

Portfolio Manager Commentary First Quarter 2025

Portfolio / Index	Q1-25 Return	1-Year Return	2-Year CAGR	3-Year CAGR	Since Inception CAGR
Focused Growth Composite	-8.1%	+2.5%	+23.5%	+7.8%	+11.8%
S&P 500 Total Return Index	-4.3%	+8.3%	+18.6%	+9.1%	+12.5%

Returns are net of fees as of 3/31/25 and annualized if period is greater than 1 year; Q1-25 returns are preliminary

Dear Client,

The first quarter of 2025 was an unpleasant reminder that while equity markets tend to take the stairs on the way up, they sometimes take the elevator on the way down. Our Focused Growth portfolio declined -8.1% during the first quarter which represents the worst quarterly performance in almost three years. The S&P 500 fell -4.3% and the Nasdaq was down -10.4% during the period meaning that the declines were broad based with a special emphasis on growth stocks. While every market decline brings with it its own set of irritations, what is particularly frustrating about the first quarter decline is that it took place entirely in the last six weeks of the quarter and was driven by political uncertainty rather than earnings. In fact, fourth quarter earnings and the initial 2025 guidance from our portfolio companies was solid and at the end of earnings season in mid-February our portfolio was up 7.5%. It was at this time that the market focus turned from business fundamentals towards the near daily conversation coming out of the White House on tariffs. As we will discuss in greater detail in this letter, President Trump is serious about enacting fundamental change to our economy and this is going to require a period of adjustment. The easiest way to understand Trump’s goals at the most basic level is to return to Econ 101 where we learned that $GDP = C+I+G+NX$. For those who didn’t suffer through college economics class, that means that GDP equals Consumption plus Business Investment plus Government Spending plus Net Exports (Exports – Imports). In 2024, the US budget deficit was \$1.8 trillion which means the government spending portion of the equation (G) was at very high levels (about \$7 trillion) and the trade deficit (NX) was \$918 billion. President Trump envisions an economy less reliant on government spending and more reliant on business investment with lower trade deficits. This explains the DOGE efforts, the incessant tariff talk and the consistent stream of business leaders rushing to the White House to announce multi-year domestic investment commitments. The ultimate goal of lower government deficits, higher business investment and more balanced trade is a noble one.

The risk is that a fundamental restructuring of the economy as large as ours can’t be done overnight and must be pursued with great care. The April 2nd announcement on tariffs seemed to violate these principles. As we

will discuss in greater detail in this letter, the formula the Trump administration used to calculate the reciprocal tariff rates announced on April 2nd is not tied to the tariff's put in place by our trading partners, but rather to the current trade deficit and level of imports from each country. If this was designed to facilitate a broader negotiation, it strikes us a rather extreme starting point and it certainly caught the market by surprise. As I write, or rather rewrite, this letter the position of the administration is that the new tariff rates are non-negotiable. I don't believe that will prove to be the case. However, what is outside of our control is what, if any, response our global trading partners will take in light of our new tariff policy- whether it is temporary or not. This adds greater uncertainty into the market. The good news is that, on a fundamental basis, our portfolio companies are built to handle uncertain environments by virtue of their fortress like balance sheets and the prodigious free cash flow they generate. Further, for the most part, our portfolio faces limited first order impact from escalating tensions/barriers to global trade. That said, we are not immune from the second order effect of rising geopolitical tensions and a slowing global economy. As we head into the second quarter, we look forward to the political conversation shifting away from tariffs and towards tax cuts, deregulation and the exciting productivity benefits from the AI revolution. The April 2nd tariff announcement probably means that we spend a little bit more time wandering through the tariff desert. As we emerge from this desert and new deals are reached and uncertainties resolved, we will be on more favorable terrain for equities.

