Investor Letter

Third Quarter 2019

By: Vivaldi Investment Research

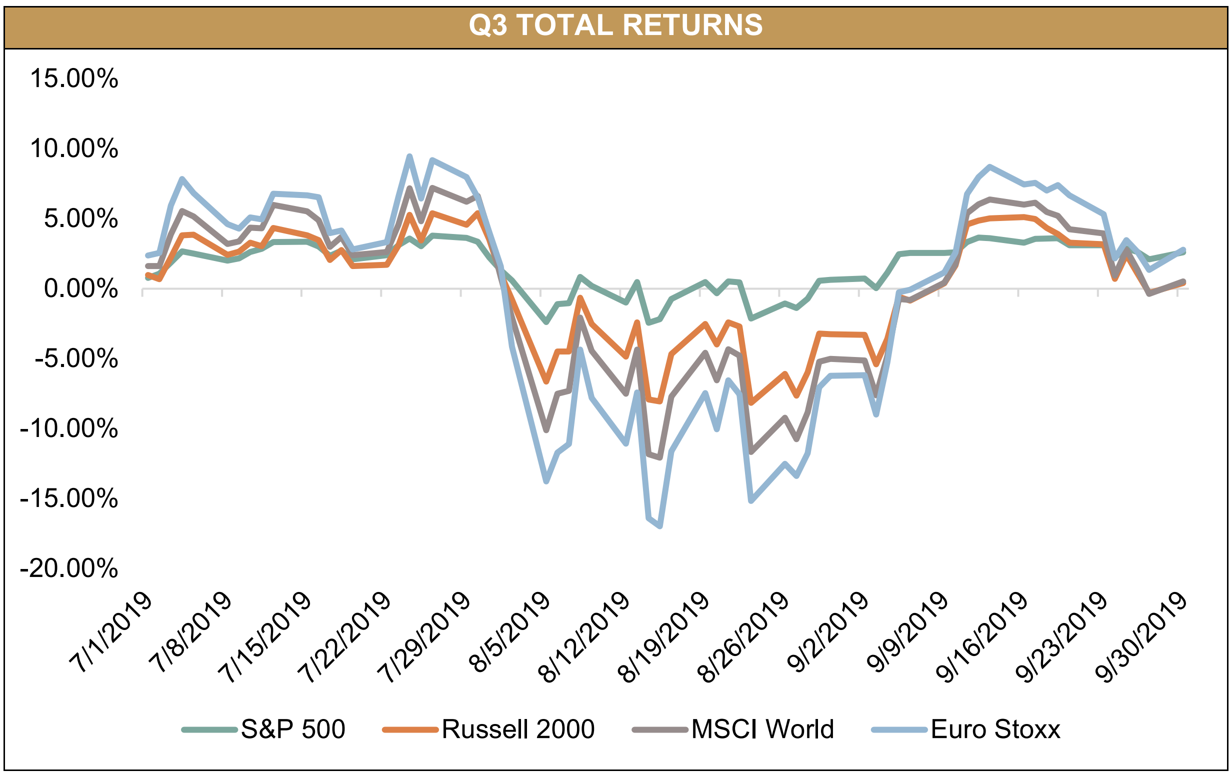
Vivaldi Capital Management | 225 W. Wacker Drive | Suite 2100 | Chicago, IL 60606 | P: 312.248.8300 | F: 847.386.2910

October 29, 2019

Market Perspective

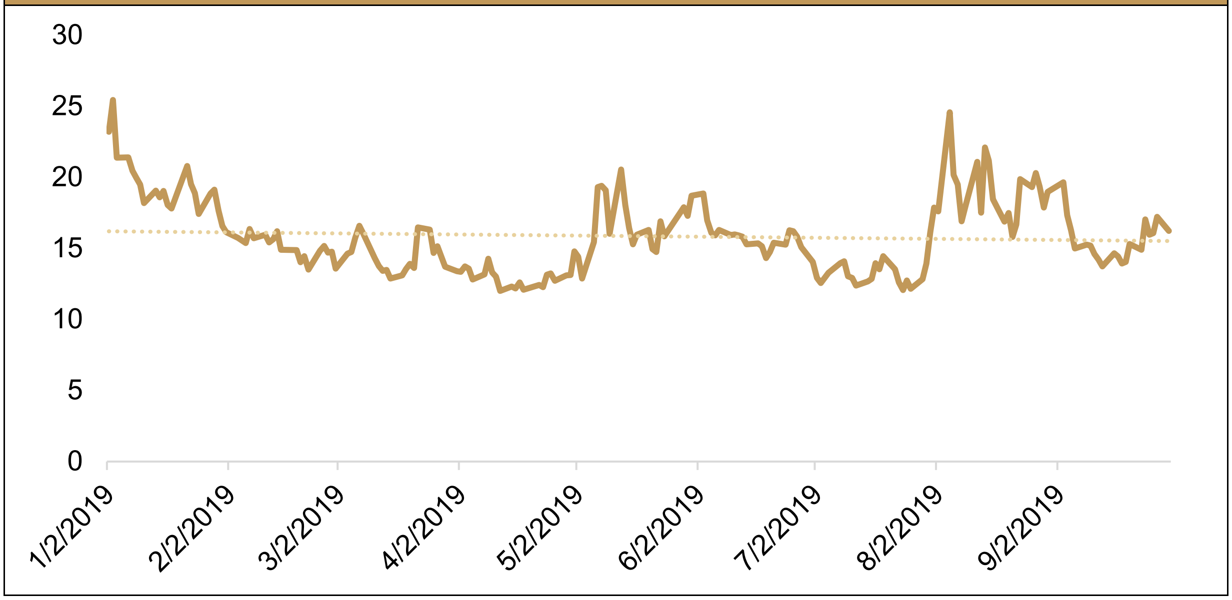
The third quarter of 2019 continued to fit the narrative of an overall benign period that was punctuated with a notable amount of underlying volatility and dispersion. While domestic equities had a broadly positive start to the quarter, a pocket of volatility in August was enough to create a mixed bag for the quarter overall.

