LIVE OAK®
PRIVATE WEALTH

First Quarter Letter March 31, 2019

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves." -Peter Lynch

Wow. What a rebound. The last five months have proven that market timing is a futile exercise. Equity markets reversed course and marched steadily higher in the first quarter. The fears that drove the market down in November and December were alleviated this quarter as prospects for a trade deal with China, and a complete 180 by the Fed regarding rate hikes provided the fuel for a strong rally. The first quarter produced very strong returns for global stock markets. The S&P 500 was up 13.6% on a total return basis. This was almost a mirror image of the fourth quarter of 2018 when the S&P 500 was down 13.5%. This quarter's gains were still not quite enough to make up for last quarter's losses, as it takes almost a 15% gain to offset a 13.5% loss.

One of the highlights of the quarter was our annual trip to the Columbia Business School Investment Conference in New York. We try and attend as many of these types of conferences, filled with thought leaders, as our budget allows us to learn and hopefully hear about an investment opportunity. In our experience, a great investment is the serendipitous result of a prepared mind encountering and acting upon the right opportunity. We didn't leave New York with a lot of specific ideas, but we derived tremendous value from the time spent with many smart investors.

An amusing anecdote to the trip (that relates to our portfolios) goes something like this: The journey began with an alarm beeping on a smartphone made by Apple, (which has 62% of market share in the U.S.) followed by our uneventful flight to New York on Delta Airlines (17% market share in the U.S.). We paid for our taxi trip into the city with a piece of plastic issued by Mastercard (we own Visa, too), which controls 70% of the credit card market. We checked Google hundreds of times for information (60% of the internet browser market). Our Apple smartphones, transmitted over Verizon's network (one of three that controls 78% of the telecom market) and our laptops by Microsoft running on AZURE in the cloud, provided us with information as if we were sitting in our offices.

The firms above involved in the journey made profits last year of over $150 billion and had a median return on capital of 26%. An equally weighted basket of their shares has outperformed global stock markets by a large percentage over the past ten years.

The point of the anecdote is that we approach investing from a commonsense, business person's point of view. The businesses above are commonplace in our lives today and possess many of the attractive attributes we look for in an investment. We don't just "put money in the stock market" we thoughtfully invest as co-owners in attractive businesses we think we can understand and are engaged with daily such as Apple, Delta, Mastercard, Visa, Google, Verizon and Microsoft.

Attractive businesses such as these are durable franchises that have high barriers to entry, expensive switching costs, enjoy healthy stable margins and most importantly, generate lots of free cash flow. We want to invest alongside management owners who allocate this free cash flow in a manner that maximizes our wealth in the long run.

There are only a few options for management to allocate free cash flow:

- Expand current business operations
- Pursue business opportunities in adjacent or unrelated areas
- Make acquisitions
- Accumulate cash
- Return cash to shareholders

When considering the first four options a company has from the list above, capital allocation of free cash flow must generate an attractive incremental rate of return on that reinvested capital. If this is not possible, it should be returned to us as shareholders. Dividends and share repurchases are the most common form of returning the cash to the shareholders.

Dividends are the most straightforward way for the return of excess capital, but it is the least flexible and most impacted by tax consequences. The cash generated by the business has already been taxed once and then our dividends get taxed again when we receive them.

If executed with price discipline, a share repurchase program can be a very efficient means of returning capital to shareholders. The only taxes that may be imposed would be on those who sold their shares. Share repurchases have been a political football these days in the financial media. Politicians on the left seem to think that if companies repurchase their shares, they are not reinvesting in their business and benefiting the economy. This is a misguided view in our opinion as it presumes that the "reinvested cash" is somehow lost to the economy rather than reinvested elsewhere or consumed which might have positive feedback effects.

