



Auxier REPORT

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

Summer 2023 Market Commentary

Moderating inflation has been a positive tailwind for stock valuations, boosting price-earnings ratios even though earnings growth has generally been mediocre. The S&P 500 cap-weighted index gained 8.74% for the second quarter 2023, while the equal weight returned 3.99%. The Russell 1000 Value Index gained 4.07%, the Dow Jones Industrial Average returned 3.97% while the Lipper Balanced Fund Index returned 3.2%. Since the first part of June there has been a noticeable broadening of the market breadth as the US economy has improved with GDP up 2%. Coincidentally, at the end of May short interest was near a 30-year high. Savers are finally enjoying the sharp increase in Treasury yields. For years interest on deposits was close to zero. Since March 2022 the Federal Reserve Board (the Fed) has raised rates by 5%. On \$5 trillion this is a meaningful increase in household cash flow and should continue to support consumer spending. Home equity is a positive. The average US homeowner has more than \$274,000 in equity vs \$182,000 pre-pandemic with most mortgages fixed rate. More than 40% of all US mortgages were originated in 2020 or 2021 when the pandemic drove rates to historic lows. The unemployment rate fell to 3.6% in June and has been below 4% for 17 consecutive months. When people are working, they are spending. In addition, fiscal stimulus from the Inflation Reduction Act and CHIPS Act has increased construction in semiconductor plants, batteries and clean energy. US manufacturing construction spending hit an annualized \$194 billion in May, up 76% year-over-year. Cheap natural gas prices, the rule of law and reshoring of supply chains have also contributed to strong investment flows into the US and away from China and Russia. Americans continue to spend on leisure, cross border travel and experiences. Travel to Europe is thriving. Global defense industry fundamentals are positive. The excitement surrounding Artificial Intelligence (AI) is reinvigorating tech spending, offsetting poor personal computer and smart phone trends. So far it is a perfect storm for large scale, cash-rich technology leaders as it takes massive investment to build out AI infrastructure. This should boost new product demand for the mega-cap tech leaders in the US like Meta, Microsoft, Alphabet, Amazon, Nvidia and Oracle. As a result, the Nasdaq Composite increased by 13.1% for the quarter and recorded its best first half of the year since 1983, up 32.3%. This was the strongest half-year performance that the index has had since the peak of the tech bubble in the second half of 1999. The NASDAQ trades at 46 times earnings vs 113 in 2000 and Japan 83 times in 1990. Off that inflated price level Japan's market declined from over 38000 to 7500 in the following twenty years.

Insurance Rates on the Rise

US property and casualty insurers have responded to elevated inflation and higher natural catastrophe losses with rate increases. Insured damages topped \$90 billion in each of the past three years. Mid-year global reinsurance rates increased between 20% on average to 50% and higher for catastrophe-exposed risks. The Guy Carpenter US Rate on Line (ROL) Index reached all-time highs at the start of 2023 as reinsurance premiums have surged following a tough year in 2022. Along with higher premiums, record investment returns are also driving growth in the industry. Higher premium rates

and investment yields are expected to lead to improved return on equity for US insurers in both 2023 and 2024 compared to 2022. The Swiss Re Group estimates a sector return on equity (ROE) of 8% in 2023 and 9.5% in 2024, up from 2.5% in 2022. The reinsurance company also estimates industry premium growth of 7.5% in 2023 and 5.5% in 2024. We recently attended the May Berkshire Hathaway annual meeting. A big takeaway was how aggressive Vice Chairman of Insurance Operations Ajit Jain—one of the industry’s most talented and disciplined underwriters—took up property cat exposure 50% in April. He said, “We have written as much as our capacity will allow us to write” amid attractive April 1 prices. This kind of pricing tailwind should benefit our insurance holdings Berkshire Hathaway, Marsh & McLennan, Travelers, AIG, AON and Ryan.

