LIVE OAK
PRIVATE WEALTH®

Investment Commentary & Letter to Clients

December 2021

liveoakprivatewealth.com
1741 Tiburon Drive Wilmington, NC 28403 | P: (844) 469.5679

LIVE OAK
PRIVATE WEALTH®

Year-End Letter December 31, 2021

"My costliest mistakes have come whenever I grew impatient or envious of other people's returns and strayed off course by gambling on private companies or individual stocks that held the promise of a racier roads to riches. The paradox here is that the slower road almost always proves to be the faster in the end. The investors I admire most tend to be heroically inactive, not because they're lazy but because they recognize the benefits of patience."

- William Green

Richer, Wiser, Happier

2021 will be remembered by the seemingly never-ending Coronavirus and two new COVID-19 variants, massive supply chain disruptions, cryptocurrency mania, excessive special purpose acquisition companies (SPACs) issuance, and of course, inflation. We witnessed craziness, not unlike the dot-com era of 1999-2000, with trading of meme stocks and resulting short squeezes, as well as massive real estate price increases. We recall when Texas froze in February, leading to an outright energy crunch, in addition to the rise in alternative energy and green initiatives, especially battery-powered vehicles. Yet, 2021 proved to be an unusually stable and good year for stock returns.

The tech giants FAAMG (+Tesla) dominated the market and the S&P 500 again. The Stoxx Euro 600 had a really good year as many European stocks came out of their 2020 doldrums, while the Shanghai composite and the Japanese Nikkei really struggled. Given the astonishing amount of liquidity provided by the U.S. Federal Reserve, it is no wonder the U.S. market outperformed the rest of the world. We doubt this continues. Math and valuations stand in the way. Apple is worth almost $3 trillion, Microsoft almost $2.5 trillion, Google $2 trillion, Amazon $1.7 trillion with Facebook and Tesla almost $1 trillion each. These companies' stock multiples have been the main absorbers of the massive liquidity injected by the Fed. It would seem to us mathematically difficult for these few tech giants to appreciate further at the rate of the last ten years. Therefore, we would caution you about the idiosyncratic risk of this cohort's downturn and the creation of more market fragility.

We expect the Federal Reserve will keep its word in 2022 and taper its bond-buying program in advance of actually raising the funds rate. Other possibilities might include shrinking the size of the Fed's balance sheet resulting in much less liquidity or rocket fuel for stocks and bonds. This should impact the "valuation anchor," the 10-year U.S. Treasury note yield, resulting in effects on most all asset classes. The Fed is still the dominant force in our markets, and we will be watching closely the changing winds that are stiffening.

We want to remind you that the Fed's involvement in the stock and bond markets (to this extreme) dates back to the 2008 Great Financial Crisis. 13 years. A veritable "liquidity faucet" has been running this entire time, albeit a few attempts to slow it in 2013 and 2018. Both attempts resulted in sizeable corrections in stock prices. This faucet has been wide open, with increased pressure since the pandemic started in March 2020. Turning off the faucet in 2022 might prove dicey.

As we close out the year, we are not surprised by the dramatic change we have seen underneath the markets' current this fall. We wrote earlier in the year warning you that blank check companies known as special purpose acquisition companies, (or SPACs), did not provide the investing public with complete information about their businesses. We cautioned that there was insufficient protection against conflicts of interest and fraud with some SPACs, and many IPOs this year. On December 10th, the Wall Street Journal[i] reported that Securities and Exchange Commission (SEC) Chairman

Gary Gensler has asked his SEC staff for proposals to focus more on disclosure requirements and marketing practices. This should change the somewhat dangerous process of allowing SPACs to make revenue and profit projections that are not allowed in traditional IPOs. Nikola Corp. will likely pay $125 million to settle an investigation into allegedly misleading statements when going public through a SPAC, according to The Wall Street Journal. The company hasn't delivered any trucks to customers yet, **but it is valued at $4 billion**.

We also cautioned readers of the stock trading frenzy earlier in the year fueled in part by the retail trading platform, Robinhood, and the trading of meme stocks. Robinhood's stock is off over 40% from its IPO price and over 70% below its intraday high of $85.00 earlier this year. Many of the meme stocks have had significant corrections as well.

