

Portfolio Manager Commentary

Fourth Quarter 2021

Portfolio / Index	Q4-21 Return	2021 Return	2020 Return	2019 Return	Since Inception CAGR
Focused Growth Composite	+3.1%	+13.1%	+45.3%	+37.3%	+22.9%
S&P 500 Total Return Index	+11.0%	+28.7%	+18.4%	+31.5%	+18.4%
Russell 1000 Growth Index	+11.6%	+27.6%	+38.5%	+36.4%	+24.3%

Returns are net of fees as of 12/31/21 and annualized if period is greater than 1 year

Dear Client,

Happy New Year. For a year in which overall market volatility was generally low and most major indices delivered 20%+ returns, 2021 certainly had some unique characteristics. Although the year began with meme stock driven euphoria, roughly 35% of total returns for the S&P 500 were provided by just 5 mega-cap names (Apple, Microsoft, Alphabet, Tesla and Nvidia). Cyclical sectors such as Energy, Financials, and Real Estate were market leaders after a tough couple of years but were joined by perennial winner Technology, which in recent years has proven to be a sector for all seasons. While headline volatility was low due largely to steady and higher performance from some of the largest companies in the world, violent moves in many other stocks was a common occurrence in 2021. Although our Focused Growth Strategy delivered solid absolute returns of +13.2% during 2021, portfolio returns lagged the broader market. While some of this near-term underperformance can be attributed to market rotation and the potential pull forward of some portfolio returns during a stellar 2020 (FGS +45.3%), we are most focused on the relative weakness in two areas of heavy portfolio investment, cable and payments, which we will discuss in greater detail later in this letter. As we look forward to the year ahead, we are encouraged by the competitive positioning, financial strength and growth outlook of our portfolio companies as the world continues to grapple with the pandemic and its aftermath.

The end of one year and the beginning of a new one typically has a familiar cadence. The Christmas season is a time of celebration and stress, particularly for those with children at home. There are holiday parties and family gatherings to attend and 40 or so Bowl Games to watch. Then, the book is closed on the prior year and the next year is welcomed in. The New Year is a time for renewal, a fresh start, and a chance to look forward and set goals. On my end, I get some help with this process as my mother is kind enough to send me a list of resolutions at the start of each new year. Things are not quite so clean in the investing world. It would be nice if it was as simple as 2020-pandemic, 2021-re-opening, 2022- return to normal. The problem is that the health, economic and mental impact of the pandemic and pandemic response is something that we will be dealing with over a multi-year period with persistent uncertainty as to where exactly we are in the process. The past year has featured the development of multiple vaccines and therapeutics for Covid. It has also featured the emergence of new variants of the virus as it fights for survival. The pandemic has highlighted some of the risks associated with a just-in-time global supply chain and, by necessity, has accelerated trends towards digitization that were already underway. In order to

survive the initial jolt of Covid, many companies were forced to take on excessive amounts of debt. The US government itself borrowed a tremendous amount of money in an effort to mitigate the pain of the pandemic on its citizens. As we emerge in a non-linear path from the pandemic, these are some of the issues that governments and companies will be grappling with. What are the risks and cost of decoupling parts of the global supply chain? How do we balance the productivity gains of the enormous technological advances achieved in recent years with the displacement of workers through artificial intelligence and continued automation? How do we organize as a society now that many knowledge workers have gotten a taste of work from home? And finally, how do we pay for the massive amount of debt incurred in a world where inflation could be waking up from a 40 year slumber? This is the backdrop as we enter 2022 and the challenges presented are more complex than picking a side in the stay-at-home vs re-opening trade debate. The pandemic has been the ultimate disruptive event and disruptive events create stress, uncertainty, and opportunity. We seek to own the companies that can capitalize on the new set of long-term opportunities knowing full well that we may have to endure periods of elevated volatility when investor sentiment is more focused on the uncertainties that exist.

