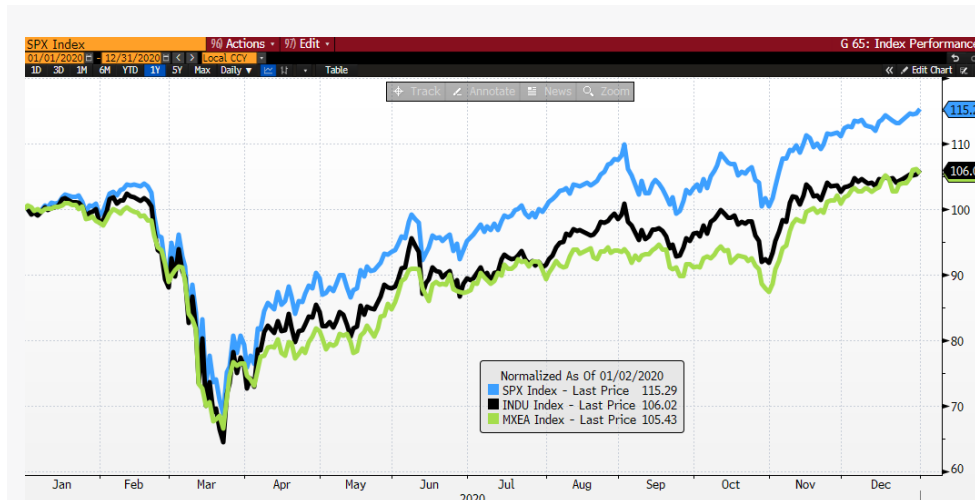




QUARTERLY NEWSLETTER **1Q 2021**

Yes, it is okay to be different!

Chart 1. Index Performance as of 12.31.2020



INDEX PERFORMANCE

Returns as of 12.31.2020

S&P 500 (SPX)	11.68%
Dow Jones Indus. Avg (INDU)	10.16%
MSCI U.S. Value	12.39%
MSCI U.S. Growth	13.27%
MSCI EAFE (Non-U.S.) (MXEA)	15.75%
MSCI ACWI (Non-U.S.)	14.35%
U.S. Corp High Yield	6.45%
Alerian MLP	32.44%

Source: Bloomberg as of 12.31.2020

REFLECTING BACK

While 2020 is thankfully behind us, there is no doubt that the effects of the COVID-19 Pandemic will be with us for some time. The Pandemic has impacted all of us at so many levels, but none more significant than the human death toll and loss of loved ones. Indeed, the effects of the past year and on-going COVID-19 challenges will, in our opinion, continue to provide head winds on our path to "normalcy."

With 2021 ushering in a period of renewed hope and optimism, we at Level Four Capital Management (LFCM) are also evaluating what was a challenging year in the market, and similarly looking ahead and building upon successes. January 2021 marks an industry milestone in our practice, with a five-year track record of delivering robust portfolio returns on behalf of clients in our Separately Managed Accounts (SMA). Prior to November 2019 and LFCM's registration, portfolio management was offered through Level Four Asset Management. Albeit relatively short by some industry standards, we are proud of our history and are especially thankful. We are grateful for our financial advisor partners and their clients, as well as the Level Four team members we work with on a daily basis.

ON BEING DIFFERENT

"We are the antidote for conventional wisdom." Used frequently by one of our investment industry partners, First Trust Advisors, this quote is one we admire. The ability to be a contrarian and high conviction investor is a big part of our success. A large part of our approach is that we avoid making predictions or market calls; because the reality is that no one can accurately do this on a consistent basis. Making a one-year or shorter prediction on the market or economy, such as predicting that the S&P 500 will be at \$4,200 or some random number by years-end or next quarter, is quite simply a loser's game. How are we different? We tend to stick to longer-term predictions. For example, if we predict company cash flow for the next 10 years, the magnitude and order are important, but unless the data is volatile, the **average over time** is far more important to estimate the long-term value. The confidence interval for that long-term valuation is much higher than trying to predict what earnings or cash flow will be in one year. In fact, 2020 is a great example. No one could have predicted what happened throughout the year, including the ensuing and dramatic market ups and downs. Case in point, there are very few years historically that are without some unforeseen event.

