

## Portfolio Manager Commentary First Quarter 2022

Portfolio / Index	Q1-22 Return	2021 Return	2020 Return	2019 Return	Since Inception CAGR
Focused Growth Composite	-15.1%	+13.1%	+45.3%	+37.3%	+15.5%
S&P 500 Total Return Index	-4.6%	+28.7%	+18.4%	+31.5%	+15.5%
Russell 1000 Growth Index	-9.0%	+27.6%	+38.5%	+36.4%	+19.0%

*Returns are net of fees as of 12/31/21 and annualized if period is greater than 1 year*

Dear Client,

The downturn in growth equities that began in November of 2021 accelerated into an extremely painful bear market for these types of stocks during the first quarter of 2022. Over 40% of the stocks in the Nasdaq composite are down more than 50% from their 52 week highs with the vast majority of that pain concentrated in the last months of 2021 and first quarter of 2022. While our style of growth investing is not necessarily ground zero for the market rout that has taken place, pre-earnings story stocks have that honor, it is best characterized as the village next door. Despite a welcomed partial rebound during the last two weeks of March, our Focused Growth portfolio suffered a loss of 15.1% during the first quarter, which represents the worst quarterly performance in the 3+ year history of the strategy. Volatility reached uncomfortably high levels as the market digested four decade highs in inflation, an impending Fed tightening cycle after several years of unprecedented accommodation, and finally Russia's invasion of Ukraine. In this letter, we are going to look at why our portfolio is different from the pre-earnings growth companies that have faced the greatest pain during this downturn, evaluate some previous periods of intense fear in the market and discuss what that implies for future returns, and discuss broader market performance during prior Fed tightening cycles and how we expect the current cycle to impact our portfolio.

**Figure 1**

<b>Weighted Average FCF Yield</b>					
	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Focused Growth</b>	<b>3.6%</b>	<b>3.9%</b>	<b>4.5%</b>	<b>5.4%</b>	<b>6.3%</b>
<b>S&amp;P 500*</b>	<b>1.9%</b>	<b>2.0%</b>	<b>2.3%</b>	<b>2.4%</b>	<b>2.6%</b>

*\*S&P FCF Yield 2021 Sourced From Forbes. FCF estimated to Grow in-line with S&P Earnings*

There is an old saying in life that starts with cash talks. While we won't finish the phrase due to the PG nature of these letters, suffice to say that it holds true in the investing world as it does in life. The measure of the cash generation power of a business is best captured by free cash flow, the cash generated from operations less cash spent on CAPEX. This is the money left over to make acquisitions, pay dividends or buyback stock and the intrinsic value of any business is the present value of these future cash flows. Figure 1 shows the weighted average free cash flow yield for the Focused Growth portfolio for 2021 as well as the projected FCF yield for 2022-2025. Two things to point out: One, the FCF yield of the portfolio was almost 2x that of the S&P 500 in 2021. Two, it is growing at a faster rate. In the near term, this doesn't matter when the algorithms say it's time to rotate away from growth and towards value, but I assure you that in the long run this is the controlling issue

in any investment. This is what differentiates our portfolio from the pre-earnings, concept companies that have been at the epicenter of the current market downturn. It is also what gives us confidence that while we don't know when the current trading pain is going to end, the long-term intrinsic value of these businesses continues to grow and that value will be reflected in the share price sooner or later.