We view Jay Powell's nomination for a second term as Chair of the Federal Reserve as a positive. He has shown a willingness to raise rates when appropriate as he did throughout 2018, act decisively in the face of a global pandemic and now he is poised to oversee the removal of excessive levels of monetary accommodation as the Fed is forced to battle inflation for the first time in decades. More importantly, he seems to subscribe to a more traditional view of monetary policy, which means that Fed actions under his guidance will likely be more predictable. In his first Congressional testimony since being renominated, Chair Powell took on a decidedly more hawkish tone. While most of the coverage in the financial press focused on his declaration that the tapering of quantitative easing could be wrapped up a few months prior to previous expectations, in our view, the most revealing part of his testimony was when he said that he viewed the spread of the Omicron variant as an inflationary threat due to the impact it could have on an already stretched global supply chain and a labor market without much slack. This indicates that the Fed's focus going forward is going to be on fighting inflation rather than responding to each new Covid variant with new and creative ways to boost liquidity.

It may seem a little odd for a growth manager to welcome a more hawkish Fed, as higher rates are typically associated with multiple compression for growth stocks. While there is certainly some truth to this notion and the shift in Fed policy could lead to some volatility, we think the brunt of this pain is going to be felt by pre-earnings stocks as opposed to our portfolio companies which for the most part boast substantial earnings. Further, from a fundamental standpoint, because our portfolio companies tend to have limited debt levels, the rise in rates does not figure to have much of a financial impact. Longer term, actions that extend the period of the economic expansion will be beneficial to the companies in our portfolio, even if it means dampening near-term growth. As quantitative easing is removed and rates return to normalized levels we think this will take some of the shine off of more speculative and more heavily indebted areas of the market and garner greater appreciation for high quality secular growth businesses.

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. On the positive side of things, we will discuss Nvidia and United Healthcare. Nvidia’s leadership in accelerated computing continues to unlock massive additional markets. United Healthcare continues to deliver mid-teens earnings growth and the longer term vision of a company managing patient populations on a capitated basis is beginning to come into the clearer focus. We also want to take some time to discuss our thoughts on two industries (cable and payments) where we have substantial investment that are facing unique controversies and have underperformed over the past year.

Table 1:

Notable Q4-21 Performers					
Positive Contributors			Negative Detractors		
	Performance	Contribution		Performance	Contribution
Nvidia	+42.0%	+2.9%	Comcast	-10.0%	-0.7%
United Healthcare	+28.5%	+2.0%	Charter	-10.4%	-0.4%
			PayPal	-27.5%	-1.8%
			Visa	-2.7%	-0.1%
			Mastercard	3.3%	+0.1%

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

Nvidia: If it seems like we spend a substantial amount of space in these letters discussing Nvidia, it’s because we do. Nvidia is the global leader in accelerated computing by virtue of its superior graphic processing unit chips (GPUs). The applications for these chips are seemingly endless and include massive end markets such as video games, cloud based datacenters, artificial intelligence and one day soon, autonomous driving. During the fourth quarter of 2021, Nvidia’s relevance in the Metaverse became evident. The Metaverse is far beyond the realization of Mark Zuckerberg’s childhood dream of experiencing the world through the lens of a virtual reality headset. Although virtual reality and a social aspect is going to be a part of the Metaverse, a better way to think of it is that it allows for the digitization of almost all things physical. When you combine this with the advances in artificial intelligence and inference, you unlock some enormous possibilities. Future manufacturing plants will be built and optimized digitally before the first hammer is swung. Checking into a hotel or ordering a cheeseburger will be done by interfacing with an intelligent robot. And yes, future business meetings or social gatherings will be able to take place virtually while maintaining a real life feel. While it is early days in understanding what this future will look like or the ramifications of such a technological advance (both good and bad), the one thing that most agree on is that the computing power required to achieve this vision is enormous and to generate it will require an awful lot of Nvidia chips.

United Healthcare: Although not always the most popular industry with the broader public, managed care has been a really good industry for investors for a long period of time. Favorable demographic trends coupled with tremendous benefits of scale has made managed care an industry with steady, compounding earnings growth. While we certainly appreciate this aspect of United Health, we are particularly interested in UNH's ability to utilize technology to deliver better patient outcomes and bend the healthcare cost curve. Presently, UNH has ~2.5M patients on capitated plans. In these plans, they are paid a fixed fee per covered life and assume the risk/reward of the cost of treatment. While capitated plans are a small portion of UNH's total patient base, this portion will grow much larger in the future. These plans allow United Healthcare to leverage the patient data collected over the years, the analytical capabilities within the Optum group and its wide network of in-house care providers in a way that few other companies can match. This will also align incentives so that better outcomes can be achieved with lower costs via preventative care and the use of technology and UNH stands to share in the financial rewards.