The historical data bears this out. Jeff Sommer, of the New York Times, wrote an article in which he references a study that began in 2000 by Paul Hickey, a co-founder of Bespoke Investment Group. The study demonstrates that since 2000, the median Wall Street analyst forecasted that the S&P 500 would return 9.5% per year, but on average, the annual increase was only 6% per year; a very significant error of 3.5 percentage points per year. It gets worse. Each forecast since 2000 never called for a down year in the S&P, while in fact, the market fell during six of the years covered in the study, or 29% of the time. In addition, if you look at the numbers and the year-by-year gaps between the actual performance, and the estimates for the period 2000-2020, the target was missed by an average of 12.9 percentage points, or double the average annual performance of the market.

There are many studies on this subject, and the numbers get even worse when you look at analysts who rate individual stocks. In a 2019 paper published by Vijay Kumar Chopra, a Vice President and Senior Quantitative Portfolio Manager, entitled "Why So Much Error in Analyst' Earnings Forecasts?" found that analysts tended to be too optimistic about earnings prospects of the companies they follow. The average consensus 12-month growth forecast was 17.7%, more than twice the actual growth rate. In aggregate, the forecasts were 11.2% above actual earnings at the beginning of the year and were continuously revised downward during the year.

When so many investors live and breathe by these market calls and predictions, we remain "different" and take all of these predictions with a grain of salt and a very critical eye. Level Four Capital's investment process emphasizes the need to filter out such noise from the signal. We have written in the past about the importance of reviewing different data sources (mosaic approach), including not relying on accounting data which can be manipulated. All of these issues, the noise from Wall Street, media, friends, and neighbors, has led to the development of our proprietary security selection process, and the reliance on our own research which tends to disagree with the consensus. We believe over time that this disciplined process and our confidence to adhere to the process, especially when markets move against us in the short-term, along with disciplined asset allocation, are the biggest factors in investment success.

INTERNATIONAL

In the fourth quarter, we saw volatility pick up in Europe due to the abundance of headlines regarding the Brexit deal, or lack thereof, as well as COVID-19. Investors shrugged off short-term concerns and focused on the stimulus and the recovery. The Euro STOXX index rallied 12.3% during the quarter (Chart 2), up from 4.8% in the previous quarter. Interestingly, the Pandemic laggards led the rotation from growth to value. In fact, European banks surged 35.3%, while basic resources added 28.1%, and travel and leisure advanced 25.5%. Healthcare underperformed the index, down 2.13%. The new relationship between the United Kingdom (UK) and the European Union will be an interesting dynamic to monitor. The agreement reached right before the deadline was thin in regards to the services sector, which accounts for 80% of the UK economy. While we continue to analyze the developments in Europe, the Association of Southeast Asian Nations (ASEAN) trade deal is another area of focus in the non-U.S. markets, and one that has major implications for the global economic landscape.

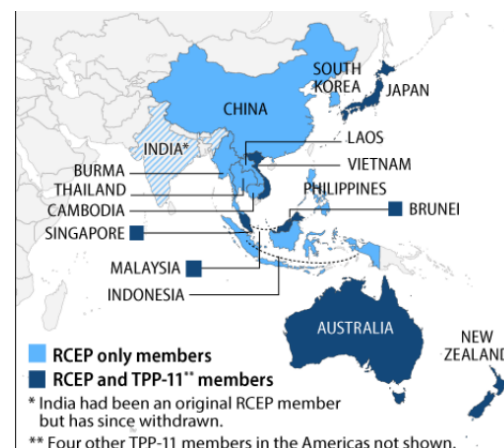


Source: Bloomberg as of 12.31.20

OVERVIEW AND IMPACT OF THE ASEAN TRADE DEAL

On November 15, 2020, the ASEAN and existing partners made history by signing the Regional Comprehensive Economic Partnership (RCEP), which is currently ranked the world's largest regional free trade agreement. The participating countries account for about 30% of global GDP and cover a market of 2.2 billion people (Chart 3). China, Japan, South Korea, Australia, and New Zealand are the headliners of the agreement, while India is the great absent. RCEP mainly focuses on trade in goods, services, investment, intellectual property rights, and e-commerce. Since the deal, the MSCI Asia Pacific Index rallied 16.3%, led by the outperformance of Information Technology, Communication Services, and Materials. This deal did not draw the attention it deserved due to the sea of headlines regarding the Pandemic. However, we believe that it is worth examining the content to extract idiosyncratic Alpha opportunities.