For a fundamental investor, few things are as welcomed as the blissful tranquility of the sounds of silence from the Federal Reserve. We have received this gift over the past six months as the Fed has been on hold at a reasonable, although still somewhat restrictive, federal funds rate. Thank you for that Jay Powell. The early days of the Trump administration have not been so quiet. Throughout his political career, President Trump has been accused of violating "political norms", particularly with the way he communicates. This is one thing on which people on both sides of the political divide can agree. However, in the early days of his second administration, President Trump has violated perhaps the greatest political norm that has bound political leaders from both parties together for a generation. He has done exactly what he said he would do on the campaign trail. Crackdown on illegal immigration- check. Aggressively push both Russia and Ukraine to end the war- check. Empower Elon Musk to lead a team to crackdown on government waste (DOGE)- check. Impose tariffs on nations both friend and foe in an attempt to overhaul longstanding trade agreements- check. Reasonable people can disagree on the manner in which he has gone about implementing his policies or whether he has gone too far or not yet far enough, but it is hard to make the argument that we weren't warned. From an equity market standpoint, Donald Trump means higher volatility. As I have said repeatedly in these letters, this is a man to take seriously, if not always literally. Along those lines, as we navigate Trump 2.0, we intend to think carefully

about new policies as they are implemented while not feeling obligated to react to every tweet, press conference or news cycle. Of the four policy initiatives I laid out above that are the focus of the early days of the administration, I want to take a closer look at the market implications of Trump's tariff policies and Musk's DOGE efforts as these are the initiatives that are having the most direct impact on the equity markets.

Before we begin our discussion of tariffs, it's probably best to define the term. A tariff is a tax on an imported good designed to raise revenue and make those goods less profitable to produce abroad or less competitive on price versus a domestic option. The imposition of tariffs or changes in the tariff rate can cause near-term price shocks on goods because manufacturing capacity and global supply chains take time to adjust. Uncertainty on tariff policy can have a paralyzing effect on business as managers don't know whether the new tariff rates are temporary or permanent. Equity markets, already prone to detest uncertainty, have a special aversion to tariffs as the Smoot-Hawley tariffs are widely credited with exacerbating the Great Depression just 95 short years ago. With this as a backdrop, why is it that President Trump speaks so glowingly and repeatedly about imposing tariffs on friends and foes alike? The hope is that President Trump intends to use tariffs and the threat of tariffs to drive change in existing trade agreements that are unfair to The United States towards agreements that promote fair trade on a global basis. The fear is that he uses tariffs to usher in a period of aggressive protectionism that drives standards of living lower as the benefits of comparative advantage are erased for the US consumer.

Let's start with the hope. President Trump is determined to reset global trade in a way that promotes fairness and ultimately facilitates a rebuild, on the margin, of some of the US manufacturing base that has been hollowed out over the last 50 years. I say "some" and "on the margin" because the reality is that in a world of fair trade driven by relative comparative advantage, we simply do not have the ability to profitably manufacture every product domestically like we did 100 years ago. Trump is right that many countries have placed tariffs or limitations on US goods going into their markets while enjoying unfettered access to our market. China is the world's second largest economy yet the WTO still classifies it as a developing country which affords it preferential treatment in global trade. Give me a break. Reciprocal tariffs is a way to put an end to unbalanced trade agreements once and for all. In its purest form, reciprocal tariffs simply match existing tariff rates that our trade partners have placed on our goods. Adjustments to that rate could be made on a country by country basis based on factors such as market access or instances of rampant intellectual property theft (looking in your direction China). The risk is that this triggers a tit for tat trade war that drives prices higher and disrupts supply chains which would slow the economy and pressure stocks. The upside is that once the dust settles, our trade partners act in their own self-interests and remember that The United States has the world's largest consumption

economy and that their access to our market means more to them than our access to their markets means to us. It is my most sincere hope that this is what the Trump administration is playing for. This would still add to uncertainty and could certainly cause some near-term economic pain, but the end result would likely be more equitable and stable trade agreements.

