

Portfolio Manager Commentary

Fourth Quarter 2020

Portfolio / Index	Q4-20 Return	2020 Return	2019 Return	Since Inception
Focused Growth Composite	+8.6%	+45.3%	+37.3%	+72.6%
S&P 500 Total Return Index	+12.2%	+18.4%	+31.5%	+34.6%
Russell 1000 Growth Index	+11.4%	+38.5%	+36.4%	+58.9%

Returns are net of fees; Since inception is cumulative

Dear Client,

Well, 2020 was certainly one for the books. In a year in which the worst pandemic in over 100 years disrupted global economies, forced major changes to nearly every facet of normal life, and hung over those with health vulnerabilities like the Sword of Damocles; market returns were strong (S&P 500 +18.4%) and the performance of our Focused Growth strategy (+45.3%) was exceptional. 2020 was a year in which the balance sheet strength and secular growth characteristics of our portfolio companies were tested and we are pleased to report that these tests were passed with flying colors. We are heartened by the adaptability displayed by so many of our holdings during this incredibly challenging and dynamic environment. Still, as we look forward to 2021, we are hoping that we get to see how this portfolio performs in a calm, stable, Covid defeated environment.

From an investing standpoint, 2020 was really like three separate years in one. This is fitting because from a life standpoint, it felt the same. The first phase was the pandemic driven crash, which lasted through the last week of March. This was a period of massive uncertainty as global economic activity ground to an abrupt halt as governments struggled to get the pandemic under control. Our Focused Growth strategy dramatically outperformed the broader market during this phase as the balance sheet strength of our portfolio companies left no doubt as to whether or not they would survive to see the other side of the pandemic. The second phase was the accelerating trends phase. This phase lasted from April through August. During this period, investors were coming to grips with new pandemic driven realities and the fact that, through necessity, the pandemic had pulled forward so many trends that were underway with respects to the digital transformation of society. This was another period of dramatic outperformance for our Focused Growth strategy as investing in companies benefiting from long-term secular trends is central to our investment philosophy. The third phase began after Labor Day and lasted through the end of the year. This period was marked by peak political and vaccine uncertainty that was resolved with the conclusion of the Presidential election and the announcement a week later that two highly effective vaccines have been developed. Pre-election, the market retreated somewhat from its August highs before kicking into overdrive during the final two months of the year on the election result and successful vaccine news. The Focused Growth strategy, while still delivering strong absolute gains (+12%) over the last two months of the year, lagged the broader market during this period which featured strong outperformance from small caps (+28%) and economically cyclical sectors such as energy (+33%). As we've noted in the

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past, there are going to be periods when smaller, more economically sensitive stocks outperform and we are content to sit out, rather than attempt to time these rotations secure in the belief that majority of periods will favor high-quality, secular growth businesses.

We have spent plenty of space in these letters over the course of the last year discussing the Presidential election and the potential ramifications. While acknowledging the inherent uncertainty and potential for a disruption that a sharp political shift in either direction can create for investors, we have been steadfast in our belief that this is a country in which policy tends to move gradually rather than seismically. Further, as we've stated in the past, even in the event things move at a more rapid pace, we are confident in the ability of our portfolio companies to succeed across a variety of political backdrops. Well, the election came and went and the result was much more akin to a split decision than an early round knockout. Joe Biden was elected by a razor thin margin in 2020 in the same swing states that elected Donald Trump by a razor thin margin in 2016. The Democratic majority in the House was cut in half and now sits at 11 and the Senate went from a 53-47 Republican majority to 50-50 Democrat control following the Georgia runoffs. This last one poses some threat to the divided government/gridlock thesis as Democrats will theoretically have the ability to pass legislation on straight-line party votes. This could increase volatility and headline risk in the near-term. Longer term, the reality is that several moderate Democratic Senators have already come out in opposition to eliminating the legislative filibuster which means that, absent a change of heart, legislative change will remain incremental.

The Monday after the Presidential election, Pfizer announced that its Covid vaccine trials showed 94% efficacy. Weeks later, Moderna announced similar results for its vaccine. Given that the annual flu vaccine has a success rate closer to 50%, this was an incredibly positive pair of results. Now, focus has shifted from when and if we can get a vaccine to how fast we can vaccinate the population. The early days of the Covid vaccine distribution remind us of the early days of Covid testing. As a country, we've stumbled out of the gate a bit. That said, just as was the case with testing, we are confident that we will soon find our footing and that the vaccinations will be distributed at a rapid pace.

