Portfolio Manager Commentary
First Quarter 2020

Dear Client,

Life changed on a dime during the first quarter of 2020. The first six weeks of the year were a continuation of the fourth quarter of 2019. The US economy was strong, the global economy was improving and the major source of uncertainty for the year appeared to be the US Presidential election, which is an event that investors deal with every four years. In January, word started leaking out of China of an unknown virus that attacks the respiratory system and was spreading rapidly. In February, it became clear that this was going to be an outbreak that would not be contained to China but rather one that would spread globally, taking an unknown human and economic toll. By the middle of March, The United States and much of the rest of the developed world was on lockdown in an effort to slow the spread of this invisible enemy. Unsurprisingly, equity markets fell sharply as investors adjusted to this new reality. The speed and magnitude of the market decline was jarring. The S&P 500 fell 19.6% during the first quarter, marking the worst quarterly performance since 2008 and the worst first quarter performance of all-time. Our portfolio, due in large part to the balance sheet strength that we require of our investments, held up better than the broader market but still notched a first quarter decline of 10.1%. We head into the second quarter with less visibility than we've had since the depths of the financial crisis. In addition to a health crisis of uncertain depth and duration, investors must also contend with the impact that the recently launched oil wars will have on domestic growth. Many businesses will fail to emerge or emerge as only a shell of their former selves from this challenging period. This is not the case for our portfolio companies. We own a portfolio of "look through" companies. This means that no matter what the depth or duration of the current crisis, the companies in our portfolio have the balance sheet strength to look through the current challenges to the opportunities sure to present themselves on the other side. Our portfolio companies will not only survive but will emerge from this period in a stronger relative competitive position.

That I am writing this letter from my home office next to four industrial sized containers of peanut butter is all the reminder I need that the coronavirus is having a profound impact on the way business is being done. Obviously, we all hope that treatments that lessen the impact of the virus or, better yet a vaccine, will be discovered. However, all indications are that, while progress is being made, a vaccine will not be ready for mass distribution until 2021 at the earliest. In the meantime, the key questions surrounding this pandemic are how long we will need to remain in de facto quarantine in order to bend the curve on infections and just how deadly this virus is. At this time, we simply don't know, which is why the development of a widely available, rapid test is so critical. Once we get widespread testing in place, we will get more reliable numbers on the spread of the infection and we will also have better data as to the mortality risk faced by different age and health cohorts. This will allow informed decisions to be made as to what constitutes an acceptable level of risk when restarting the economy. This answer is going to vary based on a person's age and other underlying health factors and it is likely that some segments of the

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population will need to remain quarantined longer than others. Equally important to the diagnostic test will be the test to determine who has already had the virus and has developed the anti-bodies necessary to prevent future infection. Once better data is available on the outbreak, attention can be turned to restarting the economy and the assessment of economic damage inflicted can be made. We think that this process is necessary for markets to stabilize.

While reaching a point of near-term stability is important, the coronavirus pandemic is the type of global event that will have long-term consequences. In turn, the changes that result from this outbreak will have far reaching implications for long-term investors. The 30-year period ending with the June 2016 vote for Brexit was marked by an inexorable march towards globalization. Global supply chains and financial systems became interconnected. The Brexit vote, followed by the election of President Trump in November of 2016 signified the first step back from globalization in a generation. The trade war that dominated much of 2018 and 2019 forced companies to reconsider their supply chains. We think this pandemic will accelerate the decoupling that has occurred over the past two years. Other social norms will be up for re-examination following the pandemic. During quarantine, many consumers relied on home delivery for basic groceries. Many employees were forced to work from home for an extended period for the first time. Students were moved from physical school buildings to on-line distance learning. While the world will make it through the current outbreak, it may not be as simple as an “all clear, return to normal”. Societal changes that occur or trends that accelerate as a result of this crisis could well create a new set of long-term secular growth opportunities.

