LIVE OAK
PRIVATE WEALTH®

First Quarter Letter March 31, 2020

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

- Sir John Templeton

Unprecedented
un·prec·e·dent·ed
Adjective, without previous instances never before known or experienced; unexampled or unparalleled: an unprecedented event.

- Merriam-Webster

"If you are going through hell, keep going."

-Winston Churchill

These letters are never easy to write. I wouldn't have imagined just a few short weeks ago, I would be writing about the swiftest bear market to affect us in modern-day market history, 23 days to be exact. The S&P 500 crashed 30% almost in a straight line over the course of 13 trading days. This has been a painful period for our portfolios. There are many sayings in the investment community and a couple of them resonate currently. One saying is "risk happens fast" and another one is that stocks "take the stairs up and the elevator down." This recent scenario is another sharp reminder that actual risk is the highest when perceived risk is the lowest. We spent the first month of the quarter enjoying the spillover from a marvelous year in 2019. Everything that seemed so certain has vanished. Numerous valuation metrics were near all-time highs, but the trade war was settling down, there was some clarity around the Democratic race for president and expectations were bright. Risk happens fast.

Countless lives and financial markets have been completely turned upside down over the course of just a few weeks. We, as many did, failed to have the imagination needed to quantify a risk such as a global viral pandemic. No one envisioned something that would cause the global economy to come to almost a full stop. Who would have ever contemplated travel bans from Europe, an empty Times Square, NCAA March Madness canceled and children home from school for the rest of the semester? Shelter in place...no more than 10 people together, beaches closed...virtual Zoom everything...this has all been hard to process.

Thankfully, I can report that all of the Live Oak Private Wealth team is healthy and functioning. While we are dispersed in our respective shelters, we are operating at near 100%. Live Oak was already accustomed to working remotely when needed and with our state-of-the-art cloud based technology, our team hasn't missed a beat, except personally seeing each other daily. We built Live Oak Private Wealth with strong operational, trading and compliance infrastructure. During these extremely volatile days of thousand point moves in the markets, we managed the portfolios just as if we were in the office. But we, like you, can't wait to get back to normal. Additionally, we have long-standing "disaster recovery" procedures. Our ability to access client information securely, work with third parties to effect transactions and/or money movement and actually "do investment work" is undiminished amidst the chaos.

History does not always repeat, but it does rhyme as Mark Twain stated. Studying stock market history shows that over a long period of the last century, there have been three types of catastrophic events that have greatly disrupted markets and triggered large declines.

- Economic Catastrophes: The financial crisis of 2008-2009, The Depression in the 1930s and the stagflation of 1974-1975.
- Social Catastrophes: World wars, the terrorist attack of September 11th.
- Financial Market Structure Catastrophes: The crash of 1987, the flash crash in 2010 and the bursting of the .com bubble in 2000.

Now we seem to have a fourth type of catastrophe affecting the markets negatively…a global natural health disaster, COVID-19. This type of coronavirus is unique and a novel event in stock market history. We have never seen a global natural disaster that has led to most all economies in the developed world shutting down in near unison. This is without precedent. Historically, economic catastrophes like the depression and the 2008-09 crisis led to large-scale disruptions and much long-term permanent impairment to value. Financial market structure catastrophes usually recover in due time without much permanent impairment to stock values. Since this scenario is so novel, it is hard to predict the range of outcomes, timing and winners and losers.

So I want to go back to the 23 day, warp speed bear market for a minute. I want to revisit my soapbox regarding the risks that were inherent in the popular computerized quantitative factor strategies. I don't want to diminish the significance of the unplanned pandemic and a justified correction, but there were significant technical factors at play here. Market volatility, or VIX in our world, creates massive selling (and buying at times) that is fueled by hedging and trading strategies that reside inside Wall Street "black boxes" or computers. I'm not going to begin to explain "short-gamma positioning" because I don't even fully understand it, but this type of paradoxical trade is crazy to this old, simple investment manager. This momentum-driven trade buys stocks when they are rising and sells them when they are falling. You read that right. Data provider SqueezeMetrics estimated that tens of billions of dollars of S&P 500 futures had to be sold for every percentage point the S&P 500 went lower during the last week of February. Last I checked, the more something declined in price or went on sale (think steaks, airfare, your favorite shoes) the more prone you were to buy because of the great value .

Shelby Davis, noted value investor, said years ago, "You make most of your money in a bear market, you just don't realize it at the time." None of us welcome fear and panic, but we like the bargains that are presented. Buying pieces of really good businesses on sale is rare and it's valuable. Rational investors buy really good businesses after prices have declined, they do not sell. The lower the price paid for a good stream of company earnings, the higher the future returns available. Investing 101.

