AAM AUXIER•ASSET MANAGEMENT LLC

**Auxier REPORT**

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## Spring 2022 Market Commentary

Major US indexes for both stocks and bonds declined in the first quarter as inflation pressures increased, Russia invaded Ukraine and the Fed communicated a much more aggressive monetary posture. The global movement toward decarbonization and subsequent underinvestment in fossil fuels combined with harsh sanctions against Russia have contributed to surging prices in all forms of energy. Natural gas in Europe briefly rose to the oil equivalent of $600 a barrel. Given Russia and Ukraine are also major suppliers of commodities, we have seen a record surge in pricing in that space as well. Domestic inflation as measured by the consumer price index (CPI) reached 8.5% while producer prices rose 11.2%. Since 1960 the fed funds rate has averaged 4.8% and 1.60% over inflation. Today the fed funds rate is 8% below the inflation rate. In 1982 this rate hit 12.33% while inflation was 6.66%. I remember investing during that high inflation period in the early 1980s like it was yesterday. An investment approach stressing price, value and margin of safety was important as Paul Volker and the Federal Reserve were focusing on tackling high prices. It was important to find double-play investments to stay ahead of inflation, starting with a compelling bargain price. Returns were more dependent on making great buys often in the "hopelessly out of favor" cheap companies instead of chasing momentum. We often carried large cash positions as there was no Fed "put" to hedge against poor capital allocation. Historically, during periods of higher inflation when the long-term trends in interest rates are up, markets tend to be rangebound. Individual security selection becomes more important. In those inflationary periods we gravitated toward undervalued low-ticket necessities like insurance, food, beverages, supermarkets, drugstores and waste companies. These are enduring franchises that don't go obsolete. Businesses with large-ticket products and high mandatory spending tend to suffer during inflationary periods and challenging economic conditions. "Heat or eat" is often the mentality during times of rising food and energy prices.

Today the electric utility industry is ramping capital spending up to $140 billion for 2022 and 2023. After the surge in oil prices in the 1970s, utilities spent heavily to build out nuclear power plants and suffered huge cost overruns. Most rate payers refused to cover the costs, decimating shareholders. This year we have yet to find a public utility that has positive free cash flow. We are seeing similar spending penalize phone company stocks due to the spiraling price of spectrum. The exuberance of streaming has buried the entertainment industry with multi-billions in content spend, crushing stocks like Netflix. Since November we have seen a punishing correction in the most overhyped, overpriced, money-losing companies while many of the cheapest stocks have started to revert back to the mean. Studying Wall Street for years you learn that all kinds of promoters come alive in periods of zero interest rates. The spread between the least expensive and most expensive stocks has been narrowing but is still historically high. The major correction in long duration money-losing stocks reminds me of the 80% decline in the Nasdaq in 2000-2002. The Fund was positive over a three-year period during that decline. High inflation and rapidly rising interest rates have historically compressed valuations and have been the enemy of overpriced money-losing enterprises and asset classes. There are currently over 16,000 cryptocurrencies that exist with great exuberance and very little regulation, similar to the excitement over the deregulation of the telecom industry in the late 1990s. New entrants and capital flooded the industry and the resulting shakeout decimated most shareholders.

The strongest market sectors during the quarter were energy, utilities and consumer staples. Corporate stock buybacks are on pace to set another record in 2022. According to Goldman Sachs, companies in the S&P 500 had repurchase authorizations of $238 billion through the first two months of 2022. If this pace is maintained, buybacks could reach $1 trillion by the end of the year.

## Highfliers Under Pressure

The tech-heavy Nasdaq was down 9.10% during the quarter versus a decline of 4.60% for the S&P 500. Companies that sold exciting stories and growth at any cost are now paying the price as inflation reaches record levels. Electric vehicle company Rivian's initial public offering (IPO) opened at a market cap of over $60 billion. Three days after the IPO their market cap was nearly $130 billion without having sold one vehicle. In the quarter before their November 2021 IPO, the company estimated sales of $0 to $1 million with a net loss of $1.2 billion to $1.3 billion. It is this kind of irrational exuberance that leads to unrealistic and unsustainable valuations. At the end of the quarter, Rivian had fallen 70% from its highs. We have seen this many times now in our current bull market where exciting growth stories have dominated the narrative. Other highfliers like Peloton, Zoom Video Communications, Teladoc and Robinhood are all down over 75% from their highs. Frothy bubbles where valuations run up can lead to long and slow declines. It took over 30 months for the market to bottom out after the dot-com bubble and the Nasdaq was down over 75% during that period. It took nearly 15 years for the Nasdaq to return to its 2000 highs. Tighter money is shifting investors' focus from "growth at any price" to strong earnings and cash flow generators that are undervalued in the market. It is easy to ignore poor fundamentals when markets are good, but investors can get burned if they are buying stories over solid fundamentals in downtrends.