Chart 3. Asian Members of Regional Trade Initiatives



Source: Congressional Research Service as of 12.31.20

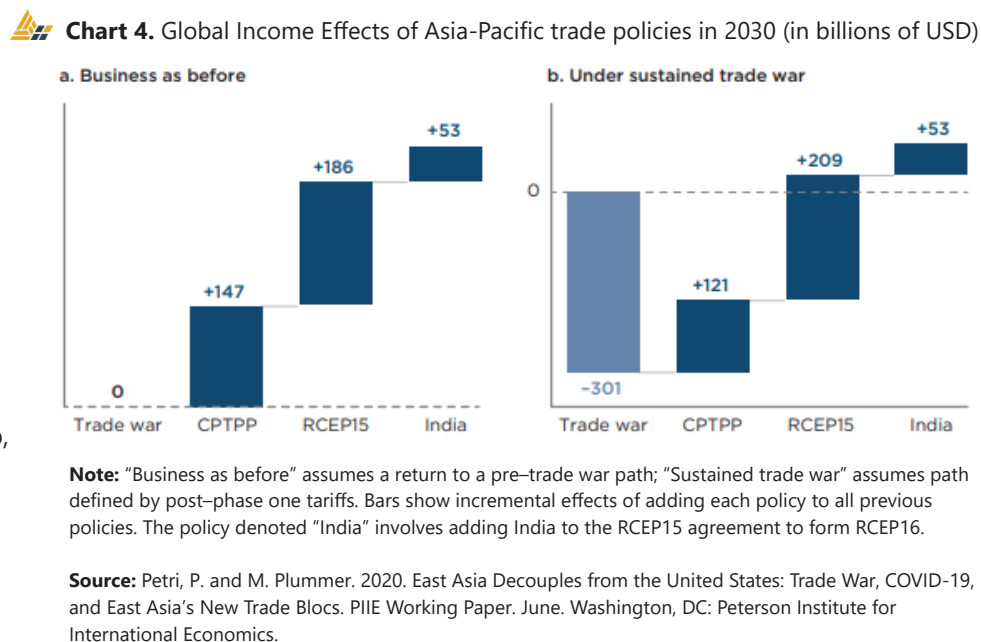
WHAT IS IN THE DEAL?

The agreement contains twenty chapters covering different areas of the trade relationship. According to chapter two pertaining to trade-in goods, national treatment of the goods of other parties will be granted as well as the elimination or reduction of custom duties. This provision also includes a ban on export subsidy entitlements for agricultural products. Clearly, leveling the playing field and promoting fair competition in the region was at the heart of the eight-year long discussions between the signing parties. This provision will directly benefit businesses that generate most of their revenues from exports in the region.

Chapter three deals with the important topic of rules of origin. RCEP codified originating criteria to standardize the rules across the 15 members. This will substantially streamline an area that was the domain of bilateral agreements. The agreement goes on to cover the area of trade-in services and follows the spirit of free trade. This provision lays out a framework to remove restrictive and discriminatory measures affecting trade-in services. Intellectual property is addressed in Chapter 11 and given the high degree of supply chain globalization; this provision aims at ensuring that signing parties enforce intellectual property rights using the same balanced approach. Finally, in Chapter 12, the agreement encourages signing members to adopt and maintain a legal framework regarding e-commerce transactions and user's data privacy. RCEP also restricts customs duties for e-commerce transactions. This is a major tailwind for e-commerce providers in the region, as the European Union is working on a digital tax for transnational online platform providers.

WHO WILL BENEFIT THE MOST FROM THE DEAL?

The Peterson Institute for International Economics (PIIE) modeled the global income effects of trade agreements (Chart 4) such as the RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). According to their simulation, under normal business conditions, RCEP can expect an income increase of \$186 billion in 2030, while the CPTPP will foster an increase of \$147 billion. However, under sustained trade war scenario, RCEP participants would see their income increase by \$209 billion, while CPTPP parties will see their income grow at a slower pace by \$121 billion.