Market Review 2021

U.S. stocks surged higher in 2021, capping a third consecutive year of double-digit gains. Over the past three years, the S&P 500 index has more than doubled when dividends are included. This is the first three-year gain of 100% plus since the tech bubble (1997-1999). The past three years seem to validate our belief that attempts to time the equity markets are a futile exercise. We think you can agree that nobody saw the rapid market recovery when COVID-19 gripped the world in early 2020. The profits of the S&P 500 rose by 47% in 2021, the strongest growth rate since FactSet began to track earnings in 2008. Keep in mind the earnings growth was favorably impacted by the fact that earnings were depressed in 2020, due to the pandemic. For the year ending 12/31/2021, the S&P 500 Equal-Weighted index outperformed the S&P 500 (market-cap-weighted) by approximately 70 basis points. Value (Russell 1000 Value) and Growth (Russell 1000 Growth) strategies saw leadership shifts throughout the year, with Growth finishing the year strong and finishing some 2.44% ahead of value. Growth has now outperformed Value for five consecutive years. As seen in the chart below, small (Russell 2000) and mid-cap stocks (S&P Mid-Cap 400) trailed large caps for both the fourth quarter and the year just ended. All of the major S&P 500 sectors posted gains in 2021. The leading sectors were energy (+47.7%), real estate (42.5%), and information technology advancing (32.6%). Lagging sectors included utilities (+14.0%), consumer staples (15.6%), and industrials (+19.4%). Outside of U. S. equities, other asset classes lagged with long-term treasuries (-4.6%), investment-grade corporate bonds (-1.0%), and gold (-4.3%). International stocks also lagged, with the ACWI (ex-US) returning 8.3% and emerging markets, declining by (-2.2%) in U.S. dollar terms.

Market Statistics as of December 31, 2021

Index	2021 4th Quarter	2021 YTD 12 Months
DJIA	7.87%	20.95%
S&P 500	11.03%	28.71%
S&P 500 (equal weight)	9.01%	29.63%
S&P Mid Cap	8.00%	24.76%
Russell 1000/Growth	11.64%	27.60%
Russell 1000/Value	7.77%	25.16%
Russell 2000	2.14%	14.82%
NASDAQ Comp.	8.45%	22.18%

Live Oak Private Wealth Growth Strategy
COMMENTARY & THOUGHTS

Looking back over the last 12 months, we could describe 2021 as a year of strong growth in profitability for the majority of the companies we hold in the portfolios. Our portfolios didn't change much. We disposed of a few, but mostly we tweaked a few of our position sizes down as prices caught up to our best estimate of value.

Considering the quote from William Green at the beginning of this letter, we like to think our patience and lack of performance envy have served us all well. We would never consider ourselves heroes or blindly follow a strategy of never trading, but we do concur with Mr. Green that there are real benefits to patience. Holding onto really good businesses, even during volatile times, can deliver solid investment returns.

We have been writing in these letters for several quarters about the insatiable demand for growth stocks as well as the chase for the investment return from SPACs and crypto. Maybe this quarter has marked the peak of much of this lunacy? Rivian, an electric vehicle manufacturer, issued new securities through an IPO for over $100 billion despite having less than $50 million in pre-order deposits for their vehicles. This put Rivian's price to revenue ratio at an astronomical 2,169, which is nearly 100x greater than Tesla's price to revenue ratio of 23. Generally, Ford and GM trade for around 1 times revenue.

This year has seemed like expectations for growth at any price with some stocks were the highest in memory. The number of stocks with nosebleed price to revenue ratios has increased rapidly in recent years. According to data from Leothold Group, the number of stocks in the S&P 500 with price to revenue ratios of greater than 10 is almost twice what it was during the dot com era. Maybe the tide is starting to recede as we close out this year with many of these extremely high-valued stocks. Charlie Bilello recently tweeted[ii] an interesting list of popular growth stocks in the Nasdaq 100 that have had massive price corrections this year. Some examples are:

Company	% Below Their High Price
PayPal Holdings Inc.	-37%
Snap	-38%
DraftKings Inc.	-50%
Roku Inc.	-51%
Teledoc Health Inc.	-60%
Beyond Meat	-67%
Peleton Interactive Inc.	-71%

When market cycles and hot sectors revert to the mean, which they always do eventually, nosebleed valued stocks or "growth at any price" stocks, can decline a lot when the air comes out of the bubble.

The air has come out of a lot of stocks in the last few months. Many of you probably wouldn't realize that as of the first of December, the S&P 500 was off only -4.07% from its all-time high, while the small-cap index, the Russell 2000, was off -12.08% from its high. But as seen by many of the nosebleed valued cohorts above, there has been a lot of carnage. Woodlock House Capital[iii] put these stats in a recent blog post:

Out of the 505 stocks that make up the S&P 500, this year the decline from their 52-week high of at least:

-10%	317 out of 505
-15%	205 out of 505
-20%	130 out of 505
-25%	78 out of 505
-30%	43 out of 505
-50%	6 out of 505
-15.5%	Average Decline

A small group of mega-cap tech stocks continues to support the market as a whole as they continue to have a disproportionately large impact due to the market-cap-weighted S&P 500 Index. This is the only mathematical answer to why the S&P 500 was only 4% off its high in December when the average stock in the same index was off -15.5%. We must have gotten lucky dodging most of these declines. Focused Opportunity had a solid year of performance. Our composite performance numbers are available for your review: please contact our office if you would like a copy.

