Portfolio Manager Commentary

Third Quarter 2021

Portfolio / Index	Q3-21 Return	2021 YTD Return	1-Year Return	2-Year Return	3-Year Return
Focused Growth Composite	-1.40%	+9.8%	+19.1%	+33.7%	+23.8%
S&P 500 Total Return Index	+0.58%	+15.9%	+30.0%	+22.3%	+16.0%
Russell 1000 Growth Index	+1.16%	+14.3%	+27.3%	+32.3%	+22.0%

Returns are net of fees as of 9/30/21 and are annualized unless less than 12 months; 2021-Q3 composite returns are preliminary

Dear Client,

Our Focused Growth portfolio declined -1.40% during the third quarter versus a gain of 0.58% for the S&P 500 Index. September was not a kind month for the market as investors endured the first 5%+ correction since the previous September. This was after a strong first two months of the quarter largely driven by solid Q2 results reported in July/early August. Our portfolio companies reported tremendous second quarter growth with 14 of 20 holdings achieving revenue growth of greater than 20% in the period. Although Q2-20 was impacted by Covid, it is important to note that weighted average revenue growth for the portfolio during that quarter was 14% so the operating performance of our portfolio companies has been strong across two very different periods. The third quarter is an odd part of the year for the market as lower summer trading volumes are coupled with investors starting to take an early look at the next year. Adding to that, odd years tend to be when major legislative changes are debated and sometimes even occur as our courageous leaders in Washington typically spend even years campaigning more than legislating. This year was no different and the political debate over levels of spending, regulation and taxation certainly ramped up during the third quarter of this year. Add into the equation a summer spike in Covid, continued disruption of the global supply chain and an on-going debate about the duration of the recent uptick in inflation and you have a period of heightened uncertainty. We often talk about owning a portfolio of companies that can thrive in a variety of regulatory and macro-economic backdrops. Now is a great example of why this is so important. As long-term investors seeking to own businesses that compound sustainable growth over extended periods of time, we don't face quite the pressure to accurately forecast the pace and magnitude of the economic recovery or the exact levels to which taxes and spending will rise. We just need to make sure that the competitive advantages of the companies we own remain intact and that the business models that created these advantages are able to adapt to a changing environment, whether it be macro-economic, regulatory or otherwise. To be sure, this is a different type of challenge than accurately forecasting next year's economic environment, but it is one that we are much better equipped to take on.

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A Look Back on Three Years of Focused Growth

With three years of results now in the books for our Focused Growth Strategy, now is a good time to take a look back at our experience since inception and see what lessons we can glean that can help inform our decision making going forward. Three years is an important milestone for a number of reasons. First and foremost, risk adjusted projected returns over a three year period is one of the most important things we consider when making investment decisions. We view three years as an appropriate amount of time over which long-term business fundamentals overwhelm short term rotations and drive returns. As such, we ask our clients to judge our results on a three year basis.

Figure 1 shows the earnings growth and share price performance of 9 of our holdings that have been in the Focused Growth portfolio since inception versus the S&P 500. There is a lot of information to unpack in this chart, but what we want to focus on is the uncanny stability of the earnings multiple relative to the S&P 500 for this group. What is the relative multiple and why is it important? The relative multiple is the price to earnings multiple afforded a company versus the price to earnings multiple afforded the S&P 500 index. For the purpose of this exercise, we look at the earnings multiple of these companies on 2018 earnings when purchased, the current multiple on 2021 earnings and the earnings multiple for the S&P in 2018 and 2021. The relative multiple captures current thinking about the earnings growth, earnings durability and financial stability of a company versus the broader market. Companies with faster growth than the broader market, more durable competitive advantages and greater financial stability are going to command higher earnings multiples. Obviously, given our investment philosophy, our holdings are going to command higher current period multiples than the broader market. Our outperformance occurs when this gap is maintained or even expanded in the face of faster earnings growth relative to the market over a period of time.

