Portfolio Manager Commentary

Third Quarter 2020

Portfolio / Index	Q3-20 Return	YTD-2020 Return	1-Year Return	Since Inception
Focused Growth Composite	+15.3%	+33.9%	+50.0%	+58.6%
S&P 500 Total Return Index	+8.9%	+5.6%	+15.2%	+20.0%
Russell 1000 Growth Index	+13.2%	+24.3%	+37.5%	+42.6%

Returns are net of fees; Since inception is cumulative

Dear Client,

The first two months of the third quarter were a continuation of the strong returns generated in the second quarter. September represented a return to the volatility faced earlier in the year. Overall, the Focused Growth strategy delivered strong returns of 15% during the third quarter, well ahead of the broader market. The weighted average revenue growth of the portfolio was 14% during the second quarter. Half of our portfolio companies reported double-digit revenue growth during Q2 while only a quarter of our companies saw revenues decline. This is remarkable performance in light of the fact that US GDP declined a record 32.9% in the second quarter. The dramatic outperformance achieved thus far this year versus the broader market is attributable to the incredible resilience of our portfolio companies. While we don't expect that the magnitude of our outperformance in 2020 is something that will be commonly repeated, we do believe that owning a portfolio of high-quality secular growth businesses will deliver superior long-term risk adjusted returns.

From a macro standpoint, the US Presidential election is dominating the news cycle. As if this year needed additional disruption, President Trump is currently recovering from his own bout with Covid-19. We have two debates, a Supreme Court confirmation hearing, and a month before the election. Suffice to say, a lot can happen between now and then. It is fitting that 2020 will end with a close Presidential election at a time when emotions on both sides seem to be running as hot as they have been since the election of 1860. There has been plenty of talk in the financial news about a Trump portfolio versus a Biden portfolio. We are not in the business of making political predictions and it is worth reiterating that we invest in companies that can thrive in a variety of macro environments. Should changes in law or regulation occur that hamper this ability for companies in our portfolio, we will respond accordingly.

From an investing standpoint, it is important to separate political emotions from financial facts. Vanguard released a study showing that since 1860, equity markets have compounded at an 8.4% rate under Democratic administrations and at an 8.2% rate under Republican administrations. There is concern that an unclear election result could serve as an overhang to the market. This is a legitimate concern, but one that we believe would ultimately prove to be transitory. During the period of uncertainty following the 2000 election, the S&P 500 was down 1% from the morning of November 8 through the Supreme Court decision of December 12 with a maximum decline of 6% during that period. Finally, I'll close with a

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personal thought on the election. If you can make it from now through inauguration day with the same number of friends and your family relationships intact, I would contend that you have had a successful election.

Given the wild swings in equity prices during this year, I wanted to spend some time in this letter discussing how we approach valuation. While valuation techniques are fairly scientific (a discounted cash flow analysis will arrive at a specific value every time), valuation in general is very much an art, not a science. Being a successful investor requires approaching the issue of valuation with a great deal of humility. In this way, valuation is very much intertwined with behavioral finance, in that you must avoid anchoring to your initial assessments of value. Otherwise, you are going to constantly find yourself selling companies whose performance far exceeded your original outlook to buy companies where actual results consistently fall short of your initial expectations. Some of the best advice I got early in my career was the idea that if you get the trend right, the magnitude will surprise you. If you think about this statement, you are implicitly acknowledging an inability to accurately predict the long-term consequences of favorable business momentum from the outset of an investment. For our portfolio companies, we believe that it is every bit as important to look for situations where the total addressable market is increasing beyond our expectation or that the existing business fundamentals are better than we had projected as it is to look for situations where the growth trajectory or risk profile is less favorable than we had projected. For a long-term investor in secular growth businesses, you have to maintain this type of mindset. Otherwise, you are going to find yourself regularly turning would be 3x-4x jackpots into modest 15%-20% gains.