**Figure 2**

Periods with 35+ VIX Readings Since 1990							
<u>Start Date</u>	<u>End Date</u>	<u>S&amp;P Adjusted Start Price</u>	<u>S&amp;P Adjusted End Price</u>	<u>S&amp;P 1 Year Post End Price</u>	<u>One Year Change From Beginning</u>	<u>One Year Change From End</u>	<u>Triggering Issue</u>
8/6/1990	8/24/1990	378	342	448	19%	31%	Iraq Invades Kuwait
10/30/1997	11/13/1997	1,226	1,224	1,527	25%	25%	Thai Bhat Devalues, Emerging Market Currency Crisis
8/27/1998	10/14/1998	1,477	1,362	1,761	19%	29%	Long-term Capital Collapse
9/17/2001	10/17/2001	1,534	1,515	1,255	-18%	-17%	September 11, 2001 Attacks
7/15/2002	10/16/2002	1,310	1,228	1,527	17%	24%	Teeth of the Dot.Com Bear Market
9/17/2008	5/1/2009	1,926	1,424	1,993	3%	40%	Lehman Collapse, Financial Crisis
5/20/2010	6/8/2010	1,851	1,765	2,170	17%	23%	Greek Debt Crisis/Algorithmic Triggered Flash Crash
8/9/2011	11/28/2011	1,903	2,043	2,470	30%	21%	US Debt Ceiling Crisis
3/2/2020	6/23/2020	6,012	6,413	8,825	47%	38%	Covid 19
10/30/2020	11/5/2020	6,735	7,232	9,820	46%	36%	Trump/Biden Election
Average Gains One Year Out:				20%	25%		

If you are wondering why this market downturn that peaked in early March felt so bad, the answer is because it was. The VIX is short for the Chicago Board Options Exchange (CBOE) Volatility Index. It measures the current expectation of market volatility based on S&P 500 Index options. It is also known as the "Fear Index". In March of this year, the VIX reached 35 once it became clear that Russia's invasion of Ukraine was not going to be a weekend war culminating in the installation of a puppet regime friendly to Putin. This is roughly two standard deviations higher than the long-term average. The bravery, fighting skill and inspirational leadership in Ukraine coupled with the fact that the kleptocracy and graft that Putin has overseen for the past 2 decades extended to his "vaunted" military has thus far led to a stalemate in this war. While this is great for karmic justice, it also means that the world has a humiliated little tyrant on the loose in Europe threatening the use of chemical and nuclear weapons because his conventional forces are getting repelled by a severely outgunned and outmanned opponent. The market has not dealt with this level of geopolitical uncertainty on this level since the end of the Cold War.

Since the founding of the VIX a little over 30 years ago, readings above 35 have been rare. **Figure 2** shows the 10 times prior to the present period when volatility has reached these levels. There are two things that really jump out on this chart: First, every time this has happened in the past has been a major and memorable event. This is why it is completely appropriate and understandable that this particular downturn has led to such a high level of anxiety for many investors. Second, in 9 out of 10 of these cases the market returns in the year following the spike in volatility have been up with the average being 20% from the start of the period and 25% from the end of the period. When we consider the information in **Figure 2** coupled with the Free Cash Flow yield of the portfolio detailed in **Figure 1**, we conclude that while things may feel pretty terrible at the present time, brighter days lie ahead.

Figure 3

S&P 500 During Fed Tightening Cycles													
Start Date	End Date	Duration	Adj. S&P 6 Mths Prior to Start	Adj. S&P at Start	Adj. S&P 6 mths from Start	Adj. S&P 1 Year from Start	Adj. S&P at End	S&P Returns 3 Mths Leading up to Hikes	S&P Returns 6 Mths Out	S&P Returns 1 Year Out	S&P Returns 1 Year Out	S&P Returns Start to Finish	
3/15/1994	3/15/1995	12 Months	562	572	590	620	620	2%	3%	8%	8%		
6/15/1999	6/15/2000	12 Months	1,781	1,778	1,944	2,046	2,046	0%	9%	15%	15%		
9/15/2004	7/15/2006	22 Months	1,665	1,655	1,786	1,847	1,888	-1%	8%	12%	14%		
12/15/2016	11/15/2018	23 Months	4,079	4,320	4,694	5,214	5,414	6%	9%	21%	25%		
Average Performance During Tightening Cycles:								2%	7%	14%	16%		