INDICES	Q3 DRAWDOWN	Q3 RETURNS
S&P 500	-2.43%	+2.61%
Russell 2000	-8.15%	+0.40%
MSCI World	-12.07%	+0.53%
Euro Stoxx	-16.97%	+2.79%
Average	-9.91%	+1.58%



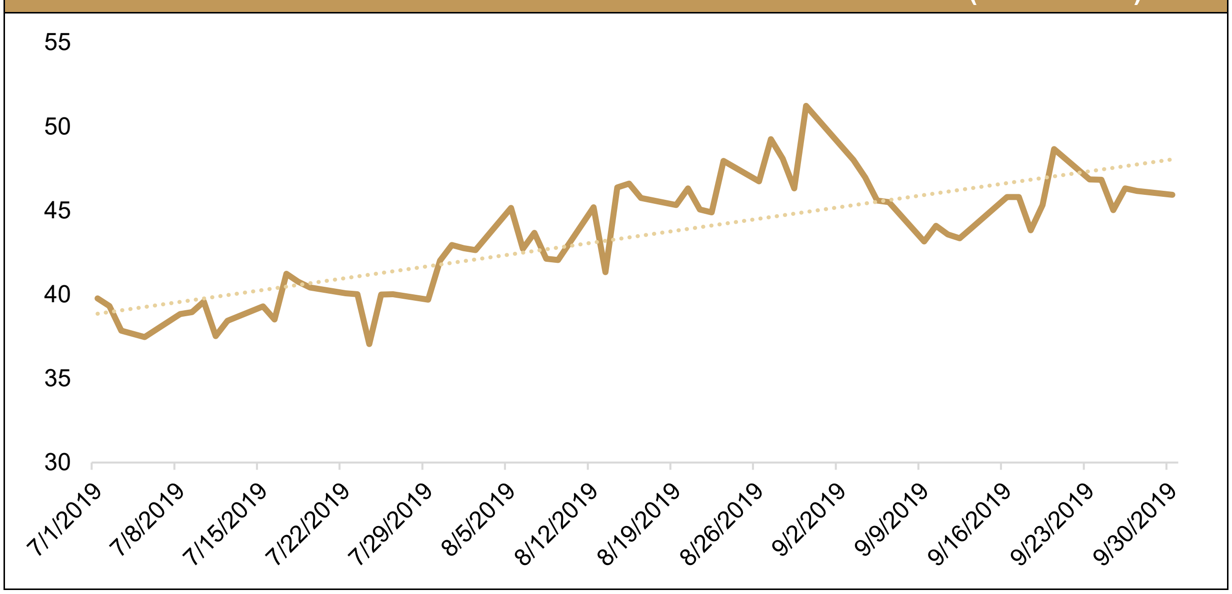
The range of topics that produced this volatility has continued to be squarely "macro" in nature. The ongoing trade war with China and potentially Europe and its externalities is a favorite source for headlines as of late. In addition, a renewed focus on the machinations of the everpresent Federal Reserve and their interest rate policy trajectory cropped up several times over the course of the quarter. Those two topics could very well be related given the former force's pressure on global growth and the latter body's intention to support that same global growth. Given this backdrop we experienced 14 days of the 64 trading days in the quarter where the S&P 500 Index rose or fell more than 1%. Yet, with all of that day-to-date volatility, we closed the quarter effectively mixed on domestic equities.

VIX INDEX



One positive force that we noted last quarter was being a tailwind for fundamental strategies was the return of sustained dispersion within equity markets. As can be seen in the chart below, that trend continued to take root in the third quarter.

