Portfolio Manager Commentary
First Quarter 2023

Portfolio / Index	Q1-23 Return	2022 Return	2021 Return	2020 Return	2019 Return	Since Inception CAGR
Focused Growth Composite	+18.6%	-41.2%	+13.0%	+45.1%	+37.0%	+7.0%
S&P 500 Total Return Index	+7.5%	-18.1%	+28.7%	+18.4%	+31.5%	+9.8%
Russell 1000 Growth Index	+14.4%	-29.1%	+27.6%	+38.5%	+36.4%	+11.6%

Returns are net of fees as of 3/31/23 and annualized if period is greater than 1 year

Dear Client,

The first quarter of 2023 began with a very strong month of January with much of the strength concentrated in the same growth stocks that suffered through a wretched 2022. This was followed by two months in which the market seemed to thrash around as investors grappled with the potential end of the Fed tightening cycle, inflation measurements that remained stubbornly high, and finally a regional bank crisis triggered by Silicon Valley's go to bank for start-up funding. The end result was a strong quarter for our Focused Growth portfolio, and really for growth stocks in general, and a fairly solid quarter for the broader market as a whole. The Focused Growth portfolio returned +18.6% during the first quarter. While we were certainly pleased with the snap back we enjoyed in January, we were probably most encouraged by the outperformance of our portfolio during the height of the regional banking crisis as this was real-time validation of our strategy of owning businesses with fortress like balance sheets that are not dependent on the capital markets to fund future growth initiatives. In this letter, we will take a closer look at the failure of Silicon Valley Bank and offer our thoughts on the long-term ramifications of another high profile federal banking bailout. We will also discuss ChatGTP and the early stages of what we believe will be a technological revolution driven by artificial intelligence. Finally, we will provide some context as to what people are actually talking about, whether they realize it or not, when they are offering opinions on "the market", ETF rotations, and market valuation. 2023 is off to a good start from both a portfolio performance and fundamental standpoint. Fourth quarter results and 2023 guidance was largely better than expected/feared across much of our portfolio. The macro environment remains uncertain and even in days where the market goes higher it feels like investors are climbing the proverbial wall of worry. That said, we think there is a lot of opportunity to drive efficiencies and protect or grow margins across our portfolio companies that will prove valuable as businesses navigate an uncertain and ever changing macro economy.

There is an old adage about Fed tightening cycles that states that the Fed keeps going until it breaks something. Silicon Valley Bank (SVB) broke on March 10th and the ensuing carnage in the regional banking sector makes it very likely that the SVB failure will be remembered as the thing the Fed broke this cycle. I don't think this is fair. If we think back over the tightening cycle that began in March of 2022 and likely ended (or at least was in clear wind down) in March of 2023, the Federal Reserve moved from a 15 year period that will be remembered for an historically accommodative monetary policy towards rate levels more common in the rest of recorded history. If anything, they waited six months too long to get started and let inflation get out of hand in the process. Once they started they were clear in every communication that rates would move materially higher and stay at the higher levels until inflation was sufficiently tamed. As anyone who has ever stepped foot inside a finance class can tell you, when rates go up bond prices go down and the amount that bond prices fall increases with the

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duration of the bond. So, armed with this information, what did our friends at SVB do? They took a spike in customer deposits that occurred in 2020 and 2021 and invested them heavily in a portfolio of longer duration mortgage backed securities. This allowed them to earn more money than they otherwise would have with a portfolio of shorter-duration treasuries at a time when rates where below 1%. Further complicating matters was the fact that SVB's customer base was overwhelmingly concentrated in venture capital backed start-up companies. The dramatic increase in interest rates over the past year meant less funding for new startup ventures. It also meant more withdrawals from existing startup accounts as companies spent down account balances and drew down credit lines as additional rounds of VC funding became more difficult to secure. SVB had to sell holdings from its bond portfolio at a loss to cover withdrawals and pretty soon it became apparent that continuing to do so would render the bank insolvent. For a bank with 94% of accounts holding more than the $250,000 FDIC insured limit, this triggered a bank run, which in the digital world can take place in between runs at your favorite ski slope, and Silicon Valley Bank was no more. I don't want to devolve into a lengthy discussion of risk management methods for banks, but suffice to say I think pondering a world where rates move higher and new deposits come in lower than plan is not too much to ask from a bank's management team or its Board. This was avoidable.