Fourth-Quarter Portfolio Activity

Our growth at a reasonable price strategy (Focused Opportunity) traded very little during the quarter. We did elect to sell our position in Cisco Systems. Our thinking here was Cisco is struggling somewhat to adapt to the continued adoption of cloud-based infrastructure vs. legacy networked hardware. Valuation was not excessive, and Cisco is evolving to changes, but cloud-based disruption continues to accelerate, and Cisco's relevance has waned somewhat, in our opinion. We opted to move on in hopes of finding a suitable replacement with more opportunity for growth. Please note that our Classic Value strategy remains invested in Cisco.

The quarter was very busy on the research and due diligence front. We spent time in late September with an accomplished small-cap hedge fund manager we admire in Raleigh, learning about several very interesting companies and meeting with fellow analysts and investors. We spent three packed days in Boston in October meeting with many top-tier private equity, real estate, venture capital, and hedge fund managers. We have found ourselves in a very envious position of being invited into a close-knit inner circle of many of the brightest investors in Boston. More to come in 2022 regarding exciting opportunities that should arise from this. We also participated in a European Investing Summit virtually hosted by the MOI Global Community of Investors. We learned a lot about several interesting opportunities in Europe. We also spent three packed days in New York in November participating in Brookfield Asset Management's Private Fund Conference as well as meeting with several of the top hedge funds in the country attempting to glean their thoughts regarding the market's risks and opportunities.

Contributors and Detractors for Live Oak Private Wealth Growth Strategy

Our thoughts on portfolio positions that had the most positive impact on the strategy for the quarter ending 12/31/2021

Dollar Tree (DLTR) (+43.4%)
Dollar Tree shares soared this quarter on a long-awaited pivot to its operating model. Most of the inventory at every Dollar Tree store is stepping away from its namesake $1 price point. The recent inflationary environment, along with a nudge from an activist investor with 6% ownership, motivated the company to accelerate this shift. Looking ahead to a more friendly, lower shipping cost environment, we are comfortable as long-term investors in Dollar Tree.

United Health (UNH) (+28.0%)
United Health continues to execute, and while the shares are expensive, the company's vision and strategy should allow for adjusted earnings growth of 10-12% next year. At its recent Investor Day, United Health laid out its roadmap for continued leadership in managed care and initiatives for better patient outcomes. One of the bluest of the blue chips.

Lowes (LOW) (+26.9%)
Lowes continues to perform. Recent third-quarter earnings from the company displayed a 12.2% operating margin. Business at Lowes continues to be boosted by consumer demand for household and building products and continued new household formations. The company remains well positioned to gain momentum in its shift towards a higher percentage of professionals vs. DIY.

Apple (AAPL) (+24.5%)
What can you say about Apple? The company continues to dominate the smartphone market, notwithstanding the supply chain constraints. Apple investors will be watching the Epic Games lawsuit in addition to its over 30 PE valuation in the face of pending interest rate increases and smartphone saturation. Future Apple stock returns must moderate, especially at a $3 trillion valuation.

CVS Health (CVS) (+22.7%)
CVS management is accelerating its focus on better leveraging its assets (Aetna Insurance, pharmacy benefit management, and retail CVS stores) to deliver a more consumer-centric approach to healthcare. CVS recently updated its 2022 guidance to hopefully deliver accelerated bottom line growth into the low double digits for the next several years. The stock is finally getting a much-deserved re-rating of its price to earnings ratio.

Our thoughts on portfolio positions that had negative or the least positive impact on the strategy for the quarter ending 12/31/2021

Medtronic (MDT) (–18.7%)
Medtronic suffered this quarter on a downbeat earnings outlook. Pandemic-related challenges continue to affect some of the company's divisions as nursing shortages at hospitals are pushing out some cardiac-related procedures. The company's robotic-assisted surgical machine, HUGO, has been challenged by chip shortages. We feel confident in the long-term health care trends that lie ahead for the company. We did tax loss sell some shares at year-end.

Disney (DIS) (–12.0%)
Disney finally gave up on its blistering pace this year as the market re-assessed its streaming subscription growth as well as challenges related to the theme parks normalizing in the face of continued virus worries. Earnings are still solid, and Disney remains in a very strong position. The stock had gotten ahead of itself earlier after crossing $200. We remain very comfortable long-term investors in the "house of the mouse".

Comcast (CMCSA) –12.0% & Charter (CHTR) (–11.7%)
Comcast and Charter stocks took a breather this quarter as broadband internet subscriptions slowed compared to the blistering pace from the growth one year ago. Internet is as valuable of a utility as electricity and water, so we remain comfortable investors over the long haul in Comcast and Charter. Video and cable bundles continue to be melting ice cubes, but both companies' broadband infrastructure and subscribers, maintain the moat against competitors.

