Portfolio Manager Commentary
Second Quarter 2023

Portfolio / Index	Q2-23 Return	2023-YTD Return	1-Year Return	3-Year CAGR	Since Inception CAGR
Focused Growth Composite	+15.2%	+36.7%	+24.0%	+4.3%	+9.8%
S&P 500 Total Return Index	+8.7%	+16.9%	+19.6%	+14.6%	+11.2%
Russell 1000 Growth Index	+12.8%	+29.0%	+27.1%	+13.6%	+13.8%

Returns are net of fees as of 6/30/23 and annualized if period is greater than 1 year; Q2-23 returns are preliminary

Dear Client,

The rally that nobody loves continued in the second quarter of 2023 with the S&P 500 advancing +8.7% and our Focused Growth portfolio delivering returns of +15.2%. On the macro front it was a pretty calm quarter. The Federal Reserve increased rates 25 basis points in May and paused in June, signaling that we are in the fine tuning phase of this cycle, and the fallout from the regional bank crises that occurred in March seems fairly contained. Corporate earnings came in better than expected (feared) and sharp earnings related moves in stock prices were generally driven by underlying results. All in all, we view this as a pretty healthy environment. As we look towards the second half, the big debate is around the magnitude to which the economy will slow. As we've noted previously, this is more comfortable ground for us as our portfolio companies have secular trends that promote solid growth even in macro environments where growth may be scarce. It also helps that a good portion of our portfolio companies are already well into the process of adjusting their cost structures for a slower growth world. This letter is long on company specific commentary but we still provide some thoughts on the macro environment and more importantly on the budding artificial intelligence revolution. This is a dynamic time but that is ok because we think our portfolio companies are nimble and can respond quickly and effectively to the changing environment.

To contract or not to contract? Now that the Fed has hit the pause button on rates with little if any additional adjustment remaining, that seems to be the question. Instead of reaching for the glory of successfully calling the next recession, I think it is probably better to take a look at what we know and then we can get to what we think and assess the range of reasonable outcomes for the earnings power of our portfolio companies. We know that the Fed is at, or near, the end of one of the most aggressive tightening cycles on record. We also know that Fed rate increases act with a lag to slow the economy and cool inflation. We have seen some impact of higher rates in the form of a slowdown in housing and a regional bank crisis that was triggered by terrible risk management as much as it was by higher rates. Inflation has slowed, particularly on the goods side of things, but remains stubbornly high in services and the tight job market has meant persistent wage inflation. We also know that the government continues to run massive deficits with plans to spend even more which means that fiscal policy is working in direct contradiction to monetary policy. This has certainly increased the challenges facing the Federal Reserve in its battle against inflation. We know that some of the comparisons on inflation will ease in the coming months, which we suspect will lead to a continuation of the easing trend in reported inflation data. Finally, the job market remains tight with job openings far outpacing the number of job seekers and despite the recent wage inflation and the diminution of consumer savings accounts, coaxing workers back into the job

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market remains a challenge. It is going to be hard to have a recession in an economy where consumption is two-thirds of GDP when there are a glut of jobs readily available.

I think a fair assessment of the macro is that we have a lot of cross-currents with the near-term outlook being uncertain. I realize this analysis is not nearly as insightful as the countless strategists who are able to tell us that we've never had this long of a period of yield curve inversion without a recession and that the average recession means S&P earnings drop about 20% and the average market multiple is 15x so we are on the cusp of a massive drop in equities. I guess this means no CNBC appearance for me any time soon. This is fine because I've been informed with increasing regularity lately that I don't have the right wardrobe to shine in that setting anyway. It is a given that the economy is slowing, but rather than getting caught up over whether this means +1% or -1% GDP growth, our focus is on the earnings outlook for our portfolio companies, and on that front we feel pretty good. To be fair, a good deal of this confidence stems from the fact that we think we took the bulk of any earnings pain last year when the aggregate earnings growth across our portfolio was 0% versus the +18% estimate we had to start the year. Many of our technology holdings misread the demand signals coming out of the pandemic, built too much capacity (both human and manufacturing) and were forced to rationalize their cost structures to a lower than anticipated demand outlook. Doesn't this sound like what the broader economy goes through in a recession? For those waiting for a major clearing event to become more bullish, it already happened for a major sector in the economy. The upshot is that many of the companies in our portfolio that would seem to be at greater risk to a broader economic slowdown have already made many of the painful adjustments to their cost structure that a recession would require. Finally, it is important to remember that our portfolio is comprised of businesses that are exposed to secular trends that promote growth in excess of the broader economy which generally means a higher than average cruising speed of growth across our portfolio. Add into this the emerging opportunities in artificial intelligence and we think there are enough positives to warrant optimism in an admittedly uncertain macro environment.