The fear is that President Trump and his team are determined to pursue a truly protectionist path with regards to trade that triggers a global recession, isolates The United States, and erases decades of gains made in standards of living that were enabled by the comparative advantages of free trade. In the original Q1-25 investor letter that was completed prior to April 2nd, this paragraph did not exist because I did not view the likelihood of such an outcome as high enough to warrant addressing. To be clear, I still do not view this is the likely outcome. However, given the tariff announcements made on April 2nd, we would be remiss if we did not at least entertain this possibility. After a couple of months of telegraphing a comprehensive reciprocal tariff regime, President Trump announced the details on April 2nd, which he coined liberation day. During his speech, President Trump held up a plaque showing what each country was charging The United States in tariffs in one column with the new reciprocal tariffs that the US would be imposing in another column. The problem is that the tariffs we claimed we were being charged were materially higher than existing tariff rates, but instead were calculated using a simplistic formula based on our current trade deficit with each country. We calculated each country's implied tariff on US goods by taking our trade deficit with that country and dividing it by the amount of goods we import from that country. We calculated the tariff we intend to levy against countries by taking this rate and dividing it by 2. We added this calculation to any existing tariffs already in place. Countries falling below 10% by this calculation received a 10% tariff, even those countries with whom we have a trade surplus. Let's take a quick look at Vietnam to highlight the pitfalls of this approach. Vietnam has an annual GDP of roughly \$470 billion, about half of which is consumption, and a roughly \$125 billion trade surplus with The United States. This is in large part due to the fact that numerous companies shifted production of shoes and clothes from China to Vietnam during the first Trump administration. By our new tariff calculation, Vietnam's implied tariff on US goods is 92% which triggered an additional 46% tariff on top of the 4% already charged for a total tariff of 50%. The only way for Vietnam to close this gap in a material sense is through lower exports to the US which will result from higher prices and resulting lower demand on items such as shoes and shirts. They lose jobs, we lose affordable goods and the benefits of comparative advantage are lost. Following through with such a plan would cause economic hardship for both parties. I think that the appropriate reading of the April 2nd tariff announcement is that it is the start of what will be numerous country by country trade negotiations. I don't

understand why the administration chose such a harsh point from which to start these negotiations. If they are being sincere when they say that these new tariffs are non-negotiable, I understand it even less.

The work of Elon Musk and his DOGE team has been fascinating to watch. Like many tax payers, I've always had a sense that there is a tremendous amount of waste and fraud in our federal government. I am not talking about legitimate disagreements about spending levels and priorities on which reasonable people can have honest disagreements. I am talking about some of the indefensible programs that have been brought to light by DOGE and most notably, the fact that our government declined to put in a tracking system for hundreds of billions of dollars of payments. In 2019, the federal government spent \$4.4 trillion. In 2024, the federal government spent \$7 trillion. Basically, the one-time emergency step up in spending related to Covid has become permanent. Even worse, so too has the waste and fraud that was a byproduct of having to rush so much money out the door to sustain people during the pandemic on a moment's notice. I could be wrong here, but my guess is that despite the efforts of a small handful of district court judges, the DOGE genie is not going back into the bottle. The question is what does it all mean? This is one of those instances where two seemingly conflicting ideas can both be true. Reducing waste and fraud from the federal government is a no-brainer in the long-term but these steps can still cause some short-term economic pain. Imagine a scenario in which the government hired people to dig a hole Monday through Wednesday and then fill the hole on Thursday and Friday. Better yet, imagine a scenario where a non-governmental organization (NGO) received funding to oversee the project with a large portion of the funding going to pay administrators and the remainder going to the people digging and filling the hole. Shutting down such a project is non-controversial as it is a poor use of labor and capital. However, from a near-term economic standpoint this would still mean a reduction in jobs and the positive multiplier effect of the spending done by the people involved in the project. Unfortunately not every government project in question is as clear cut as our hole digging/filling example. However, the fact that the bulk of the pushback on Elon Musk and his efforts has been personal and focused on process rather than a full throated defense of the projects in question tells me that there is a lot of low hanging fruit as it relates to government spending. This isn't to say that mistakes won't be made and that good projects and people won't be impacted. They will. But the clear bias of this administration is to shift our economy more towards the private sector with less reliance on public spending. The "detox" period associated with this shift will cause pockets of economic and market volatility.