FOX (FOXA) (–9.5%)
FOX ends 2021 in the penalty box as investors grapple with how the company is coping with its streaming transition. Live sports and news are the dominant attributes of the company and advertisers want and need FOX, but FOX finds itself in somewhat of a precarious position given the ongoing disruptions in pay-TV. One we are watching closely in 2022.

Contributors & Detractors for the year 2021

We thought it would be interesting to look at the significant movers for the entire 2021 year.

Positive	Negative
Alphabet (GOOGL) +65.3%	Walt Disney (DIS) -14.5%
Lowes (LOW) +61.0%	Medtronic (MDT) -11.7%
Wells Fargo (WFC) +59.0%	Verizon Communications (VZ) -11.6%
Charles Schwab (SCHWB) +58.6%	Comcast (CMCSA) -4.0%
HCA (HCA) +56.2%	FedEx (FDX) -0.4%

Live Oak Private Wealth Classic Value Strategy
COMMENTARY & THOUGHTS

"So one way to create an attractive risk/reward situation is to limit downside risk severely by investing in situations that have a large margin of safety. The upside, while still difficult to quantify, will usually take care of itself. In other words, look down, not up, when making your initial investment decision. If you don't lose money, most of the remaining alternatives are good ones."

- Joel Greenblatt—Gotham Asset Management

Due to strong earnings growth, the S&P 500 is now trading at approximately 21.8 times forward estimates, which is down from 22.8 times at the end of 2020. Despite this, stocks remain elevated versus historical levels when compared to the twenty-five-year average of 16.8 times. As the chart below indicates, other valuation measures also seem somewhat stretched, when compared to the past twenty-five years.

S&P 500 Index

Valuation Metric	Latest	25-Year Average
Price/Earnings Ratio	21.18	16.83
Dividend Yield	1.35%	2.00%
Price/Book	4.41	3.08
Price/Free Cash Flow	16.17	11.11

As we have discussed in previous letters, the S&P 500 index is a "market capitalization" based index which is currently dominated by essentially ten companies (the majority of which are thought of as mega-cap tech). The forward price/earnings ratios for the top ten names in the S&P 500 is approximately 33.2 times earnings which is significantly higher than the 21.2 for the overall index. Interestingly the bottom 490 names in the index trade at a more reasonable 19.7 times multiple. When examining growth versus value one sees a very similar situation. As the chart below shows, investors are paying an extremely rich price for growth, while value remains more reasonably priced. We would point out that the S&P 500, and the fact that 29.1% of the index is in ten names, has essentially taken on the characteristics of a "growth" index and is expensively priced when compared with historical levels.

Characteristic	Russell 1000	Russell 1000 Growth	Russell 1000 Value
Dividend Yield	1.29%	.68%	2.01%
P/E (ex-negative earnings)	23.5	34.85	16.99
Price/Book	4.66	14.13	2.61

As a "value" manager, we pay attention to risk and feel much more comfortable buying companies trading at reasonable valuations, rather than chasing growth. With our investment discipline, we have always looked at the "downside risk" before looking at the "upside potential." We remind our clients that an investor doesn't have to make as much in the up markets if they don't lose as much in the down markets. It is really a case of simple compounding and understanding that large drawdowns can wreck long-term performance. Over the past 23 years, our Value strategy has served our clients well, enabling them to successfully navigate the unwinding of the tech bubble, the financial crisis, and now the pandemic. Our composite performance numbers for the Value strategy are available for your review: please contact our office if you would like a copy.

Fourth-Quarter Portfolio Activity

During the fourth quarter, we trimmed our position in Pfizer as the shares were bid higher due to the heightened demand for the vaccine and the approval for the anti-Covid pill, Paxlovid. We have owned Pfizer for several years as we were attracted to the shares' long-term total return potential. However, last year Pfizer shares returned over 60% and we began to consider what will happen to revenues once the pandemic subsides. Our decision was to trim the shares as we believe there will be risk to revenues and earnings post-Covid. We will likely trim the position further should the shares show any near-term strength. Late in the year, we added a new portfolio position in Volkswagen AG ADR (VWAGY). Our attraction to Volkswagen is two-fold. First of all, we find the valuation as extremely attractive with shares trading cheaply on both an enterprise value/revenues basis (.32x) and price/earnings ratio (8x). VWAGY has a current market capitalization of approximately $130 billion, revenues of approximately $280 billion, and has sold around 9 million cars in 2021. In comparison, electric vehicle company Telsa carries a market capitalization of approximately $1.1 trillion, shipped 936,000 cars, and has revenues of approximately $49 billion. In the nine months ended 9/30/2021, VW group sold over 293,000 all-electric cars, an increase of over 138% from the same period in 2020. The Volkswagen Group, in addition to the VW brand also includes Audi, Porsche, Skoda, Lamborghini, Bentley, and Seat. So, while the valuation of VW is appealing, there has been discussion that VW could sell or monetize the Porsche division, which analysts believe could be worth somewhere between $50 billion and $100 billion. It is our belief that any such move would be a catalyst to help unlock the value in VWAGY to shareholders.