As we noted last quarter, we believe that Artificial Intelligence will be the fourth major change in computing with the first three being the invention of the PC, internet and mobile computing. Given AI's potential to change the way people work and interact, it's hard to believe it barely gets any mention on CNBC. I kid, I kid. The coverage has been non-stop since the launch of ChatGPT and as is often the case for a network required to fill 60 hours per week of investment related content, much of the coverage has been empty calories. If I had a dollar for every time I heard "are we in an AI bubble" or "what's the best way to play AI", I'd have Nvidia. When we think about real world applications for AI, we find it helpful to focus on the word application rather than AI. In doing so, even in these very early days of this revolution, it is easy to get a sense of what is already possible with generative AI. ServiceNow has integrated AI into the Now Platform and clients are already able to use AI generated suggestions to create applications that better streamline and optimize workflows. Salesforce.com has generative AI applications that enable employees to create personalized communications to customers in a manner that protects their data. Adobe is in beta testing of a product that will convert written instructions into pictures and video while respecting existing copyright laws. Nvidia is already working with manufacturers to create true digital twins of plants so that they are already optimized for efficiency before the first hammer hits the first nail. This is the promise of the first wave of AI applications- a world with far less waste whether that be time, materials or energy.

One of the central themes of our investment philosophy is that we own companies that are on the right side of the digital divide. This comes from owning companies that develop the technology solutions of tomorrow or

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simply owning businesses that are early adopters of cutting edge technological solutions. We think our portfolio companies are well positioned to be early beneficiaries of the AI revolution. The most obvious beneficiaries are the companies that produce the chips and equipment necessary to transition the more than $1 Trillion of data center infrastructure from a CPU driven search and retrieval system to one that generates accurate predictions from massive data bases and is GPU driven. Nvidia and ASML are our two holdings that benefit in this area. Judging from the recent performance of Nvidia's stock, we are not the only manager to make this observation. We think another early winner is going to be the group of companies that deliver AI applications to the corporate world. Within our portfolio, ServiceNow, Salesforce.com and Accenture fit this description. There is debate as to whether enterprise software companies that typically charge on a per seat basis will gain or lose from delivering solutions that unleash massive gains in productivity (fewer seats) but we believe that these businesses will be able to charge for the additional value provided and view them as winners. Cloud Service Providers are going to see a huge uptick in demand as they build data centers that can deliver cloud based AI applications. However, they are also the companies that will be funding a good bit of the massive infrastructure investment needed to make all of this a reality. Alphabet, Amazon and Meta are holdings that are heavy investors in AI infrastructure but are also on the cutting edge of the revolution. These are some of our holdings that are directly impacted by AI, but what about some of the others? United Health is already a leader in data analytics around health care. It's not too hard to imagine this company investing heavily into AI applications that support the mission of better outcomes at a lower cost. Speaking of better outcomes at a lower cost, Intuitive Surgical has long been on the leading edge of technology with its Da Vinci system for robotic assisted surgery. I sense that somehow they will make use of the data they have from the 20M+ procedures performed to date to enable surgeons to deliver better outcomes to patients. AirBNB is talking about how to incorporate predictive AI to better match people with vacation options and Spotify has long used AI to improve music recommendations for customers whose musical tastes are more complex than "play Robert Earl Keen". The AI revolution is in its early days and investing behind this trend does not have to be as difficult as identifying the next big thing in the space. To be sure, fortunes will be made and lost doing just that in the years to come. We think there is plenty of room to participate in this mega-trend without compromising our philosophy of owning high quality businesses with established positions in their markets so long as they are aggressive about remaining at the forefront of a rapidly developing technological environment.

