# Portfolio Manager Commentary

# Second Quarter 2021

| Portfolio / Index | Q2-21 Return | 2021 YTD Return | 2020 Return | 2019 Return | Since Inception |
|---|---|---|---|---|---|
| Focused Growth Composite | +13.0% | +11.3% | +45.3% | +37.3% | +91.9% |
| S&P 500 Total Return Index | +8.5% | +15.3% | +18.4% | +31.5% | +55.2% |
| Russell 1000 Growth Index | +11.9% | +13.0% | +38.5% | +36.4% | +79.0% |

*Returns are net of fees; Since inception is cumulative; 2021-Q2 composite returns are preliminary*

Dear Client,

Our Focused Growth portfolio delivered strong 13.0% gains during the second quarter, outpacing the also strong 8.5% gains for the S&P 500 Index. On the surface, the second quarter looked a lot like the first quarter for the broader market in that equities continued their steady grind higher. Underneath the surface was a constant passing of the baton between early cyclical stocks (the re-open trade) and secular growth businesses (your Focused Growth portfolio). We counted four very noticeable rotations between these two groups in the second quarter. The back and forth battle for market leadership is understandable given the level of macro-economic uncertainty as it relates to the duration and magnitude of the economic rebound and long-term inflation expectations. For our part, we remain focused on the underlying fundamentals of our portfolio companies and on that front, the news has been consistently good. The weighted average revenue growth reported by our portfolio companies for Q1-21 was 26%. While it is certainly fair to note that this number was boosted due to a comparison with the pandemic impacted first quarter of 2020, it is also important to remember that the weighted average revenue growth for that period was 12%. This means that revenues for our portfolio companies have compounded by ~19% per year over the last two years. The point is that despite a dynamic and often uncertain macro-economic environment, the companies in our portfolio are delivering consistently excellent performance.

Interest rates, market rotation and inflation have been recurrent topics during the first half of the year. These topics are often misunderstood or oversimplified. So, I want to take a closer look at each of them but before we do, let's take a 30,000 foot view of how they work together. Let's start with the traditional economic cycle. An improving growth outlook means higher return expectations for a greater number of projects which drives more economic activity. This drives interest rates higher as businesses compete for capital. This competition can cause excesses in parts of the economy and after a while, increasing competition for finite resources such as labor and materials leads to inflation, which puts the economy at risk of recession. Existing slack in the market for labor and materials at the beginning of a cycle coupled with increased productivity are the factors that allow for a strong economic cycle to persist before the onset of inflation. The Federal Reserve is tasked with using monetary policy (Fed Funds Rate and the size of the Fed's balance sheet) to achieve full employment with moderate inflation. Our political heroes in Washington are responsible for setting fiscal policy (tax, spending, and regulatory) and in a perfect world, monetary and fiscal policy complement each other to the benefit of the economy. All the while, equity



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markets rotate constantly as different sectors, different geographies and sizes of companies move in and out of favor throughout the economic cycle.

My deepest apologies to anyone feeling a sense of PTSD with the trip down memory lane to Econ 101, but I wanted to set the backdrop so that we can now shift our focus to the individual topics of interest rates, market rotation and inflation and their impact (both near-term and long-term) on the equity markets and most importantly our portfolio companies. Let's start with interest rates. Finance theory tells us that the value of a company is the sum of all future cash flows discounted back to the present day by a rate that consists of the risk-free interest rate plus the equity risk premium for the company. This is easy enough but it is often oversimplified to "lower rates good for stocks, higher rates bad for stocks". If this were the case, Japan would have been the strongest performing equity market over the last 30 years- spoiler alert, it wasn't. So long as higher rates are driven by the expectation of higher long-term real GDP growth, this can be an outstanding backdrop for equity markets. Look no further than the 1990's when massive productivity gains driven by the technological revolution led to exceptional market returns (S&P 500 return CAGR of 16%) during a decade where interest rates averaged 6.7%. Conversely, an environment where interest rates are driven by inflation rather than real growth is terrible for equities. During the 1970s interest rates averaged 7.5% (not too different from the 1990s), but the S&P 500 return CAGR was just 1.6%. The lesson of these two decades is that real growth is able to overcome whatever valuation pressures that accompanying higher levels of interest rates applies to equities. For our portfolio companies, most of which are highly profitable and scalable businesses with strong secular tailwinds, an environment of strong real GDP growth would be an ideal backdrop as these companies are best equipped to take advantage of expanding economic opportunities.