CORRELATION INDICATORS – CBOE S&P 500 IMPLIED CORR (KCJ INDEX)



As fundamental investors, these periods tend to be more constructive for the strategies that we prefer to allocate to as opposed to periods that are typified by higher correlations, when less attention is being paid to sorting out good companies versus their less healthy counterparts. It is particularly encouraging to see this dispersion persist in the face of the aforementioned macrodominated headline environment. Given that backdrop we are not surprised to see our alternative strategies doing fairly well this year.

VIR, along with many other market participants, have continued to keep a close eye on the level and shape of the domestic interest rate curve. Much ink was spilled on overdramatic headlines that lamented the briefly inverted yield curve as a clear harbinger of recession. Even with the benefit of only a minor amount of retrospect it would seem that this was clearly the bond market simply anticipating the highly likely lower trajectory of near-term interest rates.

INTEREST RATES – FUTURE IMPLIED PROBABILITY

United States | Instrument: Futures: Fed Funds - Effective | Fed Effective Rate 1.90

1) Overview | 2) Future Implied Probability

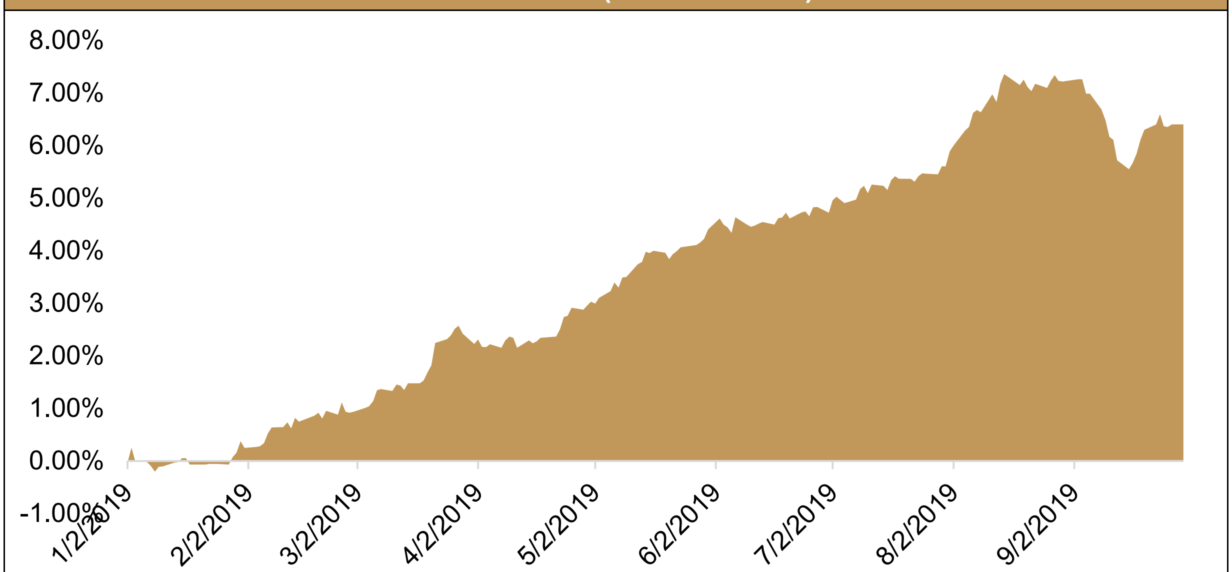
Current Implied Probabilities | 3) Add/Remove Rates

Dates: Meeting / Calculation | Calculated 10/16/2019 | Based on rate 1.75-2.00

Meeting	Hike Prob	Cut Prob	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	Fwd Rate
10/30/2019	0.0%	85.3%	0.0%	0.0%	0.0%	85.3%	14.8%	1.63
12/11/2019	0.0%	89.5%	0.0%	0.0%	24.8%	64.7%	10.5%	1.55
01/29/2020	0.0%	92.7%	0.0%	7.4%	36.7%	48.5%	7.3%	1.48
03/18/2020	0.0%	94.0%	1.3%	12.6%	38.8%	41.3%	6.0%	1.44
04/29/2020	0.0%	94.6%	2.6%	15.6%	39.1%	37.2%	5.4%	1.41
06/10/2020	0.0%	95.4%	4.5%	19.0%	38.8%	32.5%	4.6%	1.37
07/29/2020	0.0%	96.0%	6.1%	21.3%	38.1%	29.4%	4.0%	1.34
09/16/2020	0.0%	96.4%	7.8%	23.2%	37.1%	26.5%	3.6%	1.31
11/05/2020	0.0%	96.8%	9.7%	24.8%	35.9%	23.8%	3.2%	1.28

The subsequent rally in duration-sensitive fixed income has been pronounced and rather historic in nature. By way of example, it is rare in a year when the S&P 500 has gained in excess of 20% that we would be noting that municipal bonds have rallied +6.4%.