We will end this section on the market downturn where it began, the Fed tightening cycle. The Fed Funds rate has sat at 0% and the Fed balance sheet has grown by \$5 trillion since the beginning of the pandemic in March of 2020. This coupled with massive amounts of fiscal stimulus, global supply chain pressures, and a spike in energy prices has resulted in inflation reaching levels not seen since the early 1980s. The need for the Fed to stop buying bonds and start raising rates was universally agreed upon by market participants with the most common question being, "why the delay". This process got underway March 16th with a 25 basis point increase. This is somewhat amusing given that the 2 year treasury was already pushing 2% when the Fed got moving, which effectively means the bond market has done a lot of the Fed's work in advance. Like a child waiting to get a flu shot, in many ways, the anticipation of a rate hike cycle for investors is worse than the reality. Figure 3 illustrates this point. One final thought on the tightening cycle before we move on to inflation, if you find yourself losing sleep or stressing about a 25bps or 50bps move at a given meeting, don't. The ultimate path to a neutral rate is not nearly as important as the ability to reach that destination without slowing the economy into a recession.

Inflation is going to be a recurring topic in these letters for the foreseeable future and businesses are going to have to adjust to this new dynamic. It is apparent that the supply chain dislocations that were thought to be transitory are going to take more time to address than previously contemplated. So too will the spike in energy prices, which has already led to some soul searching in Europe regarding the intelligence of shutting down domestic fossil fuel production in the name of climate change while simply substituting that lost fossil fuel production with oil and gas from Russia. However, the most enduring change that we see regarding inflation is that the world seems to be moving towards a multi-decade decoupling. From the early 80s until the election of Donald Trump in 2016, globalization was a dominant economic theme. During this time, the manufacturing of goods flowed like water to the lowest cost location and the world transitioned to the type of global just in time supply chain that generations of McKinsey consultants could have only dreamed of. President Trump pointed out that many of our largest trading partners (looking in your direction China) were taking advantage of us with one sided trade deals in which our markets were opened to their products while our products were subject to tariffs or banned altogether in many places. While President Trump was far from the first politician to point out this fact, he took action by imposing a series of tariffs on some countries and having public trade disputes with many others. The call for free trade became a call for fair trade and this is now one of the few issues that both political parties seem to agree upon. The pandemic and the resulting supply chain disruptions shined a spotlight on how hollowed out our manufacturing base had become. Remember, there was a time in the early days of the pandemic where we learned that we couldn't manufacture key PPE and certain medicines. Russia's invasion of Ukraine and the condemnation it has invoked from Western Nations contrasted with the silence/support from

Eastern Nations highlighted a growing schism in the world. Now, the demands for fair trade are accompanied by a realization that unfettered outsourcing of key goods to potentially hostile nations carries geopolitical risk that is hard to quantify. While a level of decoupling might be necessary and the right course of action, it is going to be inflationary.

Technology is the deflationary offset to the global decoupling. With higher input costs and higher labor costs, businesses are going to have to become more productive or be forced to stress test pricing power to a breaking point. Companies that provide the technology that drive productivity gains or companies that are on the other side of the digital divide and have demonstrated the ability to utilize technology to drive productivity gains will be the winners in this new paradigm. So too will companies that possess true pricing power. Our portfolio companies all have at least one of these key attributes. We have always stressed a desire to own companies with the ability to succeed in a variety of macro environments. We believe we do and that this will lead to continued strong fundamental performance for our portfolio companies in the face of this new reality.

### **First Quarter Detractors:**

The downward market pressure and extreme volatility experienced during the first 2.5 months of the first quarter led to some jarring moves in several of our portfolio companies around the release of fourth quarter earnings. We addressed this in a mid-quarter update that we will repost below with the new commentary on Masimo, which we liquidated following the announcement of one of the more head scratching acquisitions we've seen in a while. For those who read the mid-quarter update and don't care to re-live the dark days of early February, feel free to skip straight to the section on Masimo. We will resume the practice of discussing positive contributors in future editions of this letter in what we expect will be happier times.