Almost forgotten amid the coronavirus outbreak is the oil war that erupted when Russia refused to cut production following the pandemic driven collapse in oil demand and Saudi Arabia responded by increasing its own production and cutting prices dramatically. Whether this conflict was driven by a tit-for-tat response between two feuding OPEC partners or a carefully orchestrated dance is hard to say. And, while it’s hard to predict a winner in a price war between a low cost producer (Saudi Arabia) and a country with greater capital reserves and the benefits of a floating and weakening currency (Russia), the loser is easy to spot- The US Shale Industry. Over the last decade, US shale production has more than doubled while Saudi and Russian production is up nominally. When OPEC plus Russia would announce production cuts in response to demand shocks, heavily levered US shale producers were there to pick up the slack and gain market share. No more. Adding supply at a time when the global economy is in a virtual lockdown has led to a collapse in oil prices to levels well below where shale producers can profitably drill. Absent a reversal of policy by Saudi Arabia, this is going to lead to a rash of bankruptcies and job losses concentrated in the handful of oil producing states that have been central to US industrial growth over the last decade. In time, the broader “US consumer” will benefit from lower gas prices. That said, the oil war is going to be a concentrated and material drag on economic growth at a time when the country is trying to recover from the shock caused by the pandemic.

One of the great things about the American psyche is that even in the depths of a crisis that puts not only our economic well-being but even our physical health in jeopardy, we still have one eye focused on what the recovery will look like. Will it be a V-shaped recovery, a U-shaped recovery, or the dreaded L? We think the answer is yes to all, and that recovery letters will be assigned on a company by company basis.

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Our portfolio is comprised of companies that will see V or U-shaped demand recoveries and as noted above, all of our companies have the financial staying power to make it through to the other side. Within our portfolio, we believe that companies such as Amazon, Alibaba, JD.com and NVIDIA, which have exposure to either internet retailing or cloud computing or both are likely to see sharp recoveries as the period of quarantine may have caused a step function change in demand for these businesses. Companies like Comcast, which owns theme parks and sports rights that have seen closures and cancellations, and Intuitive Surgical, which has seen elective surgical procedures and hospital capital equipment purchases deferred, are more likely to experience U shaped recoveries. We think the L shaped recoveries will be concentrated among the levered cyclical businesses that have seen a sharp drop in demand that their balance sheets were not prepared to weather. These are the companies that will face the type of permanent impairment of capital from which existing equity holders will be unable to recover. This is why we don't own levered cyclicals.

Fourth Quarter Portfolio Results:

Table 1 below shows the results of the Focused Growth Strategy in the first quarter of 2020, for 2019 and since inception (10-1-18) as compared to the S&P 500 and Russell 1000 Growth.

Table 1:

Portfolio / Index	Q1-20 Return	2019 Return	Since Inception
Focused Growth Portfolio	-10.1%	+37.3%	+6.7%
S&P 500 Total Return Index	-19.6%	+31.5%	-8.6%
Russell 1000 Growth Index	-14.1%	+36.4%	-1.5%

Returns are net of fees; Since inception is cumulative

As discussed above, the high quality of our portfolio and the underlying strength of the individual portfolio companies' balance sheets provided a degree of protection from the steep declines endured by the broader market in the first quarter. Prior to the coronavirus outbreak, we entered the year excited for Q4-19 earnings announcements and the initial look at 2020 guidance as our portfolio companies exited 2019 with strong business momentum. As anticipated, results were strong in the fourth quarter of 2019 and the weighted average revenue and EPS growth rate for the portfolio was 16% and 18% respectively in Q4-19. Obviously, the world has changed for the time being and economic activity has ground to a virtual standstill. That said, we believe that the strong earnings growth generated by this portfolio will return once economic activity resumes.

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Table 2 shows some notable performers during the first quarter in terms of both absolute performance as well as total contribution (% increase/decrease x weighting) to overall portfolio returns.

Table 2:

Notable Q1-20 Performers					
Positive Contributors			**Negative Detractors**		
	Performance	**Contribution**		**Performance**	**Contribution**
Amazon	+5.5%	0.33%	Comcast	-23.5%	-1.88%
JD.Com	+15.0%	0.60%	Facebook	-18.7%	-1.31%
Nvidia	+12.0%	0.60%	Intuitive Surgical	-16.2%	-1.32%

Returns are net of fees

Despite the challenging first quarter market environment, shares of Amazon, JD.Com and Nvidia all posted positive returns. This makes sense as all three companies exited the fourth quarter with tremendous business momentum and all three companies stand to benefit long-term from some of the societal trends that figure to be accelerated as a result of the coronavirus quarantine. E-commerce was gaining share from traditional brick and mortar retail back when Corona was simply a beer. What began with on-line book delivery 25 years ago has morphed into almost every retail category, including grocery. The global economic shutdown that has resulted from the pandemic will serve as the final death blow for many traditional retailers that have been struggling to stay afloat in recent years while also serving as an accelerant for on-line retailers into the grocery category. This will lead to faster share gains for leading on-line retailers like Amazon, JD.Com and Alibaba.

