Portfolio Manager Commentary
Third Quarter 2022

Portfolio / Index	Q3-22 Return	YTD 2022 Return	2021 Return	2020 Return	2019 Return	Since Inception CAGR
Focused Growth Composite	-12.0%	-43.0%	+13.1%	+45.3%	+37.3%	+2.7%
S&P 500 Total Return Index	-4.9%	-23.9%	+28.7%	+18.4%	+31.5%	+7.2%
Russell 1000 Growth Index	-3.6%	-30.7%	+27.6%	+38.5%	+36.4%	+8.8%

Returns are net of fees as of 9/30/22 and annualized if period is greater than 1 year

Dear Client,

The third quarter of 2022 got off to a promising start with an earnings season that was better than feared, both in terms of Q2 reports and the outlook. July's Consumer Price Index (CPI) report came in better than expected and showed some moderation from prior peaks. The idea that moderating inflation would give the Federal Reserve the leeway necessary to slow the pace of interest rate hikes before sending the economy into a recession started to gain steam. In the runup to Jay Powell's August Jackson Hole speech, almost every Fed Governor was interviewed and the range of outcomes for end of year rates was 3.5% for the doves to 4.0% for the most hawkish. Chairman Powell's Jackson Hole speech shook the markets as he seemed to use the words necessary pain every time the market wanted to hear data dependent when describing the course the Fed would take. This had the effect of tanking the equity markets and sending interest rates dramatically higher. This dynamic intensified in September when August's CPI reading came in materially worse than expected and indicated a rebound in inflation. To top things off, the Fed increased rates by 75 basis points for the third consecutive meeting in September and indicated a target of 4.25%-4.5% by the end of the year, which implies an additional 125 basis points of tightening in the November/December meetings. Growth equities took the brunt of the pain and in late September the Nasdaq had its worst two week run since February/March of 2020 when the world was just starting to come to grips with the severity of the pandemic. The market went from being earnings driven (Q2 reports) to strictly central bank driven and our Focused Growth Portfolio, which was up +10.2% in the week prior to the Jackson Hole meeting, closed the quarter down -12.0%.

For those who have read prior editions of this letter, it is clear that we tend to be more generous with our commentary toward the men and women who lead the Federal Reserve than we do the with our commentary toward the political class. Part of this is that we understand how difficult the job is given all of the conflicting data they must sift through and part of it is that we appreciate that these people generally are able to speak in complete sentences rather than in focused group tested 30 second soundbites. That said, the fact that the Fed was still buying mortgage backed securities (quantitative easing) as recently as March in the face of a scorching housing market and rampant inflation while rates were still at 0% is hard to defend. Wharton professor Jeremy Siegel said in a CNBC interview that this is going to go down as one of the bigger policy errors in the history of the institution. We agree. This error has necessitated the rapid pace of rate increases and incessantly hawkish tone from Jay Powell. Fed policy works with a lag and we have already seen commodity prices roll over and housing brake so hard that the passengers are through the windshield. As such, while there is nothing that can be done to change history, we find ourselves wondering if in June of 2023 we are going to look back and wonder

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how the Fed thought it prudent to raise rates 125 basis points in November/December in the face of a dramatically slowing economy.

Whether we have a recession or narrowly avoid one, the policy goal of the Fed is to get inflation under control over the next couple of years by restricting liquidity such that demand is destroyed and real economic growth runs below the long-term trend of 1.8% for a while. While the path to tepid but stable growth may be bumpy, that is the clear end goal. Further, the same gang that thought they'd let inflation run slightly above the 2% target for a while only to wake up to find it at 9% is assuming they will gently glide the plane down from 9% to a smooth 2% level. In the event they overshoot, we could wind up in another period where deflation is a greater threat than inflation. Basically, absent exogenous events, the macro environment in the future seems pointed towards one of slower nominal and real GDP growth. This is typically a tough environment for most companies as slower nominal revenue growth rates put a lot of pressure on every other line item of the P&L to be right. However, it is a really good environment for secular growth businesses and one that we would welcome with open arms. The pandemic/lockdown was an artificially strong period for secular growth businesses as it became evident early on that these companies were long-term survivors whose products and services were in demand in nearly any scenario. The reopen period made the mid-to-high teens compounding growth rate of our portfolio companies look pedestrian when compared to companies that were rising from the brink of destruction. Finally, the inflation/potential recession period has been miserable for all stocks with the brunt of the pain being felt by growth businesses that faced a violent re-rating in valuation. The market is a forward discounting mechanism and at the present time it is grappling with the question of how deep a potential Fed induced recession might be. Once we are past this period, the focus will shift to what the world is going to look like on the other side of this slowdown and that should be a better environment for our style of investing.