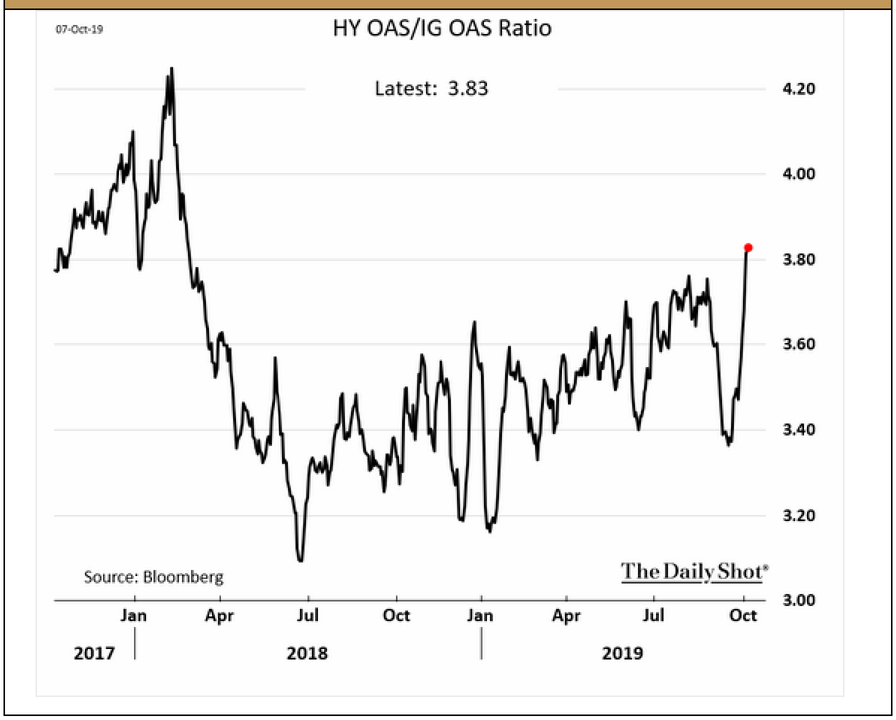
iSHARES NATIONAL MUNI ETF (TICKER: MUB) – TOTAL RETURN



While many of the developed world economies are now operating squarely in the land of outright negative interest rates on their sovereign debt, VIR is skeptical that the United States is about to join those ranks. Unless one believes strongly in that view, it is difficult to take on a lot of broad duration exposure without having some more narrow thought on the opportunity set within a given fixed income niche.

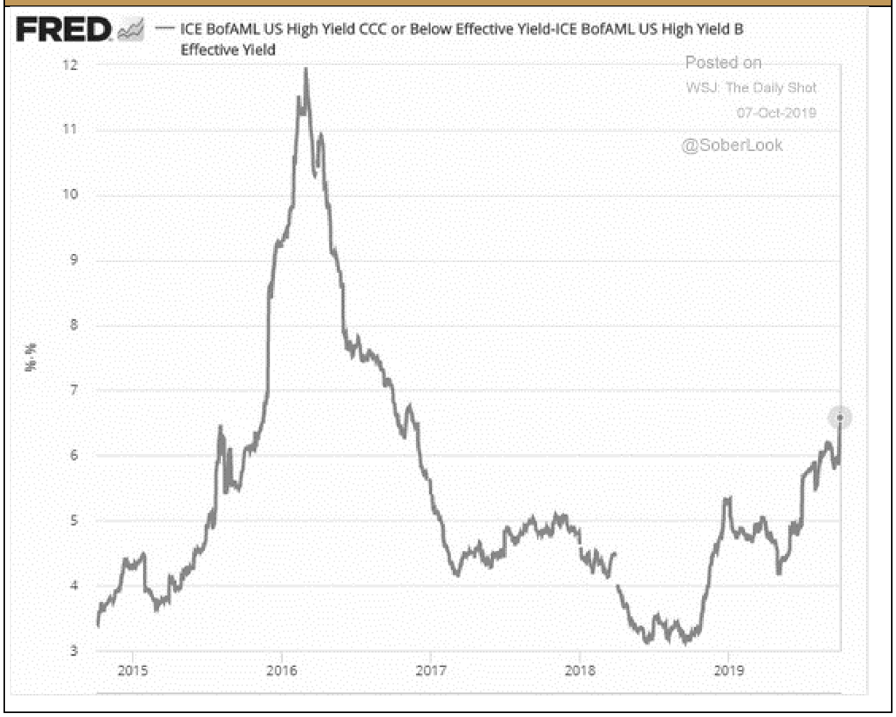
As frequent readers of these quarterly letters will be familiar with, our VIR team attempts to benefit from our seat squarely in the cross-currents of asset allocation. We spend our time day-to-day talking to a wide array of investment managers that employ strategies across the full spectrum, from traditional equity and fixed income investing out to the most esoteric ends of the illiquid alternative space. More often than not, this broader universe of strategies also happens to expose us to the full spectrum of investment outlooks from the most sanguine to the most alarmist. While we will always reiterate that we are not top-down investors, this work does at times allow us to become aware of pockets of markets that are acting in a manner worth highlighting and monitoring. As we move into the fourth quarter, we are beginning to see more risk aversion in broader credit markets that we think is worth noting. Specifically, we have seen the ratio of high yield/investment grade spreads increasing.