Cable:

We are one of the rare growth managers to have a material weighting in the cable industry via our ownership of Comcast and Charter. We believe that there is tremendous long-term value in the decades of infrastructure investment made to connect cable wires to homes. Whether it is through traditional linear video subscriptions or through streaming subscriptions that require high speed internet connectivity, content coming into the homes of Charter and Comcast customers will be delivered via these wires. Over time this dynamic has led to a financial profile of mid-to-high single digit profit growth augmented by leverage at Charter and by Comcast's ownership of ancillary businesses such as NBC Universal and Sky. These companies boast relatively stable financial performance, high levels of durability and trade at well below broader market valuations. This is typically a good recipe for returns, but to date, our position in the cable space has not served us well.

There are two issues we identify as driving the poor returns in cable, one that we are confident will resolve in our favor and content to wait out and another that serves as a source of great frustration. The first issue is increased competition from Telcos. The concern is that increased investment by AT&T and Verizon in Fiber to the Curb coupled with Fixed Wireless Broadband offerings is going to increase competitive intensity in the space. This is a reasonable concern and a valid point for cable bears to raise. That said it is an issue that we believe will resolve in Comcast and Charter's favor. AT&T and Verizon make the bulk of their money in the wireless space, carry heavy debt loads, and spend about \$20 billion annually in CAPEX with the bulk of this spend going towards their existing wireless plant. They do have broadband offerings and at this point, roughly 35% of Charter's footprint and 45% of Comcast's footprint faces competition from a fiber to the curb solution. To the extent AT&T and Verizon wish to ramp up investment in broadband, they are welcome to do so. However, this will take time and cost a tremendous amount of money. It should be noted that cable boasts 60% broadband market share in homes passed and consumer churn metrics are stable across markets whether or not a fiber to the curb offering is available. This is due to the fact that Comcast and Charter continually invest in improving their own networks and also offer additional value added services beyond simple broadband. Finally, competitive threats to large existing profit pools is a two way street. Comcast and Charter have wireless offerings that are just starting to gain critical mass that we view as an existential threat to the Telcos. The cable companies are able to offer customers a wireless service over their existing WiFi network and have the ability to offload any

traffic that is not covered by their network onto Verizon's network at wholesale costs. This can be done with minimal incremental investment and supported operationally with little more than an upgraded billing system and marketing department. Competition in telecommunications has always existed. We just believe that the cable companies are in a better position to navigate these competitive threats than their rivals.

The second issue, and a source of great frustration, that we have identified as adversely impacting the returns of our cable holdings is that for relatively stable businesses, these stocks respond sharply to the second derivative of broadband subscribers (i.e. is the number of net adds in a quarter greater than or less than the prior quarter). This dynamic worked strongly against the group in the second half of 2021 as a decrease in the number of people moving led to a slowdown in the number of net new quarterly broadband subscribers for both Comcast and Charter. The flipside of this dynamic is that churn reached record lows (lack of mobility works both ways) and lower activity means lower new customer related expense which resulted in cable/broadband related profit growth in the high-single-digit/low-double-digit range for these companies. In the long run, we believe profit growth will win the day. Still, that doesn't make the near-term weakness any less painful.

Payments:

All three of our holdings in the payments space (PayPal, Mastercard and Visa) delivered disappointing returns in 2021. PayPal, which we discussed in-depth in our Q3-21 letter suffered the greatest decline of the three (-19.5%), but ironically is the business in this group with which we have the least concern. A faster than anticipated dissolution of the eBay partnership during 2021 obscured extremely strong underlying transaction processing volume growth and some fits and starts in the global re-opening triggered what we view to be as conservative guidance for 2022. That said, the eBay overhang subsides in the second half of 2022 and even with the uncertainty surrounding the pace of the global re-opening, PayPal is expected to deliver 18% earnings growth this year with results accelerating throughout the year. This coupled with the tremendous option value of PayPal's recently revamped digital wallet makes us content to weather any near-term choppiness in this stock.