Another secular trend that was accelerated by the response to the pandemic is the move towards cloud computing. Millions of workers and employers worldwide are learning real-time that workplace productivity doesn't necessarily require people to congregate in a centralized location, but rather can be achieved anywhere with broadband connectivity and the appropriate cloud computing resources. In fact, a strong argument can be made that eliminating the daily commute, excessive meetings and the typical office distractions can lead to greater workplace productivity. While this could pose some long-term challenges to certain segments of the commercial real estate market, it serves as an accelerant to cloud computing trends and boosts demand for the massive data centers that support the cloud and the high-speed chips that power them. Amazon as the leader in cloud computing and Nvidia as the supplier of the high-speed chips that optimize the data center stand to benefit from this.

Just as the top positive contributors to first quarter results made sense, so too did the leading detractors. Intuitive Surgical is the unquestioned leader in robotic surgery and this remains a field that has massive long-term growth potential. That said, many healthcare systems around the world are being overwhelmed with the influx of patients suffering from the coronavirus. As a result, non-essential surgeries, which are about 50% of procedures on the Da Vinci system, are being postponed. Further, hospital capital budgets in many cases are going towards converting existing rooms to ICU rooms, adding

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beds, and expanding quarantine areas rather than towards new robotic surgery systems. This changes nothing about the long-term opportunity for Intuitive Surgical, but it does put it on pause for an undetermined period of time. This is why the strength of Intuitive's balance sheet is so important. With $5.8B of cash and investments on the balance sheet as of year-end and no debt, Intuitive can afford to wait out this near-term pause in activity while continuing to invest heavily in R&D and the buildout of its global salesforce. This is not a case of opportunity lost, but rather opportunity deferred.

Comcast is an interesting case because roughly 2/3rds of its profits are generated from its cable communications business, which figures to benefit from increased demand for broadband and television consumption during the quarantine. However, the NBC Universal division generates roughly 25% of profits and is being impacted materially by the pandemic, most notably from the shutdown of the Universal Studio theme parks and the postponement of the 2020 Summer Olympics. As is the case with Intuitive, Comcast's financial pain from the virus figures to be transitory and the company has the financial strength to power through this period of disruption.

Facebook is another interesting case. The company issued an earnings warning last month as travel, hotel and retail advertising have fallen off a cliff due to the pandemic. However, in the same release, it was noted that user engagement across all apps, which in our view is one of the most important determinants of the long-term value for this business, was up 70%. Unlike most cases when a company issues an earnings warning, we viewed the totality of Facebook's announcement favorably. We see this as another case of a cash rich company (FB has $55B of net cash on the balance sheet) that will easily withstand a near-term hit to earnings while the long-term value of the franchise continues to rise.

First Quarter Portfolio Activity:

Table 3 shows the changes made to the portfolio during the first quarter. The most notable changes made during the quarter was the elimination of Intercontinental Exchange and the initiation of a position in Masimo. Ironically, neither of these moves was due to the pandemic, although we did add to our position in Masimo late in the quarter as it became clear that the pandemic would turbocharge demand for oxygen saturation measurement. It is worth noting that because we have no exposure to the energy sector and the companies in our portfolio have the balance sheet strength necessary to weather the current storm, we were not forced to take dramatic action during the period of hyper market volatility.