We spend a lot of time in these letters discussing our investment philosophy and the attributes that we look for when deciding whether or not to add a company to the portfolio. For this letter, we are going to talk a bit about what it takes for a company stay in the portfolio. Business is dynamic and competitive landscapes are constantly changing. As such, a company's competitive advantage is either growing or shrinking. The quickening pace of technological change means that even companies with seemingly impenetrable competitive moats can be at risk, particularly if they are a static target.

Innovation and continual investment are key to sustained excellence. Take the case of Intel and Nvidia. Since the start of 2018, Intel has spent \$36.5B on share repurchase and returned another \$15B to shareholders through dividends. During this same period of time, Nvidia has acquired Mellanox for \$7B, introduced its breakthrough Ampere chip platform and recently reached agreement to acquire Arm Holdings for \$40B. The result is that Nvidia is now positioned to transform how computing is done in the data center in the future while Intel is facing a more uncertain future than at any other time in its recent history. This is not to say that we don't appreciate companies that return excess cash flow to

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shareholders, we do. However, in this case, Intel shareholders might have been better served had management invested heavily in the GPU space as opposed to buying back shares in what has been a stagnant core business. Since the beginning of 2018, Intel shares have gone from \$45 to \$50 while Nvidia shares have gone from \$195 to \$525.

As we listened to our company's third quarter conference calls, innovation and investment was a consistent theme across our holdings. Whether it was companies talking about ramping up investment to capitalize on opportunities that have been pulled forward by the pandemic or companies providing additional color on programs that have been underway for years, one thing was clear- our portfolio companies have been innovating. To illustrate this, let's take a look at some of the new products and initiatives that were discussed by Abbott, ServiceNow, and Facebook.

Abbott: When we bought Abbott, we talked about a full innovation pipeline across common platforms, with one of the more promising platforms being in rapid testing. Rapid testing is an obvious area of focus in the Covid era, but on the third quarter call management laid out the plan to leverage the new point of care distribution network being developed for rapid Covid tests into other viruses. In our view the holy grail remains at home flu testing, but as a father of three I can think of numerous other viruses where an at home test guided by an on-line telehealth professional would be far superior than taking an otherwise healthy child to the pediatrician's office. The opportunity in rapid testing has been years in the making and was boosted dramatically by the \$5.3 billion purchase of Alere in 2017.

ServiceNow: ServiceNow is another company whose research and development pipeline has been hugely productive over the years. This is a company that began by organizing and digitizing IT workflows. Now, in the words of CEO Bill McDermott the goal is to, "make workflow a verb". This has meant expanding the initial charge of the company beyond IT workflows and into areas like human resources and finance. On the third quarter conference call, McDermott ticked off a laundry list of new applications that have been developed to greater serve the existing client base, where retention already runs at 98%. This type of innovation doesn't just happen and certainly isn't cheap (ServiceNow spends roughly 15% of revenues on R&D), but when done correctly it can greatly increase a company's addressable market and by extension the duration of above-trend growth.

Facebook: The final company we'll address is Facebook. In Star Wars, it is bad form to pull for the Death Star. When investing, it's nice to own companies that have Death Star qualities. These qualities were on display during Facebook's third quarter call. Facebook currently owns three monster properties (Facebook, Instagram, and WhatsApp) and on the third quarter call, management talked about adding interoperability between its Apps in conjunction with a discussion of the shopping features that exist and are being added to each app. Ho-hum nothing to see here other than one of the global behemoths (along with Alphabet) in digital advertising talking about how to expand beyond the existing \$600B global advertising market and into the multi-trillion dollar commerce market. These are the types of initiatives that allow a current \$650B market cap company to continue to deliver outsized returns.

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Fourth Quarter Notable Performers:

Table 1 shows some notable performers during the quarter in terms of both absolute performance as well as total contribution (% increase/decrease x weighting) to overall portfolio returns.

Table 1:

Notable Q4-20 Performers					
Positive Contributors			Negative Detractors		
	Performance	Contribution		Performance	Contribution
Spotify	+29.7%	+0.9%	Alibaba	-20.8%	-1.0%
Blackrock	+28.0%	+0.8%			
PayPal	+18.9%	+1.1%			

Returns are from a representative account; individual account returns may vary.

Fourth quarter returns were up 9%, so once again the list of positive contributors is long. What is striking to us about the biggest fourth quarter contributors to returns is that there is no common theme across the companies that would explain their outperformance. It was company specific items that powered Spotify, Blackrock and PayPal during the period. So too was it company specific issues that led to Alibaba's precipitous decline during the fourth quarter.