RATIO OF HIGH-YIELD TO INVESTMENT-GRADE SPREADS



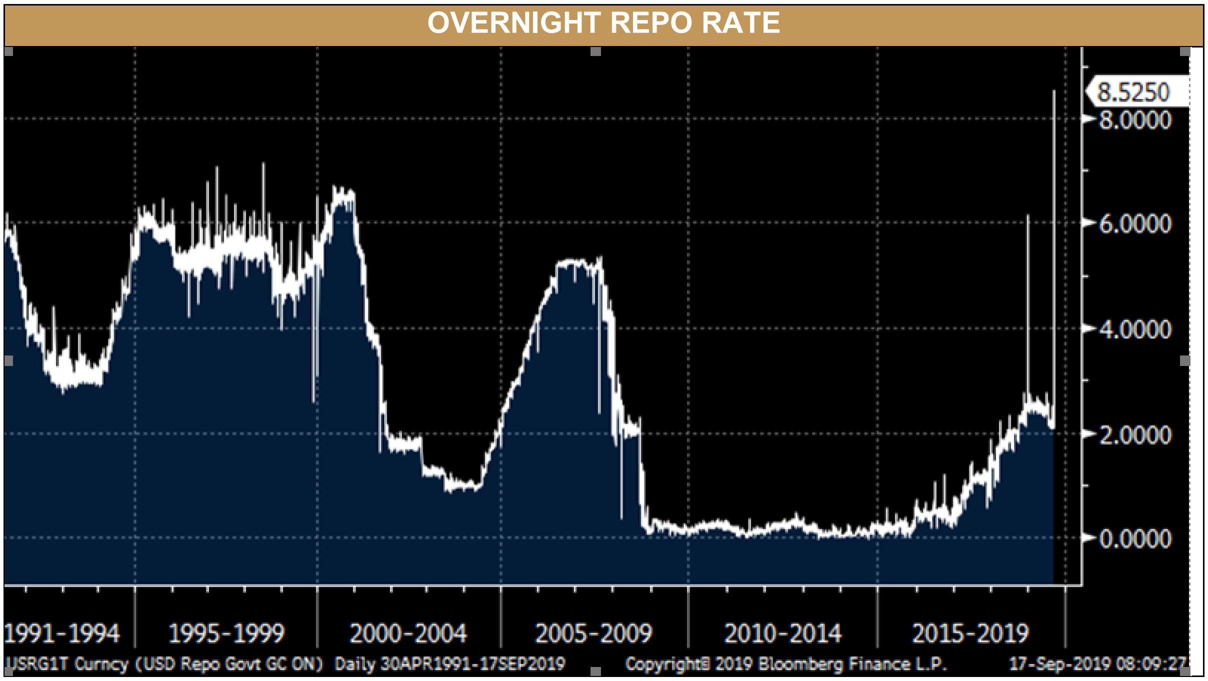
We have also noticed that the spread between CCC- and B-rated bonds has seen accelerated widening. Finally, we have seen the same widening in spreads within the leverage loan market by which legacy CLO BB and B tranches have moved out to levels that we have not seen since early 2016.

SPREAD BETWEEN CCC- & B-RATED BOND YIELDS



VIR looks to dig into these sector and sub-sector moves in an effort to understand not only where perceived risks are but also to attempt to identify areas of opportunity. In that vein, it is worth noting that the dislocation in the loan market has, to date, not been predicated on much in the way of fundamental weakness. While there has been a pocket of widely held loan issuances that have run into idiosyncratic issues, many of those have been in the same cyclical energy and industrials sub-sectors that have seen episodic credit events over the last five years, none of which have caused a more systematic repricing of credit broadly. While we are paying very close attention to signs of broader fundamental weakness, we have not, to date, found much of it.

Along the same lines as those comments about the leveraged loan market, we would echo that caution when considering the ever-competitive landscape of financial journalism where authors seem to vie for the most dramatic headline possible. By way of example, we saw several dire warnings about the technical dislocation in the overnight repo financing market where rates at which very large money center banks borrow on a notably short-term basis widened out to very high levels for a short period of time.



