LIVE OAK
PRIVATE WEALTH®

Third Quarter Letter September 30, 2020

"We have a lot of money. We need to get that money in Americans' hands."
- Treasury Secretary Steven Mnuchin 2020

"Forecasts create the mirage that the future is knowable."
- Peter Bernstein

Despite a weak September, stocks turned in a second consecutive quarter of dramatic gains. From the lows of March 23, 2020, the S&P 500 Index has rallied a staggering 53.4%. The market leadership continued to be narrow with most of the gains attributed to the mega-cap growth names (predominantly technology). The total return of the top fifty names (by market cap) is ahead of the bottom 450 names by 18.7% year to date. For the year, the Russell 1000 Growth Index has outperformed the Russell 1000 Value Index by just under 36%, the highest annual spread since 1979.

The market strength has essentially been driven by technology as investors are embracing companies that have benefitted from the "work-from-home economy" driven by the pandemic. For the nine-month period, the sector leaders have been information technology (+27.5%), consumer discretionary (+22.5%) and communication services (+7.6%). It is worth noting that the discretionary sector has been driven by Amazon, which makes up just under 42% of the sector; and the communication services sector has been driven by Alphabet and Facebook which comprise approximately 47% of the sector. It is safe to say that technology has dominated the market move. The weakest S&P sectors have been energy (-50.2%), financials (-21.7%), real estate (-8.90%) and utilities (-8.1%). As we discussed last quarter, the S&P 500 index has essentially become a mega-cap index, with the top ten names accounting for just under 29% of the index.

When one strips out the largest index holdings, you find that the broad market has struggled in 2020, as evidenced by the fact that the S&P 500 equal-weight index is down 6% year to date. The same message is evident when looking at the S&P Mid-Cap Index and the Russell 2000 Small Cap Index, which are down 8.62% and 8.69%, respectively. The Value Line Index, which is an equal-weight index comprised of 1,681 companies, is down 17.1%, well behind the major indexes. In summary, outside of mega-cap tech, 2020 has been extremely challenging for investors.

Index	2020 3rd Quarter	2020 YTD
DJIA	8.22%	-0.91%
S&P 500	8.93%	5.57%
S&P 500 (equal weight)	6.60%	-6.00%
S&P Mid Cap	4.77%	-8.62%
Russell 1000/Growth	13.22%	24.33%
Russell 1000/Value	5.59%	-11.58%
Russell 2000	4.93%	-8.69%
NASDAQ Comp.	11.02%	24.46%

The market continues to be boosted by the fact that the Fed has flooded the economy and the markets with liquidity and other forms of support for individuals, companies, and institutions. Additionally, the U.S. Treasury, along with the Fed, seems willing to provide support and stimulus well into the future. We spend a lot of time debating the sustainability of this massive support and liquidity by asking ourselves how long the Fed and Treasury can keep this up. If stock and bond prices are not based on fundamentals – such as earnings – but rather by the Fed's buying of bonds and liquidity injections, then if and when this activity slows, how much could prices fall?

Those of us who have practiced our trade of managing portfolios for many decades have struggled with stock price transparency and discovery as easy money and constant stimulus have undermined the basic tenets of capital markets. As it was in the mid 2000s, society and the stock market look increasingly to the government for protection from major crises. Whether it's a banking crisis, real estate bubble, garden variety recession or a health crisis, the reaction from the government (usually the Fed) has become almost automatic. It is probably a fair assumption and one we internally try to handicap, that the Fed will keep flooding the market with liquidity when something goes bump in the night.

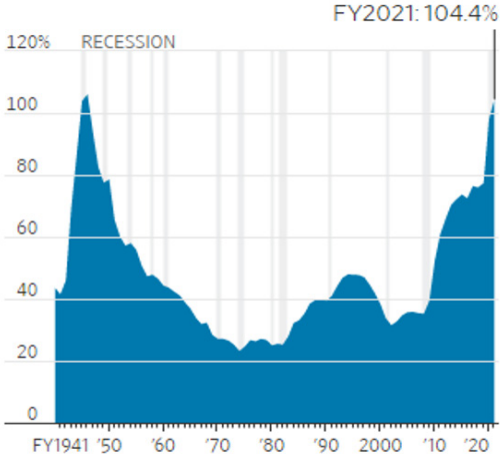
In classical economic theory, this "money creation" is considered problematic if it increases more rapidly than the available supply of goods and services. When more money is available to buy goods and services than supply, then prices increase. So, we worry about the government in essence "printing money" the way it is doing it at the moment. Will inflation again be problematic as in the 1980s? $26 trillion in U.S. federal government debt, and going up by the day, worries us when we think about how best to invest for you. Our investment team recognizes how heavy-handed government intervention is distorting the prices of high-flying growth stocks and most all bonds. We understand as well that this makes the free markets inefficient and our jobs more difficult in allocating your hard-earned capital.