## Raw Material Inflation Impacting EVs

Amid record levels of demand, the electric vehicle industry is facing tough challenges with rapidly rising raw material prices. Lithium, a crucial element in batteries, is in short supply. In mid-March, the average price of lithium carbonate was $76,700, up 472% from the same month in 2021. Lithium consumption nearly quadrupled from 2010 to 2021 as demand for electric vehicles has increased exponentially. According to Bloomberg, global plug-in electric vehicles are expected to surpass 25 million in 2022. In 2016 there were only one million EVs on the road. The United States Geological Survey (USGS) estimates that in 2021 batteries accounted for 74% of lithium consumption and by 2025, they could account for 84% of total consumption. Prices for other inputs like copper and nickel are also elevated, up 200% and 300% over the last two years, respectively. Rivian CEO RJ Scaringe believes that the EV industry could see a tougher shortage than the semiconductor industry as high gas prices and government incentives drive more people to switch to electric. Battery manufacturers have been targeting $100 per kilowatt-hour (kWh) as the point that will allow electric vehicles to reach price parity with gas-powered cars. In 2021, the cost averaged $132/kWh, but that is expected to rise substantially in 2022. Higher input costs will likely be passed down to the consumer which could price potential buyers out of the market, slowing the intended transition from gas to electric cars. This could lead to an unexpected decline in the rapid growth the EV industry has seen.

## Supply Chains Face New Challenges

Supply chain management continues to be challenging as many companies are still dealing with shipping delays and strong demand. A recent resurgence of Covid in Shanghai has led to a lockdown of approximately 26 million people, impacting business in the area. Semiconductor company SMIC is struggling to find truck drivers to ship out chips to their customers. According to the American Trucking Associations, the trucking industry was short a record 80,000 drivers in 2021. The Department of Transportation reports 300,000 truck drivers leave the industry every year due to high stress, long hours and low pay. Keeping the trucking industry staffed and running efficiently is vital to the US economy as trucks deliver about 70% of all freight in the country. Companies like Walmart are trying to alleviate the shortage by raising starting salaries from $87,500 to a range of $95,000 to $110,000. Companies like Kroger have embraced supply chain challenges and adapted to a new way of doing business. Kroger has been focusing on an omnichannel approach to their business by building out their digital and pickup offerings. Since the start of the pandemic digital sales for Kroger have grown by over 100%. In a survey, Kroger found that 70% of their customers said they would shop more in-store in the coming year and 80% said they would continue shopping online. Kroger also invests in their automated fulfillment centers which should help reduce supply chain pressures in the future. The Russian invasion of Ukraine has impacted fertilizer exports which has added new challenges to the global economy. Russia is the world's largest exporter of fertilizers and accounts for 23% of ammonia exports, 14% of urea exports, 10% of phosphate exports and 21% of potash exports according to The Fertilizer Institute. However, this disruption provides US fertilizer producers like The Mosaic Company with the opportunity to fill the supply gap and benefit from strong fertilizer prices. The US should be partially protected from the disruption in exports though as they import less than 10% of their fertilizer from Russia. Despite these new headwinds, we are seeing supply slowly improve but it could take several years before we return to pre-pandemic levels. Container shipping costs have decreased over the last few months with the Baltic Dry Index ending the quarter at 2,358, down from the recent high of 5,650 in October. The average for the index over the last 10 years has been 1,275. More aggressive rate hikes could help ease demand enough for supply chains and prices to normalize over time.