Politics and investing are getting more blurred by the year, especially now with the **rise of populism and the threat to capitalism.**

Ray Dalio at Bridgewater and Howard Marks at Oaktree have been commenting a lot recently about significant social and economic trends that have contributed to increases in economic inequality, and thus the rise of populism. Ray Dalio put out a fascinating post on January 28 titled *Populism + Weakening Economy + Limited Central Bank Power to Ease + Elections = Risky Markets and Risky Economies*. Howard Marks commented in his recent letter to investors that he is drawn to the following passage in Dalio's post:

> *"Disparity in wealth, especially when accompanied by disparity in values, leads to increasing conflict and, in the government, that manifests itself in the form of populism of the left and populism of the right."*

Marks adds: *"As a rule, populists of the right (who are usually capitalists) don't know how to divide the pie well, while populists of the left (who are usually socialists) don't know how to grow the pie."*

The role of capitalism and its wealth creation has been a boon to America. Our investment team is keenly aware of social changes underfoot in the U.S. and the upcoming elections. The increasing conflicts and risky markets that Dalio speaks to are front and foremost in our minds as we weigh the risks and reward opportunities of the current investment climate.

The quarter to quarter extreme bullishness and bearishness we just witnessed is based on emotional mood swings by investors as they handicap the probabilities of slowing economic growth around the world. Continual worries about the fate of a trade pact between the U.S. and China as well as the central banks' decisions to deploy additional stimulus, combined to exacerbate investor fears. There was fear at the beginning of the quarter that major economies around the world were decelerating faster than expected. By the time the quarter closed out, many of these fears were abated somewhat by the expectation of further Fed easing policy.

All of this is being played out in the markets as the current bull market is turning ten years old. March 9th marked the 3,653rd day since the market bottomed at the end of the financial crisis. The 305% rise since March 2009 ranks as the 3rd largest bull market run. This run could be tested as we enter the second quarter and most stocks face the potential for a pullback in corporate profit growth. Several companies we own or follow have already warned that their profits will be less than expectations. Valuations have crept up during the quarter and are now back to the upper end of the historical range. Much of the concern about slowing profit growth is due to the high mark set during last year's tax cut fueled earnings boom, making year over year growth comparisons hard to meet without further economic stimulus. We will be watching closely to see if increased wage gains that have been reported are starting to affect corporate margins.

Portfolio(s) Discussion and Commentary

Now settled in at Live Oak Private Wealth with our feet firmly planted on the ground, it's time to enhance the format of these quarterly letters, especially since we have new strategies and new clients. Our investment team manages four portfolios with different approaches. We're going to be breaking out separate commentary for each that will be listed at this end of this broader commentary.

- Focused Opportunity Portfolio
- Select Portfolio
- Equity Income Portfolio
- International Portfolio

So the pendulum continues to swing – moving way beyond at times what fundamentals justify in both directions as we have witnessed in the last 180 days. Our primary objective remains to reduce risk and to protect your capital. We will also continue to limit our investments to companies with stable values and to compound your money at rates above inflation and create real wealth for your family. Please revisit our Live Oak Private Wealth Investment Philosophy, beliefs and guiding principles in the appendix to this letter.

A lot is going on in the world today. Many challenges are apparent such as the threats to capitalism and real issues around income inequality and populism. Many people on our team have been entrusted with client capital for a long time. The future is always uncertain, but thoughtful and active value investing is more of a certainty. With artificial intelligence, robotic investment models and the masses convinced passive investing is the holy grail, those of us who remain fundamental practicing investors in businesses will endure with solid returns.

Our focus remains a long-term orientation which affords us the privilege to look further on the horizon to capture investment returns that are just not available to the masses who are focused on the next data points. We all continue to study broadly to prepare our minds for potential investments that may appear. We feel like this focus on study, along with a long-term perspective coupled with experience and discipline, is our competitive advantage at Live Oak Private Wealth.

In closing, it remains a privilege for our team to report to you on our progress. We are grateful and appreciative for the opportunity to help grow your family's wealth. It was a busy, productive quarter and we regained almost all of the fourth quarter declines.

We are blessed with great technology at Live Oak, and we are trying our best to utilize it. We have an excellent, secure, client portal that you can access through our Live Oak Private Wealth website, www.liveoakprivatewealth.com. We encourage you to utilize this client portal as we will be delivering more and more important and pertinent information and documents to you through the secure portal. These would include quarterly progress reviews, performance reports, cash flow plans as well as these investment commentaries. Please let any of us know if you need help in getting into our secure client portal.