In the long-term, stock prices should roughly track earnings growth and companies with strong balance sheets and internal cash flow generation are going to thrive in good times and survive in bad times. In the short-to-medium term, there are no such guarantees and stock prices can become severely dislocated from the underlying fundamentals- both to the upside and downside. Figure 1 shows the progression of the cumulative weighted average earnings growth of our portfolio over the past four years plotted against its cumulative returns. While we acknowledge that valuation multiples fluctuate, over time we would generally expect the portfolio returns and earnings growth achieved to converge. Although the recent tightening cycle undertaken by global central banks would argue for valuation compression, we believe that the 45% compression in the weighted average multiple afforded this portfolio thus far in 2022 is extreme. We believe we are due for some relief, or at the very least near-term stabilization on that front. Couple that with the fact that we project 2023 earnings growth for this portfolio to be in the 17% range off of a depressed 2022 base and we think the set-up for this portfolio over the next several years is very favorable off of today's depressed base.

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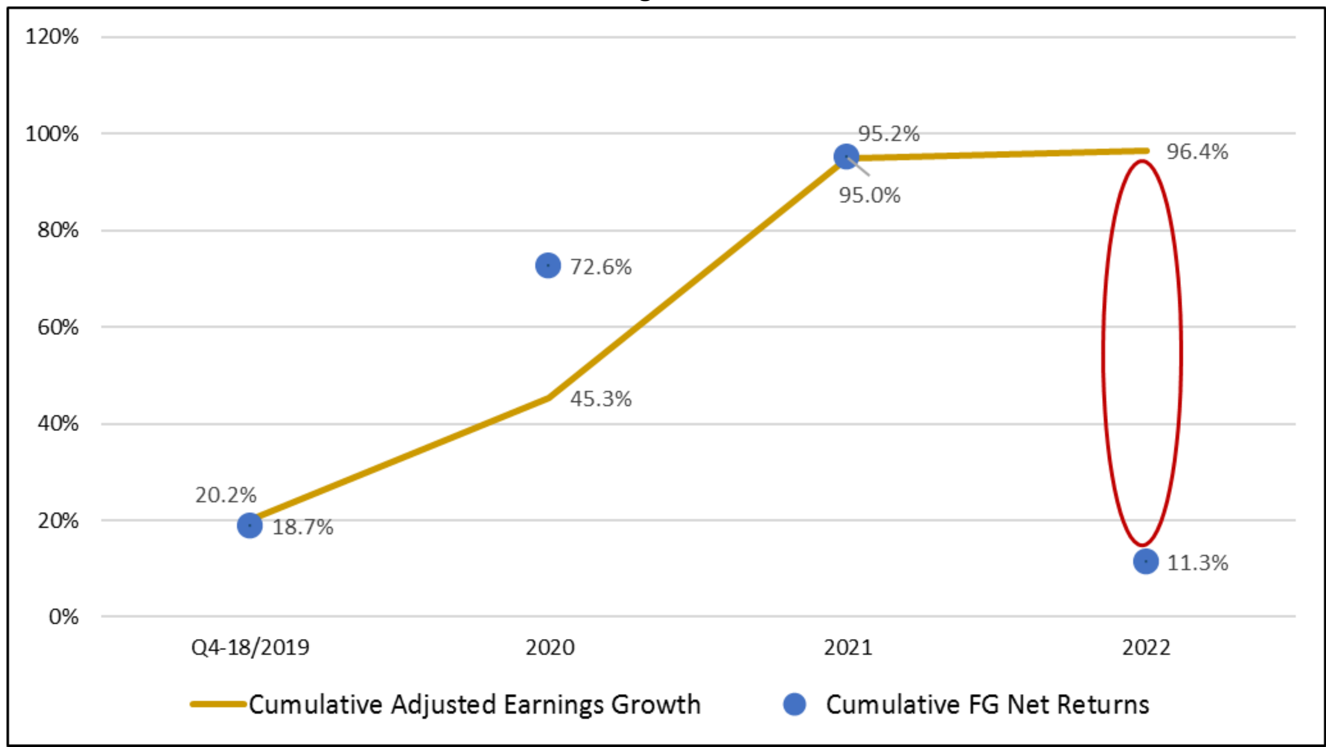
Figure 1