Writing about a market minute like this has a few benefits for journalists in that it is highly technical, complicated, and sounds rather scary. Many columns painted this technical market dislocation as akin to the commercial paper markets freezing up in 2008. From VIR's perspective, the reality is much more benign and boring. The overnight repo market is only really relevant to a very small sub-set of large banks and the drivers of what looks like a very dramatic dislocation were all technical, as opposed to fundamental, in nature. That view, however, won't generate online article views and related advertising clicks. Within VIR we attempt to not be knee-jerk contrarians but instead try to be thoughtful about how we unpack risks on a day-to-day basis.

It is worth highlighting that 2019 to date has been a strong period for returns for nearly every asset class and investment strategy. It has been quite some time since we have seen such broad-based tailwinds across credit, rates, and equities. Somewhat counterintuitively, these are the exact timeframes when VIR is most focused on keeping our client portfolios balanced by those major risk factors as we understand that such sanguine backdrops will not remain in such unison forever. The unwinds or dislocations that can occur if/when investors look to rotate substantial allocations across these major risk factors become VIR's primary focus from a risk management perspective. As such, we will continue to be vigilant with portfolio positioning, despite the admittedly strong year-to-date performance for our portfolios.

Highlighted Research Process & Investment Opportunity

We wanted to highlight a specific area of the investment landscape that has been top of mind for investors and which we spent a substantial amount of time researching over the past 24-months; Qualified Opportunity Zone funds ("QOZ" funds). It is worth noting that the discussion below will pertain specifically to Qualified Opportunity Zone Funds that invest in real-estate, though the legislation also allows for a more expansive use of opportunity zones including investment in more traditional operating businesses. Our focus on real estate owes itself to our preference for that asset class in the context of the extended investment holding period required by the QOZ legislation, as well as the lopsided opportunity set skewed toward real estate in the current fund opportunity set.

The framework of the opportunity zone legislation was first outlined in the 2017 Tax Cuts and Jobs Act, which was followed by subsequent Treasury regulatory clarifications in October of 2018 and April of 2019. The goal of this particular section of the tax code is to stimulate economic development and activity in low-income neighborhoods across the United States by providing tax incentives to investors. In order for a census tract to be designated as an opportunity zone it had to exhibit A) a poverty rate of >20% or B) median family incomes of no greater than 80% of the immediately surrounding area's income. Importantly, the information used to confirm a census tract's eligibility was based on the 2010 census, relatively stale data in many areas. Today, there are just north of 8,700 census tracts confirmed as opportunity zones with representation in every state as well as across U.S. territories.

Investment in opportunity zones carries with it unique and substantial tax benefits that are expansive even in the context of the most tax-efficient investment opportunities. Before continuing, it is important to note that only realized capital gains (from sale of stock, real estate, business, etc.) qualify for the preferential tax treatment under this legislation. The first benefit is a deferral of federal capital gains tax through the end of 2026. Investors are allowed to defer paying federal capital gains tax as long as they invest those gains in a qualified opportunity zone asset or qualified opportunity zone fund. The second benefit is a reduction in capital gains tax owed at the end of 2026 based on either a 5-, 7- or 10- year holding period. Essentially, the investor's original capital gains basis is reduced by 10% and a further 5% after holding a qualified asset for five and seven years, respectively. This would result in an investor paying capital gains on 85% of the original amount of eligible gains invested at the end of the extensive deferral period. The final and perhaps most robust tax incentive is achieved upon sale of the underlying qualified opportunity zone asset. An investor will pay no federal capital gains tax on the sale of a qualified opportunity zone asset as long as they hold the asset for ten years; when the asset is sold, an investor's "cost basis" is immediately increased to the asset's sale price resulting in zero federal capital gains liability.

As one would anticipate from a complex Federal bill, there are several cumbersome restrictions placed on Qualified Opportunity Zone Funds that must be accounted for in order for an individual investor to realize the aforementioned tax benefit. We cherry-picked a few of the operator-specific restrictions / hurdles below that we paid particular attention to during the course of our due diligence work in the space.

The first restriction worth discussing is that QOZ Funds must hold at least 90% of their assets in designated opportunity zones within a set timeframe of receipt of contributed capital gains. Generally, this must be done within 180 days after its first calendar "asset test" date, though there are some loopholes to prolong that timeline. Consequently, it is imperative for the Fund Manager to have a robust pipeline that allows them to deploy the necessary capital in a timeframe that is compliant with the regulations. We immediately understood that this restriction could provide perverse incentives for operators to put capital to work in sub-ideal assets based solely on timing. Second, there is a substantial improvement clause contained within the legislation that requires the doubling of value (cost) of an underlying asset in order to qualify. For example, if an investor acquires a piece of real-estate that costs $100k, that investor or fund manager will need to complete at least $100k in improvements on the property. That clause effectively makes only heavy rehabilitations, repositions, or ground-up development attractive within the scope of QOZs. As such, we believe it is necessary for a QOZ Fund Manager to have proven expertise in development or repositioning.