So, as we write to you today, the talking heads on CNBC and the new found day-trading speculators rely on market aphorisms such as low rates justify high market P.E.'s and "Don't fight the Fed." Mathematically, low interest rates do justify higher stock valuations, for now. Maybe the massive amount of debt we have will keep them low as a necessity. We don't know. But we do know that we are thinking about the longer-term consequences of such massive debt accumulation and the moral hazards of never-ending bailouts as it relates to keeping your money safely invested.

We are now wrapping up our second full quarter since Frank and the Jolley Asset Management folks joined forces with us. Our integration and transition have gone smoothly and effectively. We have learned a lot from each other already and are in the process of refining a collective investment process on the back of a sound investment philosophy that should stand the test of time.

Maybe we are old-school by our longer-term investment approach and discipline, compared to today's speculators, who are trading stock options and chasing fast-rising stocks at record rates. There has been a tremendous surge in speculative option trading targeting the giant tech stocks we discussed earlier, and it has magnified the volatility late this quarter. According to Goldman Sachs, the volume of trading in single stock options recently (September) topped the volume of regular shares for the first time. Many large Wall Street investment banks must hedge their option positions which can accelerate violent swings in stock prices. More and more speculators seem to be chasing momentum, without regard to value. They are buying what is going up … Tesla, Apple and Zoom and selling what is falling, Exxon, Bank of America, and MetLife – activity that is amplifying the market's move.

U.S. federal debt as a share of GDP



Note: 2021 is an estimate
Sources: Office of Management and Budget, Wendy Edelberg

Portfolio Strategy Discussion

LIVE OAK PRIVATE WEALTH FOCUSED OPPORTUNITY GROWTH STRATEGY COMMENTARY & THOUGHTS

Could this quarter's speculative trading momentum be an echo boom from 1999? We have no idea and cannot predict the future, but we worry that the current tech stock dominance could end as it did in March 2000. Certainly, the day trading and option speculation today is very reminiscent of the late 1990s. But then again, there are large important differences between the market today and 1999. First of all, interest rates are much lower today compared to twenty years ago, theoretically supporting higher P.E.'s. We are also considering what we view as "accrued economic value" (based on revenues) generated by ten of the more significant contributors to market performance today. These ten large contributors include FANMAG[1] plus Visa, United Health, Mastercard, and Home Depot. Comparing this basket of growth companies to a basket of the Russell 1000 Value top growers[2], over the course of the last 10 years, we see almost 2.5 times more revenue and 2 times more net income.[3] If this excess revenue and net income growth are an indication of underlying business strength, then these types of businesses are much stronger and maybe are more valuable. It could be considered by some that the market should assign a greater value to these top performing businesses. But, from a sheer market cap perspective as well as a valuation perspective, there should be limits as what a rational, disciplined investor should pay. Rest assured we are discussing this daily.

We were both managing portfolios during the 2000-2001 period of the Nasdaq tech bubble. We debate a lot about the current market structure compared to that period which cost investors (thankfully not us) a lot of money. We both feel like these current gigantic tech stocks might underperform going forward as their similar counterparts did in 2001. Should history not repeat itself, it will be based on valuations today versus then. Today's big five tech stocks are earning a lot of money and collectively are trading at lower multiples than their counterparts in 2001.[4]

	EV/EBITDA Multiple	Trailing 5-year EBITDA Growth
Apple, Microsoft, Amazon, Google and Facebook June 2020	17.40%	27.00%
Microsoft, Intel, Pfizer, GE and Time Warner May 2001	30.60%	26.00%

Source - Bloomberg

As we wrapped up the third quarter, the markets took their typical "breather" during September. September and October have historically been downside volatile months. Investors have finally taken a harder look at the overconcentration in big tech and the very ebullient sentiment has cooled off. It appeared during the month of September there was finally a rotation or broadening out to other sectors. Our Focused Growth Opportunity portfolio had a good quarter, as the market in general continued to recover from the pandemic selloff as well as positive fundamental developments for a number of our holdings.