Spotify: Since its inclusion in our portfolio in June, Spotify has been volatile to say the least but in a good way as the shares are up 70% during that time. We believe that this volatility is due to the fact that the long-term competitive landscape for this company is still coming into focus. Should Spotify be able to successfully navigate a competitive landscape that includes the likes of Amazon and Apple and attain the exalted two-sided platform status the rewards should be substantial. One way that Spotify can serve as a two-sided platform is to provide targeted advertising to the Spotify user base, particularly to podcast users. In November, Spotify announced the acquisition of Megaphone for \$235M. Megaphone provides targeted advertising to podcast users that can be measured in the same way as other methods of digital advertising. Megaphone is an open platform, meaning that they are agnostic as to where a podcast is streamed. On the surface, this deal appears immaterial to \$60B company like Spotify. However, when taken in conjunction with Spotify's recent investments in the exclusive podcast space (Joe Rogan, The Ringer) the acquisition of a superior targeted digital advertising platform signifies that Spotify is serious about finding ways to monetize its vast consumer data in the podcasting space, whether for captive or independent podcasters. Separately, Spotify announced in December that it will be launching in South

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Korea, the world's sixth largest music market, in the first half of 2021. This also served as a nice boost for the stock.

Blackrock: Blackrock is a company we haven't spent a great deal of time writing about, but following a 28% increase in the fourth quarter it is time to give that company its due. The thesis on Blackrock is simple. Market returns plus asset inflows equals outperformance over time. As the leader in the ETF space and the owner of a growing alternative investments business, two areas of massive fund flows, favorable fund flows have been consistent at Blackrock. However, trends in flows have been picking up and Blackrock has a large opportunity in both Fixed Income ETFs and ESG investing that are really starting to gain traction. Couple this with continued investment in Aladdin, the company's technology platform, and the positive re-rating that has taken place in Blackrock over the past year appears warranted.

PayPal: We talked about PayPal as being one of the poster-children for favorable trends that accelerated during the pandemic, but there are a couple of things that took place during the fourth quarter that raised our eyebrows. First, and most importantly, PayPal CEO Dan Schulman spoke on the third quarter conference call about the company's ambition to be one of the five or six apps that a consumer opens every day. This would mean becoming the digital wallet of choice. Over the course of 2020, the company ramped investment dramatically in an effort to capitalize on the opportunity presented by the pull-forward of several years of digital commerce trends into a six month period. We are interested to hear more about this ambition in 2021. The other event that happened that may have had more to do with the 19% bump in the share price during the fourth quarter was the launch of PayPal's bitcoin initiative. PayPal users are now able to buy and sell virtual currencies and use them to purchase goods. To the extent this solidifies PayPal's role as the digital wallet of choice, we applaud this move. However, it is worth noting that our investment is not predicated on the bitcoin initiative and we are aware that bitcoin related volatility is very much a two way street.

Alibaba: Owning a portfolio that includes some of the largest, most dominant companies in the world means that evaluating and managing regulatory risk is something that is often required. Alphabet and Facebook are two portfolio companies where the regulatory temperature has been steadily increasing, yet these companies remain among our largest holdings. This is possible because we feel like we are able to assess the range of potential outcomes from this litigation and, even in the most punitive outcomes, we believe the risk/reward profile for both stocks remains favorable. With that as a backdrop as to how we think about regulatory risk, let's now turn to what transpired with Alibaba on the regulatory front during the fourth quarter and why we decided to cut our weighting in the stock in half.

In late October, Jack Ma, the founder, Chairman and former CEO of Alibaba and co-founder of Ant Financial group gave a speech that was highly critical of the Chinese government's approach to financial regulation. This speech was not well received by the government and within a week, the planned initial public offering of Ant Financial, 1/3rd owned by Alibaba, was pulled. On Christmas Eve, the Chinese government filed an investigation into Alibaba for "suspected monopolistic practices" ostensibly around a practice whereby Alibaba forces merchants to operate exclusively on its platform. Also, the government summoned Ant Financial to meet for "supervisory and guidance talks" in which Ant was instructed to

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rectify its business practices by reducing its expansion into micro-lending, wealth management and insurance and return to its payments origins.

In the 8 weeks after Jack Ma gave his speech, Alibaba shares fell roughly 30% from their late October highs, shedding \$270 billion of market capitalization. Prior to its IPO, Ant financial was expected to have a market cap in the \$300 billion range, which would have meant that Alibaba's stake was projected to be worth \$100 billion. Further, the fundamentals in the Chinese e-commerce space remain as strong as ever and we don't believe that abandoning certain merchant exclusivity requirements would have a material long-term impact on Alibaba's business. So, the obvious question is given that the decline in Alibaba's stock following the increased regulatory scrutiny seems to be greater than the economic impact on the enterprise, why did we reduce rather than increase the position? The answer is that the system in China is based on rule of party, the Chinese Communist Party (CCP), rather than rule of law. As such, quantifying a worst case scenario for companies that have attracted the ire of the CCP is impossible. Alibaba's strong business fundamentals and substantial long-term upside in a stable regulatory environment is what allows us to maintain a smaller stake while we wait for indication of what change will be required to repair what has become a damaged relationship with the Chinese government.