Figure 1: A Three Year Lookback

Company	Ticker	Price: 10/1/18	Price 9/30/21	2018 EPS	2021 EPS	EPS Growth	Share Price Appreciation	2018 P/E	Current 2021 P/E	Relative P/E 2018	Relative P/E 2021	Change in Relative P/E
Adobe	ADBE	$271.76	$575.72	$6.77	$12.67	87%	112%	40.1	45.4	2.2	2.1	-0.1
Alphabet	GOOG	$1,199.89	$2,665.31	$45.02	$103.51	130%	122%	26.7	25.7	1.5	1.2	-0.3
Blackrock	BLK	$474.36	$838.66	$26.91	$40.94	52%	77%	17.6	20.5	1.0	1.0	0.0
Comcast	CMCSA	$35.53	$55.93	$2.69	$3.34	24%	57%	13.2	16.7	0.7	0.8	0.1
Facebook	**FB**	**$163.03**	**$339.39**	**$7.58**	**$14.42**	**90%**	**108%**	**21.5**	**23.5**	**1.2**	**1.1**	**-0.1**
Intuitive Surgical	ISRG	$575.15	$994.15	$10.99	$16.60	51%	73%	52.3	59.9	2.9	2.8	-0.1
Mastercard	MA	$224.84	$347.68	$6.47	$8.18	26%	55%	34.8	42.5	1.9	2.0	0.1
United Health	UNH	$267.25	$390.74	$12.87	$19.71	53%	46%	20.8	19.8	1.1	0.9	-0.2
Visa	V	$150.89	$222.75	$4.95	$6.28	27%	48%	30.5	35.5	1.7	1.7	0.0
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S&P 500		**$2,926.29**	**$4,307.54**	**$161.93**	**$201.55**	**24%**	**47%**	**18.1**	**21.4**			

Maintaining a premium valuation is all about the durability of a company's competitive advantage and whether the protective moat around its business is expanding, contracting, or holding steady. When we talk about making investment decisions based on a three year outlook this means that we are thinking about both the price we are paying on projected earnings three years out and what the competitive dynamic for the business is going to look like in the future. The easiest way to illustrate this is to look at a real life example. Take Facebook. Over the past three years, Facebook has returned 108% versus 47% for the S&P 500. When we bought Facebook in 2018, it was trading at 21.5x 2018 earnings versus the S&P

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500 which traded at 18.1x 2018 earnings, which equates to a 19% premium on current year earnings. Fast forward three years and we see that Facebook will have grown earnings 90% versus earnings growth of 24% for the S&P 500 over that period. This means that in October of 2018, Facebook was actually trading at just 11.3x 2021 earnings ($163.03/$14.42) versus the S&P 500 which was trading at 14.5x 2021 earnings ($2,926/$201.55). Using a three year time horizon when making the investment meant that we were confident that we were buying Facebook in 2018 at a substantial discount to the market based on earnings three years out. Further, we were confident in the durability of Facebook's competitive advantage and indeed it has remained solidly in place and the secular trends towards digital advertising continue. Looking forward to the next three years, we project that Facebook will compound earnings at a 20% rate while the S&P will do so at a high-single-digit rate and we remain confident in the durability of its advantage. This is despite Facebook seemingly being the one company that can sometimes unite the entire country in shared disdain for certain business practices. Still, so long as Facebook is able to avoid regulation that truly changes the competitive dynamic, it will remain a core holding.

Third Quarter Notable Performers:

Table 1 shows some notable performers during the quarter in terms of both absolute performance as well as total contribution (% increase/decrease x weighting) to overall portfolio returns. On the positive side of things, we will discuss Alphabet and Accenture. Alphabet has been one of the top performing holdings in 2021 and it is worth taking a closer look at some of the positive dynamics that are driving performance. Accenture is one of our steady-eddy holdings that has consistently outperformed expectations. On the negative side of the ledger, StoneCo must be addressed and we will also talk about PayPal and why we have a different view on second quarter results than the conventional wisdom.

Table 1:

Notable Q3-21 Performers					
Positive Contributors			**Negative Detractors**		
	Performance	**Contribution**		**Performance**	**Contribution**
Alphabet	+6.3%	+0.51%	StoneCo.	-48.2%	-1.06%
Accenture	+8.5%	+0.26%	PayPal	-10.7%	-0.86%

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

Despite taking a recent hit from the mid-September tech swoon, shares of Alphabet are up over 50% on the year. Alphabet's results thus far this year have bordered on the absurd. Revenues are up 47% in the first half versus 2020 and earnings per share are up 168%. Even when smoothing out the pandemic impact, the results are equally impressive with revenues and earnings per share up 56% and 105% respectively versus 2019 levels. While the core search business is performing well and benefiting from the reopening of global economies, businesses such as YouTube and Google Cloud are gaining traction, delivering exceptional growth, and at roughly 20% of total revenues are now large enough to provide a meaningful tailwind to growth going forward. While we certainly admire Netflix's streaming business (more on that later), a case can be made that YouTube is the most valuable streaming property in the world. YouTube

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will generate advertising revenues of $30B in 2021, subscription revenues of ~$4B and in total will grow over 50% this year. The business is gaining traction and is reaching the point where it will account for greater than 20% of Alphabet's incremental growth going forward. Google Cloud, while admittedly well behind Amazon and Microsoft in the cloud space, is now $19B business that stands on the verge of making the transition from operating at a loss to positive operating income. This has been an area that has seen dramatic investment in recent years to go along with a management change. The scale necessary to show profitability has been achieved and the opportunity in cloud computing remains generational.