Second Quarter Contributors and Detractors:

Table 1:

Notable Q2-23 Performers					
Positive Contributors			**Negative Detractors**		
	Performance	**Contribution**		**Performance**	**Contribution**
Nvidia	+52.3%	+5.7%	PayPal	-12.1%	-0.6%
Meta Platforms	+35.4%	+2.2%	Charter	+2.7%	+0.2%

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

Table 1 shows some notable performers during the quarter in terms of both absolute performance as well as their total contribution (% increase/decrease x weighting) to overall portfolio returns. Nvidia and Meta Platforms followed up strong first quarter performance with very strong second quarter performance. I typically try not to feature the same companies every quarter, but if these two stocks keep delivering this type of performance, I'm happy to make an exception. PayPal and Charter lagged total portfolio performance in the quarter so we will take a closer look at what we think needs to happen to turn these stocks around.

Nvidia: If you get the trend right, the magnitude will surprise you. This was a favorite saying of one of my old mentors and it certainly seems to apply in the case of Nvidia. The trend in question is the need for Nvidia's full stack accelerated computing chip sets to drive the transition of the world's $1 trillion of data center infrastructure from a CPU centric search and retrieval data center to a generative AI centric data center driven by GPUs. We've known this trend for a while. Where we and every other investor were off was the magnitude. Prior to Nvidia's first quarter earnings report, expectations for Q2 data center revenue were a bit over $7 billion. On the conference call, management issued Q2 data center revenue guidance of a smooth $11 billion and expected that the second half of the year would be stronger than the first half. This was arguably the largest upward surprise in the history of large cap growth stocks from one quarter to the next. From an earnings per share standpoint, consensus 2023 and 2024 estimates late last year for Nvidia were $4.35 and $6.00 respectively. Following Nvidia's guidance for the second quarter, consensus estimates for this year and next stand at $7.65 and $10. Internally, we are north of $11 for next year but the truth of the matter is, we don't know for sure. We just know it will be good. Get the trend right and the magnitude will surprise you.

For those kind enough to call and ask about Nvidia, the most common question we get is "what do you think of the stock now following this year's run and a bounce of almost 4x off the October bottom"? It is certainly a fair question and one we approach try to approach with humility. We know that the market opportunity for GPU chip sets is enormous. We also know that Nvidia's current lead over the rest of the field is one not seen since the 1973 Belmont when Ron Turcotte took a peak over his shoulder coming down the stretch. That said, this is not a race that ends after a mile and a half so there will be competition in the GPU market from great companies, most notably AMD. Also, today's biggest customers (the cloud service providers) have the incentive and financial wherewithal to pursue their own GPU chip designs. Still, Nvidia's lead is not just about having the best chip set. It is an entire ecosystem built around its CUDA software architecture and the over 2 million registered developers creating applications on it. This is also a company whose CEO believes that "one should always be running for food or from becoming food". This group won't stand still. So, to answer the question, we believe Nvidia is one of the most consequential companies in the world and as such, absent any material change, we'll hold it at a high weighting in the portfolio. This can be painful at times as it remains cyclical. We have to look back as far as October of last year for Nvidia's most recent 50%+ peak to trough decline. Still, in the four years that we've owned it, the stock has returned about 10x. We will trim it back from time to time for risk management purposes when the weighting gets too large for comfort as we did this quarter. However, we aren't going to try to time the peaks and valleys with this one. We think we've got the trend right and we are still trying to wrap our arms around the magnitude.