The Trump administration is much more of a Main Street than a Wall Street group. I am aware that these are some of the wealthiest people on the planet, but their political power comes from heartland of the country not the coasts. This is not to say that Trump 2.0 can't be very favorable for the stock market. The market performed

well during his first term and when it is all said and done, I believe that will prove to be the case during the second term. That said, it is important to understand that from a market perspective there is good Trump and there is bad Trump. Trade conflict may be necessary to achieve a more level playing field and a reduction in government spending is long overdue, but both of these things inject uncertainty and volatility into the market which we have all endured over the last six weeks. From a market standpoint, this is bad Trump. As I've noted before, reasonable people can disagree on the need for tax cuts or a massive reduction in government regulation but from a market standpoint, tax cuts and deregulation are manna from heaven. This is good Trump. In the early days of Trump 2.0, we've eaten our broccoli first as the focus has been on tariffs and reductions in spending. Forecasts for economic growth have slowed and the risks of recession have increased. While I believe that the economy can withstand this period of transition without entering a recession, there is no doubt that we are in the midst of a growth scare. If we can power through this period without entering into a self-reinforcing recession and still maintaining some semblance of sanity, the tax cuts and deregulation that comprise good Trump are the light at the end of this current tunnel.

First Quarter Contributors and Detractors:

Notable Q1-25 Performers					
Positive Contributors			Negative Detractors		
	Performance	Contribution		Performance	Contribution
Abbott Laboratories	+17.6%	+0.4%	Nvidia	-19.3%	-2.6%
Charter Communications	+7.5%	+0.2%	Salesforce.com	-19.7%	-1.2%
Intercontinental Exchange	+15.8%	+0.4%	ServiceNow	-24.9%	-1.9%

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

Nvidia: As I've gotten older, I have found that the frequency with which I fail to sleep soundly through the entire night has increased. So it was on the night of Sunday, January 26th. The mistake I made on this particular night when I woke up prematurely was that I checked my phone to make sure everything was ok knowing that market futures were weak when I went to bed. Things were far from ok. At 4am on January 27th, almost every stock we own was indicated down at least 3% with Nvidia down 17%. That's precisely the type of jolt to the system that takes falling back to sleep completely off the table. The driver of this collapse was the release of the details behind DeepSeek's R1 inference model. In a nutshell, a Chinese company named DeepSeek created a large language model that had equivalent performance to OpenAI's GPT-4 model at a fraction of the cost. Specifically, DeepSeek claimed that it was able to train its R1 model for a cost of \$5.6M on Nvidia's H20 chips, the scaled

back version of its cutting edge H200 chips that are able to be sold in China under the terms of the US chip ban. This sent shockwaves across the industry because not only was it clear that the US lead in artificial intelligence was nowhere near what we had believed it to be but it called into question how much of the spending on Nvidia powered data centers was really necessary given that a Chinese company just achieved cutting edge capability on scaled back chips at a cost anywhere from 15x-30x below what the US companies were spending. Once this news was fully digested, it became clear that two things were true: One, DeepSeek had achieved an efficiency breakthrough by employing some good old fashion ingenuity to the constraints placed upon Chinese companies by the US chip ban. Two, this breakthrough in no way changes the need for Cloud Service Providers to add massive, Nvidia enabled, increases in existing compute capacity as evidenced by announced plans of 2025 CAPEX spending of roughly \$330B across the big four cloud service providers (CSPs) plus Meta. Let's unpack exactly what went on with DeepSeek and explore why, in the face of such efficiency gains, CAPEX spending from the largest and most sophisticated CSPs continues to grow beyond expectations.

DeepSeek was able to achieve a competitive cutting edge large language model (LLM) at a fraction of the cost of the existing LLMs despite being unable to access Nvidia's most powerful chips due to the US chip ban. However, the \$5.6M number that set off alarm bells in the early morning hours of January 27th represented the final training run of the R1 model, not the entire training program for a cutting edge LLM. This means that DeepSeek achieved an efficiency gain closer to 5x versus rather than the 15x-30x initially thought to be the case. DeepSeek used a process called distillation to achieve their results. Basically, this means that DeepSeek refined an existing LLM (likely Chat-GPT) to train its smaller R1 model. The second work around that DeepSeek used was a process called Mixture of Experts. What this means is that to answer a particular question, DeepSeek only activated the portion of its 671B parameter model that possessed expertise in the given subject matter. The final innovation brought forth by DeepSeek was that they figured out a way to compress and store items providing required context in its limited memory through a process known as multi-head latent attention. In sum, DeepSeek culled down a larger, pre-existing LLM, only activated the portions of the model needed to provide a particular answer, and was able to compress enough data in its limited memory capacity to still provide necessary context to provide a leading edge inference model. They should be applauded for their ingenuity and also for the fact that they have made their work open source so that others can build upon it.