Accenture is the world's leading consulting business and effectively serves as the tour guide for companies making the transition from analog to digital. This is why we bought the stock and this thesis remains firmly intact. What has surprised us with Accenture is how consistently results have outperformed our expectations since our purchase. While Accenture's consulting/outsourcing model is well understood as are some of the major tailwinds supporting its growth, we have recently increased our long-term growth outlook for this business due to increasing exposure to stellar growth categories coupled with our belief that bolt-on M&A can provide a nice long-term, accretive boost to earnings growth. Accenture estimates that its cloud related business grew from $12B to $18B in the most recent fiscal year and that we are only 20%-25% complete on cloud transformation. Further, its "Industry X" vertical which provides artificial intelligence solutions to product development, engineering, manufacturing and supply chain clients is now a $5B business growing 36%. Together, these two verticals account for ~40% of Accenture's business mix which should argue for a higher cruising speed of future growth. Finally, Accenture spent $4.2B on bolt-on acquisitions in its most recent fiscal year which is a good reminder of the vast opportunity for the company to make accretive acquisitions that plug seamlessly into its global client base. Overall, Accenture remains a steady grower and the rate of growth looks like it will be more than we initially contemplated.

StoneCo has been a terrible investment from the moment we bought the stock with the pain seemingly getting worse each day. The stock is down 60% year-to-date and the obvious question is why do we still own it and if it is good enough to hold, why isn't it good enough to buy more at these depressed levels? We bought StoneCo because we believed that its base business of facilitating credit/debit card acceptance at small to medium sized Brazilian companies was a long-term growth opportunity that StoneCo was well-positioned to exploit due to its unique, high-service driven culture. We also thought that there was substantial opportunity to sell these same clients ancillary financial services as well as cloud based software solutions. Shortly after our purchase, Brazil became the epicenter for the Delta variant, which put near-term pressure on financials and delayed the expected rebound from Covid. This was frustrating, but we decided to maintain our stake while management worked through this issue. The second problem for StoneCo came in the form of its credit issuance product. Basically, StoneCo was rolling out a credit solution for its clients that would involve loans backed by accounts receivables (one of the ancillary financial services we were waiting to be sold). This roll-out occurred at the same time that the Brazilian government created a central registry for any players in this market that would monitor the receivables pledged and regulate the rates charged to these businesses. While StoneCo ultimately planned to syndicate these loan portfolios and take a spread without assuming credit risk, the initial roll-out would be backed by its balance sheet. Unfortunately, the registry roll-out was not smooth and created an opportunity for small businesses to effectively double pledge their receivables. The financial stress from Covid meant that more than a few companies took advantage of this situation. As such, StoneCo took a

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major write-down in the second quarter and has halted its credit issuance business until such time as the registry is working as intended. The company still believes that this will be a lucrative business and it is very possible that it will recoup some of the losses incurred. From our standpoint, we have made the decision to hold the stock until we see resolution to this matter. The lack of certainty with regards to timing and poor initial execution keeps us from adding to our stake. Should we fail to see suitable progress within the next two quarterly reports, we will exit our position in StoneCo.

PayPal shares fell sharply following the release of second quarter results which saw earnings grow 7% on a 19% gain in sales. While the headline numbers were not exactly stellar for a leading fintech company with exposures to the fastest growing areas of the digital payments sector, a closer look reveals that PayPal's removal from Ebay was a $0.27 earnings hit during the quarter and that Q2 represented the peak headwind from this separation. Excluding the Ebay impact, which is one-time and occurring faster than anticipated, PayPal's transaction processing volume increased 48% during the quarter. Ebay will be an 8% hit to revenues in 2021 and more than a dollar hit to EPS this year. Going forward, it will be less than 3% of PayPal's volumes and an immaterial impact on earnings. What is left of PayPal is a company with accelerating growth trends that will deliver faster revenue and earnings growth in the 2022-2025 period than it delivered the prior few several years, which were pretty strong years in their own right. PayPal has accelerated its investment and recently launched its new digital wallet. The company is strengthening its two-sided network with strong growth in new accounts and merchants served. Once the drag from Ebay is in the rearview mirror, the true growth of this business will be more apparent for all to see.