Portfolio activity was light in the quarter as we undertook only two portfolio changes in the model. We sold Axalta Coatings after a five-year holding period. Twice in the last several years, management turned down buyout offers in the mid $30s, above our cost. We elected to move on from this cyclical industrial, levered to the auto business in search of a better business. The other sale was tax related with Wells Fargo. We had elected to add to our Wells Fargo position in the first quarter when the stock fell to $29 and planned to sell our higher cost-basis position to offset earlier capital gains for 2020.

[1]FANMAG: Facebook, Amazon, Netflix, Microsoft, Apple, and Google
[2]Ten largest contributors for the Russell 1000 Value Factor, 2009-2019 (JP Morgan, Johnson & Johnson, Berkshire Hathaway B, Pfizer, Proctor and Gamble, Cisco, Intel, AT&T, Chevron, and Wells Fargo) Source: Revinitiv
[3]Source: Bloomberg
[4]Source: Bloomberg

Contributors and Detractors for Focused Opportunity Growth

Our thoughts on positions that had the most positive impact on the strategy for the period ending 9/30/2020

Federal Express (FDX) +61%

During the quarter, Wall Street sentiment turned dramatically bullish as it became evident the continued shift to E-commerce and delivery would benefit Federal Express. UPS benefitted as well but the re-rating of Federal Express was remarkable and proves that when sentiment changes on Wall Street, big moves can happen.

HCA Healthcare (HCA) +27%

During the quarter, HCA delivered better than expected second-quarter results. Key patient volume metrics started to improve as some elective surgical procedures ramped back up as the pandemic effects lessened.

Charter Communications (CHTR) +20%

Charter continued to show investors that its broadband internet offering is much more financially important than its cable video offering. Investors are continuing to recognize and appreciate the higher margin broadband service which is critical to work from home, learn from home, and new forms of streaming.

Berkshire Hathaway (BRK/B) +20%

Investors started to better understand what Berkshire's potential pandemic liability was related to its exposures to insurance, banking, energy, and aerospace industries. Many of those fears from the second quarter abated and Berkshire's earnings showed solid resilience and remains very cheap, selling slightly above book value coupled with over $130 billion in cash.

Abbott Labs (ABT) +19%

Abbott's stock continued to be viewed favorably in light of their new Covid-19 antigen test, which is helping to increase the diagnostic testing capacity in the U.S. The company's pediatric nutrition products as well as its glucose monitoring technology remain healthy and largely impervious to macro-economic conditions.

Our thoughts on portfolio positions that had negative or the least positive impact on the strategy for the period ending 9/30/2020

CVS Health (CVS) -10%

CVS Health continues to perform and execute well in our opinion. The company is at the intersection of all things important to healthcare; pharmacy, insurance, wellness, testing and soon to be vaccinations. Very reasonably valued with strong management allows us to be patient while the market comes around to this value.

Raytheon Technologies (RTX) -7%

Raytheon is now finishing up its first full quarter as a new company with its merger with United Technologies. Its aerospace business, which represent 50% of the company, is still temporarily under the pandemic cloud as many airlines are operating at diminished capacity. The defense contracting side of the business is solid with recurring contractual revenue. Widening out our investment timeline lens to 2022, we see good upside.

Wells Fargo (WFC) -6%

Wells Fargo continues to be the perennial under-appreciated financial stock. Sentiment towards the company from Wall Street and the public continues to be negative. Lower for longer interest rates and unknown loan losses from the pandemic loom large, but to us are already discounted. Trading at 70% of tangible book value allows us to patiently await better days for the stock.

Dollar Tree (DLTR) -2%

Dollar Tree's shares got ahead of themselves during the second quarter as the market embraced the attractiveness of the dollar store model related to the pandemic. Dollar Tree continues to perform quite well and its duopoly with Dollar General should bode well for us in the future as its convenient locations, strong customer relationships and value focused defensive products keep it well positioned.