If the cost of inference can be reduced materially through efficiency gains, why do we need to keep adding so much compute power? The answer to this lies in a previously obscure economic theory known as Jevon's Paradox, that soon became the most popular phrase in the investment community. This theory states that when a commodity of great value (compute power in this case) becomes more efficient, demand doesn't decrease, it

explodes. The promise of artificial intelligence lies in its ability to provide actionable business insights (inference) at an affordable cost. Any efficiency gains that drive down the cost of inference will exponentially increase the use cases. Incidentally, Jevon's theory is wholeheartedly endorsed by my current favorite economics philosopher Jensen. If you want to talk efficiency gains, look no further than Nvidia's Blackwell chip set, which is roughly 40x more cost efficient than the prior Hopper generation. Efficiency gains is what Nvidia's breakneck innovation pace is all about. The compute power necessary to move a large language model beyond the most simplistic forms of predictive generation and into actual reasoning is enormous. The large cloud service providers are voting with their wallets on this matter as 2025 CAPEX budgets across the group came in greater than expected and both AWS and Google acknowledged that they remained capacity constrained when it came to AI workload demands in the most recent quarter. The shock to Nvidia's share price following the release of DeepSeek's innovation was jarring. I think it underscores how much anxiety there is around this stock. For the first time in quite a while, there is a vocal bear case being made on Nvidia that we have reached peak demand and that a digestion period of the compute power already purchased is now required. Calling peak Nvidia is a career maker for any analyst getting it right and more people seem willing to shoot their shot on such a call. Given the Trump administration's tariff proposal, the uncertainty surrounding Nvidia is at a multi-year high for reasons that stretch well beyond matters of supply and demand. The Blackwell System consists of over 100,000 component parts sourced from all over the globe. Contrary to what luminaries such as Peter Navarro may think, relocating this supply chain over a long weekend to Youngstown Ohio is not practical. Further, China's plans to issue retaliatory tariffs puts the Nvidia's Chinese business (13% of sales) at a competitive disadvantage to Huawei if the current tariff plans hold. It is sad to say, but at present, the greatest threat to one of America's greatest companies is coming from our own government. We are keeping a close eye on developments in the growing trade war and will evaluate our weighting in Nvidia once we gain greater clarity.

ServiceNow/Salesforce: As we wait patiently for the benefits of ServiceNow and Salesforce's AI innovation to manifest in faster growth, I couldn't help but think of the excitement surrounding the impending arrival of Godot. Having never seen or read the play, I was disappointed when I looked up a summary and realized that he never actually showed up. How boring and depressing. Let's hope this doesn't turn to be the case for our AI innovation thesis in software. I don't think it will be. While Q4 results and the initial 2025 guidance didn't provide much in the way of tangible upside, it did provide some encouraging signs and a better understanding of how these companies plan to monetize the AI driven efficiency gains they will bring to customers. Both ServiceNow and Salesforce saw tremendous growth in their AI offerings during the fourth quarter with ServiceNow's Now Assist deals growing 150% quarter over quarter in Q4 and Salesforce's Agent Force delivering 120% quarter to quarter