Visa and Mastercard are businesses with a bit more uncertainty than normal. Traditionally, these companies have incredibly stable secular growth businesses benefitting from a long-term shift from cash to card or digital payments and a model protected by a network of merchants, member banks and cardholders built up over decades. While this is largely still true, there are a couple of legitimate issues that are weighing on shares. The first and most obvious question facing these companies is the timing of the return of global travel. This is important because with a return to global travel comes an uptick in cross-border revenues, the highest margin volumes for both companies. While we believe that this is a matter of when, not if, we do acknowledge that it is pandemic dependent and that the starts and stops we have experienced with the virus have been an overhang on the shares.

The second question facing the companies is whether or not we are nearing the point at which the tens of billions of dollars invested in fintech businesses over the past 20 years are manifesting into something that could pose a legitimate threat to Visa and Mastercard's dominance in payments. The current rage in fintech is over buy now pay later schemes. This isn't the threat at the top of our mind as we don't see this as a major technological breakthrough given that it sounds an awful lot like layaway plans from yesteryear.

We are also interested to see if consumers are as enthusiastic about the pay later part of the equation as they are about buy now. What does concern us is technologies that allow for digital transactions to take place outside of the Visa/Mastercard networks. Digital wallets and payment systems like Venmo and Cash App that utilize bank ACH systems and their own ecosystems rather than credit or debit cards are a concern. While Visa and Mastercard are partners with Venmo (owned by PayPal), they are not essential. With more younger consumers shifting spend away from credit and towards debit cards, there is no reason to think they won't continue this migration and move straight to a digital app connected to their bank account. Further, the ability for merchants to conduct commerce by issuing QR codes is a low cost and low hassle way to bypass the card network altogether. We will continue to closely monitor developments in this area as this is the type of threat that will erode a stock's valuation long before it makes a material dent in earnings growth.

Fourth Quarter Portfolio Activity:

Table 2 shows the changes made to the portfolio during the quarter. We added a position in Airbnb during the quarter which was funded by liquidating StoneCo. and sourcing additional funds from a variety of other holdings.

Table 2:

New Purchases / Additions			Eliminations / Reductions		
Company	Beginning Weight	Ending Weight	Company	Beginning Weight	Ending Weight
Airbnb	0.0%	3.0%	StoneCo.	2.0%	0.0%
			Various Holdings		

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

StoneCo. disappointed us for the last time with its 3rd quarter earnings call. This holding was already on watch following the disastrous rollout of its accounts receivables lending business and our continued patience (a mistake in retrospect) was contingent on them fixing and successfully resuming this business. This was expected to occur in the final months of 2021 or early months of 2022. On the third quarter earnings call, management indicated that the timeline to fixing and restarting this business was pushed back indefinitely. That was the final push we needed to admit our mistake in this investment and deploy those funds elsewhere.

Airbnb is an asset light platform style business model with tremendous leverage to a post-pandemic return to travel. Airbnb is a leader in the rapidly growing alternative travel space and connects its 54M active bookers with over 5.6M hosts. Alternative travel is basically travel that occurs outside of the traditional hotel/motel realm. This is increasingly popular with the younger generation (yes, typing those words makes me old) and is also a preferred option for extended stay travel. In fact, the fastest growing segment at Airbnb is for stays longer than 14 days. Airbnb also stands to benefit as work from home becomes more entrenched and morphs into work from any home. Obviously, this company is going to face pressure until the pandemic is under control and we certainly would have liked to have timed the

BURKE WEALTH MANAGEMENT

initial purchase a little better than buying the stock the Wednesday before Omicron became the most known letter of the Greek alphabet. That said, this company is financially sound and has used the time during the pandemic to right size its cost structure and greatly upgrade the functionality of its website and will be positioned to greatly benefit when the pandemic is either controlled or over and an unprecedented level of pent-up demand for travel is unleashed.

2021 was a transition year and that transition continues as we enter 2022. Globally, we are still sorting through the disruption caused by the pandemic while continuing to battle new variants of the virus. Investors keep oscillating between the stay at home/re-opening trade baskets while adjusting to a shift in Fed policy. We think these realities are going to mean increased volatility in 2022 both in terms of the stock market and corporate earnings. While our portfolio is certainly not going to be immune from market volatility, we think that the earnings growth of our portfolio companies will prove to be much less volatile than the broader market. We thank you for the trust you have placed in us and as always, please don't hesitate to reach out if you have any questions or topics you would like to discuss in greater detail.

Regards,



Ken Burke
Chief Investment Officer

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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