A nice feature of public equity investing is price transparency and liquidity. Compare this to private equity investing which provides neither liquidity nor real-time price transparency (note that PE firms have wide latitude as to when and to what level they mark their positions) and one would agree that in normal times, these are attributes that would warrant a premium. However, this feature can become a bug during periods of dislocation like we are in currently, as the price transparency is a constant reminder of how much a stock is down and the liquidity is an invitation to stop the pain and exit the position. One thing we are doing to try to shrink the period during which the prices of the stocks in our portfolio is dislocated from their fundamental long-term value is to tilt the portfolio towards companies that are weaponizing their cash flows. Four of our largest holdings, Alphabet, Meta, Comcast and Charter are aggressively buying back their own stock at depressed levels. In the last year, Alphabet has bought back $55B of its own stock and recently added an additional $70B authorization. During the same period, Meta has bought back $48B of its shares and has an additional $30B in authorization. Both of these companies are on a course to retire ~5% of their shares each year while maintaining massive net cash positions on the balance sheet. Comcast and Charter are even more aggressive examples with Comcast set to retire 10% of its outstanding shares in 2023 in addition to its 3.5% dividend while Charter's share repurchase will reduce its share count by roughly 20% if the stock remains at current levels. Not bad for a couple of stocks trading at single digit multiples and still expected to grow cash flow. In addition to the afore mentioned companies, many of our portfolio companies have a steady history of cash return to shareholders while several others have instituted share repurchase programs or accelerated share repurchase actions in recent months. This indicates the Boards and management teams of our portfolio companies have grown as tired of the rout in their share price as we have and are taking action to reverse that trend.

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Third Quarter Contributors and Detractors:

Table 1:

Notable Q3-22 Performers					
Positive Contributors			**Negative Detractors**		
	Performance	**Contribution**		**Performance**	**Contribution**
PayPal	+23.2%	+1.1%	Charter	-35.3%	-2.8%
			Comcast	-25.3%	-1.9%
			Nvidia	-19.9%	-1.4%

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

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 challenging market conditions and weak overall performance during the third quarter, the list of material positive contributors was limited. That said, we wanted to highlight a turnaround that we believe is underway at PayPal following a terrible run to start the year. On the negative side of things, a massive dislocation exists between the stock price action and fundamental performance of our cable holdings while long-time favorite Nvidia is facing a series of macro driven and company specific challenges.

PayPal: While PayPal has been a massive underperformer year-to-date, the third quarter brought signs that a floor has been reached in terms of earnings and that management has a renewed strategic focus. Q2 earnings came in ahead of expectations, guidance was slightly raised and management reiterated its plan to focus relentlessly on improving its core payment business while reducing operating expenses. Further, the company will abandon costly tangential initiatives such as a move into equity trading on the app and accelerated expansion into emerging markets. It was also announced that Elliot Management, a respected activist fund, has taken a stake in the company and will be working with management on ways to increase shareholder value. As an investor, when an activist enters one of your stocks it is akin to having been in an accident but being taken to a good hospital. Still, given the precipitous drop in these shares over the past year, a little bit of external pressure is welcomed. The first signs of Elliot's influence was the announcement of a $15B share repurchase program. This equates to roughly 15% of outstanding shares and is entirely appropriate for an asset light business with $8B of net cash on the balance sheet and annual free cash flow in the $5B-$6B range. Elliot has been publicly supportive of PayPal's renewed focus on core payments and expense control. We wonder if they might offer some suggestions around ways to unlock greater value from the Venmo app. Either way, it is good to see PayPal getting back on track.