growth, albeit both figures starting from a small base. Still, these are new products that are quickly gaining traction. More importantly is that both ServiceNow and Salesforce intend to introduce AI capabilities to their customer base under a hybrid consumption model. ServiceNow CEO Bill McDermott estimates that for every dollar spent on AI, clients save five dollars. This bodes well for widespread adoption. Customers will have a fixed amount of AI credits under the premium subscription models and utilization beyond those credits will be charged on a consumption basis. The upside to this is that it better positions both companies to participate to the extent their solutions add real value. The downside is that future consumption gains are not reflected in the guidance provided for subscription revenues. Unfortunately, this is what the market chose to focus on with regards to the 2025 subscription guidance provided by both companies and both earnings releases were greeted with share price pressure. Further, it must be noted that ServiceNow and Salesforce both bear some near-term DOGE risk. Unsurprisingly, initial DOGE audits uncovered thousands of software subscriptions that were paid for but not used. This will end. Longer term, we think that the efficiency gains that these companies can deliver are a good fit with the aims of DOGE. However, like the uptick in AI consumption, this is a theory that will have to play out over time. We believe that both of these controversies will resolve in our favor, but for now the market is showing little patience for show me stores in the software space and both stocks came under pressure during the first quarter. We look forward to a future script for these companies in which Godot shows up bearing the gift of accelerating AI driven growth.

Abbott Labs, Charter, Intercontinental Exchange: Perhaps the one positive coming out of a very challenging first quarter is that our “safety” stocks provided a stabilizing force for broader portfolio performance. We view our portfolio companies in three buckets: Aggressive Growth, Aircraft Carriers, and Non-Traditional Growth. The aggressive growth companies are holdings where we accept greater levels of volatility for the payoff of a very high cruising speed of growth. Our cloud-based software holdings are good examples of companies that fall into this category. The aircraft carriers are businesses with seemingly impenetrable competitive moats where our aim is to adjust the weighting size appropriately, but mostly we are looking to sprinkle some time on to the holding and let the competitive advantages compound to our benefit. Visa, Mastercard, Meta and Amazon are good examples of our aircraft carriers. The non-traditional growth holdings are stocks that might not seem to fit the profile of the typical growth investor at first glance, but are companies that offer the portfolio great stability on top of the ability to compound profits at a mid-to-high single digit rate over time. These holdings tend to lag behind the broader portfolio during the periods of “risk-on” market behavior while providing some much welcomed stability during periods of market weakness. Abbott Labs, Charter Communications, and

Intercontinental Exchange are three of our non-traditional growth holdings and each of these stocks performed as we would have hoped during a volatile first quarter.

Shares of Abbott were up 17% during the first quarter as the company has finally lapped the initial windfall and ensuing period of impossible comparisons that resulted from Covid testing kits. Abbott’s Q4-24 earnings call and initial 2025 guidance painted the picture of a company that is poised to return to consistent 12%-14% EPS growth. Abbott used the windfall from its Covid testing kits to pull forward R&D investment and as such, the innovation pipeline is full and will be additive to future growth. Further, the balance sheet has healed since the last round of M&A and Abbott is able from a financial standpoint to pursue accretive deals in the medical device space. Charter shares were up 7.5% during the first quarter as the company has made it through the end of the Affordable Connectivity Program without suffering through an anticipated hit to EBITDA. Charter’s management team has established itself as the leader in the broadband space and as we emerge from an extraordinarily challenging period for broadband cable into a backdrop more conducive to success for converged communications offerings, we think Charter can return to the mid-single digit profit growth profile that pairs so well with its levered equity strategy of shareholder returns. Intercontinental Exchange shares were up 16% during the first quarter which makes sense given that the trading portion of the business (about half of the total) benefits from the heightened volatility that the Trump administration has been so willing to provide. Abbott, Charter and ICE are not among our sexiest holdings, but they are the type of slow and steady wins the race holdings that we are glad to have in the portfolio during periods of increased uncertainty.

First Quarter Portfolio Activity:

First quarter portfolio activity was fairly limited as Q4 earnings season and the initial 2025 guide from our portfolio companies mercifully contained few surprises and any portfolio rebalancing plans were put on hold while we waited for the market to stabilize over the last six weeks of the quarter. That said, we did sell our remaining stake in United Healthcare during the quarter and used those proceeds to initiate a new position in TransDigm Group.

