# INVESTOR LETTER

*Second Quarter 2026*

| Portfolio / Index | Q2-26 Return | 1-Year Return | 3-Year CAGR | Since Inception CAGR |
|---|---|---|---|---|
| **Focused Growth Composite** | **+21.1%** | **+9.4%** | **+18.8%** | **+13.2%** |
| S&P 500 Total Return Index | +15.2% | +22.3% | +20.6% | +14.8% |

*Returns are net of fees as of 6/30/26 and annualized if period is greater than 1 year; Q2-26 returns are preliminary*

### ✶ INVESTOR LETTER HIGHLIGHTS ✶

- **Q2 2026 in Review:** A strong rebound from a weak first quarter. The S&P 500 gained +15.2% and Focused Growth returned +21.1% as fears over the Iran conflict subsided and renewed focus shifted to outstanding corporate earnings.
- **AI Narrative Shift:** First quarter fears of AI disintermediation gave way to second quarter excitement over exploiting supply chain bottlenecks. We remain in the early stages of a technological revolution that will not move in a straight line.
- **Macro Backdrop Quiets Down:** A new Fed Chair is installed, a fragile Middle East peace is holding, and oil is flowing through the Strait of Hormuz. With the macro overhang reduced, this letter explores resource scarcity — power, memory, capital, and talent — as AI's defining constraint.
- **Q2 Portfolio Activity:** Sold Abbott Labs and Lowe's; initiated new positions in Eaton and Apollo; trimmed Micron twice on risk management; added to Intuitive Surgical, Meta, ServiceNow, and Uber on share price weakness.
- **Micron's Evolving Risk Profile:** Strategic Customer Agreements (3–5 year take-or-pay contracts) now cover 20% of DRAM and 33% of NAND volumes, locking in price floors and shifting cyclicality risk to customers — supporting a higher long-term weighting.
- **New Positions — Eaton & Apollo:** Eaton's Boyd Thermal acquisition deepens its datacenter liquid-cooling exposure ahead of the spin-off of its Vehicle/eMobility units. Apollo's indiscriminate sell-off on minimal software credit exposure created an attractive entry point.
- **Our Outlook:** Strong fundamentals ruled the day in Q2, and we expect continued strength in corporate profits through the second half of 2026. The portfolio's financial strength positions it well for an exciting, if uncertain, environment.

Dear Client,

The second quarter of 2026 represented a strong rebound from a weak first quarter. The S&P 500 gained +15.2% in Q2-26 and our Focused Growth portfolio returned +21.1% during the period. Fears regarding the on again off again war with Iran subsided with oil prices largely retracing their March spike. This allowed some space for a renewed focus on corporate earnings, which were outstanding. As we noted in our first quarter letter, we did not expect the divergence between market returns and earnings growth to endure and ultimately, we believed that stocks would follow the path of earnings. It's always nice when a plan comes together and that is what occurred during the second quarter. As has been the case and as we expect will continue to be the case, AI dominated the market narrative during Q2. First quarter fears of disintermediation and disruption gave way to second quarter excitement over the opportunity to exploit supply chain bottlenecks. Make no mistake about it, we are in a momentum driven market with the leading momentum ETF up 37% year-to-date including +43% in the second quarter. While momentum can be both good and bad (we've sure seen both ends of the momentum coin thus far this year), it is a dynamic that is important to recognize. The excitement and uncertainty over what could be with regards to AI coupled with a market that is becoming increasingly dominated by algorithmic trading with volatility boosted by zero-day options and double levered single stock ETFs can make for some harrowing times. It can also make for some exhilarating times as we've seen more recently in the memory and semiconductor equipment space. While we believe that we are in the early stages of a technological revolution that will drive massive investment and deliver sustained productivity gains, we understand that the path to this brighter future will not be linear. Still, we certainly enjoy periods like the second quarter.