The failure of Silicon Valley Bank put regulators in an impossible position. While I am sure that many relatable, innocent people stood to be hurt by the failure of SVB, this particular bank was VERY heavily indexed to Silicon Valley's Private Equity and Venture Capital industry. While startup funding serves an important function in a capitalist system, it sure does look like the PE/VC industry was using SVB to provide their portfolio companies with cheap (and apparently, government backed) capital while keeping any long-term equity upside in these ventures for themselves. This is not exactly a sympathetic group for most Americans. If the regulators failed to honor all deposits of SVB, viable startups would have received the necessary funding to continue, just at less favorable terms, and startups that initially got funding because money was free would have failed. I think regulators, and the broader public, would have been perfectly fine with that outcome. Unfortunately, this also would have triggered a run on every regional bank in the country as no person or business in their right mind would have left deposits exceeding the $250,000 FDIC insured limit in a bank that had not already been deemed too big to fail by the government. That was not an acceptable outcome so the government backstopped the SVB deposits. A lot of steps were taken in the aftermath of the SVB failure to make it appear as though industry, not government, was stepping into the breach on other struggling banking entities but this looks more like a sideshow to me. Ask yourself this: If the Farmer's Bank of Des Moines falls into distress one day and finds no willing industry backers, would the government step in or not? The answer is clear, but it has dramatic implications. If banks borrow from the Federal Reserve at the same rate and if all deposits are implicitly backed by the Federal Government, how do banks differentiate themselves in the future if balance sheet strength and risk management capabilities are equalized? I think the fallout from this event will be increased banking regulation, more friction for businesses trying to access credit, and generally higher costs of capital throughout the system. From an investing standpoint, this should place a higher premium on companies that don't require external sources of funding and it makes the traditional banking sector look a lot more like utilities than they previously did.

The public launch of ChatGTP was a big deal. This was the moment when advances in artificial intelligence made over the past decade went mainstream. Nvidia CEO Jensen Huang referred to it as AI's iPhone moment and, as usual, he is right. For the past couple of years, Nvidia has been talking in great detail about the work it was doing in the field of machine learning, inference and training of large language models. Meta, Alphabet, Amazon and

Microsoft have reported massive increases in spending related to AI initiatives-as the GPU chipsets necessary to do the computing required in this field are very expensive. But it took the launch of ChatGTP and its ability to take instructions in plain English and produce the requested output for the broader public to start thinking about artificial intelligence and its implications more deeply. In our view, artificial intelligence will be the fourth major change in computing with the invention of the PC, internet, and mobile computing (iPhone) being the first three. The impact on corporate productivity and society will be profound.

The best way to understand the promise of Artificial Intelligence applications is to first understand what a Large Language Model is. From the Nvidia website, "A large language model, or LLM, is a deep learning algorithm that can recognize, summarize, translate, predict and generate text and other content based on knowledge gained from massive datasets." ChatGTP is an application that generates content from a dataset that contains about 175 billion parameters. Other LLMs exist in field like software design, with code being the language, and life science where proteins, molecules and their interactions are the language. AI applications/algorithms sit on top of these massive language models and are able to not only generate content (predict what comes next) but also continually learn and improve. Enterprises can incorporate their own massive data lakes into existing LLMs or create their own smaller LLMs to develop applications specific to their business. Many businesses already use ChatBots to answer customer questions (the good news for everyone is that they'll improve), Amazon is training its robot fleet to improve warehouse productivity based on its own experience and millions of simulations, and life science researchers are using AI to aide in the development of new disease treatments. We are entering a period in which all businesses and people will interact in some manner with artificial intelligence.