Comcast and Charter: If you ever have 30 minutes to kill, call me up and ask me why the cable stocks are so far down. Our cable stocks are by far our most frustrating holdings because these stocks are expected to provide stability to the portfolio in tough times and the businesses have generally performed as we had hoped. The two charts below show the quarterly earnings results over the past year versus consensus expectations for Comcast and Charter.

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Comcast						Charter					
	21-Sep	21-Dec	22-Mar	22-Jun	**TTM EPS**		21-Sep	21-Dec	22-Mar	22-Jun	**TTM EPS**
Earnings	$0.87	$0.77	$0.86	$1.00	**$3.50**	Earnings	$6.50	$8.92	$6.89	$8.80	**$31.11**
Consensus	$0.75	$0.73	$0.80	$0.91	**$3.19**	Consensus	$5.71	$6.89	$6.47	$6.89	**$25.96**
Beat	$0.12	$0.04	$0.06	$0.09	**$0.31**	Beat	$0.79	$2.03	$0.42	$1.91	**$5.15**

Not exactly the type of results you would expect for a pair of stocks down 44% and 57% respectively over the last year. More frustrating is that both stocks trade at less than 8x 2023 earnings estimates and are aggressively returning cash to shareholders (13.5% for Comcast and 20%+ for Charter at current price levels). These stocks trade entirely off of the level of broadband subscriber growth or lack thereof and the bears on the group have used the slowdown in housing and new competition from Fixed Wireless Broadband, a limited and inferior competitive product, to further the narrative of weak broadband subscriber growth for the foreseeable future. This ignores the continued margin improvement shown by both companies (broadband pricing remains stable and broadband is much more profitable to deliver than video) as well as the enormous opportunity they have to take share in the mobile wireless space which will drive increased cash flow per subscriber. The ability to deliver broadband, video and mobile wireless services from the existing cable plant is a tremendous competitive advantage as the cable bundle is more robust and can be delivered at a lower cost than competing options. This is an advantage that is in the very early days of being exploited. Indeed, Charter estimates that it currently garners just 26% of total telecommunication services spend from its existing customer base of 30M residential households. As gains are made, cash flow per customer will increase and with it cash returned to shareholders will increase. We believe that this should be the controlling issue for these stocks. To date, none of this has mattered in the face of weak broadband subscriber numbers but we are betting that when it does, it will matter in a big way.

Nvidia: Of all of our portfolio companies, Nvidia certainly owns a place on the Mount Rushmore of most admired. Nvidia remains the unquestioned leader in accelerated computing and the ramifications this has for the future in artificial intelligence and virtual reality are enormous. These essential facts have not changed. However, this year Nvidia has suffered from a downturn in the broader semiconductor industry as well as a couple of company specific issues. Given that these issues began during a time of stretched valuation, the reaction in Nvidia shares this year has been extreme. Let's unpack these issues and explain why we continue to believe that Nvidia's future as one of the most consequential companies in the world remains unchanged.

Disruptions in the supply chain forced Nvidia to place purchase orders for gaming chips with far longer lead-times than normal in an effort to keep up with skyrocketing demand throughout 2021 and into the first quarter of 2022. By the second quarter of 2022, demand in gaming moderated and Nvidia was left with a substantial inventory of chips just as the company was ready to launch its next generation gaming chip set. This problem was exacerbated by the fact that the Ethereum cryptocurrency was in the midst of a shift that means that Nvidia GPUs would no longer be required to mine the currency, which led to an additional glut of chips on the resale market. Longer term, this is welcomed news. Short-term, this exacerbates the inventory issue. To its credit, Nvidia responded decisively to this issue and is selling far less into the channel than is necessary to keep up with end demand at the current time. This resulted in a sharp miss in the gaming segment for Q2 and Q3 but the company expects inventory channels to be cleared by the second half of Q4 at which point it will begin shipping its new and improved chip set. The same thing happened in gaming during the fourth quarter of 2018 and first quarter of 2019 (including crypto related distortions) and Nvidia's stock fell by more than 50% before going on

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a roughly 6x run over the ensuing 2.5 years. We think the company is doing the right thing in taking its medicine all at once and expect a strong rebound following a couple of quarters of weakness in this segment.