Emotion --- Panics --- Pendulums

Prices of stocks in our portfolios have temporarily diverged from their business values. The current prices reflect the extreme emotions of this moment. They are not careful appraisals of sustainable business value. One of the most significant factors that holds back investors' success is their tendency to assess the world with emotionalism rather than rational objectivity. During extreme emotionally scary periods like we are in, investor psychology rarely allows us to equal weight positives and negatives. We are biased to the moment. We don't understand why investors have such short-term memories or why we suffer from recency biases, but we have seemed destined to do so. Consider these hindsights:

October 19, 1987	Black Monday market crash saw the Dow drop more than 20% in a single day.
January, 1994	The great bond market massacre which triggered more than $1 trillion in losses.
October 27, 1997	The Dow plunged 550 points (-7%) due to the Asian financial crisis.
August, 1998	Russia defaulted triggering the failure of Long-Term Capital Management and the first Federal Reserve bailout of a corporation or entity.
September 11, 2001	Markets were closed for four days after the 9/11 terrorist attacks and fell -7% when markets reopened.
August, 2011	U.S. Government debt downgrade, triggering -17% stock declines, bank stocks -40%.

All of these panic selloffs, in just my career, proved to be great opportunities to invest. I would imagine we will look back on this time in a few short years and feel the same. All panics seem to wind up in hindsight as mini panics in history. I'm constantly reminded each time there is a major selloff by the timeless words of wisdom from the great Peter Lynch, who managed Fidelity Magellan, "The key to making money in stocks is not getting scared out of them."

Investors rarely maintain objective, rational and neutral positions during panics. They are either highly optimistic, greedy and risk tolerant or pessimistic, fearing everything and avoiding risk. In the world of investing, human emotion and perception seem to swing from flawless to hopeless. Noted investor Howard Marks refers to a pendulum that swings from one extreme to another, spending little time in the middle. Emotion is one of the investor's greatest enemies. You must try to control your inner pendulum of human emotion and minimize error by remaining as balanced or neutral as possible during difficult times such as these.

Portfolio(s) Discussion and Commentary

Our investment team manages three equity portfolios in addition to our fixed income solutions. Each of these three equity portfolios are unique with different approaches. Please see individual commentary at the end of this letter.

- Focused Opportunity
- Select
- International

To say the investment team was busy this quarter would obviously be an understatement. January and early February saw us scouring hundreds of analysts research reports and sitting in on numerous conference calls. We attended several analyst days from portfolio companies. We made our annual trip to Columbia Business School on February 7 for their investment conference. We caught up and visited with other portfolio managers in New York we trust and admire. We discussed the bear market in energy stocks among other things. In the 36 hours we spent in New York with several managers and a day long conference, there was no talk or worry about the risks of a global pandemic such as the coronavirus. Airplanes, hotels and restaurants were packed. There was no sense of insecurity…including yours truly.

Before the selling really accelerated in late February and March, we made two significant decisions in our Focused Equity Portfolio. After much debate and hand-wringing we elected to trim our long-held position in Apple. We just felt that sentiment had become overly optimistic and the valuation was elevated. We opted to sell almost half of our position. Connor was finally able to convince me to sell General Motors after holding it for roughly five years with no real performance to show for it, except for dividends. He has been spot on about peak auto and I should have listened to him earlier. So in hindsight now…those were two good trades.

We started buying meaningfully when the heavy selling started in early March. It is not easy buying stocks when they are falling. The entire Private Wealth team spent a lot of time supporting each other and debating cash levels in accounts and asking if we were buying too soon. Prices were getting cheaper by the day and therefore, the relationship between price and intrinsic value was widening. We knew we couldn't time the bottom as it can only be recognized in retrospect.

Our main objective was to upgrade the portfolios and add quality where we could. We wanted to further concentrate in our highest conviction businesses while they were on sale. We therefore:

- Bought Wells Fargo on February 28th
- Added significantly to Disney on March 10th
- Added to Markel on March 11th
- Added to Mastercard on March 11th
- Added to Berkshire Hathaway on March 12th
- Bought Exor on March 16th
- Added to Microsoft on March 17th

We believe these additional allocations of capital should prove profitable in the long term as these companies embody our definition of high quality and we purchased them at attractive discounts to their long-term earnings power. They possess:

1. Strong predictable cash generation
2. Sustainable returns on capital, and
3. Attractive growth opportunities.

Needless to say, we also revisited the balance sheets of all of our portfolio companies and went back through our stress tests on each. We also were able to finally find several attractive fixed income investments due to the massive dislocations in the bond market during the last 10 days of the quarter. As an example, we were able to buy 1-year investment grade bonds yielding 4% that a month prior yielded 1.5%. Again, please see the individual commentary on the three equity sleeves at the end of this letter for further information.