Table 3:

New Purchases / Additions		
Company	**Beginning Weight**	**Ending Weight**
Masimo	0.0%	5.0%
Nvidia	4.0%	5.0%
PayPal	3.0%	4.0%

Eliminations / Reductions		
Company	**Beginning Weight**	**Ending Weight**
Intercontinental Exchange	5.0%	0.0%
Intuitive Surgical	8.0%	6.0%

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On February 4th, the Wall Street Journal reported that Intercontinental Exchange had approached eBay about an acquisition. The company confirmed that it had approached eBay about a range of potential opportunities for the two companies to collaborate but declined to go into greater detail. This was problematic for us as we owned ICE because we liked its ownership of regulated financial exchanges as well as its data subscription businesses. If we wanted to own a consumer exchange with increasing exposure to Amazon, we would have owned eBay. With ICE's fourth quarter conference call scheduled for the morning of February 6th, we decided to wait to hear directly from management before acting. Admittedly, we were expecting to hear the typical boiler plate commentary about how they look at hundreds of deals to make sure that no stone goes unturned in unlocking shareholder value and this was simply one of many conversations they have had. Instead, management gave a full-throated defense of its approach to eBay and was adamant that their competency extended to any digital exchange for any type of product, not just the financial and commodity exchanges they have historically run. As we've noted before, one of the key aspects of an investment that we must consider as long-term shareholders is management's deployment of capital. We were not supportive of deploying $30+ billion to purchase eBay and we found the expansion of scope in what management perceived to be its core competency to be alarming. As such, we sold the stock following the earnings call. Apparently, we weren't alone in our thoughts as management fielded so many calls from angry investors that the company formally announced later that day that it was abandoning talks with eBay. This entire episode left us with a sour taste. One thing that we readily acknowledge is that smart, well-intentioned individuals can sometimes look at the same fact pattern and reach a completely different conclusion. We assumed this to be the case when management confirmed its pursuit of eBay and doubled down two days later by presenting an expanded definition of its market opportunity. That the company reversed course on what would have been a generational deployment of capital after several hours of angry investor calls makes us think that perhaps the whole thing wasn't thought out as carefully as we had assumed. Better opportunities lie elsewhere.

In this case, the better opportunity was a health care company called Masimo. Masimo manufactures and markets noninvasive monitoring products and is the global leader in pulse oximetry, the measurement of oxygen saturation levels in patients. Masimo's Signal Extract Technology (SET) is the gold standard in pulse oximetry as it allows for accurate measurement of oxygen saturation levels while patients are in motion. In addition to its leadership position in pulse oximetry, Masimo has expanded its portfolio of noninvasive measurements to include advanced respiration monitoring, hemoglobin monitoring and brain function monitoring- all using its proprietary Signal Extraction Technology. We bought Masimo because we believed the company would continue to gain substantial market share in the pulse oximetry market and build out its other non-invasive measurement offerings. We also thought that the shares could deliver asymmetric upside should the company achieve success in either its hospital automation or opioid safety net initiatives. At the time of purchase, we had no idea how aggressively coronavirus was going to spread outside of China and were not counting on upside from virus driven demand for oxygen saturation measurement. Things have changed and we recently increased our weighting in Masimo as a result. Pulse oximetry measurement is used in ~100% of ICU beds, 100% of NICU beds, and ~10% of regular hospital beds. Because declining oxygen saturation levels is a key indicator that a coronavirus patient is in distress, the use of standard in-hospital pulse oximetry is going to rise as a result of this crisis. Further, the opioid safety net product that was originally designed to be an at home product that would detect labored breathing and declining oxygen saturation in opioid users (both legal and illegal), seems to be a glove fit for the needs of the health care system in this current crisis. Masimo looks to be one of the rare companies that could see a material benefit from the coronavirus pandemic.

The coronavirus outbreak is the type of exogenous shock that you can't predict, but better be prepared for. We talk a lot about the growth prospects for our portfolio companies, with good reason, but it is the balance sheet strength that allows them to weather unforeseeable events without suffering a permanent impairment of capital. To be sure, our portfolio was not immune to the broader market declines suffered during the first quarter nor was it immune from extreme bouts of volatility. That said, we do not see any instances within our portfolio of permanent impairment and believe that the favorable tailwinds that were in place for our portfolio prior to the pandemic will resume once the outbreak has been controlled. We close every investor letter inviting you to reach out in the event you have any questions and I want to emphasize this given the unprecedented uncertainty we currently face. Please don't hesitate to reach out if you have any questions or concerns. We are grateful for the trust you have placed in us and look forward to calmer times ahead.

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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