The other company specific issue that hit Nvidia during the quarter comes courtesy of the US government, which placed restrictions on 2 very specific types of chip set configurations that Nvidia was selling to companies in China. The US government will now require licenses for certain configurations of Nvidia's existing Ampere 100 chip set as well as its soon to be released Hopper chip set to make sure that the incredible computing power delivered by these chips is not used for military applications. It should be noted that Nvidia chips were the only chips impacted by this new regulation. While this ruling is certainly a near-term setback, it would seem to indicate that the competition has yet to catch up to Nvidia's last generation chip set (Ampere) which was launched 3 years ago much less the soon to be launched Hopper chip set. Nvidia estimates that it sells about $400M per quarter of these advanced chip sets into the Chinese market but also contends that most of these chip sets can be reconfigured to comply with the new restrictions in a way that still works for the customer. For customers requiring the full capabilities, Nvidia will help them apply for a license. In today's shoot first ask questions later market, this announcement resulted in an immediate $30B hit to Nvidia's market cap. Our expectation is that the impact on Nvidia's business will come in below the $1.6B revenue hit that every analyst immediately took of their model but this is a belief that will have to be proven over time as the current market is one in which the benefit of the doubt is not being extended.

Third Quarter Portfolio Activity:

Market bottoms tend to occur when concentrated weakness in specific areas of the market (think growth stocks from November of 2021 through April of 2022) broaden out to include all sectors. This happened in the second half of the second quarter with the market reaching a bottom on June 16th. In an environment where everything is going down sharply and in unison, making changes across the portfolio can be a fruitless endeavor. This is why turnover in our portfolio was lower than normal during Q2. Market recoveries tend to be the mirror of bottoms in that pockets of strength will manifest in selected areas, either due to seller exhaustion or better than anticipated fundamental strength before extending to broader swaths of the market. We got a glimpse of what this can look like in the first six weeks of the third quarter as the market rally was driven by company specific earnings reports. Unfortunately, macro issues have ruled the world since Jay Powell's Jackson Hole speech in mid-August so that rally proved to be a cruel head fake. That said, as the market recovers, some stocks are going to rebound faster and more sharply than others. Portfolio turnover was higher than normal in Q3 as we sought to take advantage of compelling opportunities for the other side of the bear market both in the form of adding new holdings and adjusting some weightings on existing holdings. During the third quarter we initiated positions in Abbott Laboratories, Intercontinental Exchange and Salesforce.com. We also increased our weighting in Meta Platforms (Facebook). We funded these changes by eliminating our positions in JD.com and Adobe while reducing our weighting in Intuitive Surgical. Table 2 details the portfolio activity during the third quarter.

Table 2:

New Purchases / Additions		
Company	**Beginning Weight**	**Ending Weight**
Salesforce	0.0%	4.0%
Abbott Laboratories	0.0%	3.0%
Intercontinental Exchange	0.0%	3.0%
Meta	6.0%	7.0%

Eliminations / Reductions		
Company	**Beginning Weight**	**Ending Weight**
Intuitive Surgical	6.0%	3.0%
JD.com	2.5%	0.0%
Adobe	6.0%	0.0%

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

Purchases:

Abbott: This is our second go round with Abbott and it is worth pointing out that just because we sell a stock that doesn't mean we stop covering it from a research standpoint. Obviously, any company we purchase possesses the characteristics we look for in an investment, but sometimes situations occur that reduce visibility below our comfort level so we decide to stand on the sidelines while those issues resolve. This was the case with Abbott. Our original 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, with the BinaxNOW Covid test being the first rapid testing product. At home Covid testing seemed like the key to unlocking a return to normalcy from the pandemic and in the first quarter of 2021, Abbott was projecting $7B-$7.5B of sales from BinaxNOW in 2021 with additional revenues to come in 2022. In May of 2021, the CDC, in its infinite wisdom, announced that fully vaccinated people did not require testing given the low-likelihood that they could catch and transmit the virus. Another feather in the cap of an agency that hasn't exactly covered itself in glory during the pandemic. In response, Abbott slashed its rapid test outlook, closed down a plant, laid off workers and took a charge. This was a hit to management credibility and called into question not only the investment made to develop BinaxNOW but also the validity of the entire rapid testing platform. We decided to exit our position until we had better clarity around this issue. The clarity came in the form of Delta, Omicron and whatever letter from the Greek Alphabet they choose to name the next variant (for some reason, they aren't exactly going in order). Once the vaccine resistant variants started popping up, Abbott restarted production of BinaxNOW but not before we had a national shortage or rapid testing kits last Fall. Going forward, the introduction of therapeutics that blunt the impact of Covid if administered within days of testing positive and the continued discovery of variants that are able to elude the vaccines makes us think that the profit stream from rapid Covid testing will be more durable than previously thought and that this could provide a bridge to a more expansive rapid testing platform.

Once we gained better visibility on the rapid testing issue, Abbott was on our short-list for purchase. However, as we were looking for an entry point the company voluntarily recalled several products from its stable of infant formula brands (most notably Similac) in response to reports that four babies who had used the product had become ill with two of them passing away. The FDA and CDC inspected the plant in question for the presence of the bacteria that infected the babies and also extensively tested the products in question. While none of the

bacteria in question was found in any of the product, trace amounts of one of the bacteria was found in a non-production part of the plant, which delayed the reopening by a couple of months. This led to a nationwide shortage of infant formula and Abbott was forced to import formula from a plant in Ireland at great expense to try to mitigate the shortage. In mid-May, the investigation by the FDA and CDC found that there was no conclusive evidence to link Abbott's formulas to the infant illnesses and the process of reopening the plant and restocking store aisles was underway. Abbott's second quarter earnings released helped us quantify the financial impact of this recall which gave us the visibility we needed to add this company back into our portfolio.

Intercontinental Exchange: Like Abbott, Intercontinental Exchange (ICE) is a company back for an encore appearance in our portfolio. ICE has a nice blend of recurring revenue, data subscription businesses that account for half of its revenues and transaction based exchanges that make up the other half. The steady nature of the subscription businesses provide a nice balance to the exchange businesses, which can fluctuate wildly based on volatility and demand in the particular exchanges. ICE is a beneficiary of market volatility, which unfortunately we have in spades at the current time. However, we think that the recent move away from the 0% rate policy kept in place by central banks for the last decade plus creates an opportunity for a step function change higher in the fixed income and financial exchanges ICE operates. Additionally, we are excited about the opportunity ICE has to digitize the mortgage industry and believe that the pending acquisition of Black Knight will give it the product portfolio necessary to be the dominant player in this space. If ever there was an industry that cried out for technological disruption and automation, it is the mortgage and mortgage refi industry. With Black Knight, ICE will have a platform that removes massive amounts of friction for consumers and allows lenders to achieve a "customer for life" through an automated process that can originate and service mortgage loans. This is $14 billion market with high margins and mostly recurring revenues. This transaction also represents a $13 billion capital commitment that we agree with so it reduces the risk of an acquisition out of left field from a company that has an acquisitive history. The reason we sold ICE in the first place was due to our objection to the company's intention to acquire EBAY, a deal they were ultimately forced to abandon. It is a bonus that the market has punished ICE shares considerably (down over 30%) following the announcement of the Black Knight deal. While we understand concerns about paying a full price for this business into the teeth of a housing decline, by the time this deal closes in the first half of 2023 much of the cyclical pain will be in the rear view mirror and ICE will have a really attractive long-term asset.