**Netflix:** Netflix's fourth quarter results were fine with subscriber growth of 8.3M largely in-line with expectations on the strength of a strong content quarter. Unfortunately, this strength did not carry over into the first quarter and subscriber additions were expected to slow to 2.5M versus prior expectations of 6M-7M. More concerning is that the weakness was concentrated in the emerging markets which were expected to be the engine of long-term subscriber growth. Further, because content spending is set to continue at high levels, operating margins are expected to contract slightly rather than rise 300bps in 2022. Our investment in Netflix was predicated on the belief that increased content spending and an historically strong content slate would drive greater pricing power in developed markets with subscriber growth sustained at pre-pandemic levels led by new markets. This would lead to a rapidly improving financial profile in which Netflix share price would be supported by earnings rather than speculation regarding the trajectory of subscriber growth. This model works with 25M new annual subscribers but it doesn't with 15M new annual subscribers. The reason for this is that the growth in content costs necessary to maintain a leadership position in streaming is a given. Leverage in a pure subscription model works both ways.

Because we seek to invest only in what we view to be world class businesses and understand that businesses don't always progress in a perfectly linear manner, our natural inclination is to extend the benefit of the doubt to our portfolio companies in the face of the occasional quarterly hiccup. Indeed, we still believe Netflix to be an outstanding company with many positive attributes. That said, we made the decision to exit our position in Netflix following the Q4 earnings release because the conference call provided no explanation as to why subscriber trends would revert to levels necessary to support the long-term profit model. We will continue to

follow Netflix hoping to see a path to a return to a level of subscriber growth that would warrant future investment. Until we get better clarity, we will remain on the sidelines.

**PayPal:** Like Netflix, PayPal reported solid fourth quarter results with disappointing guidance, particularly for the first half of the year. This was particularly surprising given that the stock had moved sharply higher prior to releasing earnings due to strong read throughs on spending trends from Visa, Mastercard and American Express. The overhang from being removed as the preferred payment provider for EBAY will hit Q1 revenues by \$400M and Q2 revenues by \$200M and then it will be completely in the rearview mirror. This is a transitory issue and we look forward to putting it in the past. Margins for 2022 will be adversely impacted by heightened spending behind the company's digital wallet functionality (a decision we support) as well as a return to normalcy in loan loss provision reserves. The most surprising change in guidance was that Net New Active accounts (NNAs) are expected to increase by 15-20M users in 2022 versus a prior expectation of ~50M.

Having just finished reading our thoughts on why a drop in subscriber growth led us to sell our Netflix position, the obvious question is what makes PayPal different? The difference is that PayPal is a platform whereas Netflix is a pure subscriber business model. For a platform company, not all users are created equal whereas every Netflix subscriber pays the same amount whether they watch 5 hours a night or 5 minutes a year. As such, in a platform business revenue per user is a more important determinant of long-term earnings power than is the number of gross users. This is not to say that user growth is not important, just that it has to be the right type of user. At PayPal, 1/3<sup>rd</sup> of the users generate a large majority of total revenues. Management made the strategic decision to abandon its focus on adding higher numbers of new, yet largely unprofitable users and to instead focus its efforts on driving greater engagement among "medium level" users and offering additional functionality to high level users of its digital wallet. This makes strategic sense in our view.

Unfortunately, management's communication of this rather material shift in strategic focus was atrocious as it was announced as simply one more item in an earnings call that already had numerous moving parts. Further, it is clear from the recent flirtation with Pinterest as well as the now halted ramp in promotional offers to new users that PayPal was on the doorstep of making an extremely costly mistake in an attempt to keep NNAs elevated. While some share price weakness was certainly warranted given the reduced earnings outlook for the year we were surprised by how many investors we respect for whom elevated levels of NNAs were the controlling issue in their evaluation of PayPal. For our part, we decided to maintain our stake in PayPal but readily acknowledge this is going to be a show me story as management works to rebuild its forecasting credibility. This is going to require accelerating revenue growth in the second half of 2022 and exiting the year on a trajectory to resume 20% type earnings growth in 2023 and beyond.