Now that we have established that artificial intelligence is important, the obvious question is who stands to benefit and who is at risk from this latest technological revolution. The most obvious beneficiary, assuming we are able to avoid some sort of Terminator style apocalypse, is society as a whole. The ability to customize a digital assistant to your specific needs is not that far away, which will have a real impact on people's day to day lives. Productivity as a whole will get a boost, which is good for corporate profit margins, GDP growth and is also deflationary. From a company standpoint, Nvidia is an obvious winner (more on this later) and I think the large cloud service providers (Amazon, Microsoft, Google, Oracle) are pretty clear beneficiaries as well. Accenture is another company that will be the tour guide for large enterprises through the world of artificial intelligence that we would expect to benefit from this emerging trend. Beyond that, we get a varying mix of risk and reward. AI is going to be a disruptive force across industries and this introduces a new layer of risk to many large companies. There are already thousands of startups formed that are looking to parlay a head start in this cutting edge technology to displace slower moving incumbents across industries. However, the current group of industry leaders are the companies most likely to have the intellectual capital and financial wherewithal to be on the leading edge of AI implementation which could further cement their current advantage. Just as it will be important to remain vigilant for emerging threats, it will be just as important to remember the natural advantages held by leading businesses with a credible plan. One certainty is that artificial intelligence and its numerous applications is going to make the investing world very interesting going forward.

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Figure 1

Top 15 S&P 500 Companies by Market Cap		
Apple	Microsoft	Alphabet
Amazon	Nvidia	Berkshire Hathaway
Tesla	Meta Platforms	Exxon Mobil
UnitedHealth Group	Johnson & Johnson	JP Morgan Chase
Visa	Procter & Gamble	Mastercard

The companies listed above in Figure 1 are the 15 largest companies in the S&P 500. These are some of the most dominant businesses in the world and collectively their reach is global and across all major sectors of the economy. They account for one third of the S&P 500 index, which is roughly equivalent to the combined weighting of the bottom 400 companies in the index. When you tune into CNBC and see strategists opining on the direction of the "market", in reality, whether they care to admit it or not, they are effectively making a judgement as to the future returns of this basket of stocks. Things get even more concentrated when you start talking about sector ETFs. Exxon and Chevron are over 40% of the Energy ETF (XLE). Alphabet and Meta make up roughly 40% of the Communication Services ETF. Amazon, Tesla and Home Depot are 45% of the Consumer Discretionary ETF (XLY) and if you want to make a targeted bet on the Technology Sector (XLK), understand that Apple and Microsoft account for almost 45% of this ETF. I wonder if asset allocators who judge the risk of individual security selection to be too great understand that the "basket" of stocks they hold in their ETFs basically contains a couple of dinosaur eggs surrounded by those cute little hen eggs that sometimes are served on top of a single piece of sushi. Too much of the conversation on equity investing is dominated by those who are unwilling or unable to descend below 30,000 and take a closer look at the individual companies that make up an index or an ETF before opining on the current state of the market or the next place to rotate.

The same dynamic is true when it comes to conversations on valuation. I am unable to politely express my frustration every time I see an analyst on CNBC point out that the long-term average multiple of the S&P 500 is 15x and we are at 18.5x so therefore the market is overvalued by 23%. That is true, but keep in mind that statistics are often used the way a drunk uses a street lamp- for support, not illumination. Since we are firing out statistics on valuation, here are a couple more: If you want the S&P 500 multiple to be 15x rather than 18X, simply remove Apple, Microsoft, Amazon, Nvidia and Tesla and you are there. Further, while 15x is the long-term average PE for the S&P 500, that number moves to 18x if you look over the past sixty years at periods in which the 10-year treasury was under 6%. Again, this is another situation where the conversation is dominated by the most simplistic, basic level of analysis. I wish I could say that this doesn't matter, but given the overwhelming amount of money invested in index funds or algorithmic driven ETFs versus active fundamental driven strategies, it can drive equity returns in the short-to-intermediate term. However, longer term, equity returns will be driven by earnings growth and for those able to endure the sometimes painful periods of dislocation caused by the herd mentality of the broader market, the rewards should be worth the aggravation provided you own companies that can compound earnings.