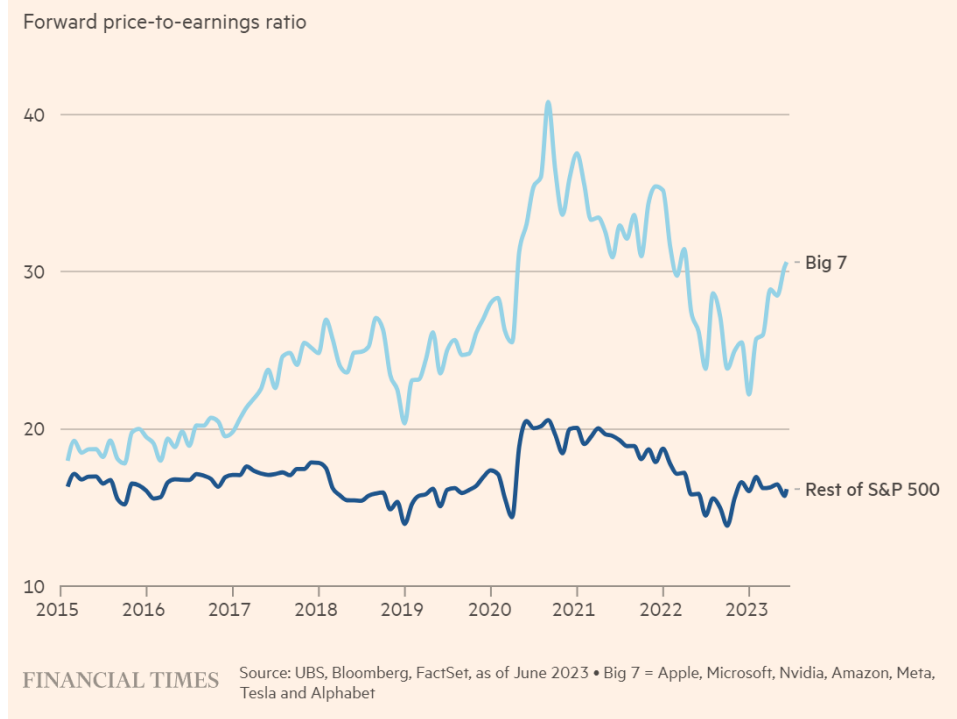
Digitization Providing Opportunities for Global Players

Digitization trends have been increasing significantly over the years which has led to new opportunities for businesses with the scale and reach to take advantage. Use of cash continues to decline in favor of digital forms of payment like credit cards and mobile wallets. In 2022, Pew Research found that 41% of Americans said they don’t use cash for any of their purchases in a typical week, up from 24% in 2015. According to the Federal Reserve, only 6% of in-store transaction value is from cash. Payment processors like Mastercard and Visa have been some of the biggest beneficiaries of this shift away from cash and will likely remain a vital part of the digital global economy. Mastercard has a goal of connecting over 1 billion individuals to the digital economy by 2025. Digitization is also leading to a more connected world which also benefits these payment processors. Mastercard generated nearly 65% of their revenue in 2022 from international regions. Visa depends more on their domestic business but still generates over 40% of their revenue internationally. Booking Holdings is another global operator that we like. Booking was one of the earliest companies to take advantage of the digital revolution and has since grown into one the largest travel companies in the world. The company has built a global network of over 400,000 hotels, motels and resorts and over 2.3 million homes, apartments and alternative accommodations in more than 220 countries. After seeing significant declines during the pandemic, Booking Holdings’ revenue has since surpassed pre-pandemic levels. Travel has been recovering. The TSA screened the highest number of passengers in history on June 30 which surpassed the previous high on November 27, 2019. Booking is also embracing new digital innovations by implementing an AI trip planner using OpenAI’s language model technology that will allow users to plan and book their travel in a conversational manner. We like businesses with a global reach that are continually looking to use new technologies to innovate and expand their services.

Index Concentration Poses Risk for Passive Management

While the rally in the markets is good news, most of this growth has come off the back of a very small number of companies from the technology and communications sectors. Investors have been flooding into a select few names that are driving most of the growth in the S&P 500. According to the *Financial Times*, Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta accounted for 29.5% of the S&P 500’s total market cap in June. The explosion of growth in these seven names has brought the index to its most concentrated level since the 1970s. This kind of concentration can lead to

overvaluation compared to the rest of the market as shown in this chart. Those who rely on passively



managed funds are seeing less diversity which can put them at a higher risk as passive funds are forced to increase their holdings in the top names. While these big tech companies have been excellent performers, relying too much on a small pool of investments can lead to the potential of magnified drawdowns. New competitors could arise at any time in the technology space and threaten existing leaders. During the dot-

com bubble the tech-heavy Nasdaq Composite fell 77% from its high in March 2000 to its low in September 2002. I remember in May of 2000 when the Fed raised rates to 6.5%, the speculative party was over. The index also fell by 40% in the 2008 financial crisis and took over six years to reach a new high. Without the ability to diversify holdings, passive funds have few options to defend against large downswings in uncertain or declining economic conditions.