Salesforce.com: If there is a better business than cloud based enterprise software sold on a subscription basis, we'd like to see it. The best of these companies have massive addressable markets worldwide, generate gross margins in the mid-80% range, and have renewal rates north of 90%. The market for enterprise software is growing in the low-teens and the platform companies in the space are taking share. What I have just described is fairly well known, which explains why these stocks typically trade at very high earnings multiples. Every so often, these multiples collapse and these stocks get crushed. This was the dynamic during the first half of the year. Trying to pick up these companies on the way down can be akin to catching the proverbial falling knife, a dangerous game. You can be a hero for sure, but more often than not you'll end up in some pain. So, with that said, why did we buy Salesforce.com and what makes it different from other cloud based software businesses?

We bought Salesforce because it represents one of the few true platform businesses in the cloud based software space. ServiceNow CEO Bill McDermott noted on his second quarter earnings call that in a challenging environment, large enterprises are less willing to take the risk of trying to assemble numerous best of breed solutions and instead seek the security of a large platform partner that can meet their enterprise software needs

across a variety of disciplines. This is consistent with one of our long-time beliefs that an end result of economic dislocation is a consolidation of market share. We own ServiceNow, which boasts a diverse platform of low-code internally developed software solutions, and Bill's comments led us to take a closer look at Salesforce.com, which boasts a diverse platform of software solutions assembled through a series of strategic acquisitions. We've followed Salesforce for years but issues of integration risk and valuation have kept us on the sidelines previously. From an integration risk standpoint, the completion of the $26B acquisition of Slack is now more than a year in the rear-view mirror. Further, the company recently announced the first share repurchase program in its history which indicates that management is confident that its product portfolio is largely filled-in and that the focus will now turn to internal growth with excess funds going towards share repurchase. This reduces future integration risk and the terrible market action of 2022 has brought valuation down to more reasonable levels. As such, we initiated a new position in Salesforce.com.

Meta Platforms: Meta shares are down 60% year-to-date and the issues facing the company ranging from the Apple iOS change, competition from Tik-Tok, massive investment behind the metaverse, and a global slowdown impacting digital advertising are well-known. We also believe the stock action has overshot reality in this case. Let's not forget that Meta (formerly Facebook) still has roughly 3 billion people who interact with their apps on a monthly basis. Apple's privacy change was the biggest change to Meta's business in the last year because it limited the amount of data Meta could collect from outside applications. As a result, Meta's ability to both target and measure the ads it sells was compromised. This represented a roughly $10B hit to revenues and that hit will be lapped in the third quarter. Meta has spent the last year working to improve targeting and measurement by utilizing artificial intelligence on top of the vast data it is still able to collect on consumers and while this remains an on-going effort, progress is being made. The threat from Tik-Tok is also being addressed with the same playbook Facebook has used to battle other innovative threats they were unable to buy- they've copied the format with Reels and are incentivizing creators to use their short-form video offering. Not exactly cutting edge innovation, but a wise use of their enormous market power and financial strength. Again, they've faced down competitive threats before and we believe they will succeed in monetizing Reels to a sufficient level. Finally, for the first time in five years, Meta is begrudgingly starting to keep an eye on operating expense. This process began with a decline in the rate at which they were adding headcount and based on recent reports has progressed into actual layoffs of underperforming employees. This process has just begun and will run through the P&L over the next year. In sum, Meta is making progress on the issues within its control and comparisons should ease. We think this will be enough to overcome the macro related headwinds the company now faces. At only 12x 2023 earnings and with over $16 per share of cash on the balance sheet, the pain in this stock is overdone.

Sales:

Adobe: Concurrent with the release of its third quarter earnings, Adobe announced the acquisition of Figma for $20 billion. While the earnings release was fine and suggested a company that is doing a fine job of navigating an admittedly more challenging environment, this deal, and particularly its price, was a shocker. From a strategic standpoint the deal makes sense. Figma is a web-based application that allows for collaborative design. This is a natural fit with Adobe as it remains the leader in the creative economy. What was shocking was the price. Adobe paid **50x REVENUE** for Figma with half of the consideration in the form of its own stock which was already down over 30% for the year. Further, they set aside another $2B in restricted stock grants to be paid over the

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next three years in an effort to retain Figma's 850 employees. This is not the type of deal you make from a position of strength so the question is why did Adobe feel forced to pay such an exorbitant price.