Additionally, the prerequisite that QOZ investments be held for 10-years or more in order to qualify for the most robust portion of the tax benefits, namely no federal capital gains tax upon the sale of the asset, was another hurdle. Ten years is a long investment horizon even within the scope of real estate investing. This is particularly true as it pertains to the investment horizon of most real estate developers. Typically, developers derive their return from the sale of the underlying asset directly after construction is completed or shortly after the asset is stabilized. These developers rarely manage assets beyond one of those two exit opportunities. Given this, we placed a large emphasis on finding operators that have robust asset and property management teams in house. Additionally, we spent much more time digging in on managers that had track-records spanning multiple economic cycles as opposed to the numerous managers that sprung up seemingly overnight to try to capitalize on the buzzword that "opportunity zones" has become.

From an underlying investment perspective, we also wanted to take as little market risk as possible, preferring to source teams that derive their returns from successfully navigating fundamental real estate operation and execution risk. Geographically, we also wanted to focus on real estate managers that were executing in sub-markets that had already experienced demographic growth since the 2010 census to capitalize on an arbitrage given that time lag. The thesis is that investing in opportunity zones such as downtown Portland, East Austin, Hollywood, etc. would be less contingent upon positive macroeconomic trends. In those markets, we believe a manager's ability to execute on a business plan and implement top tier asset and property management practices will be the main driver of returns. While the manager may have to pay a slight premium in these types of markets, we believe this focus will ultimately be a tailwind from a risk-reward standpoint.

Finally, we needed to get comfortable with the regulatory risk associated with any complex tax legislation. To do so, we read the initial framework contained in the 2017 Tax Cuts & Jobs Act as well as the two subsequent regulatory updates cover-to-cover, painstakingly detailing specific sections of the new code we thought may cause problems down the road for investors. We also participated in multiple discussions with top-tier law firms and attended multiple seminars put on the by likes of KPMG, Ernst & Young, and others. These events ranged in focus from beginner level crash courses to expert level discussion of structuring nuances. By the time we approved our first manager we had spent well in excess of 100+ hours on the legislative and tax side of the equation, which was in additive to the time we spent on the investment portion of our due diligence process. That due diligence process helped us make an informed decision on what structure our approved managers would utilize (Corporation, Limited Partnership, etc.), what types of exit strategies we were most comfortable with, and which real estate asset types (multifamily, office, industrial, etc.) we wanted to allocate to.

Ultimately, we spoke with 24 opportunity zone fund managers before settling on the two we have on the platform today. Both approved managers have long-term track records that span 25+ years, including positive realizations in their ground-up development / heavy rehabilitation projects. Each manager has robust in-house property management or a deep bench of property managers they have used over the course of many years. Additionally, each manager has a robust pipeline of development opportunities located in designated opportunity zones that represents far more deal equity than they hope to raise and deploy; that pipeline gives them the ability to participate only in the deals they believe are most attractive. Importantly, both of the managers target development in sub-markets that have already benefitted heavily from economic and demographic growth since the 2010 census was taken, with a heavy skew towards multi-family housing assets. Finally, both managers utilize a traditional Limited Partnership (vs.

Corporation) which will allow for the distribution of refinancing proceeds, allowing for the faster return and reinvestment of an investor's basis.

In conclusion, we believe an investment in a QOZ Fund represents a compelling option for investors with large unrealized capital gains, which is not an uncommon situation for investors after a decade-long rally in risk assets. However, we stress that investing on the heels of newly created legislation warrants a cautious approach punctuated by a deep and granular due diligence process. After our roughly 24-month process, we believe the two operators we utilize represent top tier options in the space.

Organizational Update

As Vivaldi has continued to grow as a firm, we pride ourselves in our commitment to investing in our people, technology, and infrastructure to ensure that we are well-positioned to continue to competently work on behalf of our clients. In this section of our letter we have highlighted additions of new team members. In addition, we note an update on how we plan to handle our clients' securities class actions and other legal proceedings going forward.

In the third quarter, Vivaldi made several hires to increase the value we can provide to clients.

François Blondel joined Vivaldi as a Senior Software Engineer. He is responsible for the support of Vivaldi technology and the development of new projects for the firm. Prior to joining Vivaldi, he was a lead engineer for Mosaïque, a post-trading FinTech startup. François started his journey in the world of finance at Société Générale in Chicago in 2016 but has been a software engineer for 8 years. François graduated from the University of Strasbourg – ENSISA in France and holds a Masters in Computer Science and Networks.