Our entire team is humbled and blessed by your willingness to compensate us for doing something that we love to do and is so meaningful and rewarding to us all. We look forward to our continued shared success in this partnership.

- J. William Coleman, III, CIO and the Live Oak Private Wealth Team.

Focused Opportunity Commentary and Thoughts

Our **Focused Opportunity Portfolio** is our signature investment portfolio which carries our highest conviction opportunities. This portfolio has unlimited flexibility to shift among styles and can appear uncomfortably idiosyncratic at times. Bargain investments can usually be found around controversial events on a company, general pessimism or those that have been performing poorly of late. Focused Opportunity invests across the capitalization spectrum and is conviction weighted to our most attractive companies.

In the first quarter, Focused Opportunity returned 10.71% (gross).

Position Weightings
March 31, 2019

Berkshire Hathaway	8%	Fed Ex	4%
Charles Schwab	6%	Charter Communications	4%
CVS Healthcare	5%	Disney	3%
United Technologies	5%	Abbot Labs	3%
Bank of New York	5%	United Healthcare	3%
Carmax	5%	Dollar Tree	3%
Apple	5%	Visa	3%
Microsoft	4%	HCA Healthcare	3%
Bank of America	4%	Axalta Coatings	3%
Brookfield Asset Mgt	4%	Verizon	2%
Mastercard	4%	Schlumberger	2%
General Motors	4%	AON	2%
Google C	4%	Verisign	2%

Top 5 positions	26%
Top 10 positions	49%
Top 15 positions	69%

Portfolio Activity: During the quarter, we received shares of Disney and (new) Fox for our existing 21st Century Fox shares. No other portfolio activity.

Contributors		Detractors	
Mastercard	+25%	CVS Health	-18%
Verisign	+22%	Fox A (new)	-3%
Charter Communications	+22%	Berkshire Hathaway	-2%
Brookfield Asset Management	+22%	United Healthcare	-1%
United Technologies	+21%		

Focused Opportunity Featured Company: United Technologies (UTX)

UTX is a high-quality industrial conglomerate which owns market-leading businesses such as Pratt & Whitney, Rockwell Collins, Otis Elevator and Carrier HVAC. The conglomerate company is undertaking a value-creating three-way separation of its main businesses to realize the full potential of its franchise assets. As standalone businesses, each of them should benefit in the long run from a more focused corporate strategy, more flexibility in allocating capital, better alignment of management incentives and generate strategic optionality. Estimates of 20% of UTX's market cap or $20 billion could potentially be unlocked due to higher multiples assigned to the individual businesses versus the conglomerate. During 2018, UTX's organic revenue grew 8% and earnings 14%, yet its stock declined. We think the upcoming spinoffs will likely serve as a catalyst for future significant share price appreciation.

Select Portfolio Commentary and Thoughts

Our **Select Portfolio** might be best understood using a sports analogy. Select consists of our "bench players" or our "on deck circle" of companies. These are companies we admire and ones who compliment positions in Focused Opportunity. Select would be considered an all-cap core portfolio that is style agnostic. It invests across the capitalization spectrum yet leans towards growth. Select is also conviction weighted to companies we view have the best price to value relationship.

In the first quarter, the Select Portfolio returned 15.77% (gross).

Position Weightings
March 31, 2019

Citigroup	6%	Delta Airlines	4%
American International Corp.	5%	Oracle	4%
Comcast	5%	Lowes Companies	4%
Mohawk	5%	Apache	4%
Liberty SiriusXM C	5%	Facebook	4%
DowDupont	5%	Analog Devices	3%
Goldman Sachs	5%	Danaher Corp	3%
Lennar	5%	Anthem	3%
Honeywell	4%	Ecolab	3%
Medtronic PLC	4%	Cheniere Energy	3%
Moodys	4%	Restaurant Brands Int'l	2%
Google A	4%	Boeing	2%
Markel	4%		

Top 5 positions	26%
Top 10 positions	49%
Top 15 positions	69%

Trading activity for the first quarter: During the quarter, we sold non-core positions Celgene and Norwegian Cruise Lines. Celgene's price recovered dramatically on a proposed buyout by Bristol Myers.