Third Quarter Portfolio Activity:

Table 2 shows the changes made to the portfolio during the quarter. We added a position in Netflix and slightly increased our weighting in Blackrock. These purchases were funded from a variety of companies across the portfolio.

Table 2:

New Purchases / Additions		
Company	**Beginning Weight**	**Ending Weight**
Netflix	0.0%	4.0%
Blackrock	3.5%	4.0%

Source of Funds
Company
Amazon, JD.Com, Masimo, Nvidia, Spotify

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

There are three reasons why we eliminate or reduce a position: 1. An event occurs that invalidates or calls into question our investment thesis. 2. Our investment thesis has played out and the future outlook is less certain or less attractive than the past. 3. We have other opportunities within the portfolio or on our watch-list that demand funding. While we've certainly been faced with all three scenarios, far and away our favorite type of turnover is the one driven by door number 3. This is what occurred in the third quarter. We had one new position (Netflix) that we needed to fund and an existing position (Blackrock)

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that we wanted to increase and although there were not any existing holdings that called for material reduction or outright liquidation, we were able to source funding for these purchases by making tactical reductions to stocks that had achieved material near-term appreciation and pulling back the weighting on others where the risk profile had increased.

Netflix is a company we've followed closely since before the launch of our Focused Growth Strategy. Although we've long admired the company's leadership position in content streaming, we've never been able to gain the comfort level necessary to purchase the stock. So, the obvious question is what is different this time that allowed us to move Netflix from a watch-list company with traits that we admire to holding in the portfolio? Simply stated, we believe that over the course of the 3+ years that we have followed the company that Netflix has become a more financially mature business whose future returns will be driven by earnings growth as opposed to a story stock in which returns are driven by growth in subscribers with little attention paid to earnings. Story stocks can be great, but you had better get in them early while the plot is still in question. The transition from a story driven stock to an earnings supported stock can take a while and is usually a period of subpar returns. This is what we think occurred with Netflix over the last couple of years and now, we believe that the company that has emerged is one in which revenue growth will be more balanced between subscriber growth and pricing, the natural operating leverage of the model will become more apparent, and future content spending will be funded by cash flow from operations rather than a reliance on the capital markets.

Netflix has over 200M subscribers, revenues in excess of $25 billion, and a presence in 190 countries. Netflix was first to the streaming content game and maintains its leadership position. That said, due to the size and attractiveness of the market, competition in streaming is increasing. Time for some full disclosure. I am not on the cutting edge of popular culture. I didn't watch Tiger King last year, I don't intend to watch the new series about Squid Games, and until recently I thought it was still fine to wear pleated slacks. As such, I may not be best positioned to identify which company or which content is going to be the next trendsetter in popular culture. That said, I do understand business models and I think that Netflix's pure subscription model is a distinct advantage in this space. The reason for this is that legacy players such as Disney, Comcast, and Viacom have to decide the best way to monetize content, new or from their library, whereas Netflix only has to focus on creating content that increases the value of its monthly subscription. The ability to source and distribute content globally is another advantage. Finally, a subscription model is conducive to expansion into other tangential types of content, such as gaming, that can be streamed. We think these advantages position Netflix to maintain long-term pricing power and relevancy in an increasingly competitive market.

Blackrock is one of the original Focused Growth portfolio constituents and our ownership has been based on the simple thesis that consistently positive fund flows due to Blackrock's leadership position in ETFs, ESG and various alternative products makes this a fairly simple beta plus investment in which market returns are represented by beta and the plus is the positive fund flows. Further, the favorable mix shift due to growth in higher priced alternative products helps offset fee compression in index related ETFs. This story is starting to change in a direction favorable to Blackrock and as such, we modestly increased our weighting in the company in the third quarter. Through the use of technology, Blackrock is able to provide clients with customized portfolios that can reflect a specific client's desires regarding matters such as risk and socially conscious investing. The ability to add this type of personalization to what would have otherwise been a collection of commodity products should help combat price compression and could even allow for price expansion in categories where price competition has been fierce. The transition of technology from being price deflating to one where it is value added is an important development for Blackrock.

We are grateful for the three years we have had managing our Focused Growth Strategy and look forward to many more to come. During the past three years, we have experienced numerous rotations, a Fed tightening cycle, a recession, a Presidential election and even a pandemic. There have certainly been many ups and downs but we have tried to keep out the noise and maintain our focus on the underlying business fundamentals of our portfolio companies. This has allowed us to deliver strong results while maintaining some semblance of sanity. We thank you for the trust you have placed in us and as always, please don't hesitate to reach out if you have any questions 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 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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