Lessons Learned Since 1982

Don't underestimate the value proposition of founder-led businesses. It takes incredible tenacity and grit to survive in today's business environment. Some examples include Jim Sinegal (Costco), Sam Walton (Walmart), John Maccarone (Textainer), Warren Buffett (Berkshire), Elon Musk (Tesla) and Jensen Huang (Nvidia). You want the managers who love the business more than money. So often we put businesses in quantitative boxes without truly understanding the heart and soul of the enterprise.

No Shortcuts in Risk Management

Over the years we have seen numerous business failures as companies have tried to automate risk management with the use of models, algorithms and artificial intelligence. Shortcuts, especially in due diligence, can be devastating. Portfolio insurance in 1987 contributed to the 22% one-day crash in equities. Long-Term Capital Management in 1998, with more PhDs on staff than any investment firm globally, utilized leveraged mathematical models that failed and blew up the firm. Zillow used algorithmic house pricing to flip homes and missed on critical cost inputs, which led to massive losses and a shutdown of the operation. More recently the spectacular failures of Silicon Valley Bank, First Republic and Signature Bank underscores the need for hands-on, nitty gritty attention to the details. These banks wiped out decades of hard work in hours due to flawed risk management.

More on Artificial Intelligence

Artificial Intelligence (AI) has dominated the headlines in 2023 generating significant investment in the space by companies like Microsoft, Alphabet and Meta. The Fund's largest holding is Microsoft. Earlier this year it was reported that Microsoft's investment into ChatGPT creator OpenAI had increased to \$13 billion. Microsoft recently announced 365 Copilot which will bring generative AI capabilities to their Office suite. Wells Fargo analyst Michael Turrin believes that AI-driven demand and integration into Microsoft's products and cloud services could lead to over \$30 billion in new annual revenue for the company. Meta has stated that in 2023 they expect to spend \$33 billion on expanding AI capabilities. Research from PwC estimates that AI could contribute up to \$15.7 trillion to the global economy by 2030. Another technology company that has seen a boost from the rise in demand for AI is Oracle, whose cloud business recently reached an all-time-high quarterly revenue. Oracle has benefited from strong and consistent leadership as its co-founder continues to serve the company and its shareholders as CTO and Chairman of the Board. We like founder-led companies that maintain their commitment to investing in growth for the long term. The buzz surrounding this new technology has boosted tech companies to new highs, but it can also present risks if valuations get out of hand and exciting stories overshadow sound fundamentals. Many of the potential applications are still in their infancy and it remains to be seen if analysts' optimistic estimates will come to fruition.