Contributors

Celgene	+47%
Apache	+32%
Moody's	+29%
Facebook	+27%
Lennar	+25%

Detractors

Markel	-4%

Select Portfolio Featured Company:
Mohawk (MHK)

Mohawk is the world leader in flooring. Mohawk ranks #1 globally in ceramic tile, yet with just 3% global market share. The majority of Mohawk's sales of flooring are for remodels as new construction comprises less than 20% of revenue. Mohawk is establishing a leadership position in luxury vinyl tile (LVT) which is growing at double-digit rates. Mohawk trades at a discounted valuation of fewer than 13 times earnings and a multiple of ten (10) times enterprise value to EBIDTA. There has been insider buying of Mohawk stock by board members at higher prices. Recent growth capital expenditures are likely to decline in the coming quarters, improving free cash flow.

Historically, Mohawk's stock has outperformed the S&P 500 over the past 5, 10, 20 and 25 years.
Equity Income Portfolio Commentary and Thoughts

Our **Equity Income Portfolio**, like our other three, is a concentrated portfolio. Equity Income consists of high-quality companies with sustainable competitive advantages with average to above average dividend yields, along with the potential for dividend growth. The portfolio's objective is to offer the opportunity for attractive total returns with the possibility of slightly higher income.

Equity Income, like Select, Focused Opportunity and International, is a go anywhere portfolio that is style and capitalization agnostic.

In the first quarter, the Equity Income Portfolio returned 9.28% (gross).

Position Weightings
March 31, 2019

Bristol Myers	7%	Target	4%
Newell Brands	6%	Travelers	4%
UPS	5%	3M	4%
Home Depot	5%	Air Products	4%
JP Morgan	5%	Walmart	4%
Cummins	5%	Lockheed Martin	4%
Invesco	5%	Chevron	3%
Abbvie	5%	Exxon	3%
Intel	5%	VF Corp	3%
US Bank	4%	Eli Lilly	3%
Cisco Systems	4%	Pepsi	2%
Walgreens	4%	ADP	2%

Top 5 positions	28%
Top 10 positions	52%
Top 15 positions	72%

Trading activity for the first quarter: There was no trading activity.

Contributors		Detractors	
Cisco Systems	+25%	Abbvie	-13%
Target	+21%	Bristol Myers	-8%
Cummins	+18%	Walgreens	-7%
UPS	+15%		
CVX	+13%		

Equity Income Portfolio Featured Company: J.P. Morgan (JPM)

J.P. Morgan is arguably the most dominant bank in the United States. JPM leads in investment banking, commercial banking, credit cards, retail banking and asset wealth management franchises. J.P. Morgan benefits from a nearly unrivaled combination of scale and scope within the U.S. JPM has about $1.5 trillion in deposits. J.P. Morgan recently earned $9.2 billion in the quarter while generating a 19% return on equity. Management led by Jamie Dimon is best in class and has performed better than virtually all of its global peers. Trading at 11 times earnings and paying a 3% dividend, we remain quite comfortable with JPM.

International Portfolio Commentary and Thoughts

International Portfolio: Most major U.S., global and international developed markets enjoyed double-digit increases in the first quarter as concerns around continued monetary tightening, increasing odds of a hard Brexit, trade war fears, and a slowing growth outlook lessened. Investor sentiment towards international stocks, especially China, improved. The move up in the first quarter positively impacted virtually all equity sectors, industry groups and individual securities. The ongoing volatility in global equity markets over the last several quarters continues to produce improved opportunity sets for investors such as us. These opportunities are particularly true for specific companies outside of the U.S.

In the first quarter, the International Portfolio returned 17.57% (gross).

Position Weightings
March 31, 2019

Fiat Chrysler	8%	Ten Cent	4%
Alibaba	7%	Daimler	4%
New Oriental Education	6%	Linde	4%
Development Bank of Singapore	6%	Teva Pharmaceuticals	3%
Safran	6%	Nestle	3%
Ferguson	5%	Sanofi	3%
JD.Com	5%	Baidu	3%
DNB Asa	5%	Fairfax Financial	3%
Siemens	4%	Lanxess	3%
Encana	4%	Novartis	2%
Naspers	4%	Allergan	2%
Air Bus Industries	4%	Unilever	2%

Top 5 positions	33%
Top 10 positions	56%
Top 15 positions	75%

Trading activity for the first quarter: There was no trading activity.