**Spotify:** Of the companies that I'll discuss in this section, Spotify's results and the stock reaction are far and away the most frustrating. Spotify's business model is a hybrid model that incorporates both subscription and platform characteristics. They have 180M global premium subscribers who pay a monthly fee, they make money from creators that utilize their tools to better target and engage with fans, and they make money from targeted advertising most notably in the podcast space. Spotify's fourth quarter results were strong and the company is making tangible progress towards its ambition of being the global leader in streaming audio. That said, guidance for first quarter subscriber growth was below expectations and due to the long-term nature in which they manage the business, management has decided to no longer provide detailed full year guidance. We have no problem with this decision but, given the heightened market volatility, this was the wrong time to make this

announcement. Spotify's Q1 subscriber guidance and the decision to no longer provide full year guidance (they will offer some thoughts each quarter on the upcoming quarter's subscriber and gross margin outlook) was immediately taken to mean that the business fundamentals had taken a sharply negative turn. We don't believe that to be the case. Management explained that due to the seasonal promotional schedule, the first quarter is just not that important to the full year plan and when pressed on the call, they conceded that they expect full year subscriber additions to approximate 2021 levels, or put another way, in-line with expectations. No matter, the stock tanked in after-hours trading following the earnings release and the narrative was set. For a company in the early stages of its growth cycle whose earnings are all reinvested behind realizing the long-term vision, control of the narrative has an outsized impact on the near-term price of the stock.

**Metaverse (formerly Facebook):** Metaverse's fourth quarter release and 2022 commentary was admittedly a mess. Although it was widely known that Apple's change regarding the ability of apps to pick up first party consumer information would be a headwind, the magnitude of the drag (~\$10B over 1H 22) was greater than expected. The bright side is that this is an issue that will be largely lapped by the second half of the year and that Meta is making progress on improving its targeting and measurement algorithms in light of the information available to analyze going forward. The second issue that was surprising was the speed at which Meta plans to move in monetizing its Reels short form film feature. As was the case with the shift from desktop to mobile and the early monetization efforts behind Instagram stories, this process involves lower levels of monetization at first as it shifts ad spending from established channels (Instagram stories) to a new channel (Reels). The company has successfully made these transitions in the past over a 2-3 quarter period, but the difference this time is that it will be competing with a large entrenched competitor in the short-form video space in Tik Tok. Zuckerberg practically begged Western Governments to turn their regulatory gaze to their Chinese backed competitor during the conference call. The third issue is the massive amount of investment being made in building the Metaverse. For the first time ever, Meta broke out operating profits for its Family of Apps and its Reality Labs (Metaverse) business units. On the bright side, the operating margin of the advertising business is still 50% despite several years of massive increases in expense. This is a really, really good business. Concerningly, losses in Reality Labs were \$10.7B last year and are expected to increase this year. Zuckerberg has been clear in his belief that virtual reality will be the world's next dominant operating system and is obviously spending aggressively to secure a leadership position. However, it would be helpful for the company to provide a greater degree of detail as to how and when they intend to generate returns on this investment in the very near future. Finally, daily average users fell for the first time in company history. While this made headlines on CNBC, a decline of 1M users on a company with a base of almost 3B monthly users is pretty far down on my list of concerns.

As we think through what we learned from Meta's earnings release and conference call, it is clear that due to the heightened level of uncertainty and near-term earnings hit that the stock deserved to get hit. That said, the magnitude of the drop strikes us as harsh, particularly given the line of sight we have into fully lapping the headwind from the Apple iOS change and the company's previous success in ramping the monetization of new products. Still, between those issues and the "just trust us" mindset regarding investment behind the Metaverse, the visibility on this company is lower now than before. We will maintain a position in Metaverse and give management some leeway to address the current set of challenges. Love him or hate him, Mark Zuckerberg and team have successfully navigated similar types of issues in the past. That said, once things settle down with the stock we are going to take a close look at the appropriate weighting for this position given the lower level of visibility.