Absent a humble approach to valuation, you wind up with a lot of the superficial commentary you see from time to time by self-anointed “value investors” on CNBC- statements along the lines of 10x earnings is cheap, 40x earnings is expensive. That’s great but perhaps a little context is warranted. This line of thinking would have had you buying Macy’s over PayPal three years ago. Like every other fundamental investor, we use a mixture of discounted cash flow analysis, scenario analysis, and multiple analysis to set our long-term price targets. When we use a DCF, we always think in terms of a range of values rather than a single number. When we use multiple analysis, we think about the multiple of earnings we are paying on earnings three years out and the likelihood that our projections could prove to be too aggressive or too conservative. When you view the world through this lens, you find that Amazon trades at an EV/EBITDA discount to Coca-Cola. We have found this approach to be more helpful than looking at Amazon’s current P/E multiple, declaring “this is crazy”, and calling it a day. A long-term investor must have a long-term approach to valuation. We will never buy a stock at 10x earnings hoping that someone else will buy it from us for 12x the same earnings in a year. We are perfectly happy to pay a higher multiple on current year earnings for a business that benefits from enduring secular trends knowing that three years from now the multiple that we paid will look very different. In some wonderful instances, we will be able to look back and laugh at how naïve we were in understanding the true power of the trend.

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Third Quarter Notable Performers:

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

Table 1:

Notable Q3-20 Performers					
Positive Contributors			**Negative Detractors**		
	Performance	**Contribution**		**Performance**	**Contribution**
Alibaba	+36.3%	+2.2%	Spotify	-6.0%	-0.2%
Comcast	+18.7%	+1.1%			
Intuitive Surgical	+24.5%	+1.5%			

Third quarter returns for the Focused Growth strategy were up a strong 15%, so the list of positive contributors is quite long. Once again Nvidia led the way with the stock up 42% in Q3, but in the interest of spreading around the love and adding a touch of variety to this section of the letter, I want to focus on Comcast, Alibaba, and Intuitive Surgical this quarter. All three of these stocks delivered strong third quarter returns and all three businesses are uniquely positioned to capitalize on the "reopen trade". Thus far this year, the first quarter demonstrated the importance of owning companies with fortress balance sheets in the face of a black swan event. The second quarter was really about trends accelerating and companies who were seeing step function changes to already favorable outlooks. As we move towards a vaccine, companies like Comcast, Alibaba, and Intuitive Surgical show that this portfolio can still participate in the "reopen trade" without having to sacrifice quality by investing in structurally challenged sectors like cruise ships, department stores, or oilfield services.

Due to the fact that the global pandemic originated in China, China has been the first major economy to feel the pain and subsequent recovery from the virus. As the largest participant in Chinese e-commerce, Alibaba saw a sharp slowdown in growth in the first quarter followed by a sharp recovery in the second quarter. As such, these shares, which traded sideways during the first half of the year appreciated 36% during the third quarter as the strength of the recovery was confirmed. As the Chinese economy continues to recover, Alibaba (and JD.com) will not only benefit from improving consumer spending fundamentals, but also from the step-function increase in e-commerce as a share of total consumer spending that was driven by the pandemic.

After a lackluster first half of the year, shares of Comcast appreciated 19% during the third quarter. Comcast, like Charter (+22% in Q3), is a beneficiary of increased demand for high speed broadband connectivity and new broadband connections are occurring at a record rate. However, Comcast's gains

in broadband were overshadowed by severe pressures faced at its NBC Universal and Sky divisions. The NBC Universal division contains theme parks, a movie studio, and a network that leans heavily on live sports to generate advertising revenue. Sky depends on sports subscription packages to drive revenue. The shutdown hit these businesses hard. That said, as we progressed through the quarter, the successful return of live sports (at least from a TV standpoint) as well as a gradual reopening of the economy points to brighter days ahead, which began to be reflected in the stock price.

Intuitive Surgical shares were up 25% during the third quarter as investors began to look towards the return of elective procedures (this will help Abbott and Masimo as well) and the stock also got a boost from an improved competitive landscape. One of the consequences of Covid was the deferral of doctor visits and elective surgeries. Procedures on Da Vinci systems went from growing at a high-teens rate to declining at a high-teens rate. However, as the second quarter progressed, procedures began to track towards normal rates. As people resume non-acute doctor's visits, the funnel of future procedures will once again fill and double-digit procedure growth will resume.

From a long-term standpoint, the most important development for Intuitive Surgical during the third quarter was not the outlook for a return to procedure growth, but rather the announcement of yet another delay in Johnson and Johnson's soft tissue robotic surgery system. J&J announced that human trials for its system won't begin until the second half of 2022 and that the regulatory pathway towards approval will be more arduous than previously thought. Medtronic is also hurt by the increased regulatory scrutiny. Basically, if everything goes perfectly from this point, Intuitive is not going to face an uptick in competition for at least another 3 years. Needless to say, these companies will not be shooting at a static target as Intuitive continues to innovate in the space.