Contributors		**Detractors**
New Oriental Education	+64%	None
JD Com	+44%	
Airbus	+39%	
Alibaba	+33%	
Encana	+25%	

International Portfolio Featured Company: Safran S.A.

Safran S.A. is a French multinational aircraft engine and aerospace component and defense company. The global industry landscape for aviation is very solid with many positives. Air traffic globally is expected to double in the next 20 years. There is currently pressure in capacity with peaking load factors and substantial profits for airlines--this bodes well for engine replacements as well as aircraft replacements with new efficient engines. Safran has both the know-how and operational excellence and is well-positioned for success. They also have a clear growth line of sight for the next 15 years. Safran's stock performance over the last 20 years has been nothing short of extraordinary. There is a total shareholders' return (2008-2018) of 23% per year.

Appendix 1
Live Oak Private Wealth
Investment Philosophy

Three Pillars

We consider potential losses before gains. We think about multiple scenarios that could affect us. We ask how much might we lose before we ask how much we might make.

We focus on absolute returns, not relative returns. Our goal is to lose less than the market. We don't manage to a benchmark.

We do not focus on the macroeconomic environment. We focus on great businesses we can invest in at a fair price.

Our Beliefs

We believe your lifetime investment results will be mostly governed by two variables: behavior and asset allocation. We consider the three quotes below by two very famous investors daily in our thoughts, research and work.

"To buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude and pays the greatest reward."

- John Templeton

"Be fearful when others are greedy and greedy when others are fearful."
"Price is what you pay; value is what you get."

-Warren Buffett

Guding Principals

- A share of stock represents a share in the ownership of a business.

- A stock exchange is nothing more than an auction place that provides a convenient means for exchanging your ownership in business for cash and vice-versa.

- Our investment approach would be akin to applying a private equity mindset to investing in public markets.

- We limit our search for qualifying investments to good businesses. They have identifiable, sustainable competitive advantages.

- Risks to us are permanently losing capital over a five-year time horizon. Market volatility is not a risk to us.

- Our primary return goal is to compound money at real rates of return (4-5%) above inflation over our five-year time horizon.

- Compounding capital at 7% doubles your assets in 10 years.

Disclosures

1) Past performance is no guarantee of future results and future performance may be higher or lower than the performance shown.

2) This performance composite represents results from all actively managed, fully invested accounts at the firm. The composite results include all accounts managed for capital appreciation and income.

3) There can be no assurance that our portfolio management or any account managed by our investment managers will achieve a targeted rate of return or volatility or any other specified parameters. There is no guarantee against loss resulting from an investment.

4) Performance is presented net of fees. Calculated using Orion standards. Periods greater than one year are annualized. This information has been obtained from sources that were deemed reliable, but cannot be guaranteed nor verified.

5) The method for calculating the composite returns includes a monthly weighted (weighting of monthly beginning values, adjusting for time-weighted average returns to derive quarterly and annual returns.

6) Investment objectives, returns, and volatility are used for measurements and/or comparison purposes only and are only a guideline for prospective investors to evaluate our investment strategy and the accompanying risk/reward ratios.

7) Comparison to any index is for illustrative purposes only. Certain information, including index and benchmark information, has been provided by third-party sources, and although believed to be reliable, has not been independently verified and its accuracy cannot be guaranteed.

8) The information contained here is not complete, may change, and is subject to, and is qualified in its entirety by, the more complete disclosures, risk factors, and other important information contained in Part 2A or 2B of Form ADV. This presentation is for informational purposes only and does not constitute an offer to sell or as a solicitation.

9) Live Oak Private Wealth is a subsidiary of Live Oak Bank. Investment advisory services are offered through LOPW, LLC, an Independent Registered Investment Advisor.

10) Opinion and thoughts expressed are those of Bill Coleman and not Live Oak Bank.