Market rotation is a topic that consumes a lot of oxygen on CNBC. There are so many different types of rotations: Early Cycle/Mid-Cycle/Late Cycle Sector Rotations, Small Cap/Large Cap, Developing Market/Emerging Market, Stay at Home/Re-open (thanks Covid) and last but certainly not least, Growth/Value. On a personal note, the Growth vs Value debate always makes me roll my eyes. I am a growth manager and I can assure you that every single company in our portfolio is held because of our belief that the long-term growth prospects of our companies means that their stocks represent tremendous value at current levels. In general, I think of the stock market as an upward sloping line with the slope of the line from point A to point B equal to earnings growth. The Burke Wealth Management Focused Growth Strategy lives on this line. Over this line is a sine wave. This represents the different rotations and trading these cycles is the purview of rotation managers who tend to be more driven by changes in the macro-economic outlook. Rotations are driven by a manager's perception as to where we are in the economic cycle and the relative value between different equity asset classes. The large and liquid ETF market has made it easy for rotation managers to express their opinions much faster than was possible in prior cycles. This has expanded the pool of rotation managers, compressed the time period in which rotations occur and, in general, made them more violent. As it relates to our strategy, market rotations tend to be benign or beneficial to secular growth companies during the bulk of the economic cycle with one notable exception being the early part of the cycle when the economy is emerging from recession and the rate of economic growth is spiking. This is when the cyclicals, small caps and lower



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quality stocks shine. The reason for this is that during this portion of cycle the high cruising speed of growth achieved by our portfolio companies is no longer rare and in many cases trails the growth rates of cyclical companies bouncing off a sharp bottom or low quality businesses whose long-term outlook is upgraded from dead to going concern.

While we are aware of market rotations, we do not try to time them. This is not due to some sort of purity constraint or an aversion to profits, but rather a realization that managers that try to be all things at all times usually wind up destroying capital. This is not to say that there are not many great rotation investors because there are. It is just that top down driven rotation strategies are a different skill set than bottoms-up driven growth strategies. We are steadfast in our belief that our bottoms-up, fundamental research driven strategy of owning superior long-term growth businesses is an outstanding way to protect and grow wealth over time.

The final topic we will look at in this letter is inflation. Inflation is arguably the most misunderstood, oversimplified, and important of the three topics we are addressing. The most common misconception about inflation is that it is bad. Not only is it not bad, but a modest level of inflation is desirable. This is why the Federal Reserve targets 2% inflation and not 0%. The expectation of consistent increases in consumer prices helps spur current period economic activity. Also, modest inflation is helpful for businesses that run revenues over cost structures that have a component of fixed cost. Another misconception is that inflation has been low since the Financial Crisis. While it is true that, in aggregate, the inflation rate as measured by CPI has consistently failed to reach the targeted 2% level for over a decade, it is also true that many areas of the economy have experienced undesirably high rates of inflation during this period (think education, health care and a good portion of service related industries). Finally, what is well understood is that investor expectations regarding future levels of inflation has a material impact on equity markets. This is because changes in inflation expectations will be reflected in equity valuations a lot faster than any benefit from higher levels of nominal revenue growth.

As it relates to our portfolio companies, let us first acknowledge that a step function increase in inflation expectations will pressure valuations, just as it will with the rest of the market. That said, we view our portfolio as well positioned to combat inflationary pressures. From an operations standpoint, many of the companies we hold have been dealing with inflationary pressure on wages for some time. Wage inflation for computer scientists, software engineers, and many other knowledge workers has been persistent for years. Further, because so much of the value of many of our portfolio companies is derived from the compounding effect of decades of investment in research and development that has resulted in massive intellectual capital, it is reasonable to view these businesses as having very high sunk costs. Finally, we seek to hold companies that provide necessary and valuable goods and services which means that we would expect the companies in this portfolio to be able to pass along excessive cost pressures in the form of pricing. In sum, a reset in inflation expectations will matter to near-term portfolio returns. However, we believe that the companies we own will be able to adapt to a changing environment and continue to deliver superior growth, which will drive long-term returns.