Brian Quinn is a Wealth Adviser based in northern California. He has spent his career advising high and ultra-high net worth clients, first at Smith Barney and then J.P. Morgan's Private Bank. Brian has fifteen years' experience working with executives in finance, real estate, and technology; medical professionals and business owners. He graduated from the Masters College, Wheaton College and has a Certificate of Financial Planning from the Pepperdine Graziadio Business School. Brian is an avid skier and enjoys spending time exploring the outdoors with his wife Tiana and their two golden retrievers, Cali and Sierra.

Jacob Horwitz is an Advisory Associate on the Advisory Support team, where he is responsible for assisting advisers and clients to meet their goals. Before joining full time, Jacob was a summer intern at Vivaldi where he also supported the Advisory team. Jacob graduated from the University of Wisconsin-Madison. While an undergraduate, he was the Editor-In-Chief of an academic journal on campus.

Caryn Fields, CFP, AIF is our new Assistant Director of Wealth Management. She is focused on the firm's strategic initiatives of enhancing the client and advisor experience through continuous improvement in technology, process, and education. Caryn previously worked as a Financial Advisor at Morgan Stanley Smith Barney and then JP Morgan Securities. Outside of work, she is active in Jewish Council for Youth Services, currently serving as the Vice President of Leadership Development. In 2018, Caryn was recognized by Oy!Chicago as one of the "36 Under 36" for giving and changing the community for good.

Kasia Puscian recently joined as a Client Service Associate, where she serves as a contact for clients and assists with operational and administrative duties that support daily business practices of the firm. Prior to joining Vivaldi, Kasia spent two years working at UBS Financial Services as a Client Service Associate for the Corporate Cash Management Group. She pursues her education at W. P. Carey School of Business, Arizona State University.

Finally, prior to 2019, when setting up accounts at Vivaldi, we indicated that we would not advise or act on behalf of clients regarding legal proceedings for securities held, which includes the filing of claim forms in bankruptcies and class actions. As we have grown, we are now prepared to act on behalf of our clients in these types of legal proceedings for securities held or previously held by our clients. Please refer to **Attachment A** for more information regarding our updated policy and what you need to do if you wish to continue to act on your own behalf with regard to these legal proceedings.

As always, we thank you for your continued support and intend to work hard to maintain it.

Kind Regards,

Michael Peck, CFA
President, Co-Chief Investment Officer
mpeck@vivaldicap.com

Brian R. Murphy
Portfolio Manager
bmurphy@vivaldicap.com

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CERTAIN INFORMATION CONTAINED IN THIS LETTER IS BASED ON INFORMATION OBTAINED FROM THIRD-PARTY SOURCES THAT VIVALDI CONSIDERS TO BE RELIABLE. HOWEVER, VIVALDI MAKES NO REPRESENTATION AS TO THE ACCURACY, FAIRNESS OR COMPLETENESS OF SUCH INFORMATION.

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ATTACHMENT A

October 29, 2019

To: VCM Clients
From: Vivaldi Capital Management LLC

Re: Change in VCM Policy re Securities Class Actions and other Legal Proceedings

We are writing to inform you of a proposed change in the manner in which we handle legal proceedings, including the filing of claim forms in bankruptcies and class actions involving securities held or previously held in your account(s) managed by Vivaldi Capital Management LLC ("Vivaldi"). If the proposed change is acceptable to you, there is no action you need to take.

When your account(s) were set up at Vivaldi, we were not advising or acting on behalf of clients regarding legal proceedings for securities they held. As a result, the Investment Management Agreement you signed with Vivaldi provided that we would not advise or act for our clients in any legal proceedings (for example, securities class actions or bankruptcies) involving securities held or previously held by clients.

As a service to our clients, we are now prepared to act for our clients in these types of legal proceedings. We will be outsourcing the tracking of these cases and filing of claim forms to Broadridge, a very large provider of these services. Broadridge takes a fee of 20% of any recovery on behalf of clients for its services.

You of course have the right to continue to act on your own behalf in any legal proceedings rather than having Vivaldi (and Broadridge) handle these matters for you. And if you elect to have us handle it, in any particular legal proceeding you retain the right to direct us to not take any action for you. The choice is yours.

If you wish to have Vivaldi act for you in these types of legal proceedings for securities currently or previously held in your account(s), you need take no action.

If you do not wish to have us act for you in these matters, please sign below and return it to us via email at clientservice@vivaldicap.com no later than November 30, 2019.

We expect our arrangements with Broadridge will commence on or about December 1, 2019.

If you have any questions, feel free to contact your Client Services Representative.

Vivaldi Client Services Team

I do **not** wish for Vivaldi to act on my behalf in legal proceedings regarding securities currently held in my account(s) or those previously held in my account(s).

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[Please Print Name _______________________________]