Meta Platforms: Meta's run from $100 to $200 was driven by self-help on the operating expense front. Management had the courage and humility to pull back from prior spending (OPEX and CAPEX) plans and the stock doubled as a result. The run from $200 to $400 will be revenue driven with continued focus on efficiency providing support. We got our first glimpse of what an uptick in revenues could do for the earnings outlook and the stock with Meta's first quarter call and second quarter guidance. Without much of a boost from the macro environment, Meta's revenue results and guidance exceeded expectations as Reels monetization efforts improved, click to messaging announced itself as a catalyst to watch with a $10B revenue run rate, and continued

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progress was made in the efforts to improve targeting and measurement of ad spend following Apple's change in iOS policy that removed much of the information on which Meta had previously relied. I want to focus on this last item as this is the first major test case for the massive benefits that can be delivered from generative AI and it has been playing out in plain sight over the past 12-18 months. As we've noted before, generative AI was not born with the introduction of ChatGPT, it is something many of the largest companies in the world have been investing heavily behind for years. Meta is using artificial intelligence to recreate the ability to target advertising and measure its effectiveness that it used to have from following people around the internet on their iPhones. Apple's more restrictive iOS policy with regards to privacy was seen as an existential threat to Meta's value proposition. It could well wind up as the change that cleared the competitive field in the social network advertising space and strengthened Meta's competitive moat. The other players in this space don't have the ability to make this level of investment (note that Google is a search business and absolutely has been investing heavily in AI). Share gains within the social media advertising market, improved monetization of Reels, and the ramp-up of other apps like click to message and WhatsApp give us confidence that the revenue picture for Meta is improving. If we get a firming in the macro environment, things could get very exciting.

PayPal: PayPal shares continue to languish despite the fact that the company has reported solid recent results, articulated what we believe to be a reasonable and more focused strategic vision, and trades at less than 14x 2023 earnings in a year in which growth is expected to be 18%-20%. We clearly misjudged how much of the company's valuation at peak levels was predicated on delivering a comprehensive set of financial solutions to 750M global consumers via a digital wallet super app. The move away from this ambition has rendered PayPal a broken stock as much of its traditional investor base has moved on and new supporters have been hesitant to step into a stock that is in the midst of a prolonged search for its next CEO. The obvious question is why do we still own this stock? The strategic vision laid out early last year makes sense to us and the company has made demonstrable progress in becoming a leaner, more profitable business over the last year. Instead of driving new user growth at all costs and expanding into adjacent areas of financial services, PayPal is focused on driving engagement within its existing user base and improving its payment processing speed and reliability. For example, only 55% of PayPal's existing 430M user base uses the PayPal app. These customers generate 35% more revenue than non-app users with 25% lower churn. The company has grown this cohort 600 basis points over the last year and continues to drive usage of ancillary services such as discovery, rewards and buy now pay later on its app. These incremental steps are not exciting but they are high return initiatives as it is a lot cheaper to convert existing users into engaged users than it is to prospect new users. PayPal's engagement and efficiency focus has led to several hundred basis points of operating margin in the past year with the promise of more to come.

Payments is a lucrative but competitive space. Google and Apple both compete in the space as do a handful of other capable, well-funded companies. PayPal is also in the midst of a new CEO search. We would be remiss not to acknowledge the possibility that the new leadership team decides to embark on a different strategic direction and uses the occasion of that announcement to reset earnings targets lower. We understand that this stock is unlikely to move appreciably higher until this overhang is lifted. However, we think that the upside potential from current levels should the new leadership team endorse a continuation of the current strategy that is showing early signs of working makes the risk-reward profile attractive enough to maintain our position.

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Charter: We think that the cable companies (Charter and Comcast) are the low cost providers for telecommunication services (broadband and wireless) and that this is a tremendously powerful competitive position to be in relative to the traditional wireless providers. Traditional wireless companies also compete versus cable companies in the broadband market via fiber to the curb (good product, very expensive to build) and fixed wireless (not so good product with caps on speed and market opportunity). In football, the low man wins. In high fixed cost industries with minimal marginal costs, low cost providers win. We think Charter and Comcast will be able to dictate the terms of competition in the telecommunication services space given their low cost provider position. We also believe that the ultimate margin opportunity for the cable companies in the wireless space is an order of magnitude higher than the current consensus view. The opposing view on this sector is that competition from Fixed Wireless Broadband and the continued buildout of Fiber to the Curb broadband is going to result in greater price competition in broadband and that the margin opportunity for cable in wireless is razor thin and that the step function increase in new wireless subscribers for cable companies will reverse once customers cycle off of the promotional sign-up offers. The opposing view has been the prevailing view thus far.