Looking ahead to the second half of the year, we expect continued strength in corporate earnings to persist driven largely by AI-related investment. With the new Federal Reserve Chair safely installed, a fragile peace reached in the Middle East that is for now, allowing oil to flow through the Strait of Hormuz, and a nice summer lull before the political silly season starts, things are relatively quiet on the macro front. As such, we take the opportunity to explore the topic of resource scarcity in this letter. This is going to be an important concept to keep front of mind as we navigate the promise/threat of the AI revolution. As we think about how our portfolio sets up for the second half of the year, we see pockets of slack in the stocks of several portfolio companies that could close quickly should certain controversies resolve in our favor. Also, we look forward to the time when instead of searching for the next Nvidia, market participants realize that the actual Nvidia trades at a 25% discount to the broader market on 2027 earnings. Overall, we are upbeat heading into the second half of 2026.

## RESOURCE SCARCITY

Scarcity is an important concept to keep in mind as the AI revolution takes shape. The most two common topics relating to AI and scarcity have been power and memory. Jensen Huang himself frequently highlights power as the key constraint to the data center buildout needed to drive the AI revolution. More recently a global shortage in DRAM due to the high bandwidth memory requirements of Nvidia's latest generation of chips has become a dominant market theme. DRAM prices are up 4x over the past year and this is starting to have a real impact on consumer electronics prices, which is inflationary and a market risk that must be monitored. On a happier note, skyrocketing memory prices have taken the stocks of leading memory suppliers on a parabolic run that we have enjoyed immensely- thank you Micron. While these are certainly broader themes that we are watching closely, there are two scarcity topics that I'd like to explore deeper in this letter- resource scarcity at Anthropic and OpenAI and capital scarcity on a much broader level and the implications this might have for the global economy as a whole as so much capital is allocated towards building the compute power needed to drive AI.

Although I am certain that one near-term effect of the upcoming Anthropic and OpenAI IPOs is going to be some selling pressure on the large cap technology stocks that investors will use to fund these new offerings, I can't wait for these companies to come public. At that point, I expect the focus to shift from the dream of what could be to the reality of what is which will be dictated by their ability to access and deploy capital and navigate the real constraint of management talent. All of this will be evaluated quarterly and publicly- welcome to the big leauges. About nine months ago, the conventional wisdom was that OpenAI would disrupt Google in search and Meta in consumer engagement. Conventional wisdom still holds that Anthropic is going to disrupt the entire enterprise software space, including Microsoft. Somehow, all of this is supposed to be done using compute power leased largely from the same hyperscalers whose businesses they aimed to disrupt. I don't think this is how things are going to play out. This is not due to a lack of regard for OpenAI and Anthropic, we are heavy users of Anthropic internally and I have tremendous appreciation for the progress that has been made in large language models over the past several years. It is simply a belief that these companies are going to have to prioritize where they spend their time and money and the answer simply can't be saying yes to everything. Jeff Bezos told a story in a recent interview of the early days at Amazon when one of his more senior Board members pulled him aside and told him he had just enough good ideas to bankrupt his company. Remember when OpenAI launched the video creation tool Sora last Fall? Shortly after the launch, they signed a licensing deal with Disney and analysts hailed Sora as a competitor to Meta for consumer engagement. Sora closed down six months later when OpenAI realized it needed to devote the finite compute resources it had to enterprise businesses that could generate revenue immediately. When Jensen Huang was asked to summarize Nvidia's strategic philosophy he replied, "we do as much as necessary and as little as possible". He further explained that Nvidia seeks to solve impossibly difficult problems rather than finding slightly better ways to address problems that have already been largely solved. He was explaining why Nvidia didn't start a cloud computing business to compete with Amazon, Microsoft and Google. Apply this logic to Anthropic and you'll see why I am skeptical that the first order of business is to build an enormous enterprise salesforce and use their superior LLM model to disintermediate their enterprise software partners rather than simply working with these entrenched incumbents to provided upgraded AI solutions to large enterprises. Anthropic strikes me as a company that has innovation ambitions that stretch beyond developing a slightly improved customer relationship management software. OpenAI and Anthropic are both exciting companies but this doesn't change the fact that they are going to have to make hard choices as to how to allocate finite amounts of management time and presently restricted compute resources.