Spotify was the only holding in the portfolio that suffered a meaningful decline in the third quarter with shares falling 6%. As we noted in our Q2 investor letter when discussing the purchase of Spotify, audio streaming is an intensely competitive space with Apple and Amazon both participating. Spotify's dispute with Apple over app store fees and Amazon's entry into the podcast space highlighted the competition in audio streaming during the third quarter and pressured Spotify's shares. Still, we continue to believe that the upside available should Spotify succeed in developing a two-sided platform business (revenues from subscriptions, advertisements, and placement fees) makes the added volatility worth enduring.

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Third Quarter Portfolio Activity:

Table 2 shows the changes made to the portfolio during the quarter. We added Abbott Laboratories to the portfolio during the quarter, which was primarily funded by harvesting some gains in Nvidia.

Table 2:

New Purchases / Additions		
Company	**Beginning Weight**	**Ending Weight**
Abbott Laboratories	0.0%	3.0%

Eliminations / Reductions		
Company	**Beginning Weight**	**Ending Weight**
Nvidia	~8.0%	5.0%

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

Abbott Laboratories: Abbott is a diversified health care company with strong franchises across four distinct segments: Medical Devices (38% revenues), Diagnostics (24% revenues), Nutrition (23% revenues), and Branded Generic Pharmaceuticals (14% revenues). Abbott is a global business with 64% of sales occurring outside the United States and it boasts a substantial exposure to emerging markets. Abbott's combination of attractive end market exposure and geographic exposure has meant that this is a company that we have been monitoring closely for a while. Our decision to pull the trigger on an investment was driven by our view that Abbott has platform products in Medical Devices and Diagnostics that can drive above trend growth over a multi-year period.

Within its Medical Devices unit, we think that Abbott's FreeStyle Libre system that provides continuous glucose monitoring for diabetics is a breakthrough technology in a disease that, unfortunately, is seeing dramatic growth globally. We believe that future innovations in this platform will extend the addressable market beyond the current subset of patients requiring multiple daily glucose tests. Within Diagnostics, Abbott announced a $5/15 minute rapid Covid test that it will be able to produce in mass (50M kits/month) by October. While this is a great breakthrough in the global fight against Covid, we think the long-term opportunity for this type of test could be enormous in areas like flu testing and other common childhood viruses. The holy grail would be the ability for people to self-administer these tests from home and it is not too difficult to envision that dream becoming reality.

The majority of the funds used to purchase Abbott were sourced from the realization of some of the gains in Nvidia. Shares of Nvidia have more than tripled since we bought the stock in May of 2019 and as touched on in the valuation discussion, this was certainly a case where the fundamentals have far exceeded our initial expectations. Otherwise, I assure you that the Focused Growth Strategy would have been a lot more focused and we might have even changed the name to Nvidia Select. Nvidia remains a core holding in our portfolio and we believe that Nvidia's leadership position in accelerated computing makes it one of the most important companies in the world. Still, the current valuation is more reflective of the enormous opportunity for Nvidia than was the valuation afforded the business in May of 2019. That said, the major driver of our decision to harvest some gains in Nvidia was the company's proposed acquisition of Arm Holdings rather than valuation. It is not that we are not intrigued by the prospects of

a combination with Arm, we are. We tend to trust Jensen Huang (Nvidia's CEO) when it comes to matters such as the future of technology and listening to him describe the value that could be created by integrating the chips that power the data centers in cloud computing was compelling to say the least. However, this is a $40B transaction that is expected to take ~2 years to complete and one that will require regulatory approval from every major governing body in the world. We think this could provide a bit of an overhang for the stock while this process is being sorted out. Hence, we took a portion of our gains in Nvidia to fund our purchase of Abbott.

2020 continues to be a year like none other. Between the pandemic, the social unrest, and a contentious Presidential election this has been a taxing year in many ways. The challenges of 2020 have extended to the world of investing and we are gratified by the way our portfolio companies have excelled during the trials of this year. The first three quarters of this year have highlighted the versatility of this portfolio and the ability of this high quality collection of businesses to successfully adapt to a changing environment. 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.

Stay Healthy!

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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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.

The management fee schedule is as follows: Per annum fees for managed accounts are 100 basis points of the first $5,000,000 of assets under management, 75 basis points of the next $5,000,000 of assets under management, and 50 basis points of amounts above $10,000,000 of assets under management. Actual investment advisory fees incurred by clients may vary. Burke Wealth Management, LLC is a registered investment advisor in the state of Texas and its investment advisory fees are described in its Form ADV Part 2A. The advisory fees will reduce clients' returns.

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