Contributors and Detractors for Live Oak Private Wealth Classic Value Strategy

Our thoughts on portfolio positions that had the most positive impact on the strategy for the quarter ending 12/31/2021

Dollar Tree (DLTR) (+43.4%)

Dollar Tree (also a holding in the LOPW Growth Strategy) soared as the company finally decided to "break the buck" which should translate directly into higher sales with essentially no change in operating costs. Long-term debt which became elevated at the time of the Family Dollar acquisition has been reduced from approximately $7.5 billion to $3.2 billion currently. DLTR has reduced the share count by 8 million shares through the first seven months of fiscal 2021. We continue to like Dollar Tree shares for long-term investors.

Qualcomm (QCOM) (+42.1%)

Qualcomm shares were strong as the company reported better than expected results for the September quarter, with revenues advancing 48%. QCOM continues to benefit from the rollout of 5G technology as carriers continue to deploy the technology across their networks. Diversification away from the smartphone space is a key priority of QCOM, and CEO Cristiano Amon believes the total addressable market for the firm's technologies is approaching $700 billion or nearly seven times higher than the mobile phone industry. We continue to like QCOM shares, which trade at approximately 18 times projected earnings and yield 1.5%.

Pfizer (PFE) (+37.6%)

Pfizer shares were a top performer for the second consecutive quarter and returned over 60% for the year just ended. As we discussed earlier, we trimmed PFE shares in client portfolios where the position became outsized relative to other holdings. While we continue to be constructive on Pfizer shares at approximately fifteen times earnings and yielding 2.9%, we are hesitant to extrapolate revenue and earnings growth based on COVID-19 vaccines and Paxlovid. We would likely be a net seller of the shares on further strength.

CVS Health (CVS) (+22.7%)

CVS shares responded favorably to better-than-expected sales and earnings and management recently raised full-year 2021 and 2022 earnings guidance. CVS generates strong cash flow, allowing for the reduction of approximately $13 billion in debt associated with the 2018 acquisition of Aetna. CVS shares remain attractive and at a discount to the market at approximately 12 times forward earnings. CVS shares also remain a holding in the LOPW Growth Strategy as well.

UPS (UPS) (+18.1%)

UPS shares, which were one of the Classic Value Strategy's worst performers last quarter, came to life and returned over 18% in the fourth quarter. Third-quarter revenues increased by 9.2% and earnings advanced by 18.9% despite global supply chain challenges. UPS has been attempting to shift its volume mix in recent quarters to higher-margined business. UPS shares remain attractively priced at just under eighteen times forward earnings and yield 1.9%.

Our thoughts on portfolio positions that had negative or the least positive impact on the strategy for the quarter ending 12/31/2021

Twitter (TWTR) (-30.3%)

Twitter shares were weak despite reporting numbers that were largely in line with analysts' expectations. Revenue growth was an impressive 37%, with strength across all of the segments and geographies. One of the factors driving the share price weakness was the resignation of CEO and founder Jack Dorsey who has been pressured to step down by activist investor Elliot Management. We believe TWTR remains a valuable property with a market capitalization of just under $32 billion and cash on the balance sheet of approximately $7 billion. TWTR has over 206 million monetizable active users across its platform. Twitter shares remain attractive in our opinion as they continue to improve ways to monetize the platform. The shares are now priced at essentially the same price as they were when coming public in 2013.

Zimmer Biomet (ZBH) (-15.0%)

Zimmer shares have been weak as elective orthopedic procedures have seen delays due to the Delta and Omicron variants that have spread rapidly across the U. S. in 2021. ZBH has remained under pressure despite the fact that earnings for the first nine months of the year rebounded to $485 million versus a loss of $473 million for the same period in 2020. We believe Zimmer shares are attractive at approximately 16 times forward earnings estimates and believe the shares are an excellent re-opening play post-COVID.

Walt Disney (DIS) (-12.0%)

Disney shares have been weak despite the fact that earnings rebounded from a dismal 2020 where earnings were decimated by COVID-19 in 2020. Recent volatility in the shares has been largely driven by subscriber growth at Disney+ (streaming service) where expectations had become too high after the extremely successful introduction in late 2019. Disney should be well-positioned as the economy reopens and theme parks, movie theaters, and cruise lines see more normal traffic patterns. Disney shares are currently off the 2021 highs by over 20% and we believe offer excellent long-term potential. Disney shares are also a holding of the LOPW Growth Strategy.