In early June, Google announced plans to raise $80 billion in an equity offering. In mid-June, SpaceX raised $84 billion in equity capital through its IPO and shortly thereafter announced plans for a $25 billion debt issuance. In late June, Nvidia announced a $25 billion debt offering. This is $200 billion of capital raised in short-order by some of the largest and in the case of Google and Nvidia, most cash rich companies in the world. In the background, the $40 trillion Private Credit market is showing some signs of stress in recent months with rising redemption requests that have been met with gates being enforced on some prominent funds. What is going on here and what does it mean? The honest answer is that I'm not quite sure. Of these three announcements, I understand why SpaceX is raising as much capital as possible, I have no idea what Nvidia is doing given its balance sheet, lack of CAPEX spend and massive free cash flow outlook, but it was the Google announcement that was the most eyebrow raising. I realize that Google announced plans to spend $200B in CAPEX this year, but this is also a company that has about $50B of net cash on the balance sheet and is going to generate close to $200B in operating cash flow this year. Google is a better credit risk than the US government. Why are they raising expensive equity capital? The obvious answer is that AI-related CAPEX spending is going to continue to grow. Ok, but we already figured that. Why not just fund the expansion with cheap debt? What if there isn't an endless supply of demand for high quality debt? Our trillion dollar plus government deficits are clearly an issue, but what does this mean for Corporate America's ability to raise new debt capital and refinance existing debt? The one certainty I have is that AI related debt issuance from companies like Google, Meta, Amazon and Microsoft are going to be first in line for any investor fixed income demand. Ultimately, to the extent external capital is required to fuel the AI buildout, I expect our portfolio companies that need funding will have access to that capital. That said, I wonder what this means for businesses that carry heavy existing debt loads with new projects less certain than building a datacenter and immediately renting it to capacity. Given the incredible demand for capital related to the AI related infrastructure buildout, we could face an issue where traditional participants in the debt markets find their access to capital restricted or the price materially higher. Balance sheet strength and the ability to generate free cash flow become more important in this type of environment, which should prove favorable to our Focused Growth portfolio.

## Q2 PORTFOLIO ACTIVITY

The second quarter was an active trading quarter in our Focused Growth portfolio. We sold our positions in Abbott Labs and Lowe's, added new positions in Eaton and Apollo, trimmed back rocket ship Micron twice for risk management purposes and used share price weakness as an opportunity to bolster our weightings in Intuitive Surgical, Meta, Service Now and Uber.

### Micron

Our purchase of Micron in September of 2025 was predicated on a simple thesis that the demand for the High Bandwidth Memory (HBM) required in Nvidia's latest generation of chips was going to result in a memory cycle of greater magnitude and longer duration than anticipated. We also were very clear to acknowledge the risk associated with making an investment in the hyper cyclical memory industry. Needless to say, the thesis has played out a little better than we anticipated. In fact, the higher magnitude/longer duration memory cycle theory has played out so well that we are rethinking our assessment of the risk associated with the memory industry. I realize the four most dangerous words in investing are "this time is different". Let me explain… Micron is using the unprecedented DRAM shortage to transition certain large customers into signing strategic customer agreements (SCAs) that are effectively 3-5 year take or pay contracts. This locks in a guaranteed level of supply with price floors that approximate Q2 levels. Effectively, Micron is shifting the risk associated with its upcoming CAPEX investment and a portion of the cyclicality risk associated with memory to its customer base at a time in which its bargaining power has never been higher. These are 3-5 year contracts and as of the most recent quarter, 20% of DRAM and 33% of NAND volumes are under recently signed SCAs and Micron expects that over the next year or so 50% of long-term revenues will come from such agreements. This puts in a base level of earnings throughout the cycle while still allowing for the capture of the excess profits associated with the current dynamic of supply shortage meeting unprecedented levels of demand.