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## Second 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. Given the strong second quarter performance, there were plenty of positive contributors to choose from for this section. Of the three holdings that delivered negative Q2 performance, two (Alibaba and Abbott) will be discussed in depth in the purchases/sales portion of this letter. We will take a look at Nvidia, Intuitive Surgical and Adobe on the positive side of the ledger this quarter and JD.Com and Comcast (despite the fact that Comcast shares were marginally higher during Q2) on the negative side of the ledger for Q2.

Table 1:

| Notable Q2-21 Performers | | | | | |
|---|---|---|---|---|---|
| **Positive Contributors** | | | **Negative Detractors** | | |
| | **Performance** | **Contribution** | | **Performance** | **Contribution** |
| Nvidia | 49.9% | +2.7% | JD.com | -5.4% | -0.3% |
| Intuitive Surgical | 24.5% | +1.5% | Comcast | +5.4% | +0.4% |
| Adobe | 23.2% | +1.2% | | | |

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

**Positive Contributors**

**Nvidia:** In our view, there were three discrete issues that drove the breakout in Nvidia shares during the second quarter: the announcement of a 4-1 stock split in July, developments related to the proposed Arm Holdings acquisition, and a growing realization that the opportunity in the data center is enormous and enduring. The first two items don't really move the needle for us while the third is central to our investment thesis. Starting with the stock split, I've never understood the enthusiasm from certain investors surrounding the announcement of a stock split. I've always wondered if these people slap high fives with the bank teller when they break a $20. Regardless, this is the world we live in and although it is a non-issue in our view, I suppose anything that draws attention to what is going on with Nvidia is a positive. The proposed $40B acquisition of Arm Holdings on the other hand is a very real issue and one that will continue to drive volatility (both good and bad) in the shares. It is rare for us not to have a strong opinion on a deal of this size for one of our holdings, but that is where we are. On the one hand, we view Jensen Huang as a visionary CEO and when he says that Arm Holdings has great strategic value to Nvidia, his words carry a lot of weight with us. On the other hand, given the recent announcement that Nvidia had developed its own CPU chip (Grace) on the Arm platform, we don't view the consummation of this deal as essential to fulfilling Nvidia's vision of an integrated GPU/DPU/CPU offering. As such, we are relatively indifferent as to whether or not this acquisition is approved. Further, we are skeptical that it will ultimately win approval given that approval requires the blessing of the world's three largest regulatory bodies (US, EU, China). Still, we must acknowledge that our views on the matter may not match with market views and we do take note of the fact that Nvidia shares spiked 5% the day that several major competitors/industry participants came out in favor of the deal.

The massive opportunity in the data center and what it implies for Nvidia is the issue on which we are most intently focused. When we talk about the data center opportunity for Nvidia, it is important to note that this opportunity goes far beyond the large and growing demand for high speed chips to power the infrastructure of the hyper scale cloud computing businesses around the world. Indeed, this opportunity will ultimately stretch to the "edge" of the network and to the so called "internet of things" that will require artificial intelligence and inference capabilities to meet consumer demands. Nvidia is at the forefront of this future. Nvidia's opportunity in data center is even more valuable when you consider that it is a different end market with different demand cycles from the legacy gaming business and even future automotive business. Taking a step back, a different picture begins to emerge of what Nvidia could be versus what it has been. In that, we mean that Nvidia appears to be becoming a more diversified, less cyclical business than it has been historically.

**Intuitive Surgical:** If Intuitive Surgical were one of your Thursday night poker buddies, it would be the guy who showed up in a neatly pressed shirt and slacks, brought flowers to your wife, drank sparkling water all night, played perfectly and politely took everyone's money (I myself have an undistinguished history of being the polar opposite type of player). Intuitive's management is not promotional, but they are sitting on pocket aces. After a year in which surgical procedures world-wide were often deferred and visibility was non-existent due to Covid, Intuitive saw 18% procedure growth in the first quarter and offered guidance of 22%-26% procedure growth for the year. This was light years ahead of expectations and took the market by surprise. More importantly, Intuitive is using its scale to drive down the cost of its surgical instruments, increasingly offering customers the option to lease rather than buy Da Vinci systems, and making great strides in the area of surgeon training. All of this has the effect of dramatically increasing the number of procedures in which robotic surgery is a cost competitive option and greatly strengthening Intuitive's competitive moat. In short, Intuitive is creating an ecosystem in the surgical area of the hospital whereby they become more of a partner and less of a supplier to hospital systems worldwide.

