); Mastercard Inc. (4.7%); Kroger Co. (3.6%); Elevance Health Inc. (3.2%); Philip Morris International (3.1%); PepsiCo Inc. (2.9%); Merck & Co. Inc. New (2.8%); Bank of New York Mellon Corp (2.6%); Visa, Inc. (2.6%).

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.