Bank of America (BAC) +4%

Bank of America continues to perform quite well in the face of Wall Street's lack of interest in any financial stocks. Bank of America has a dominant franchise in the U.S. and its technology is the envy of the banking world, given their size. Catalysts for the shares in the future would include its depressed valuation, clarity of pandemic loan losses and a more normalized yield curve. Financial stocks (along with energy stocks) are very much out of favor in today's market and viewing Bank of America with a contrarian's lens gives us optimism of future higher prices.

Live Oak Private Wealth Jolley Classic Value Strategy

COMMENTARY & THOUGHTS

We find the current period eerily similar to the 1999-2000 period, where investors and traders went all in on technology, despite rich valuations. We realize that today's technology behemoths are wonderful companies, with dominant competitive positions and high "barriers to entry." As value investors, our goal is to invest with a "margin of safety", which oftentimes requires us to step away from the crowd and focus on what could possibly go wrong. Is it possible that the pandemic pulled forward revenues and that this could normalize once the pandemic subsides and the economy re-opens? When we go back and look at the S&P 500 Index after the 1999-2000 period, we remind investors that the S&P 500 generated negative returns over the next decade. We believe that the price one pays for a security is just as important as which stock you purchase. Furthermore, you can buy the greatest company in the world, but if you pay too much, you will not receive a satisfactory return on your investment. Cisco Systems at the height of the dot-com bubble, in 2000, was briefly the world's most valuable company with a market cap of approximately $550 billion. Cisco's shares peaked at $82 per share in March of 2000 and bottomed two years later under $10 per share. Since July of 2000, Cisco has grown revenues from $18.9B to $49.3B and earnings from $2.7B to $11.2 billion. Despite that growth, today the shares trade at approximately $39 per share, down over 50% from the highs seen in 2000.

In our view, the extreme valuation discrepancy between the most expensive and least expensive stocks will likely be narrowed when we begin to anticipate an improving economic environment. The pandemic has widened the disparity between the handful of winners and the rest of the market. We believe our "value" strategy where we focus on risk and return will serve our clients well over the coming year.

Contributors and Detractors for Jolley Classic Value

Our thoughts on positions that had the most positive impact on the strategy for the period ending 9/30/2020

United Parcel Service (UPS) +46%

UPS is the world's largest express carrier and package delivery company. UPS earnings surged in the latest quarter as the coronavirus pandemic has turbo-charged E-commerce sales. Under the leadership of new CEO Carol Tome, UPS momentum is expected to continue into 2021.

Mosaic Company (MOS) +48%

Mosaic is one of the world's leading producers of concentrated phosphate and potash crop nutrients for the global agriculture industry. Mosaic shares reacted favorably to better than expected revenues and earnings this past quarter. We believe the shares remain attractive and expect a continued rebound in revenues and earnings in 2021.

Twitter (TWTR) +44%

Since our purchase of Twitter in the first quarter of 2020, the shares have attracted investments firms Elliott Management (activist investment firm) and Silver Lake Partners. A potential subscription model and better monetization of the platform could boost earnings and the share price over the intermediate term.

Qualcomm (QCOM) +31%
Qualcomm remains one of the best ways to participate in the widely anticipated rollout of 5G technology. Qualcomm recently received a favorable ruling in an FTC lawsuit lifting the shares. Analysts expect strong earnings growth in 2021.

Apple (AAPL) +31%
Apple shares have benefited from strong work-from-home trends which have boosted sales for most all of the Apple product line. Investors are willing to pay a higher multiple for the services business which has become a bigger part of the Apple revenue and income stream. We have been reducing our positions in Apple on strength.

Our thoughts on portfolio positions that had negative or the least positive impact on the strategy for the period ending 9/30/2020

Bayer (BAYRY) -20%
The German life sciences company that acquired Monsanto in June of 2018 has continued to face challenges in settling the litigation surrounding glyphosate (Roundup). Settlement efforts have stalled, despite the EPA reaffirming its position that there are no risks of concern to human health when glyphosate is used according to the label and that it is not a carcinogen. Bayer's short-term results have also been impacted by weakness in the crop sciences business, largely driven by COVID. A recent analyst report from Bernstein suggested that the sum-of-the-parts of the different business units could be worth 90-100% above the current share price.