**Adobe:** For a cloud software business with over $15B in revenues, 20%+ revenue growth and 40%+ operating margins, Adobe hasn't gotten the adulation it deserves in these letters. When we look at cloud based software businesses, we look for companies with high customer retention rates and innovation driven pricing power. This describes Adobe perfectly. Adobe's core business is facilitating digital content creation. This is valuable for global marketing professionals as well as amateurs. Adobe is constantly developing new tools to facilitate content creation, whether it be from the photo library or in video. This drives value to customers which in turn drives retention and allows for consistent pricing. What was remarkable about Adobe's fiscal second quarter results is that they were unremarkable. By that we mean that despite the disruption caused by the pandemic and subsequent reopening of global economies, the



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steady Adobe money train stayed on the tracks without missing a beat. The business was not disrupted because it is digital and the inability of the sales team to travel wasn't a material issue because of the subscription model. Even when other great cloud based software companies noted an uptick in seasonality due to the economic closing/re-opening, Adobe's results remained steady and spectacular. The addressable market continues to grow as Adobe sits at the center of content creation for digital marketing and as it does, so too does the expected duration of Adobe's above-trend growth.

**Negative Detractors**

**JD.Com:** Shares of JD.Com fell 5.4% during the second quarter and while we readily acknowledge an uptick in regulatory scrutiny across the broader Chinese Technology sector, we believe that some of the weakness in JD is spill over from very disappointing 2021 profit guidance issued by Alibaba (more on that later). When Alibaba announced results for its March quarter, it also announced that all incremental profits over the next fiscal year would be reinvested back into the business. This is a fancy way of saying there would be no growth. Heading into the JD's earnings release, we were admittedly nervous that the uptick in Alibaba's "investment" would occur across the Chinese e-commerce industry. Happily, this was not the case at JD's revenues grew 50%, EPS 36% and most notably the profit growth and margin expansion story remained intact. To be fair to Alibaba, JD's margin structure is very different and is coming from a low-single-digit base whereas Alibaba's margins are still north of 20%. This is due to the fact that Alibaba's initial business model was to take commissions on sales over its platform whereas JD took ownership of the inventory and logistics network. Now, these two business models are converging and margins are moving in opposite directions as a result. While scale in retail and logistics over a large fixed asset base is the fundamental driver in JD's long-term margin story, it is important to note that the higher margin portions of the business (services) now represent 14% of revenues and grew 45% in 2020 and 73% in the first quarter. Although the regulatory scrutiny on both of these company's has certainly increased, this is a risk we are willing to tolerate so long as the long-term revenue growth and margin expansion story at JD remains intact.

**Comcast:** To be fair, shares of Comcast appreciated 5.4% during the second quarter so it wasn't technically a negative detractor to returns. However, the stock underperformed the rest of the portfolio, it is a large weighting and there is plenty of controversy in the name that needs to be addressed. We increased our weighting in Comcast in December because we love the setup for the company starting in the second half of 2021 and extending for a multi-year period and didn't want to get cute on timing. Fundamentals in the broadband/cable business which represent ~70% of profits are as strong as they've been in years and both Comcast and Charter appear to be through the worst of the cord-cutting headwind and are now reaping the benefit of higher margin, less capital intensive broadband only users. It is in the 30% of the business that is NBC Universal and Sky where Comcast profits are poised to bounce sharply off of a pandemic induced bottom that will drive well above trend growth over the next couple of years. This coupled with the fact that the balance sheet is finally repaired following the 2018 acquisition of Sky means that massive amounts of excess cash will be available to return to shareholders via a resumption in share