Figma's web-based operating system that facilitated collaborative design represented an existential challenge to Adobe's dominance in the creative economy. This is the type of challenge that huge technology companies face with regularity and the response is typically a "kill it in the crib" acquisition or the introduction of a copycat product that when coupled with the massive resources of the incumbent company seize market share (see Facebook). Adobe declined the "kill it in the crib" opportunity and instead chose to attack the problem with its own web-based offering, Adobe XD. That they were unable to dislodge Figma's leadership position in collaborative web-based design despite their tremendous resources represents a huge black eye for Adobe's $3 billion annual R&D budget. Even at only $400M in annual recurring revenue, Figma's parabolic growth and acceptance in the developer community represented an existential threat to Adobe if it fell into the wrong hands so Adobe apparently felt like it was left with no choice but to pay any price to acquire the business and pray that its employees decided to stay on board.

Given that Adobe had to pay a penalty that amounts to roughly 3 years of free cash flow for failing to effectively deal with the threat from Figma and that uncertainty still exists over whether or not this deal will close and what the competitive landscape will look like if it doesn't, we decided to exit our position and let things play out. Adobe remains a great company and we will continue to follow it closely looking for favorable resolution to the questions raised by this deal. Should we get such resolution, we will consider reinstating a position. Until such time, we will remain on the sidelines.

JD.com: Whereas Adobe's sale was triggered by a specific event, our sale of JD.com has been in the works for a while. Over the past couple of years, investments in Chinese technology companies have become less dependent on company fundamentals and more dependent on the actions of the Chinese government. This led to a persistent reduction in visibility as we have no special insights as to the whims of the Chinese dictator. As such, we had reduced our weighting in the stock over time. In addition to the disgusting spectacle of effectively imprisoning tens of millions of people at a time, China's zero Covid policy also represents a direct hit to JD.com's business. The combination of being whipsawed by the Chinese Communist Party and a business with deteriorating fundaments was enough for us to exit our position in JD.com. We would need to see a considerable uptick in political stability in China before considering reinstating a position in JD.com. Otherwise, better options lie elsewhere.

Intuitive Surgical: We cut our position in Intuitive Surgical in half during the third quarter. This decision was not driven by any deterioration in Intuitive's competitive position as the dominant player in soft tissue robotic surgery, nor was it driven by a change in our bullish long-term outlook for this industry. It was driven by an acknowledgement that the rebound from the current bear market will be uneven and that companies with collapsed valuation and an established earnings floor will likely be the first ones out. Despite this year's downturn, Intuitive maintains a premium valuation and the company is in the middle of an investment cycle that could extend into 2023. Intuitive is always going to carry a premium valuation and it should given the size of its opportunity and the massive lead it holds over competition. The investments being made will secure the next decade of growth so we have no issue with that. We fully expect to rebuild our position in the company but for the present time, we think a smaller position is warranted.

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2022 has been and continues to be an extraordinarily challenging year. The equity market is off to its worst start to a year since 1929 and, with the exception of a couple of three week periods, the direction has been straight down all year. Bearish sentiment is at all-time highs and central banks are keeping continued pressure on markets. This is a time in which equity investing is not joyous, but rather emotionally draining. It is also a time that shall pass. When it does, our portfolio of beaten down, high quality growth stocks will be spring loaded. Until that time, we will remain focused on our process and looking to concentrate the portfolio around the holdings where the pain has been most overdone. We thank you for the trust you have placed in us and as always, please don't hesitate to reach out if you have questions, need to vent, or just want to commiserate.

Regards,

Ken Burke
Chief Investment Officer

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Please reference the supplemental disclosure which accompanies this commentary.

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 Index. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The Burke Wealth Management Focused Growth Strategy invests exclusively in a portfolio of high-quality companies.

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.

The information provided in this document should not be construed as a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in the composite or that the securities sold will not be repurchased. The securities discussed do not represent the composites' entire portfolio. A complete list of our past specific recommendations for the last year is available upon request. It should not be assumed that any of the securities transactions or holdings discussed will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. Individual account performance within the strategy may have different returns due to timing of the inception date, client contributions and withdrawals, or other factors.

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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