Chevron (CVX) -18%
Energy stocks and oil prices have been dealt a devastating blow by COVID-19. The energy sector now represents only 2.1% of the S&P 500 index, down from 16% in 2008. Chevron is considered one of the strongest energy companies, however, any exposure to energy has been a drag to portfolio performance. Chevron shares yield 7.25%.

Cisco Systems (CSCO) -14%
For the recent quarter, Cisco revenues and earnings beat Wall Street expectations, but declined from a year ago due to corona virus induced weakness in the enterprise and commercial markets. Cisco's balance sheet remains strong with $29 billion in cash versus $14.6 billion in total debt. Cisco trades at under 15 times trailing earnings and has an above average dividend yield of 3.8%.

Intel (INTC) -12%
Intel shares fell last quarter despite better than expected financial results. The markets are concerned about Intel's competitive position with AMD and substantial delays on its development of cutting-edge 7-nanometer production technology. Intel trades at less than 10 times trailing earnings (versus 52 times for AMD) and yields 2.6%. Intel's balance sheet remains strong with approximately $26 billion in cash.

CVS Health (CVS) -10%
CVS Health is also owned in the LOPW Focused Opportunity Portfolio. CVS shares trade at 9 times trailing earnings versus 22 times for the S&P 500 index. CVS shares yield 3.5%, so investors get paid to wait for a recovery in the shares.

Live Oak Private Wealth International Strategy
COMMENTARY & THOUGHTS

The third quarter saw the European countries continuing to improve and open further from the pandemic shutdown. Output contraction was pretty extreme in late spring as the majority of the Eurozone was closed for business, except for Germany. Stimulus has been provided as well as witnessed by the almost $1 trillion European Union Recovery Fund. This equates to almost 6% of European GDP and has been positive for our European investments. Asia and other emerging markets in the world continue to leverage their re-openings and most stock

markets around the world have dramatically improved. Our eclectic International strategy is currently bar-belled between Europe and southeast Asia and is weighted towards E-commerce, healthcare, select financials and industrials.

Portfolio activity was robust as we sold Hollysys Systems International and we added three new investees: Heineken, Roche Holdings and Euronet Worldwide. Heineken has grown from its largely Western European roots to become one of the top brewers in the world and should benefit from the increased re-openings in the world. Roche Holdings is one of Europe's preeminent biopharmaceutical companies specializing in cancer care and diagnostics, including testing for Covid-19 antibodies. Euronet Worldwide is a play on the eventual recovery in European travel. Euronet is a financial payments technology company with one of their main businesses being ATM's predominately in eastern and southern Europe with an emphasis on tourist attractions.

Contributors and Detractors for International Strategy

Our thoughts on positions that had the most positive impact on the strategy for the period ending 9/30/2020

Alibaba (BABA) +36%
Alibaba continues to reward investors with growth in its retail E-commerce business and its cloud computing business is very strong. Runway for growth includes new models for digital manufacturing and delivery robots.

JD.com (JD) +29%
JD.com leverages its distinctive supply chain and technology capabilities to continue the company's powerful growth in E-commerce. JD.com is the largest retailer in China and boasts a cross-border platform that enables brands worldwide to sell directly to Chinese consumers.

Ferguson (FERGY) +23%
Ferguson, the plumbing and heating firm, which generates 90% of its sales in the U.S., benefitted from a sizeable investment by an activist investor interested in separating operations to boost the stock's value. As housing continues its bullish trend, Ferguson is a significant supplier gaining market share and growing.

New Oriental Education (EDU) +14%
New Oriental is evolving well, transitioning its 1,400 brick and mortar tutoring services business online, greatly expanding its reach and competitive advantage. Occupational test preparation and career education services for adults offers multiple avenues for growth.

Unilever (UL) +13%
The Anglo-Dutch consumer conglomerate maker of Dove and Ben and Jerry's ice cream continues to benefit from increasing demand around the world as more countries re-open. Many of the company's sustainable living brands that eliminate germs and provide cleaning solutions are growing in popularity.