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repurchase. Consequently, the cheapest stock in our portfolio from a multiple standpoint is one that can deliver earnings growth well north of 20% over the next couple of years. All of this is possible and all management needs to do to realize this dream is avoid kicking the ball into its own net. The own goal in question here would be an acquisition of Viacom. It is conventional wisdom that Comcast needs to make an acquisition to achieve global scale for its Peacock streaming business and now that Time Warner and Discovery have merged, the only remaining logical target is Viacom. We disagree. Putting aside the enormous regulatory hurdles of such a deal (a merger of NBC and CBS will not be approved by regulators), we just don't think it makes any sense whatsoever to spend ~$40B to become the number 4 global player in streaming. Further, we think Comcast already has a very elegant way to participate in streaming between its ad supported Peacock offering and its 1/3 stake in Hulu, which could be worth close to $20B by the time they exercise the put option to Disney in 2024. Finally, judging by every public statement made by management, it appears that they agree with our stance. Unfortunately, the only way to lift this overhang is through time and demonstrated action. So, if Comcast is able to resist a self-sabotaging acquisition, we think that the shares will benefit both from strong earnings growth and an upward re-rating in valuation.

## Second Quarter Portfolio Activity:

Table 2 shows the changes made to the portfolio during the quarter. We sold our positions in Alibaba and Abbott during the quarter and reallocated those proceeds across several existing positions that warranted higher weightings.

Table 2:

| New Purchases / Additions | | |
|---|---|---|
| **Company** | **Beginning Weight** | **Ending Weight** |
| PayPal | 6.0% | 8.0% |
| United Health | 5.0% | 7.0% |
| ServiceNow | 3.0% | 4.0% |
| Amazon | 6.0% | 7.0% |

| Eliminations / Reductions | | |
|---|---|---|
| **Company** | **Beginning Weight** | **Ending Weight** |
| Alibaba | 2.5% | 0.0% |
| Abbott Labs | 4.0% | 0.0% |
| | | |
| | | |

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

We liquidated our position in Alibaba following the issuance of far weaker than anticipated profit guidance for the upcoming fiscal year. In December of last year, we cut our position in Alibaba in half due to heightened regulatory concerns. Basically, Alibaba's founder Jack Ma attracted the ire of the Chinese government when he gave a speech in late October 2020 criticizing its approach to financial regulation. Not only did that result in Ant Financial (also founded by Jack Ma and 1/3rd owned by Alibaba) having its



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IPO pulled, it also triggered a government investigation into Alibaba's business and caused Jack Ma's immediate removal from public life. Sometimes smart people do really dumb things. For our part, we decided to cut our position in half (we still love the fundamentals of Chinese e-commerce) while we waited to see the result of the Chinese government's investigation. When the government announced that Alibaba would be fined $2.8B (akin to a speeding ticket) and would be prohibited from forcing merchants into exclusivity agreements (not a pervasive practice), we breathed a sigh of relief and looked at Alibaba as a candidate for a weighting increase pending the announcement of its Q1 results and outlook for the next fiscal year. Unfortunately, Q1 results and the guidance for the upcoming fiscal year raised more questions than answers.

On Alibaba's quarterly earnings conference call, CEO Daniel Zhang noted that the penalty decision by the government led to a period of reflection as to the company's social responsibilities and covenants. He also announced that all incremental profit growth in the coming year would be reinvested into, "core strategic areas such as technology innovation, support programs for merchants to lower their operating costs, user acquisition and experience enhancements, merchandising and supply chain capabilities, infrastructure development and new business initiatives." Which one of these is not like the other? How about support programs for merchants to lower their operating costs. This was tucked neatly in the middle of a laundry list of initiatives that are part of the normal course of business for an e-commerce giant like Alibaba. It may be that we are overthinking things here and that investing in the success of small business merchants will yield positive long-term results. It may also be that Alibaba's period of reflection has led to a "voluntary" change in business practices that serves the aims of the Chinese government more than the shareholder. Owning Chinese companies is akin to accepting a dance with the devil. Being on the right side of the government can offer enormous protections in a closed market. However, in this case, Alibaba stepped on the devil's toes.

Summer 2021 got off to a terrible start with a material negative earnings revision from Abbott Labs the Tuesday after Memorial Day. The earnings revision was centered on a massive reduction in expected revenues from the company's at home rapid Covid test. That Abbott would have trouble accurately forecasting demand for a rapid test for a new disease for which a global vaccine push was underway is certainly understandable and not typically something that would trigger a sale. Rather it was the commentary regarding the future outlook for rapid testing in general, the magnitude of the revision and the fact that management's actions surrounding the issuance and revoking of guidance represents a serious withdrawal from the credibility bank.