New Purchases / Additions	Eliminations / Reductions
TransDigm (new position)	United Healthcare (elimination)

TransDigm Group: TransDigm sells proprietary, custom engineered parts that are used in nearly all commercial and military aircraft. Roughly 80% of sales are from products for which TransDigm is the sole source provider. This provides the company with substantial pricing power, particularly in its aftermarket business. Sales into new aircraft are fine, but TransDigm makes roughly 75% of its EBITDA in aftermarket sales as customers are

effectively locked in to purchasing replacement parts from the certified incumbent providers. TransDigm is unique in that it employs a levered equity strategy that management characterizes as private equity style returns with public market style liquidity. The company targets a debt/EBITDA ratio of 5x-6x and is an active participant in the market for bolt-on acquisitions that fit the desired profile of being a sole source provider of valued-added custom parts. Demand is fundamentally driven by miles flown, particularly in the commercial business and this is a structurally attractive industry with mid-single digit growth on average per year. To the extent Boeing is once again able to deliver safe airplanes on a timely schedule, TransDigm will benefit as more of the existing commercial fleet will be able to be taken out of service and refurbished. Further, we think there are plenty of opportunities for accretive bolt-on acquisitions going forward. Overall, we believe that between the structural attractiveness of the aerospace industry, the ample opportunities for accretive acquisitions and its unique levered equity strategy that TransDigm can deliver long-term profit growth in the low-to-mid teens.

United Healthcare: We sold half of our position in long-term holding United Healthcare last October and liquidated our remaining stake during the first quarter. As discussed in our last investor letter, our decision to reduce our weighting in UNH was driven by pressure from the reduction in Medicare Advantage reimbursement rates, higher medical loss rates driven by increased utilization of drugs whose prices have been capped under the inflation reduction act and continued fall-out from the cyber-attack on Change Health in April of 2024. Our decision to liquidate the remainder of our position was driven by concerns over the potential for changes in our healthcare reimbursement system following a review by the DOGE team. Over the past year, UNH has been under consistent attack from the Wall Street Journal over its aggressive diagnosing of additional diseases in its patient population that resulted in higher government reimbursements yet required no material medical intervention. While we do not believe that UNH was breaking the law, we do concede that aggressive diagnosis of diseases that may have no real treatment required but nevertheless result in a higher government reimbursement rate from the government is a loophole in the system that UNH was exploiting. To be fair, United's overall profit margin on its insurance business is a thin 5.4% so it is not like they are making excess profits as a result of these actions. However, being the best at layering additional diagnoses on patients and earning higher reimbursement rates as result does allow United Health to price its plans competitively while still earning an appropriate return. The loopholes in the byzantine reimbursement system that allow this sort of activity strike me as the type of thing our tech support friends at DOGE might easily identify and close. Reimbursement loopholes can be closed faster than plan pricing can be adjusted. The DOGE team is methodically working its way through our government and when they get to the healthcare reimbursement system we fear that United Healthcare's earnings may face some pressure. This coupled with the other headwinds facing the company added up to a bit more risk than we are willing to bear.

The first quarter of 2025 was the worst quarter for growth equities since the third quarter of 2022. As you might recall, inflation hit 9% in the summer of 2022 and in August of that year, Jay Powell gave his famous “pain” speech in Jackson Hole. This is not where we are now. Instead, after a V shaped recovery in growth stocks in 2023 and a steady move higher on very low volatility in 2024, we got our first taste of policy driven uncertainty in a while during the first quarter of 2025. I think I can speak for all of us when I say that this was not a pleasant taste. The Trump administration is pursuing a reset in global trade and a reshaping of our economy from the government driven economy we have had to a more private investment driven economy. They are aware, and have made clear, that this transition will require a bit of an adjustment period. That is where we are now, in the adjustment period. Waiting for us on the other side will be tax cuts and greater focus on unleashing private investment through deregulation. That is favorable terrain for equities. While I am not sure just how long the current adjustment period will last, I am confident that our portfolio companies have the financial strength to power through this brief period the way a 737 glides through a little turbulence. We are not going to be the guy parachuting out of a perfectly good airplane. We thank you for the confidence and trust you place in us. As always, 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. 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.

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