Now for some really exciting, positive news to report. I've been waiting for this part of the letter to elaborate on our recently announced merger with Jolley Asset Management.

I have known of Frank Jolley and his firm's reputation for many years. I always snuck a peek at his quarterly SEC Filing 13F to see what he was buying and selling, as he and his team have an enviable long-term track record of compounding client capital. Live Oak Private Wealth was not looking for an acquisition or merger, but we heard from a close friend that Frank was looking to merge his firm with someone who offered additional muscle and expertise in comprehensive financial planning, trusts and estate work. We started exploring possibilities last August and after much consideration on both sides, we finalized the merger April 1, 2020. Jolley Asset Management brings much experience and bench strength to Live Oak Private Wealth. Frank has a talented staff including two Chartered Financial Analysts (CFA) and one Certified Public Accountant (CPA), who dovetail perfectly into our client-focused culture. Frank Jolley and his great team of Bill Collier, Terry Sapp, Jan Robillard and Stephen Bishop will remain in Rocky Mount, North Carolina and operate as a Live Oak Private Wealth business. We look forward to the day soon whereby we can get out and introduce them to you.

I feel strongly that we will get through this very disturbing time in our lives and our country's history. It hasn't been easy and it could continue for a while but I wouldn't lose sight of this thought...booms plant the seeds of busts yet busts do the same in the opposite direction. The recent boom times made us all too complacent and assets expensive which allowed us to discount how good things were. It usually is in hindsight that we look back and realize how oblivious we were to hidden risks. But now we are more alert to unimaginable risks. The Federal Reserve and the government are providing massive stimulus and stocks are now priced for better future returns.

Looking back at history during very difficult times, there are many ways humans could have envisioned the world ending. But it pays to bet on humanity. Optimism during times like these never sounds "smart." Pessimism always sounds "smarter." But history has proven that it pays to bet big on humanity. Martin Fridson authored a book, "It Was A Very Good Year," where he wrote that many of the best 10 years in the market in the 20th century all came after a truly horrible period like we are in.

In the future, we will have a broader imagination towards hidden threats. We are going to get through this. I believe we have many exceptional years ahead. We should feel optimistic because:

- The market will bottom
- The economy will bottom
- Humanity will prevail
- There will be better days

The other morning, I read a blog post from Morgan Housel of the Collaborative Fund that really resonated with me. When you drive by the Pentagon today, there is no trace of the plane that crashed into its walls almost 19 years ago. But drive three minutes down the road to Reagan National Airport, and the scars of September 11 are everywhere. Shoes off, jackets off, belt off, toothpaste out and empty your water bottle.

We will recover from this virus. Stores will reopen in the future. We will take a plane somewhere, stay in a hotel, go out to a restaurant and attend a Broadway play or a ballgame. The current wounds will heal just like they did after September 11.

Speaking on behalf of our great team in Wilmington, Missy, Amy, Daniel, Susan, Andy and Connor, we are grateful for our health, friendship and resiliency. We are appreciative for your willingness to compensate us for doing something that is hard to do at times, but is so meaningful to us all. We remain humbled by the opportunity you have entrusted us with to protect and grow your family's wealth.

This too shall pass.

J. William (Bill) 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, the Focused Opportunity Portfolio returned -22.24% (gross) and was down -22.24% YTD (gross).

*(See disclosure.)

Ten Largest Investments

March 31, 2020

	Year Acquired		Year Acquired
Berkshire Hathaway	1998	Disney	2015
Microsoft	2006	Charter Communications	2007
UnitedHealth Group	2012	Fed Ex	2018
Mastercard Inc	2018	Bank of America	2013
Google	2008	CVS Health Corp	2018

During the first quarter, we bought Wells Fargo, added to Disney, Mastercard, Berkshire Hathaway and Microsoft.

Performance Attribution

Contributors		Detractors	
		Bank of America	-40.00%
		Walt Disney Co	-33.00%
		Fed Ex	-20.00%
		CVS Health Corp	-20.00%
		Mastercard Inc	-19.00%

Focused Opportunity Featured Company:
Dollar Tree (DLTR)

Dollar Tree is an operator of discount variety stores. The company operates almost 15,000 stores in 48 states and D.C. and Canada. Its segments include Dollar Tree and Family Dollar. Dollar Tree is accelerating the turnaround at Family Dollar by closing unprofitable locations, renovating others with a larger consumables assortment. We are expecting same store sales growth under the new format to grow by 10%. Dollar Tree Plus, which is being tested, offers merchandise for between $1 and $5, which could offer upside potential. The stores are highly cash generative and potential is there for Dollar Tree to earn $6 per share in 2020. This scenario supports a price of about $100 a share.