After a couple of years of frustration feeling like we were howling at the moon with our views on the competitive dynamic in this industry, we think we are finally on the doorstep of the catalyst we need to start proving out our thesis. In the fourth quarter of 2022, Charter added 600K wireless subscribers. They added another 666K in Q1-23. This is a step function change from the ~350K quarterly run-rate from the prior year. T-Mobile will tell anyone who will listen that these subscriber gains were the result of Charter "dropping wireless lines in customer bags on their way out the door" and that those subscribers will leave once the promotion period (usually a year) ends. Charter pointed out that the data usage rates for these new customers was consistent with paying customers. It is also important to note that customers taking advantage of the cable bundle (broadband plus wireless) and paying full freight save a tremendous amount of money versus those with the incumbent wireless providers. Why exactly are these people going to switch to a higher priced option once the promotion period ends? We don't think they will. If things play out as we expect, not only will it become clear that the cable companies are serious players in the wireless space but average revenue per customer relationship will get a boost as heavily promoted wireless relationships convert to full paying relationships. Charter has 30M residential customer relationships and it is safe to assume that the average number of wireless lines at these homes is a multiple of that. They currently have only 6M wireless lines. Once the viability of the telecommunication services bundle is proven out, it won't take the investment community long to model in the long-term implications of the competitive advantages held by the cable companies. What is true for Charter is true for Comcast, it's just that Charter is a pure play cable company levered at 4.4x cash flow which means it stands to be the biggest beneficiary if we are right.

Second Quarter Portfolio Activity:

Table 2 at the top of the next page shows the adjustments we made to the portfolio during the second quarter. The most notable change was to reduce our position in Alphabet by half with the bulk of those proceeds being used to establish a new position in ASML. As noted above, we trimmed our weighting in Nvidia back for risk management purposes and reallocated those proceeds to areas of the portfolio where we believed there to be tactical opportunity. Below, we discuss the rationale behind those decisions with emphasis on the moves in Alphabet and ASML.

Table 2:

New Purchases / Additions
ASML
Salesforce.com
ServiceNow
United Health

Eliminations / Reductions
Alphabet
Nvidia

Alphabet: The AI revolution is going to create winners, losers and uncertainty as it unfolds. We could make a case that all three dynamics are in play for Alphabet. On the positive side of the ledger, Alphabet is, and will be, a leader in advancing artificial intelligence applications. The Google Cloud business will be a beneficiary of a surge in demand for companies realizing the need to store data in a common cloud based architecture and utilize a range of cloud based AI applications. As discussed above, building out the infrastructure necessary to deliver these solutions is going to be expensive, but we do believe that the long-term opportunity is worth the investment. The concern we have for Alphabet revolves around chat based search, both from a competitive and monetization standpoint. Google Search is the best business in the world. Google boasts 90%+ share in search with Microsoft's Bing being little more than an afterthought. Almost immediately after ChatGPT was released, Microsoft (a major investor in ChatGPT) announced plans to incorporate chat based search into its Bing search engine. Although Google has similar capabilities with its Bard product, Microsoft's distant second place position in the space frees it up to push the envelope more aggressively in chat based search given the asymmetric risk/reward opportunity. If they hit a seam, they have a runway to take share in a large and profitable business. If they make mistakes, they didn't have much at risk in the first place. Google, as the leader, is responding but must proceed with caution as the last thing they want to do is disrupt search. The other concern we have about chat based search is the ability to monetize it versus today's model. Take something as common as planning a vacation. Historically, this involves clicking links for a flight, hotel, rental car, local restaurants and various other service providers in the vacation spot. Each link represents a paid advertisement to Google. What if this is replaced by asking ChatGPT to provide an itinerary that includes all of the aforementioned needs for your trip? I am sure the search engines will find a way to get paid for this output, but less certain as to whether the new payment scheme will be as profitable as the existing one. For the first time since Bing was introduced in 2009, Google's search monopoly faces the threat of disruption. As such, we decided to reduce our weighting in Alphabet until we have a clearer sense as to how this new threat is going to play out.