According to PIIE, Japan and South Korea will benefit the most from the trade agreement, as their GDP will gain 1% by 2030 from the deal. Malaysia is expected to see a 0.6% incremental positive change to GDP, while Vietnam and Thailand should expect 0.5% increase to GDP. China should expect a 0.3% gain to its GDP, slightly below the RCEP members' average of 0.4% gain.

Although these are just estimates that could be wrong, and output may vary from model to model, we think that the assumptions used are reasonable. In light of this analysis, Asia Pacific will certainly remain on our radar for investment opportunities.

ASSET ALLOCATION: YOU CAN BE DIFFERENT, BUT DON'T IGNORE YOUR CORE.

In the investment world, there are a number of different investment approaches that attempt to generate excess return relative to the market, which can also be referred to as positive alpha. A few of these include various types of fundamental analysis, quantitative models, technical analysis, sector rotation, various factor overweights or underweights, and individual stock selection. The area that captures the market return, "the core", is an area often overlooked, but one that LFCM incorporated into each allocation model.

What is "the core"? At LFCM, we define the core as any passive investment (ETF or fund) that tracks a known index. The S&P 500, Dow Jones Industrials, NASDAQ Composite, and the Barclay's Aggregate Bond index would be examples of core indexes. There are hundreds, if not thousands, of other indexes often to underlie a specific ETF or to serve quant or thematic purposes that are not core. A few examples of these include indexes such as the S&P 500 Low Volatility Total Return Index (SP5LVIT), which forms the basis for the well-known SPLV ETF, or obscure ones such as the Goldman Sachs Non-Profitable Tech Index (GSCBNPTC), which is an index of technology companies with no current earnings.

How are core investments chosen? Unlike active investments, core investments have one purpose – to produce returns that mirror the index they follow. Therefore, screening for core investments focuses on the following three areas:


- 1) **Index tracking** – A core position should accurately track the index it follows. Returns and volatility will closely match the index.
- 2) **Expense ratio** – A core position should have a low expense ratio as compared to its peers.
- 3) **Trading Cost/Liquidity** – A core position should trade with high volume and have a low bid-ask spread.

These metrics will vary depending on the index a core position is tracking (for example, an emerging markets core position would be expected to be more expensive than U.S. large cap equity core). The best core positions will reflect the most efficient exposure to the desired index relative to other alternatives.

HOW DOES CORE INVESTING COMPARE TO SOME OTHER STRATEGIES?