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First Quarter Contributors and Detractors:

Table 1:

Notable Q1-23 Performers					
Positive Contributors			**Negative Detractors**		
	Performance	**Contribution**		**Performance**	**Contribution**
Nvidia	+90.1%	+6.31%	Intuitive Surgical	-3.7%	-0.17%
Meta Platforms	+76.1%	+3.04%			
Salesforce.com	+50.7%	+2.54%			

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 their total contribution (% increase/decrease x weighting) to overall portfolio returns. Nvidia is once again at the center of a generational technological breakthrough while Meta and Salesforce flexed their cost cutting muscles in a much greater and much faster manner than anticipated. Intuitive Surgical had poor first quarter returns, but we think this is due to disappointment in the timing of a next generation robot launch that will prove to be transitory.

Nvidia: Nvidia shares rallied 90% during the first quarter off of cyclically depressed lows as its role in the upcoming AI revolution began to come into focus. For those following Nvidia closely over the past several years, the capabilities of ChatGTP were met with a bit of a shoulder shrug as CEO Jensen Huang has been talking about advances Nvidia was making in generative AI for quite a while now. However, as noted above, the ChatGTP launch was the moment that generative AI went mainstream and companies that have been working for years on AI related applications accelerated those programs and those that hadn't began frantically searching for how they could. This could not have come at a better time for Nvidia because AI's "iPhone moment" happened to coincide with the launch of Nvidia's next generation accelerated computing chip set- The Hopper. One critique of Nvidia is that the company always seems to be at the center of the next big thing in technology and isn't afraid to make that known to investors. What this critique misses is that the big ideas in technology from autonomous driving to cloud based data centers that allow for analysis of massive data lakes to artificial intelligence applications all have one thing in common- the need for accelerated computing. At its core, Nvidia is an accelerated computing company that has full stack solutions (CPUs, DPUs, GPUs with a software overlay) that bring to bear computing power never before seen in history. Nvidia's lead in the field of accelerated computing is greater than it has ever been at the precise moment that the next generational breakthrough in technology has arrived. This doesn't mean that other chip companies won't be winners in the AI space, it just means that from where things stand today, Nvidia looks to be the biggest winner.

Meta Platforms: In our Q4-22 investor letter, I compared Mark Zuckerberg's performance on the third quarter earnings call in which Meta ignored calls for fiscal discipline and announced plans to increase both OPEX and CAPEX dramatically in 2023 to that of a child throwing a tantrum and ignoring all reason. In sticking with that theme, every action he has taken since that time is akin to when that same child offers a heartfelt apology complete with a drawing featuring a heart. As shareholders, we accept. In the span of five months, Meta has

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gone from the poster child of a company with out of control spending plans to perhaps the leader in the entire technology space when it comes to cutting costs and driving efficiency. Since December, Meta has announced plans to reduce its workforce by 24%! The stock has more than doubled off of its November lows and earnings estimates for 2023 and 2024 are up 40-50% during that period. On the strength of the cost cutting plans alone, we have moved from a point of all-time low valuations on materially depressed earnings to relatively cheap valuations on more normalized earnings. Future gains will be driven on factors beyond cost cutting and on that front, we think things set up well for Meta. It has been over a year since Apple implemented changes to its operating system that restricted the data available to Meta and other apps. From a financial standpoint, most of that hit has been lapped. From a business standpoint, Meta has invested heavily in artificial intelligence in an attempt to recreate the ability it previously had to target advertising and accurately measure the ROI for its customers. This remains an on-going initiative, but progress is being made. With regards to the competition from Tik Tok, improvements in Reels coupled with increased regulatory scrutiny on Tik Tok are boosting Meta. Should Tik Tok receive a full ban, similar to how the Chinese have banned every US social media business, one of 2022's biggest risks will become one of 2023's biggest opportunities for Meta. The biggest fundamental concern we have with Meta at this time is the broader economy. Digital advertising is big enough that it won't be immune from a period of prolonged macro-economic uncertainty or recession. Any clarity or firming in the macro outlook would be welcomed. Overall, the bulk of Meta's problems late last year were self-induced and the bulk of Meta's rebound this year is the result of self-help. Continued progress will be contingent on maintaining cost discipline coupled with a few of these bigger fundamental factors breaking our way.