Fourth Quarter Portfolio Activity:

Table 2 shows the changes made to the portfolio during the quarter. We increased our position in Comcast and Abbott and funded those actions by reducing our stake in Alibaba (discussed above) and trimming Visa.

Table 2:

New Purchases / Additions			Eliminations / Reductions		
Company	Beginning Weight	Ending Weight	Company	Beginning Weight	Ending Weight
Comcast	5.0%	8.0%	Alibaba	5.0%	2.5%
Abbott Laboratories	3.0%	4.0%	Visa	6.5%	5.0%

Individual account position changes may vary from the chart above due to various factors such as inception date or cash flows.

Comcast: After a year in which Comcast shares faced pandemic driven pressure, we think the outlook for 2021 and beyond is much more favorable. 2020 was supposed to be the year that Comcast emerged from the penalty box for the highly questionable acquisition of Sky in 2018. After several years of suffering through the brunt of the cord-cutting phenomenon, profit growth in the Cable/Communications division (~70% of profits) was trending back towards the mid-to-high single digit range and focus had started to shift from video subscriber losses towards broadband subscriber gains. Finally, the balance sheet repair that was required following the Sky deal was expected to be completed so that share repurchase could resume. Covid changed all of this. While profit growth in the Cable/Communications division was outstanding and should surpass 8% for 2020, Comcast faced a \$6 billion shortfall in its NBCU and SKY divisions due to theme park closures, halted movie releases, and the postponement/cancellation of live

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sporting events. Following the release of third quarter earnings, Comcast was on our list of positions we would look to increase in 2021. Reopening of the theme parks, the move of the Summer Olympics to 2021 and the final necessary repair of the balance sheet are all well-known catalysts that make for a really favorable set-up in the second half of 2021 and beyond. What prompted us to action sooner rather than later was the progress achieved by Peacock, Comcast's ad supported streaming service. As of December, Peacock had 26 million subscribers. This is remarkable given that the firm launch of Peacock was planned around the NBC's exclusive rights to the 2020 Summer Olympics. The great exclusive content for NBC and Peacock is not denied, just merely delayed. Over the next 14 months, The Office goes exclusive to Peacock, NBC will broadcast both the Summer and Winter Olympics and NBC has the 2022 Super Bowl. Given the degree to which Disney Plus has triggered a massive re-rating in Disney shares, we think it is reasonable to believe that Peacock, along with the other catalysts we've identified, could at a minimum lead to the lifting of the "conglomerate" discount that is applied to Comcast shares. If we are wrong about the re-rating, we will wait patiently for the acceleration in earnings growth to kick-in and make our returns the old fashion way. Either way, we feel good about Comcast at these levels.

We discussed the impressive update on the innovation pipeline at Abbott above as well as the heightened regulatory risks at Alibaba, which were the driving forces behind those changes. As for Visa, this remains a core long-term holding but we think that the rebound in cross-border transaction volumes, which is driven by travel, may take a little longer than expected. This coupled with the pressing near-term opportunities we identified at Comcast drove our decision to trim our Visa weighting.

2020 was a draining year. The physical, economic and emotional damage wrought by the Covid 19 pandemic will remain with us all, particularly those who lost friends and loved ones to the virus. In a time where so much was taken from our control, we found solace in sharpening our focus on what remained within our control. For us, this meant tuning out the emotional drain and frustration of the pandemic and making sure our portfolio of high-quality secular growth businesses were able to navigate the changing environment successfully. While we realize that the turning of the calendar year does not mean the end of the pandemic, we look to 2021 with optimism and hope. We thank you for the trust you have placed in us and as always, please do not hesitate to reach out if you have any questions or concerns.

Happy New Year!



Ken Burke
Chief Investment Officer

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Disclosure

The Burke Wealth Management Focused Growth Composite, created on October 1, 2018, contains fully discretionary large cap equity accounts that is measured against the S&P 500 Total Return Index and the Russell 1000 Growth indices. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The Burke Wealth Management Focused Growth Strategy invests exclusively in a portfolio of high-quality companies.

The S&P 500® Total Return Index is a widely recognized, unmanaged index of 500 common stocks which are generally representative of the U.S. stock market as a whole. Ordinary dividends are reinvested across the index and accounted for in the Total Return index calculations. The Russell 1000® Growth Index is an unmanaged index that measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

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