Smart Beta, or factor investing, has been a popular investing strategy over the last decade. To the right is a table of various factor returns over a 15-year period.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2006 - 2020	
																Ann.	Vol.
Momen.	High Div.	Momen.	Min. Vol.	Value	Small Cap	High Div.	Cyclical	Value	Value	Momen.	Small Cap	Momen.	Min. Vol.	Cyclical	Momen.	Momen.	Small Cap
19.3%	21.1%	17.8%	-25.7%	38.8%	26.9%	14.3%	20.1%	43.2%	17.7%	9.3%	21.3%	37.8%	1.5%	36.3%	29.6%	11.7%	22.6%
Multi-Factor	Value	Defens.	Defens.	Cyclical	Multi-Factor	Min. Vol.	Value	Small Cap	Min. Vol.	Min. Vol.	High Div.	Cyclical	Momen.	Quality	Cyclical	Quality	Value
15.7%	19.7%	17.7%	-26.7%	36.9%	18.3%	12.9%	16.8%	38.8%	16.5%	5.6%	16.3%	27.3%	-1.6%	34.4%	27.8%	10.7%	20.3%
Value	Small Cap	Quality	High Div.	Multi-Factor	Momen.	Defens.	Small Cap	Multi-Factor	High Div.	Quality	Value	Quality	High Div.	Momen.	Small Cap	Cyclical	Cyclical
13.2%	18.4%	10.1%	-27.6%	29.8%	18.2%	10.1%	16.3%	37.4%	14.9%	4.6%	15.9%	22.5%	-2.3%	28.1%	20.0%	10.4%	19.8%
Defens.	Multi-Factor	Multi-Factor	Quality	Small Cap	Cyclical	Quality	Multi-Factor	Cyclical	Multi-Factor	Cyclical	Cyclical	Value	Defens.	Min. Vol.	Quality	Min. Vol.	Momen.
11.1%	16.6%	5.5%	-31.2%	27.2%	17.9%	7.5%	15.7%	35.0%	14.8%	2.6%	14.0%	22.2%	-2.9%	28.0%	17.1%	10.1%	17.9%
Min. Vol.	Defens.	Min. Vol.	Small Cap	Quality	High Div.	Multi-Factor	Momen.	Momen.	Momen.	High Div.	Multi-Factor	Multi-Factor	Cyclical	Value	Multi-Factor	Multi-Factor	Multi-Factor
6.6%	15.9%	4.3%	-33.8%	24.9%	15.9%	7.3%	15.1%	34.8%	14.7%	0.7%	13.7%	21.5%	-5.3%	27.7%	11.4%	9.6%	17.5%
Quality	Cyclical	Value	Value	High Div.	Min. Vol.	Momen.	Quality	Quality	Cyclical	Multi-Factor	Min. Vol.	High Div.	Quality	Multi-Factor	Min. Vol.	High Div.	Quality
5.4%	15.0%	1.1%	-36.9%	18.4%	14.7%	6.1%	12.8%	34.3%	13.6%	0.4%	10.7%	19.5%	-5.6%	26.6%	5.8%	9.4%	15.6%
Small Cap	Min. Vol.	High Div.	Multi-Factor	Min. Vol.	Quality	Value	Min. Vol.	High Div.	Defens.	Defens.	Quality	Min. Vol.	Multi-Factor	Small Cap	Defens.	Small Cap	High Div.
4.6%	15.0%	0.0%	-39.3%	18.4%	14.2%	-2.7%	11.2%	28.9%	13.0%	-0.9%	9.4%	19.2%	-9.7%	25.5%	5.2%	8.9%	15.0%
High Div.	Quality	Cyclical	Momen.	Momen.	Value	Cyclical	Defens.	Defens.	Quality	Small Cap	Defens.	Small Cap	Small Cap	High Div.	High Div.	Defens.	Defens.
3.7%	12.8%	-0.8%	-40.9%	17.6%	12.7%	-3.4%	10.7%	28.9%	10.7%	-4.4%	7.7%	14.6%	-11.0%	22.5%	1.7%	8.6%	13.7%
Cyclical	Momen.	Small Cap	Cyclical	Defens.	Defens.	Small Cap	High Div.	Min. Vol.	Small Cap	Value	Momen.	Defens.	Value	Defens.	Value	Value	Min. Vol.
2.5%	10.7%	-1.6%	-44.8%	16.5%	12.0%	-4.2%	10.6%	25.3%	4.9%	-6.4%	5.1%	12.3%	-11.1%	21.4%	-0.2%	8.6%	13.1%

 **Chart 5.** Factor returns over a 15-year period.

Source: JP Morgan as of 12.31.20

Many ETFs and funds allow for exposure to one or more of the various factors in this table. In any given timeframe, certain factors will outperform and others will underperform a core investment position such as the S&P 500. As noted in the table, the composite average annual return for all factors over a 15-year timeframe is 9.6%. The return for the S&P 500 over the same period is also 9.6%, however with much lower cost, complexity, and volatility. Over time, the market will generate returns; the core positions in a portfolio will capture these.

CURRENT ASSET ALLOCATION POSITIONING:

We continue in a risk-on financial market with potential higher volatility. Continued fiscal stimulus is likely, and we believe supportive Central Banks will continue to inject money into economies worldwide. With the rollout of effective vaccines, the COVID-19 Pandemic is likely and expected to diminish over time.

In accordance with this view, we currently see the following indications for asset allocation:

General Allocation – In the fourth quarter, equity markets continued to rally with the MSCI ACWI up 14.68%, while the fixed income markets saw a slight increase of 0.67%. In the fixed income markets, the interest rate spreads have continued to tighten, and in some cases, have approached pre-COVID-19 levels. We recommend a quality core of equity focusing on companies with strong balance sheets and strong cash flows. For fixed income, we recommend a mix of core and multi-sector allocations, though we believe fixed income will remain challenged from both a return and risk reduction perspective. Accordingly, we believe the equity markets continue to have greater potential for return than the fixed income markets. We believe that the Fed will continue to support debt issuance, directly affecting the fixed income markets and indirectly affecting all other markets. We remain vigilant regarding our indicators, and will modify overall allocations as these indicators and market environment dictates.