We trimmed Micron twice during the quarter for risk management purposes, once near the beginning of the period and once towards the end. While our evolving view on the risk of Micron's inherent cyclicality allows for a higher long-term weighting and the fundamental results since we initiated our position have exceeded our wildest expectations, I wouldn't put Micron in the Nvidia category when it comes to competitive positioning just yet. Nvidia is the dominant player in the AI infrastructure buildout that is going to dominate the next decade. The competitive positioning gets stronger with the release of each new GPU platform. This is why Nvidia warrants the highest weighting in our portfolio. As much as we love Micron, and believe me we do, and recognize the improving risk/reward profile that the business is migrating into, we also must remember that they are the #3 player in a memory market in which a large portion of the market remains a commodity. Memory is a critical chokepoint in the AI buildout at the present time and the improving risk profile warrants a higher long-term weighting than we originally envisioned. That said, this is a position whose sizing we will continue to monitor closely as even with reduced cyclicality, memory remains a relatively volatile and highly competitive market.

### Abbott Labs

At the end of the day, it was always something with Abbott. Whether it was an inventory adjustment in China, a division every now and again that fell short of plan and required a leadership change or a reset in pricing in infant nutrition, it always seemed as though we could never reach the point where we could enjoy the double-digit organic growth being achieved in the all-important medical devices unit at Abbott. After first quarter results that featured a material slowdown in the critical Continuous Glucose Monitoring (CGM) business and a protracted debate on the conference call about whether they did nor did not downwardly revise the 2026 organic growth target for the second quarter in a row (spoiler alert, they did), we decided to throw in the towel on this holding. The CGM business was central to our thesis on Abbott and indeed it has more than carried its share of the burden growing 18%-20% annually over the past three years and accounting for roughly 40% of medical device sales and almost 20% of total company revenues. In the first quarter of 2026, CGM growth slowed to 7.5%. To be fair, part of this slowdown was due to a challenging compare in the year ago period and management did express confidence that growth would reaccelerate, but I just can't shake the feeling that we've wasted the prime years of a blockbuster product in FreeStyle Libre on a series of missteps in what we would view as non-core parts of the business. From a business portfolio standpoint, Abbott has fired its big gun with the recently closed acquisition of Exact Sciences and while we were supportive of that deal, we also were not looking forward to another year of "count this, don't count that" earnings reports for a company whose relationship with GAAP earnings is already a bit stressed. Still, continued strength in the medical devices business unit might have been enough for us to stay with this holding a bit longer. The weakness in CGM coupled with the previously announced pricing reset in nutrition leaves too much riding on a second half growth rebound that now needs one more thing to go right to materialize.

### Lowe's

Our purchase of Lowe's was predicated on the view that home improvement operated as a benign duopoly and that a favorable competitive environment coupled with solid company level execution would drive attractive risk adjusted returns with an added upside kicker should housing turnover rebound. During our ownership of Lowe's, competition remained rational and we were generally pleased with the company's execution. However, it also became clear that a rebound in housing turnover was not just an upside kicker, but rather a core requirement to any sort of sustained advance in the share price. Predicting mortgage rates is not one of our core competencies so we found ourselves owning a company for whom sustained success relied on a factor outside of its control. This coupled with the fact that shares of existing holdings Intuitive Surgical and Uber were under material pressure despite continued fundamental strength drove our decision to liquidate our position in Lowe's and reallocate those funds to Intuitive and Uber, where the opportunity for success seems to lie more within company control.

## Apollo

We initiated a 3% position in Apollo during the second quarter. Apollo has almost $1 Trillion in assets under management with the vast majority being in private credit. Apollo has unmatched capabilities in credit origination which means that a material portion of the deals in which it invests are bespoke rather than subject to a competitive bidding process. Finally, through Athene, its retirement services subsidiary, Apollo has a stable capital base of nearly $300B and growing. This alleviates some of the pressure of constant fundraising and promotes greater investment discipline as Apollo rarely faces the pressure of having to deploy newly raised assets against a shot clock. In the world of alternative asset managers, Apollo is a unique business.