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 -23.73% (gross) and was down -23.73% YTD (gross).

*(See disclosure.)

Ten Largest Investments

March 31, 2020

	Year Acquired		Year Acquired
Markel Corp	1998	Wal-Mart, Inc	1998
Fox Corp A	2019	Comcast Corp	2004
Lowes Companies	2018	Anthem	2002
J.P. Morgan Chase & Co	2007	Citigroup	1998
Cisco Systems	1998	Moody's Corp	2018

Portfolio Activity: During the first quarter, we added to Markel Corp.

Performance Attribution

Contributors		Detractors	
		Citigroup	-47.00%
		Fox Corp A	-36.00%
		J.P. Morgan Chase & Co	-35.00%
		Lowes Companies, Inc	-28.00%
		Anthem	-25.00%

Select Portfolio Featured Company:

Moody's (MCO)

Moody's Corporation is a provider of credit ratings, credit, capital markets and economic related research, data and analytical tools; software solutions and related risk management services. Moody's, along with S&P rate more than 90% of all bonds receiving credit ratings worldwide, for a fee. Positive trends continue to favor debt issuance. Inherent in any powerful duopoly, the company possesses strong pricing power and excellent operating leverage and low reinvestment needs. Historically, Moody's has compounded free cash flow and earnings in the low teens. Moody's is therefore justifiably expensive at 20 times earnings, but we are comfortable with its long-term sustainable business and competitive moat.

International Portfolio Commentary and Thoughts

International Portfolio: Our International Portfolio is also highly concentrated in what we feel are superior, growing businesses. The portfolio's objective is to expose us as long-term investors to other opportunities worldwide. The mandate allows for unlimited geographical reach and can own any size capitalization business. The majority of the world's growth is outside the U.S. and therefore, we hope to capitalize on that.

In the first quarter, the International Portfolio returned -27.85% (gross) and was down -27.85% YTD (gross).

*(See disclosure.)

Ten Largest Investments
March 31, 2020

	Year Acquired		Year Acquired
Nestle	2002	Ten Cent Holdings	2018
Alibaba	2018	Ferguson	2019
New Oriental Education	2018	Safran	2018
Unilever	2018	Novartis	2018
ID.Com	2018	Baidu, Inc	2018

Portfolio Activity: During the first quarter, we bought Exor.

Performance Attribution

Contributors		Detractors	
JD.Com	+15.00%	Unilever	-15.00%
Ten Cent Holdings	+ 2.00%	Novartis	-13.00%
		New Oriental Education	-11.00%
		Alibaba	- 8.00%
		Nestle	- 5.00%

International Portfolio Featured Company:

Exor (EXXRF)

Exor is an Italian holding company for the Agnelli family which holds Fiat, Ferrari, CNH Industrial and soon to be disposed PartnerRe. The investment case for Exor is the capital allocation acumen of John Elkann, the grandson of Gianni Agnelli. His track record of meaningfully compounding business value over time coupled with the incoming proceeds ($9B) of PartnerRe constitutes a golden opportunity in our opinion. There is currently a misperception in the market as to the value of Exor, due to the many complexities and layers of ownership in the corporation. Exor will evolve tremendously over time as it intelligently deploys the proceeds from the sale of PartnerRe. Exor could possibly be valued currently at a 50% discount to its NAV or its sum of the parts.

Appendix

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 we might 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 truly 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."
Warren Buffett

"Price is what you pay, value is what you get."
Warren Buffett

Guiding Principles

- 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 a 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 is permanently losing capital over a five-year time horizon. Market volatility is not risk to us.
- Our primary return goal is to compound capital at real rates of return (4-5%) in excess of 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. The performance results for each equity sleeve are calculated for us by Orion Services and does not reflect investment management fees, custody and other costs or taxes. All of which would be incurred by an investor in any account managed by Live Oak Private Wealth.

2) The performance results for each equity sleeve assumes a full and static investment in the respective sleeve for the periods stated, whereas an account managed by Live Oak Private Wealth may not have a full and static investment in each position and may hold a cash position. A client's actual net performance of their account would most likely be different and generally would be lower.

3) The performance results for each equity sleeve does not and is not intended to indicate past or future performance for any account or investment strategy managed by Live Oak Private Wealth.

4) 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.

5) 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.

6) 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.

7) 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.

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

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