Equity Allocation - We continue to monitor financial conditions and market returns to determine our optimal equity asset allocation. Relative to benchmarks, we are currently overweight equities relative to fixed income due to limited potential for returns regarding fixed income going forward. We remain slightly overweight in U.S. equities, and are constructive regarding select small/mid-cap equities. We continue to emphasize high quality and high cash flow equities as we believe those companies should emerge from the current crisis in the most favorable condition to take advantage of the recovering economy. We continue to monitor international markets, and see opportunities there, though the slow rollout of vaccinations may delay opportunities in Europe relative to the developed Asia. We see opportunity in emerging markets, especially those in East Asia that continue to handle the COVID-19 Pandemic well.

Fixed Income Allocation – We believe fixed income going forward will be challenging. In response to the current crisis, the Federal Reserve has indicated continued low interest rates and bond buying activities to support economic growth. The effects of these actions will likely be lower rates for longer. The Fed has begun managing the U.S. Treasury market as the large amount of current and future issuance will likely require the Fed to continue to increase the size of their balance sheet to ensure stability in these markets. Due to the lower rates seen in 2020, higher quality and higher duration fixed income have limited the upside and has provided lower yields. There is an unlikely tail risk of much higher rates in the event of a Fed miscalculation. Longer-term rates may simply rise with the improving economy, the existing debt level, and increased future debt needed to fund Social Security and Medicare as more Boomers retire. All of this indicates a tactical approach of fixed income management as the expectation of limited opportunities and significant risks in this area. We continue to monitor the health of companies, and interest rate movements closely, and will adjust positioning in accordance with the ever evolving economic and interest rate environment.

OUTLOOK

As we move into 2021, it is a great time to make sure your investment policy or plan has been updated, and that your current asset allocation is aligned with your long-term goals. Asset allocation with superior investment strategies is a powerful way to reach your goals and sleep at night.

Thank you for the continued confidence and trust. We appreciate your business.

Thank You,
Level Four Capital Management Team

IMPORTANT INFORMATION

The opinions articulated in this document are for general information only. This information is not intended to provide specific advice or recommendations for any individual. The economic forecasts set forth above may not develop as predicted and there can be no guarantee that strategies promoted will be successful. All performance referenced is historical and is no guarantee of future results. No strategy including asset allocation assures success or protects against loss. All indices are unmanaged and may not be invested into directly.

Stock investing involves risk including loss of principal. Value investments can perform differently from the markets as a whole. They can remain undervalued by the market for long periods of time.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The Standard & Poor's 500 index is a market capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The MSCI World ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries--excluding the United States. With over 1,000 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The CBOE Volatility Index® (VIX®) is meant to be forward looking, showing the market's expectation of 30-day volatility in either direction, and is considered by many to be a barometer of investor sentiment and market volatility, commonly referred to as "Investor Fear Gauge".

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. Price-weighted means stocks with higher share prices are given a greater weight in the index. The DJIA is a stock market index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The value of the Dow is not a weighted arithmetic mean and does not represent its component companies' market capitalization, but rather the sum of the price of one share of stock for each component company.

The Russell 1000 Index is a market capitalization weighted stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index. The Russell 1000 is a subset of the Russell 3000 Index. It represents the top companies by market capitalization. The Russell 1000 typically comprises approximately 90% of the total market capitalization of all listed U.S. stocks. The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays U.S. Corporate High-Yield Bond Index is an unmanaged market value weighted index composed of fixed-rate, publicly issued, non-investment grade debt.

The Alerian MLP Index is the leading gauge of energy Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents represent approximately 85% of total float-adjusted market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

DISCLOSURE

Investment advisory services offered through Level Four Advisory Services, LLC, an SEC-registered investment advisor. Asset management services offered through Level Four Capital Management, LLC an SEC-registered investment advisor. Level Four Advisory Services, LLC and Level Four Capital Management, LLC are related entities and subsidiaries of Level Four Group, LLC.