Comcast (CMCSA) (-12.0%)

Comcast shares were weak largely based on a slowdown in net broadband adds. The pandemic has also had an impact on the company's Universal Theme Park business, which should normalize when the economy reopens. Comcast, which is the nation's largest cable provider, trades at a discount to the market at approximately 16 times earnings and shares yield just under 2%. Comcast is also a holding of the LOPW Growth Strategy portfolio.

Vontier (VNT) (-9.7%)

Vontier shares were weak despite beating earnings revenues and earnings estimates for the third quarter. In late September VNT acquired DRB Systems to further diversify the company's portfolio. DRB provides point-of-sale and optimization technology to the car wash and oil lube industry. Vontier shares remain cheap at 10 times estimated forward earnings and at a large discount to the industrial peer group.

Contributors & Detractors for the year 2021
Classic Value Strategy

Positive	Negative
Mosaic (MOS) +70.8%	Twitter (TWTR) -20.2%
Alphabet (GOOGL) +65.3%	Walt Disney (DIS) -14.5%
Pfizer (PFE) +60.4%	Zimmer Biomet (ZBH) -12.5%
Charles Schwab (SCHW) +58.6%	Verizon Communications (VZ) -11.6%
CVS Health (CVS) +51.0%	Terminix (TMX) -11.3%

Live Oak Private Wealth International Strategy
COMMENTARY & THOUGHTS

During the quarter, the world and its stock markets wrestled with the latest disruption and uncertainty from the recent COVID-19 wave. Some areas, notably Southern Europe, could be vulnerable to new travel restrictions. Hopefully, outright lockdowns will be avoided, but our investment in Euronet Worldwide, which owns the majority of ATMs in Southern Europe, should weather this latest surge when normal tourist travel returns. Our experience over the last 21 months of this mess has reinforced our emphasis on financial strength and prospects for companies growing their cash flows. While short-term investors and speculators trade out of certain international stocks because of Covid variants, we remain invested in well-managed companies with the potential to thrive as economies around the world re-open permanently.

Nestle, Heineken, Unilever, Taiwan Semiconductor, and Bridgestone are just a few of our investees that are financially strong and well-positioned to cope with the virus and inflation worries. As central banks remove excess liquidity and interest rates start to normalize, well-capitalized financial institutions, such as the Development Bank of Singapore and DNB Norway, should enjoy a valuation upswing.

As the chart below shows, you have to go a long way back in history to find any period when international stocks underperformed the U.S. market to this degree. Maybe 2022 is the year this trend moderates?

Relative Equity Market Performance: USA vs RoW

Source: Topdown Charts, Refinitiv Datastream

Live Oak Private Wealth International Portfolio Activity

Portfolio activity this quarter saw us reversing our investment position on GAN Limited, as the share price continued to decline. We went back to the drawing board on our thesis around online legalized sports gambling and where GAN fit into that thesis. We found it difficult to understand fully how GAN's software-as-a-service revenues were flowing through to the bottom line. We concluded we don't fully understand all that is needed to know in the business of online gambling software, especially in this rapidly advancing corner of the market. Therefore, we sold GAN, and will recycle those funds into something we are confident we understand better and should produce better returns for us.

This quarter also marked the end of our long-held position in Vivendi. The French conglomerate finally elected to spin-off Universal Music Group, which was our initial thesis behind the investment. Unfortunately, the bank sponsor of the Vivendi ADR's (American Depository Receipts), Citibank, elected to give us a cash dividend for our value in Universal instead of Universal shares. We will be taking the cash dividend funds we received and purchasing Universal Music outright, maybe even at a better price than the spin. The investment, start to finish, in Vivendi was productive and produced positive results.

We continue to hold Alibaba, and actually "doubled up" in taxable accounts in November, with plans to sell our higher tax basis shares at year-end for capital losses to offset other realized gains in your account. Alibaba shares continue to be affected by risk aversion by many investors due to the many uncertainties coming out of the Communist Party and the PLA. We continue to have confidence that Alibaba's three core businesses – domestic Chinese commerce, international commerce, and Alibaba cloud services – have enormous appeal and that the market is undervaluing them. In fact, when looking into the actual business results of the three-leading businesses of Alibaba, they continue to show strong growth. In addition, we believe some of the measures taken thus far by the Chinese government, while painful, promise to regulate aspects of Chinese business in a way that may very well make competition less intense. We believe the shares have dropped much more than the suspected decline in intrinsic value. Performance for our International Strategy this year was less than we hoped for. Our composite performance numbers are available for your review: please contact our office if you would like a copy.

Contributors and Detractors for Live Oak Private Wealth International Strategy

Our thoughts on portfolio positions that had the most positive impact on the strategy for the quarter ending 12/31/2021

Ferguson (FERG) (+29.2%)
Ferguson continues to capitalize on housing growth with its plumbing and industrial distribution of HVAC equipment. Ferguson is #1 or #2 in six of the repair, maintenance, and improvement markets they serve in North America. Ferguson's high-touch service and market price strategy continues to delight customers and continues to drive market share gains. Hopefully, a change in interest rates won't derail the housing tailwinds.