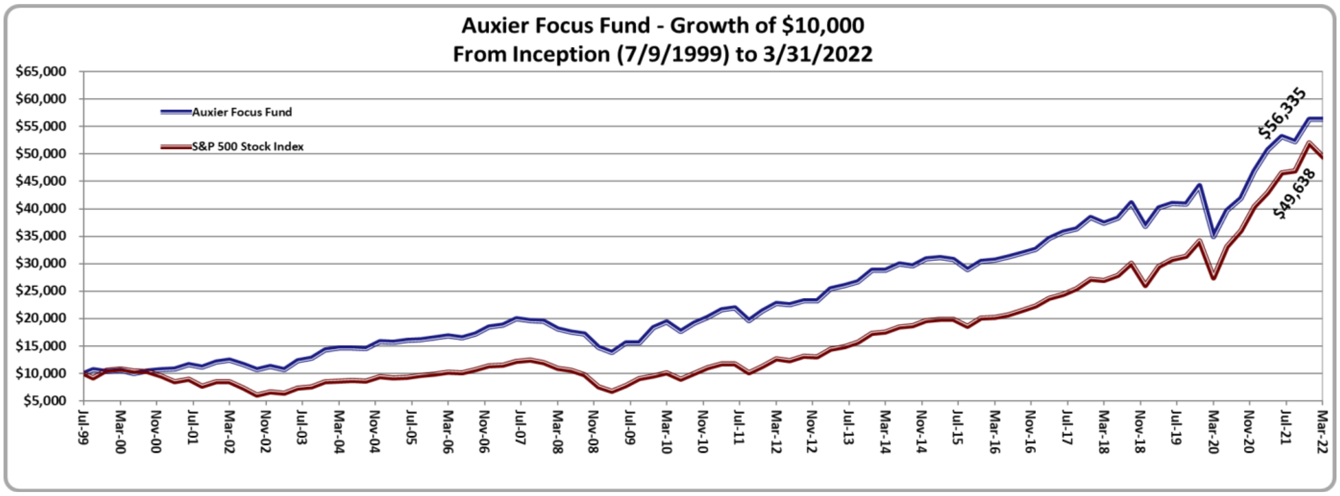
## Inflation Impacting Fixed Income Market

The bond market had a tough quarter due to inflation and the expectation that the Federal Reserve will be aggressively raising rates. The Vanguard Total Bond Fund fell by 6.5% during the quarter and is now on pace to record its worst year since the fund launched in 1987. The S&P Global Developed Aggregate Bond Index is down 9.41% from its January 2021 high.

## Energy Sector Showing Strength

Despite the S&P 500 seeing its first decline since the start of the pandemic, oil and energy stocks were one of the few sectors to see growth during the quarter, up 39%. The primary driver of this impressive performance has been the price of oil which briefly surged to $130 per barrel in March due to Russia's invasion of Ukraine. The invasion and the many sanctions on energy exports could result in one of the toughest supply shortages in decades as Russia is the world's largest exporter of oil. Other factors such as the Organization of the Petroleum Exporting Countries (OPEC) not boosting production as demand has increased have also led to rising oil prices. Top performers in the Fund from this sector included BP, Chevron, ConocoPhillips and Valero which saw quarterly gains of 7%, 36%, 35% and 31%, respectively. These companies look to potentially continue to benefit from strong demand for oil and gas products even amid the push for renewables. The International Energy Agency (IEA) is forecasting total oil demand in 2022 to be 99.7 million barrels per day (mb/d) which would be an increase of 2.1 mb/d over 2021.

## First Quarter 2022 Performance Update




Auxier Focus Fund's Investor Class returned -0.07% in the first quarter vs -4.60% for the cap-weighted S&P 500 Index and -5.93% for the DJIA. Small stocks as measured by the Russell 2000 returned -7.53%. The MSCI Emerging Markets Index declined -6.97% and the MSCI China Index (USD) was down -14.19%. Bonds, as measured by the S&P US Aggregate Bond Index, returned -5.57% for the quarter. Stocks in the Fund comprised 94.4% of the portfolio. The equity breakdown was 84.7% domestic and 9.7% foreign, with 5.6% in cash and short-term debt instruments. A hypothetical $10,000 investment in the Fund since inception on July 9, 1999 to March 31, 2022 is now worth $56,335 vs $49,638 for the S&P 500. The equities in the Fund (entire portfolio, not share class specific) have had a cumulative return of 836.92% since inception and the Fund as a whole has had a cumulative return of 463.34% vs 396.38% for the S&P. This was achieved with an average exposure to the market of 81.40% over the entire period. Our results are unleveraged.

Auxier Focus Fund – Investor Class
Average Annual Total Returns (3/31/2022)
Since Inception (07/09/1999) 7.90%
10-year 9.48%
5-year 10.27%
1-year 11.08%
3-month -0.07%

*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 1.09%. 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, 2022. 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](http://www.auxierasset.com).*

**Contributors to the quarter: Our outlook on sectors and positions with a positive impact on the portfolio for the quarter ended 3/31/2022.**

Health insurance companies performed well during the quarter as the Affordable Care Act

(ACA) led to record levels of enrollment. Over 14.5 million consumers signed up for coverage during the 2022 enrollment period, an increase of 21% from 2021. This was the highest level of enrollment since the ACA was signed in 2010. Companies we own like UnitedHealth, Cigna, Anthem and CVS benefit from expansion of medical coverage eligibility. Vantage Market Research estimates that the global health insurance market will achieve a compound annual growth rate (CAGR) of 4.4% to reach $3.3 trillion by 2028.