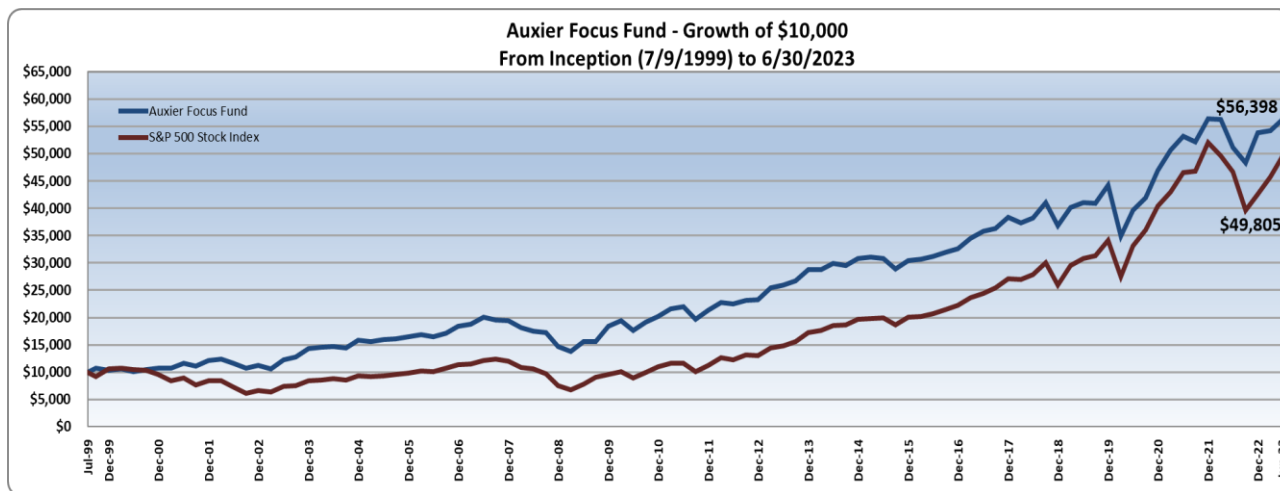
Contributors

While Microsoft was the biggest position and largest overall contributor in the Fund, several other smaller positions performed better. Arcos Dorados, the largest McDonald's franchisee in Latin America, had very strong fundamental sales growth during the quarter, achieving their 5th consecutive quarter of double-digit revenue growth and outperforming their parent by over fourfold. Molson Coors is enjoying strong sales from an upheaval in the beer market. Lincoln Educational trains electricians for Tesla and CEO Scott Shaw is really executing. Alphabet has been a leader and investor in AI since 2014 and has an undervalued media asset in YouTube. D.R. Horton and Lowe's in homebuilding—52% of the US housing stock is now over 40 years old. Medical procedures are coming back which helps medical device companies like Zimmer, a leader in reconstruction of hips and knees. Insurance pricing is up and coverage is growing to the benefit of insurers AIG, Marsh & McLennan, Ryan and Berkshire Hathaway. Meta has corrected capital allocation mistakes and was a big winner but a very low weight in the Fund.

Detractors

Declining energy and material prices negatively impacted oil stocks like Valero and Chevron. However, energy is one of the cheapest sectors with solid free cash flows. Financials, namely banks like Bank of America and Bank of New York Mellon are struggling in the aftermath of first quarter bank failures, although as scale players they should stand to benefit long term. Concerns over regulation, higher utilization and medical cost trends have hurt health insurers like UnitedHealth, Elevance and CVS. Still, the fundamental demand for medical services is very strong, especially for Medicare Advantage.

Second Quarter 2023 Performance Update



Auxier Focus Fund’s Investor Class returned 4.04% in the second quarter. The cap-weighted S&P 500 Index returned 8.74%, the equal weight 3.99% and the DJIA returned 3.97% over the same period. The Russell 1000 Value Index gained 4.07%. The MSCI Emerging Markets Index returned 0.90% for the quarter. Bonds as measured by S&P Aggregate Bond Index declined 0.56%. Stocks in the Fund comprised 89.1% of the portfolio. The equity breakdown was 80.2% domestic and 8.9% foreign, with 10.9% in cash and short-term debt instruments. A hypothetical \$10,000 investment in the Fund since inception on July 9, 1999 to June 30, 2023 is now worth \$56,398 vs \$49,805 for the S&P 500 and \$45,672 for the Russell 1000 Value Index. The equities in the Fund (entire portfolio, not share class specific) have had a gross cumulative return of 901.74%. The Fund had an average exposure to the market of 81.9% over the entire period. Our results are unleveraged.

In Closing

We just celebrated Auxier Asset Management’s 25th anniversary, although we have verified separate account performance that dates back to 1989. According to the US Department of Labor, only 25% of US businesses make it more than 15 years. To survive we have learned the value of maintaining a

Auxier Focus Fund – Investor Class
Average Annual Total Returns (6/30/2023)
Since Inception (07/09/1999) 7.48%
10-year 8.07%
5-year 8.05%
1-year 10.14%
3-month 4.04%

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.

sound balance sheet, high grade ethics, a consistent focus on the ledger and a determined daily research effort. Investor Ron Baron recently shared some great advice: “Don’t believe anything you hear...and only half of what you see. Good decisions, enabling consistent above average results in whatever you attempt, are based upon your own diligence and hard work. You can’t rely on the judgment and work of others. You can’t phone it in.” Another valuable lesson from our visit to the Berkshire Hathaway annual meeting in Omaha: Never make an investment decision based on emotion. Charlie Munger said, “We’re emphasizing the knowable by predicting how certain people and companies will swim against the current. We’re not predicting the fluctuation in the current. Warren Buffett said there will always be opportunity in value investing—all it takes is capitalizing on ‘other people doing dumb things.’ ”

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 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 Guy Carpenter ROL index is a measure of the change in dollars paid for coverage year on year on a consistent program base. 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 - or 0.2% of the index total at each quarterly rebalance. S&P US Aggregate Bond Index is designed to measure the performance of publicly issued U.S. dollar denominated investment-grade debt. 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.

The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

As of 6/30/2023, the Fund's top equity holdings were: UnitedHealth Group Inc. (6.1%); Microsoft Corp. (6.1%); Mastercard Inc. (4.7%); Kroger Co. (3.4%); Philip Morris International (3.0%); Elevance Health Inc. (3.0%); Merck & Co. Inc. New (2.9%); PepsiCo Inc. (2.8%); Visa, Inc. (2.6%); Medtronic PLC (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.