ICON plc (ICLR) (+18.1%)
ICON plc is a clinical research organization based in Dublin, Ireland. Icon continues to play its part in advancing important medical clinical research by providing services to the pharma industry. Icon reported record results in its latest quarter and ended with a record backlog of business at $18 billion. As the population continues to age and viruses keep mutating, we remain comfortable with Icon providing important clinical trials for all of us.

Schneider Electric (SBGSY) (+18.1%)
Schneider Electric, domiciled in France, continued to provide energy and automated digital solutions for homes, buildings, data centers, infrastructure, and industry. The companies Square D brand of electrical power products is benefitting from continued strong housing demand. The latest quarterly earnings from the company show solid organic revenue growth, improving EBITDA margins, and higher free cash flow.

Nestle (NSRGY) (+16.5%)
We are all familiar with the Swiss multinational food and drink company. Nothing new developed during the quarter for Nestle's stock to outperform. There was most likely just a temporary shift in the market to businesses (and stocks) with more defensible characteristics, as the latest virus surge affected other, more cyclical stocks. Nestle has been in this portfolio strategy for over 20 years and we continue to be very comfortable owning a piece of this great business.

Daikin (DKILY) (+6.0%)
Daikin is a Japanese multinational air-conditioning manufacturing company. American Air Filtration, owned by Daikin, is a large filter company in Louisville, KY., and is our primary thesis behind owning the stock. The company is focused on specially designed air filters that reduce airborne viruses in hopes of creating healthier living spaces for us all. Daikin continues to benefit from increased demand for HVAC units, both commercial and residential. Better market conditions for all Japanese stocks this quarter benefitted the shares as well.

Our thoughts on portfolio positions that had negative or the least positive impact on the strategy for the quarter ending 12/31/2021

Entain (GMVHY) (–22.8%)
Entain's drop-off this quarter was related to its takeover offer from DraftKings last quarter. The company rejected DraftKings offer as they felt it undervalued Entain. Obviously, the shares have dropped in response. We will continue to wait patiently for this prized entity to sell to the highest bidder. Recall Entain turned down a previous bid by MGM as well.

Alibaba (BABA) (–17.6%)
Alibaba continues to remain under pressure as the seemingly never-ending stream of bearishness permeates not only Alibaba, but almost all of the Chinese technology stocks. We continue to have confidence that Alibaba's three core markets have strong appeal and, most importantly, the business themselves continue to show strong growth even through the recent negative headlines. We did double up and tax loss sell BABA shares in taxable accounts at year-end.

Lanxess (LNXSF) (–11.8%)
Lanxess AG is a German specialty chemical company. The company is still in the final stages of a multi-year transformation of divesting lower margin, commodity type chemical businesses and acquiring higher-margin, faster-growing specialty chemical businesses. Lanxess is attempting to focus more on its Lithium joint venture with Standard Lithium in response to automotive battery demand.

Airbus Industries (EADSY) (–6.1%) & Safran (SAFRY) (–5.5%)
Airbus and Safran both continue to be plagued by the recent drop-off in air travel due to the latest virus variants and the resulting slowdown in miles flown. Airbus, in our opinion, remains in a better position than Boeing for eventual recovery and Safran is poised to be in a much better position as well, as their engine joint venture with GE recovers. Both companies are financially strong and operating quite well, with solid new order trends. We remain constructive on the shares long-term.

Contributors & Detractors for the year 2021 International

Positive	Negative
ICON plc (ICLR) +58.8%	Alibaba (BABA) -49.0%
Ferguson (FERG) +51.4%	Baidu (BIDU) -31.2%
Schneider Electric (SBGSY) +35.4%	Lanxess (LNXSF) -21.8%
Linde (LIN) +31.5%	TenCent (TCEHY) -18.9%
Development Bank of Singapore (DBSDY) +28.0	Safran (SAFRY) -13.7%

Final Thoughts

Notwithstanding Washington, D.C. politics, and the ongoing game of COVID-19 variant whack-a-mole, the global macro and U.S. economic outlook seems pretty positive heading into 2022. Looking at consumer confidence and consumer spending, most CEOs are fairly confident. Personal balance sheets are strong, most are employed, and this continues to translate to decent spending. Going into 2022, the demand for jobs and people to work is quite high. The labor participation rate has picked up pace in recent weeks but will take several more quarters to sort out (to get back to pre-pandemic levels). Predicting how and when labor and supply chains normalize is still uncertain at this stage.