The consumer staples sector was a positive contributor for the Fund during the first quarter as many of these companies sell necessities, have high returns on invested capital, low mandatory capital expenditures, low ticket items and good pricing power. Examples include Coca-Cola, Pepsico, Altria Group, Inc. and Molson Coors Beverage Company. Companies like Kroger enjoy high inventory turns that help in periods of rising prices. They also benefit by offering a large assortment of cheaper private label brands.

**Detractors to the quarter: Our outlook on sectors and positions with a negative impact on the portfolio for the quarter ended 3/31/2022.**

| Top 10 Equity Holdings | |
|---|---|
| Security | % Assets |
| UnitedHealth Group Inc. | 7.3 |
| Microsoft Corp. | 6.0 |
| Mastercard Inc. | 5.1 |
| Kroger Co. | 4.1 |
| Anthem, Inc. | 3.3 |
| Medtronic PLC | 3.3 |
| Bank of America Corp | 3.0 |
| Philip Morris International | 2.9 |
| Johnson & Johnson | 2.8 |
| Bank of New York Mellon Corp | 2.7 |

Competition in the video streaming market has created new challenges for companies like Netflix, Disney, Comcast, Discovery, Paramount and Amazon. Consumers now have more options than ever for their entertainment, which has resulted in streaming companies investing more and more into content to attract new subscribers. Global spending on content is expected to surpass $230 billion in 2022 after reaching more than $220 billion in 2021. This level of spending has forced companies to raise prices, driving away subscribers. As a result of higher prices and increasing competition, Netflix lost 200,000 subscribers in the first quarter and they expect to lose two million more in the second quarter. Investor sentiment in the streaming sector is falling as this massive spending threatens the profitability of these streaming giants. We anticipate more consolidation in the industry in the months ahead.

**In Closing**

Events and losses in Russia and China underscore the importance of high-grade ethics and the rule of law. This may partially explain the strength in the US dollar which is up 7% in 2022, close to a 20-year high. The pandemic pulled forward demand in many industries. From the fourth quarter of 2019 through the fourth quarter of 2021 consumer spending on goods increased an inflation-adjusted 15.6% while services declined 1.7%. That appears to be reversing as pent-up demand for travel and entertainment outside the home is surging. Visa and Mastercard have recently reported cross-border transactions are up over 36%. The services component comprises 70% of the US economy.

Higher rates and tighter money provide a great backdrop for bargain hunting in the markets. I remember buying bargains in 1994 as rates rose 3%. That set up three very solid years for the market exceeding 25% a year. In 1987 interest rates rose from 7 to 10% but the market rose over 35% on strong earnings before crashing. No recession followed that rate increase. A market like we are seeing this year reinforces our focus on buying enduring businesses with sticky demand, recurring revenues and strong pricing power. In this environment, knowing what you own and what it is worth is more important than ever as the market is punishing the grossly overpriced and shaky business models. To survive and enjoy the potential for the power of compounding it is so important to avoid the torpedo stocks. These are highly valued, high expectation companies that disappoint, crash and torpedo the portfolio. Rising interest rate cycles are relatively rare but tend to lead to greater volatility and misappraisals. We believe this is a favorable backdrop to buy the best businesses at undervalued prices needed to seek double and triple play returns.

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.

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 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 S&P 500 Equal Weight Index (EWI) is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight (0.2%) of the index total at each quarterly rebalance. The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries. S&P US Aggregate Bond Index is designed to measure the performance of publicly issued U.S. dollar denominated investment-grade debt. S&P*

*Global Developed Aggregate (Ex-Collateralized) Bond Index (USD) seeks to track the performance of investment-grade debt publicly issued by sovereign, quasi-government, and investment-grade corporate entities, excluding collateralized/securitized bonds. The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange. The Russell 2000 index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index. The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs). The Baltic Dry Index (BDI) is a shipping and trade index created by the London-based Baltic Exchange. It measures changes in the cost of transporting various raw materials. One cannot invest directly in an index or average.*

*The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.*

*Margin of safety is a principle of investing in which an investor only purchases securities when their market price is significantly below their intrinsic value. In other words, when the market price of a security is significantly below your estimation of its intrinsic value, the difference is the margin of safety.*

*A put option (or "put") is a contract giving the option buyer the right, but not the obligation, to sell—or sell short—a specified amount of an underlying security at a predetermined price within a specified time frame.*

*The compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending one.*

*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.*