Our purchase of Abbott was predicated on the belief that the company had a series of promising platforms that would drive above trend earnings growth over the next 3-5 years with the most promising platforms being in the area of continuous glucose monitoring and rapid virus testing. While the innovation pipeline in the areas of continuous glucose monitoring, valve repair, and certain aspects of diagnostics remains strong, the case for a series of rapid, at-home virus tests has been materially damaged. We viewed Abbott's introduction of an at home 15 minute Covid test as the first of what we hoped would be many at home virus test kits that would allow for common viruses such as the flu to be accurately diagnosed without a trip to the doctor's office. Also, while we knew that Covid specific demand would be lumpy, we



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thought that given the global nature of the pandemic, the numerous variants, and the difficulty in administering vaccines on a global basis would make this a business with a reasonably long tail. When management announced in January that not only would Covid testing kits represent $7-$7.5B in 2021 sales and earnings of "at least $5 per share" but also that growth in 2022 would be at least double digit from the higher base, we viewed this as affirmation of our thesis. They were also not shy about discussing the notion that the Covid rapid test represented just the start in the field. In late April, during the Q1 earnings call, management reiterated this guidance. Five weeks later, Abbott announced that 2021 Covid rapid test sales would be $4-$4.5B with minimal contribution in the second half and that management assumed no contribution in 2022. They attributed a good portion of the revision to a change in CDC guidelines that said that fully vaccinated people did not require continual testing.

Putting aside the absurdity of claiming that the entire business model around rapid testing was destroyed when the government withdrew its recommendation that vaccinated people continue regular testing in order to resume normal life, the bigger concern from our standpoint was the fact that no revenue contribution from rapid testing was expected in 2022. This called into great question our thesis that rapid at home testing was a platform from which Covid testing was just the beginning. At best, they are further away from that reality than we had hoped. At worst, it just isn't going to happen. As noted above, Abbott's innovation pipeline across several of its other platforms is strong. However, with such a key part of our investment thesis in great question and management's credibility in need of the type of repair that only occurs over time, we made the decision to exit our position in Abbott.

The flip side to the disappointment of having to sell a position that did not work out as we envisioned is that it frees up funds to invest in new opportunities or to increase the weightings in existing holdings. Each quarter, following earnings season, we conduct a formal review of the portfolio to make sure that our current weightings accurately reflect our beliefs in light of the new information we received in the form of the earnings report. During the course of this quarter's review, it became clear that increased weightings in PayPal, ServiceNow, Amazon and United Health were warranted with the hard question being where to source the funds. The stumbles at Alibaba and Abbott helped make this decision a little easier for us.

When we first purchased PayPal, we viewed it as a nice complement to our other holdings in the payment space (Visa and Mastercard) in that PayPal was more of a pure play in the e-commerce portion of non-cash payments. Since that time, results have consistently come in ahead of our own internal, and fairly aggressive, estimates and the opportunity for PayPal to become the digital wallet for hundreds of millions of consumers over time has come into clearer focus. Simply put, the opportunity at PayPal is greater than we had anticipated and this has led us to increase its weighting in the portfolio for the second time in a year. The pandemic caused a step function increase in the digital payments market and PayPal added 72M accounts last year on a base of 305M users at the beginning of 2020. The momentum in the business continued in the first quarter with transaction volumes up 50%. Importantly, PayPal has invested aggressively behind its vision to become the digital wallet of choice and one of the five or so "Super Apps" that consumers interact with on a daily basis. The next generation of its digital wallet will be unveiled in the third quarter and if management is able to fulfill its vision, the sky is the limit. If not, we are content with a higher weighting in a business tied to digital e-commerce payments with accelerating trends.

Bill McDermott, the CEO of ServiceNow, is one of the most relentlessly positive people in the world. If you are ever having a bad day, I encourage you to listen to one of his conference calls or interviews and find out how ServiceNow is going to make workflow a verb. This is a stock we have been looking to increase on weakness ever since we bought it a year ago. That opportunity came following the Q1 earnings report. Earlier in this note while discussing Adobe, I alluded to great cloud king software companies that experienced an uptick in seasonality during Q1. That great company was ServiceNow. Strong first quarter results coupled with slightly weaker second and third quarter guidance with the promise of a stronger fourth quarter caused a 15% decline in the stock. We took advantage of this decline to bump up our weighting in one of our favorite cloud based software businesses.