Our thoughts on portfolio positions that had negative or the least positive impact on the strategy for the period ending 9/30/2020

Hollysys Automation Technologies (HOLI) -15%
Hollysys remains one of China's leading industrial automation companies. The company is struggling with management issues and recent high-profile departures from the board affected shares. We have found the business harder to understand and have elected to sell out of our investment.

Development Bank of Singapore (DBSDY) -2%
The Development Bank of Singapore continues to operate well financially. The company, like most all financial and banking businesses worldwide, is coping with lower margins due to very low interest rates. The bank is one of the preeminent financial franchises in the highly populated and growing area of Southeast Asia.

Airbus (EADSY) Unchanged
Airbus continues to struggle as airlines around the world attempt to right size their fleet of aircraft, both new and existing to cope with the pandemic. Longer term, Airbus is well positioned in its duopoly with Boeing for the world's aviation needs.

Safran (SAFRY) -3%
Safran, along with Airbus and Raytheon Technologies, continues to grapple with airline load factors as airlines around the world adjust to demand as the pandemic complicates travel. We have comfort in the company's contractual recurring revenue service model for its thousands of engines in flight daily.

Sanofi (SNY) -2%
French pharmaceutical Sanofi just this month moved into Phase 3 trial for its Covid-19 vaccine candidate. Sanofi is one of the world's largest maker of vaccines and the company should be well positioned with additional therapies for MS and other rare diseases.

As we write this letter, the U.S. Presidential election looms large. Typically, over the course of history, election outcomes haven't materially affected the markets. While typically more volatile, stocks historically have been up 10% in the year following presidential elections, according to S&P data. We have had a lot of questions from clients and others related to this election and its range of outcomes and potential investment ramifications. Potential public policy changes could affect stock prices in 2021. The potential broad public policy changes that most likely will be considered important by the markets include globalization, anti-trust, broad tax, as well as many others. We believe it would be fair to understand that one of the many reasons for stock prices being where they are today relates to a political environment that is currently capital friendly, especially from a tax policy perspective. The Biden tax policy platform is publicly available and is considered by some to be potentially less capital friendly. We are neutral politically and therefore will stay laser focused on our portfolio companies and your valuable capital. Whether Trump or Biden is president, we doubt it will affect the iPhone business, boxes shipped on FedEx and UPS, Google searches, or Visa and Mastercard swipes.

Bernard Baruch coined an important phrase many years ago – "The main purpose of the stock market is to make fools of as many men as possible." We fools, along with others much smarter, such as Jeremy Grantham (GMO); David Tepper (Appaloosa); Stanley Druckenmiller (Duquesne) view today's market valuation and V-shaped full recovery in 5 months to be at odds with many macro-economic fundamentals. Uncertainty abounds. What jobs will still exist in the future? Will the vaccine work? How long will we work from home and will children stay in school? What will be the long-term effects on shopping centers and commercial real estate? Will the social and racial unrest stop? From our point of view, the most important question is will the political will remain for the massive stimulus to continue? We can't know the answers to these important concerns, but we remain confident in the resilience of America's companies and in our portfolios over the long term.

Investing is the art of positioning capital today so as to profit from future positive developments you expect. We are cautiously optimistic looking ahead to 2021 and beyond. We both believe strongly that the most important thing you can do to insulate yourself from perceived threats and uncertainty is to stay invested and maintain your long-term allocation that is tied to your goals and objectives. We also intend to stick to our discipline of finding competitively advantaged companies with strong, long-term growth prospects that trade for prices we believe will reward shareholders for sticking with them through good times and bad. We remain humbled and appreciative by your willingness to compensate us for doing something we love to do and is so important to us all. Our entire Live Oak Private Wealth team looks forward to our continued shared success in this partnership.

With warmest regards,

Frank G. Jolley

Co-Chief Investment Officer

J. William Coleman, III

Co-Chief Investment Officer

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 attribution represented is a simple point-to-point price percentage change for the five best and five worst portfolio positions for the third quarter ending September 30, 2020 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. Additionally, there is no guarantee that all portfolios will own any or all of the companies mentioned.

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) 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.

5) 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.

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8) Opinion and thoughts expressed are those of Bill Coleman and Frank Jolley and not Live Oak Bank.

9) Not all portfolios will necessarily own all companies mentioned, due to factors such as legacy positions, capital gain constraints, sector concentration, time, and other considerations.