Yet, inflation is the 800 lb. gorilla in the room. The worry is that central banks around the world, especially our Federal Reserve, are "behind the curve" in keeping inflation in check. Many U.S. CEOs are concerned about inflation and the real effect it may have on their margins. Since we have been in more of a deflationary environment for a while it would not surprise us to have this current bout of inflation run hotter for longer, but hopefully not like the 1970s. That wicked, persistent bout of inflation was awful, hurting most asset prices. From 1970 to 1980, there was almost nothing you could own where you made money. During that ten-year period, oil, gold, cash lost money, and stocks were crushed by over 40% during that ten-year period (much of it related to the nifty fifty market). So, we will not attempt to predict what lies ahead with inflation, but as students of investment history, and 35+ years of portfolio management experience, we remind ourselves of history: whether it's the 1970's or 2004-2006, when many have forgotten the U.S. Federal Reserve hiked rates 17 times in an attempt to normalize interest rates, bond investors were killed.

We, therefore, end this year as grounded as ever, humbled by the fact that the future is unknown, and events can take turns you would never expect. Economies have recessions, businesses get disrupted, and even the best investors make mistakes. This is why it makes eminent sense to us to leave some room for error, whether that is more cash reserves than you might like to see or avoidance of market darlings at any price: **the concept of investing your money with a margin of safety is our North Star.**

Many reasons to be grateful and thankful.

We made it through hurricane season on our coast. Many of the normal preparations were not needed, but we would do them any time to trade-off devastating effects of a storm. The fragility and historically high stock market valuations haven't affected us either (so far). The everything bubble hasn't popped yet. The market cap to GDP ratio is going higher by the day, while many find themselves further out the risk curve than they may realize.

We spend most of our time operating in an incredibly thick fog, and we are trying to peer through that fog and essentially predict what lies ahead in the future. Attempting to predict the future and stock prices in a world that is changing as fast as this world is changing is difficult. Through the fog we see hints of an overall macro backdrop that is less favorable for equity markets in 2022. The Fed's certain tapering marks the beginning of a shift towards a less accommodative monetary policy stance coupled with less fiscal stimulus. It will be difficult for companies to sustain their year-end 2021 level of profitability if revenue growth slows in the coming quarters, especially for big US tech. Fixed income most likely is going to struggle again in 2022. We worry about Geopolitical risks, which we can't do anything about, as leadership has waned in Europe, China and Russia get more assertive, and our U.S. administration might not be up to the challenges. Thankfully, our diverse investment team, with its many years of experience, brings a myriad of perspectives to our analytical and judgment-making process. We knew there were going to be many positive synergies of merging Jolley Asset Management with Like Oak Private Wealth, but with this past year, in this market, we especially appreciate the additional portfolio expertise brought by that team.

While we write this letter to you to keep informed about our investment team's thoughts, it is important for you to know how special our entire team is. Our incredible success thus far would never have happened without a complete contribution from our entire team. We are fortunate to have Bill Collier and Connor Keller assisting us with our portfolios, research, and thinking. But nothing really gets done around here without the likes of Amy, Daniel, Jan, Missy, and Terry. Many of you would not realize what these caring folks do daily to see that you are taken care of. Our financial, trust, and estate planning team led by Andy, with Angel and Daniel, perform the most valuable work here, making sure the purpose of your wealth is in achieving your goals and dreams for your family. And Laura continues to get our entire team working in concert with much-needed strategy initiatives, structure, organization, and productivity enhancements. We would dare say we have the best team on the field in our business.

Live Oak Private Wealth ends 2021 in a really good place. It is hard to believe it has been just over three years since our founding. We would have never made it without your support, and we greatly appreciate it. We are grateful for our solid investment results and somewhat in awe of Live Oak Private Wealth's growth. We end 2021 again with our team invested alongside of you, in the same stocks and bonds, eating our own cooking. We all are humbled by your trust in us and remain appreciative for your willingness to compensate us for doing something we love to do and is so important to us all. We do not take our partnership for granted on any day and our entire team can't wait for 2022 so that we can continue sharing our success together.

While we sign this letter, we are a formidable team and without Amy, Andy, Angel, Bill, Connor, Daniel, Jan, Laura, Missy and Terry we would just be a couple of "old stock guys." Looking ahead to 2022, we are both thankful knowing you have the best of the best looking out for your financial life.

With warmest regards,

Frank G. Jolley, CFA

Co-Chief Investment Officer

J. William Coleman, III

Co-Chief Investment Officer

Disclosures

This material is not financial advice or an offer to sell any product and is not a recommendation to buy or sell any particular security. The opinions expressed are those of the Live Oak Private Wealth Management Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass.

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[i] Wall Street Journal, SEC's Gary Gensler Seeks to Level Playing Field Between SPACs, Traditional IPOs, Paul Kiernan; December 9, 2021
[ii] Charlie Bilello Twitter @charliebilello; December 2021
[iii] Woodlock House Family Capital, Volatility Takes a Bite, Chris Mayer; December 7, 2021