ASML: There are three fairly agnostic ways to invest behind the compute power required to drive the AI revolution: the high speed chip designers, the foundries that manufacture the chips, and the machines within the foundries that make it all possible. Putting names with these concepts gives us Nvidia, Taiwan Semiconductor, and ASML. I think we've covered Nvidia in this letter. Taiwan Semiconductor is the world's premier foundry but it has the unfortunate distinction of having a lot of physical assets in an area of the world that is becoming too volatile for our comfort. The process that makes high speed chip design possible is an extremely complicated process known as ultraviolet lithography. ASML is a leading producer of Deep Ultraviolet Lithography (DUV) machines and holds a monopoly in Extreme Ultraviolet Lithography (EUV) machines. The high end EUV machines cost up to $250M, are necessary to produce the most cutting edge chips, and ASML's current backlog is about 18 months. The company is deeply involved in the planning process with its foundry partners for additional capacity, so long-term visibility is good. Further, ASML stands to benefit from the global decoupling, provided it takes place peacefully, as both the US and Europe are subsidizing local foundry capacity to mitigate the geopolitical risk of relying on Taiwan and South Korea to produce the bulk of the world's chips.

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We've followed ASML for a long-time and decided to use the share price weakness resulting from a controversy around near-term order trends for EUV machines as an opportunity to establish a position in this industry leader with an incredibly wide competitive moat.

Other Portfolio Actions: As noted above, we trimmed Nvidia during the quarter for purely risk management purposes. We also increased our holdings in United Health, Salesforce.com and ServiceNow. United Health is the definition of a ruler stock when it comes to compounding earnings growth. Around that stable line, the shares move into and out of favor, often in sync with the political cycle. Insurance companies are unpopular with many people who only notice their existence when a claim is denied or a premium raised. As such, they make for an attractive soundbite villain for politicians. Unsurprisingly, as we gear up for an election season managed care companies have underperformed materially this year. We used the share price weakness in the face of continued solid fundamentals to add to our stake in United Health.

There are few greater joys for a parent than to look outside the kitchen window and see their children playing together nicely. I felt a similar joy when I watched Jensen Huang and Bill McDermott take the stage together to announce that Nvidia and ServiceNow will be forming a partnership to deliver custom AI capabilities designed specifically for the Now Platform and built on Nvidia infrastructure to ServiceNow's enterprise client base. Basically, ServiceNow will be a conduit by which Nvidia AI solutions will be delivered in a bespoke manner to Fortune 2000 companies. This type of collaboration reduces Nvidia's reliance on cloud service providers while simultaneously providing ServiceNow with additional value added solutions to offer clients. Win, Win. As noted earlier in this letter, we believe that the enterprise software platforms will play an important role in delivering the promise of AI applications to large corporations. Along those lines, we also added to our holdings in Salesforce.com. This is another company that has moved quickly to incorporate AI driven applications into its product portfolio and has the reach to deliver these solutions to a global client base.

The second quarter of 2023 marked a continuation of the healing process from the pain inflicted in 2022. We have admittedly been surprised by the speed and magnitude of both the decline and recovery of equity values for our portfolio. Taking a broader view of things, we note that while some of the stock swings have been dramatic for some of our holdings, the changes in the underlying fundamentals for most of these companies have been much less so. The macro environment going into and coming out of the pandemic has been volatile and our portfolio companies have largely adjusted their cost structures and growth strategies to reflect the changing landscape. By and large, the competitive advantages they enjoy have been maintained or expanded and at no time did any of our holdings face a liquidity crisis that would lead to permanent impairment of their business. The reality of what has taken place over the past several years is much less remarkable than the sharp moves in the share prices might lead you to believe. The environment remains dynamic and we will continue to navigate the challenges and opportunities presented with a portfolio of well capitalized, industry leading businesses. 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.

Regards,

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 Index. 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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Past performance does not guarantee future results and future accuracy and profitable results cannot be guaranteed. Composite performance figures are presented gross of management fees and have been calculated after the deduction of all transaction costs and commissions. For existing clients, accompanied with this investor letter is the client billing statement, which includes gross and net returns of individual accounts.

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