Years ago, as a favor to a friend considering an investment, I sat through a presentation from a feeder fund selling the opportunity to make an investment in a private equity fund in which the PE firm would buy stakes in various smaller PE firms and the investor would gain access to a swath of mid-level private equity GPs. The presenter extolled the attributes of the private equity business model, 2% management fees, 20% performance fees, 7-10 year locks on capital and the fact that everyone in the space prices off of the world's most successful PE firms. For the bargain price of 2%/20% to the PE firm making the investments and another 1%/10% to the feeder firm raising the money, I too could participate. I raised my hand and asked why I couldn't simply buy shares of Apollo, maintain liquidity and bypass the near 3%/30% toll road. That was the last meeting invite I received from that group. Fast forward to today and we are finally realizing my dream of being in the private equity space, albeit admittedly at a smaller level than the actual industry participants. Private equity/Private Credit as an asset class is growing and taking share from traditional investment vehicles. Part of this is due to an unwillingness/inability of banks to underwrite loans which has led to an explosion in private credit, part of this is due to private companies wishing to remain private longer and raising private capital to do so, and part of this is due to everyone knowing someone who "has a deal". If you have suffered the misfortune of being trapped during one of my private equity diatribes, you'll recall that my rant always ends with wonderment of how small PE groups are able to charge the same fees as industry leaders like Apollo, Blackstone, TPG, KKR as those are the companies with access to the most attractive deals and are able to provide the cheap capital, management talent and scale that truly adds value to a deal. Indeed, this value shows up when you look at the investment track record of these global leaders. Due to these attractive attributes, shares of leading PE firms have historically commanded a premium valuation to others in the financials space. However, concern over exposure to small, single product software firms that face AI disruption has created an opportunity. Whereas I have regularly bemoaned the market's habit of taking down sectors indiscriminately, this is a case where the shoot first, ask questions later habits of the broader market works to our benefit. Apollo shares have been under severe pressure this year despite the firm's aggregate exposure to software credit risk being only about 2%-3% of the total portfolio. In our view, this was the proverbial baby hurtling through the air surrounded by bathwater before coming to rest in our loving arms. As these fears subside, we expect the favorable long-term fundamentals when it comes to asset gathering and Apollo's position as a diversified global leader in the private credit and private equity space to drive superior long-term returns.

## Eaton Corporation

We initiated a 4% position in Eaton Corporation during the second quarter. Eaton is a global leader in intelligent power management serving the datacenter, utilities, industrial plants and aerospace industries. Of these end markets, it will come as little surprise to regular readers of this letter that the datacenter opportunity is the most attractive in our view. While Eaton has a diversified end market base, the company is undertaking a couple of corporate actions that will make it more datacenter focused in 2027 and beyond. First and most importantly, Eaton expects to complete the acquisition of Boyd Thermal in the second quarter of this year. This is a $9.5B deal that will add Boyd Thermal's $1.7B of revenue and $400M of EBITDA to Eaton's existing $27.5B business. Importantly, roughly $1.5B of Boyd Thermal's $1.7B in annual revenues are in liquid cooling. This is a critical area for the future of datacenter buildouts as Nvidia's newest chip sets require liquid cooling. Prior to this transaction, Eaton's datacenter opportunity stood at roughly $2.5B for every 1-gigawatt datacenter built. Boyd will add an additional $500M to this total. In addition to the Boyd deal which beefs up its datacenter exposure, Eaton also plans to spin-off its Vehicle and eMobility units by the end of this year. Together, these divisions contributed $3.5B or roughly 13% to Eaton's revenue base and delivered little, if any, growth. Following the Boyd Thermal acquisition and Vehicle and eMobility spin-off, Eaton will be a roughly $30B business with 87% of revenues from power equipment and the remaining 13% from the structurally attractive Aerospace industry. Following a period of investor enthusiasm surrounding the datacenter buildout, shares of Eaton have largely tread water over the past 18 months. During this time, earnings growth has made the valuation less challenging, and the portfolio actions position this to be a cleaner, faster growing business going forward. Add to this the fact that we are just now reaching the starting point at which trillions of dollars of announced datacenter projects begin to become reality and this makes Eaton an attractive way to participate in the global infrastructure boom that is forthcoming.

## LOOKING AHEAD

The second quarter of 2026 was every bit as enjoyable as the first quarter was frustrating. Strong fundamentals ruled the day and we expect continued strength in corporate profits to persist in the second half of the year. This coupled with the strong financial profile of our portfolio companies positions our portfolio well to succeed in an exciting, albeit uncertain, environment. 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*
Burke Wealth Management

## 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.*

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