**Masimo:** We were relaxed heading into Masimo's fourth quarter earnings release in mid-February. After all, in accordance with its standard procedure, the company had pre-released Q4 results and provided an initial look at 2022 in early January. When the release hit, everything looked fine and earnings even came in a good bit better than the range provided in the January update. Unfortunately, in conjunction with the release of fourth quarter results, Masimo announced that it was acquiring Sound United for \$1.025 billion. Sound United is a consumer electronics company with a stable of audio equipment brands that distributes its product through established retailers. Masimo manufactures and markets noninvasive monitoring products, primarily to hospitals. On the surface, this is a deal that makes no strategic sense whatsoever. On the conference call, management's rationale for the deal was that Sound United's retailer relationships would make it easier for Masimo to sell its yet to be launched at home monitoring devices. For competitive reasons, they declined to provide any color on what those new devices might be or when they might be ready to go to market. Taken together, the deal and the trainwreck of a conference call represent one of the greatest self-inflicted wounds I can recall in over two decades in this business. Viewed in the most favorable possible light, Masimo is making an aggressive move into home health measurement and instead of building out its own distribution channel, the company has decided to purchase an existing distribution network (Sound United) and fund the purchase over time through the cash flows from the legacy consumer electronics business. This might be fine for a private equity fund, but the lack of consideration or care for the valuation compression that occurs when you dilute a very highly valued medical technology business with a low value consumer electronics business speaks to either shocking display of naivete or arrogance on the part of management. Finally, if an \$8B company is going to enter the home healthcare space full throttle, we are going to need details beyond "just trust us" as to how they intend to compete with Apple, Amazon, and Abbott Laboratories in the space. We sold Masimo following this announcement despite the sharp gap down in the stock.

### First Quarter Portfolio Activity:

Table 1 shows the changes made to the portfolio during the quarter. We added a position in Align Technologies during the quarter and increased our weightings in Adobe, Charter, Nvidia, and PayPal. This was funded primarily by the elimination of Netflix and Masimo as well as a reduction in JD.com.

Table 1:

New Purchases / Additions			Eliminations / Reductions		
Company	Beginning Weight	Ending Weight	Company	Beginning Weight	Ending Weight
Align Technologies	0.0%	3.0%	JD.com	4.5%	3.0%
Adobe	5.0%	6.0%	Netflix	4.0%	0.0%
Charter	4.0%	6.0%	Masimo	3.0%	0.0%
Nvidia	7.0%	8.0%			
PayPal	5.0%	6.0%			

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

We discussed the rationale for the sale of Netflix and Masimo above. The other reduction we made during the first quarter was a partial sale of our stake in JD.com. JD.com is the quintessential nice house in an increasingly bad neighborhood- the bad neighborhood being Chinese technology companies. The regulatory environment for Chinese technology companies has been getting increasingly difficult since November of 2020 when Jack Ma decided to publicly criticize the government for its stance on Ant Financials' consumer lending practices. Since that time, the CCP's regulatory guns have been active, firing at numerous companies across multiple technology driven industries. JD has not taken any direct hits thus far, which we believe is largely attributable to the fact that it is such a large employer with a business model that much more closely resembles Amazon's retail operation than it does an asset light platform model. Still, valuation multiples have contracted as broader regulatory scrutiny has increased. While we are encouraged with recent reports that the CCP intends to ease its rules on international audits which should remove the threat of a forced delisting of Chinese companies from US exchanges, we acknowledge that the risk of investing in Chinese companies is becoming increasingly difficult to quantify. As such, despite strong business fundamentals, we reduced our stake in JD.com.