Owning Amazon is like going to a Star Wars movie and pulling for the Death Star. I am well aware of what happens to the Death Star at the end of Star Wars, but let's just say that if it's going to take a Luke Skywalker miracle shot to derail a business, that is a company we are going to own. While Amazon's results have been spectacular over the past year, the stock really hasn't done anything over the past nine months and it seems as though it has been a source of funding (along with many other large secular technology winners) for the "re-open" trade. This coupled with our belief that Amazon has been under earning the past couple of years due to its investment in next day shipping and Covid mitigation along with the fact that higher margin businesses such as AWS and advertising are gaining greater scale created an opportunity to increase our weighting in businesses' version of the Death Star.

United Health is the final weighting increase to discuss. Admittedly, we were caught off-guard by the timing and magnitude of Abbott's earnings warning. The breakdown in our thesis forced us to take action with regards to that position. We like to keep a nice mix of shot plays, massive aircraft carriers with durable tailwinds, and stable yet steady growth companies in our portfolio. With Abbott's departure representing a decrease in the stable yet steady group, we wanted to redeploy some of the funds to a similar holding if warranted. An increase in UNH was warranted. United Health spent much of the last year downplaying the massive Covid driven earnings windfall it was experiencing so as not to draw unwanted attention from our friends in Washington. While we certainly understand this effort, the simple fact is that we just don't think the snap back in health care spend is going to be as great as management fears. As such, we expect UNH to easily exceed its current earnings guidance through the remainder of the year. Longer term, we are very excited about the progress being made in growing the number of capitated lives covered (capitated lives are basically patient populations whereby UNH takes the risk and reaps the reward of delivering lower cost treatment). This is where the tremendous amount of data collected, technology deployed, and clusters of OptumHealth medical professionals will pay off and it is a trend that we believe will drive results for the next decade and beyond.

The first half of 2021 is now complete and as is apparent by the record length of this letter, there are a lot of issues to consider. As companies report second quarter results and provide an outlook for the second half of the year, investor eyes will start to gaze at the outlook for 2022. We think this will lead to continued



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volatility given the degree of macro-economic uncertainty. Within this sea of uncertainty, our portfolio companies will continue to sail on with a rapid pace of growth. We thank you for the trust you have placed in us and as always, please do not hesitate to reach out if you have any questions or concerns.

Regards,

Ken Burke
Chief Investment Officer



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## Disclosure

*The Burke Wealth Management Focused Growth Composite, created on October 1, 2018, contains fully discretionary large cap equity accounts that is measured against the S&P 500 Total Return Index and the Russell 1000 Growth indices. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The Burke Wealth Management Focused Growth Strategy invests exclusively in a portfolio of high-quality companies.*

*The S&P 500® Total Return Index is a widely recognized, unmanaged index of 500 common stocks which are generally representative of the U.S. stock market as a whole. Ordinary dividends are reinvested across the index and accounted for in the Total Return index calculations. The Russell 1000® Growth Index is an unmanaged index that measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.*

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*Past performance does not guarantee future results and future accuracy and profitable results cannot be guaranteed. Composite performance figures are presented gross of management fees and have been calculated after the deduction of all transaction costs and commissions. For existing clients, accompanied with this investor letter is the client billing statement, which includes gross and net returns of individual accounts.*

*The management fee schedule is as follows: Per annum fees for managed accounts are 100 basis points of the first $5,000,000 of assets under management, 75 basis points of the next $5,000,000 of assets under management, and 50 basis points of amounts above $10,000,000 of assets under management. Investment management fees may be negotiated and will vary due to certain factors, including but not limited to: the number, type, and size of the account(s); the range and frequency of additional services provided to the client and account(s); the value of the assets under management for the client relationship; and/or as otherwise agreed with specific clients. Burke Wealth Management, LLC is a registered investment advisor in the state of Texas and its investment advisory fees are described in its Form ADV Part 2A. The advisory fees will reduce clients' returns.*



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