Salesforce.com: During the fourth quarter of 2022 and the early parts of 2023, Salesforce.com became a very popular target for activist investors. By the start of the year, five activist firms held a position in Salesforce and the common demand from all of these firms was a mandate to increase profitability. Indeed, the opportunity for material operating margin expansion was central to our thesis when we first purchased Salesforce over the Summer and added to our position again in the Fall. In September, the company hosted an investor meeting and presented plans to increase operating margins from 20% to 25% by 2025 while still maintaining a mid-teens revenue growth rate. This was a start, but the pressure from the activist firms remained with one going as far as announcing plans to nominate an alternative slate of Directors at the next shareholder meeting. Rather than bristle at the very public demands for a change in strategy after 15 years of delivering exceptional returns, CEO Marc Benioff and the Salesforce management team chose to lean in to the suggestions made by the varying activist groups and fully embraced the concept of driving profitability at scale. While our internal estimates typically run ahead of consensus for our portfolio companies, the result of this embrace was well beyond our expectations. Not only did Salesforce announce Q4 results well in excess of expectations, the guidance for 2023 operating margins was 27% with a clear path towards 30% and beyond in the years to come. As such, the 2023 earnings guidance was a smooth 22% ahead of consensus expectations and out year estimates increased by similar amounts. This announcement was so compelling that the plans to run an alternate slate of Directors were shelved. Game, set, match Benioff.

Intuitive Surgical: Shares of Intuitive were weak during the first quarter and this weakness is directly attributable to the fact that management said that there would be no new multi-port robotic surgical system released during 2023. That statement ushered every hedge fund manager playing the stock for a new product cycle straight to the door. This is one of those instances where we look at the world of Intuitive differently than other, shorter-term orientated shareholders and as such don't view the absence of a next generation product launch in 2023 to be that big of a deal. To be fair to the hedge funds that owned, and will one day again own, this stock for the

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product cycle, we agree that a compelling new product launch would be a positive development. It's just that we believe that long-term value for this business is created by increased procedure demand and on that front things remain very strong. Procedures were up 18% during the fourth quarter despite China, Intuitive's second largest market, reporting a decline of 8% due to Covid lockdowns. Given that these are procedures delayed not denied, we think the outlook for another strong year of procedure growth for minimally invasive robotic surgery remains positive. Intuitive was once a product cycle dependent capital equipment company. New products with new indications were used to unlock new procedure demand. That dynamic has flipped in recent years and we have reached the point where indications are plentiful (and still growing) and procedure demand drives increased system utilization to a certain point at which new systems must be either bought or leased. At some point a next generation robotic surgical system will be released and we are confident that when it is it will be an impressive leap forward. That said, the true long-term value for this company is driven by an inexorable shift towards minimally invasive robotic surgery which drives better outcomes for patients at a lower total cost to the hospitals.

While the pain of 2022 remains fresh in everyone's mind, the first quarter of 2023 offered some encouraging signs for our portfolio companies. The post pandemic economic slowdown has come in waves and those waves crashed first on companies that were caught offsides when demand for many technology related businesses returned largely to pre-pandemic trend lines rather than continuing to build on the step function increases that resulted from Covid. The upside to this is that many of these same companies have made the adjustments necessary to right size their cost structures and as such are positioned to protect and grow earnings even as the broader economy continues to muddle through the on-going economic slowdown. We think these are the stocks that will outperform during 2023. 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.

Regards,

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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 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.

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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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