Align Technologies is the market leader in the rapidly growing clear aligner braces market. We think this is a market with numerous growth levers. Currently, clear aligners only account for 20% share of the US orthodontic care market and less than 10% share of the international market. As the technology improves and more complex cases are able to be treated with clear aligners, we think there is plenty of share to gain versus traditional wire braces. Further, the convenience and price point of clear aligners opens up orthodontic care to the large market of people who could benefit from it, but either can't afford it or don't want the hassle of traditional braces. We expect Align to maintain its leadership position in the clear aligner market. Align's 20 year history in the category, the 200,000 dental care professionals it has trained globally, and the ecosystem it is building around its clear aligners and iTero scanner set it apart from upstart competitors. The same market volatility that hurt much of our portfolio during the first quarter provided us with a reasonable entry point for shares of Align Technologies. While we acknowledge that this is a stock with a fairly volatile trading history (both good and bad), we think the long-term upside is worth the potentially bumpy ride.

We increased our weighting in Charter during the first quarter. Between our stakes in Comcast and Charter, it is safe to say that we have more exposure to the broadband cable than almost any other growth manager you'll come across. We have written frequently about our belief that the Comcast and Charter will maintain their market leading positions in broadband connectivity and also noted the tremendous opportunity both companies have to gain share in the wireless communication space. That belief still holds. Of the two companies, Charter is the boring, levered pure play on broadband while Comcast owns NBC Universal and Sky in addition to its broadband business. As I often tell my wife, boring can be good. Over the past 5 years, Charter has grown EBITDA at an average rate of 7.4%. If they achieve a similar growth rate through 2030 and maintain their current 4.5x Debt/EBITDA target, they will repurchase roughly \$190B worth of stock over the next 8 years. With a current market cap of ~\$110B, this seems like a lot. Put another way, under this scenario the stock could appreciate 15% per year and sometime during the Fall of 2030 all outstanding shares, with the exception of our holdings, will have been retired. If that proves to be the case, Charter's 2030 annual meeting will be in my backyard so book your reservations now.

The final weighting increases we made during the first quarter were to Adobe, Nvidia and PayPal. With regards to Adobe, this was driven by a response to continued strong fundamentals in the face of a sharp near-term decline in the stock price. The increase in PayPal was also a response to a sharp near-term decline in the stock.

# BURKE WEALTH MANAGEMENT

Unlike Adobe, where fundamentals remained stable and strong, the timing of the increase in PayPal was suboptimal as it came shortly before the announcement of tepid first half guidance discussed above. As such, we find ourselves waiting for the long term growth trajectory to resume with an expected acceleration in 2H-22 and 2023.

Nvidia had several major developments during the quarter. After 18 months of wrangling with various global regulatory bodies, Nvidia walked away from its proposed acquisition of ARM during the first quarter. This was one of those rare instances where one of our portfolio companies announced a major acquisition and we were indifferent as to whether or not it got approved. The deal was rejected and we are simply left with Nvidia's outstanding position in accelerated computing. We can live with that result. The other major development during the quarter was that on the Q4 earnings call and subsequent Investor Day presentations, management provided a substantial amount of color on the Nvidia's long-term opportunity in software. Nvidia discussed in-depth the tremendous software opportunity it has in automotive, artificial intelligence, and enterprise subscriptions for use in the omniverse. We came away these presentations thinking that in 5 years, Nvidia may well have the world's second most valuable software business (Microsoft still reigns supreme) to complement its accelerated computing GPU chip business. With the regulatory uncertainty around Arm cleared and greater clarity on the long-term opportunity in software, we increased our weighting on Nvidia to a maximum position weight in Q1.

The first quarter of 2022 was a tough period. Between a sharp market downturn centered on growth stocks and a handful of company specific disappointments, our Focused Growth portfolio took its lumps in Q1. As we look forward, we believe that the financial strength of our portfolio companies position us well for when the market stabilizes and risk appetites return. 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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*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.*