



Wedgewood Partners Third Quarter 2020 Client Letter

Mr. Market Goes to Washington

6-Mo. Anniversary Of Bull Market	S&P 500 6-Mo. Gain	S&P 500 Normalized P/E
December 1, 1932	50.6 %	6.6 x
September 30, 1938	44.0	15.9
October 28, 1942	24.6	10.0
December 13, 1949	22.8	10.3
April 22, 1958	9.8	13.6
December 26, 1962	20.5	19.3
April 7, 1967	22.1	19.1
November 25, 1970	22.8	15.4
April 3, 1975	30.9	11.8
September 6, 1978	21.3	10.9
February 11, 1983	44.1	10.5
June 3, 1988	19.0	16.4
April 11, 1991	27.8	18.4
April 9, 2003	11.5	19.9
September 9, 2009	52.7	16.7
September 23, 2020	44.7	26.9
Average (Ex. 2020)	28.3 %	14.3 x

Source: The Leuthold Group

Review and Outlook

For the third quarter 2020, our Composite (net)ⁱ gained +10.77%. The S&P 500 Index gained +8.93%. The Russell 1000 Growth Index gained +13.22%. The Russell 1000 Value Index gained +5.59%.

Year-to-date our Composite (net) has gained +17.77%. The S&P 500 Index has gained +5.57%. The Russell 1000 Growth Index has gained +24.33%. The Russell 1000 Value Index has declined -11.58%.

Top performance detractors for the quarter include First Republic Bank, Microsoft, Keysight Technologies, Alcon, and Electronic Arts. Top performance contributors for the quarter include Apple, Facebook, Edwards Lifesciences, NVIDIA, and PayPal Holdings.

We were quite active during the quarter. We sold NVIDIA. We bought First Republic Bank. We trimmed Apple (twice) and Facebook. We added to Copart, Bristol-Myers Squibb, CDW, Motorola Solutions, Keysight Technologies, and Microsoft.

Q3 Top Contributors	Avg. Wgt.	Contribution to Return
Apple	8.57	2.57
Facebook	9.19	1.55
Edwards Lifesciences	7.67	1.09
NVIDIA	1.69	1.04
PayPal Holdings	6.80	0.93

Q3 Bottom Contributors		
First Republic Bank	0.77	-0.12
Microsoft	3.94	-0.07
Keysight Technologies	3.50	-0.03
Alcon	2.75	0.02
Electronic Arts	5.36	0.04

1

Continuing with the holdings that contributed the least to our absolute performance, Keysight Technologies reported a slight decline in earnings for the quarter but provided a strong outlook that anticipates a return to double-digit growth next quarter. Even though business activity was disrupted in some of Keysight's end-markets over the past few months, the Company continues to serve the R&D functions of clients in industries and segments that have very favorable long-term growth characteristics, including electric vehicles, 5G wireless, 400Gb Ethernet, aerospace and defense modernization and semiconductor process development. In addition, we think there remains ample upside to margins as Keysight cross-sells new software solutions to an installed base that has grown dramatically over the past few years. We added to our positions in Keysight during the quarter as the stock remains attractive on an absolute and relative basis.

Electronic Arts reported an over +70% increase in bookings during the quarter as the Company's video game titles like *FIFA*, *Madden*, and *Apex Legends* benefitted from increased

¹ Portfolio contribution calculated gross of fees. The holdings identified do not represent all of the securities purchased, sold, or recommended. Returns are presented net of fees and include the reinvestment of all income. "Net (actual)" returns are calculated using actual management fees and are reduced by all fees and transaction costs incurred. Past performance does not guarantee future results. Additional calculation information is available upon request.

engagement during the pandemic. While the market expects results to decelerate from these levels, we continue to believe the Company possesses plenty of growth drivers, including several new franchise titles, a once-in-a-decade new console cycle, and the launch of its game development platform as a service, currently dubbed “Project Atlas.”

Alcon’s results were challenged by hospital and surgery center shutdowns, more so than our other medical technology holding, Edwards Lifesciences, because eye surgeries are less life-threatening than structural heart problems. However, Alcon has a robust pipeline of new products that should restore the Company’s growth profile over the next few quarters. In addition, Alcon should be able to deliver steady margin expansion from a combination of higher valued products as well as better leverage from the Company’s fixed cost structure as the operational separation from Novartis is substantially completed.

Moving on to the holdings that contributed the most to the portfolio’s absolute return during the quarter, Apple’s revenue growth accelerated to +11% as iPad revenue growth accelerated to its fastest in six years, driven by work from home and distance learning demand. The Company also reported a staggering +550 million paid subscriptions across its services line – nearly three times as many subscribers as Netflix – and up +30% over last year. We expect iPhone demand to accelerate in the coming quarters as Apple launches a flagship phone capable of running on new highspeed 5G networks around the globe. While we trimmed our position during the quarter due to our long-held maximum portfolio position size of 10%, Apple continues to be one of our largest holdings.

Facebook’s revenues grew +12% constant currency despite the near total shutdown of economic activity during the month of April. The vast majority of Facebook’s revenues are derived from small businesses, many of which have borne the brunt of lockdowns. To combat the sudden disappearance of foot traffic, these businesses are initiating or accelerating the adoption of digital customer acquisition strategies provided by Facebook’s vast ecosystem, including instant access to over 2 billion daily users. We continue to carry Facebook as one of our largest holdings as its value proposition is difficult to copy, yet the stock trades at still somewhat reasonable multiples relative to large cap peers.

Edwards Lifesciences reported a difficult quarter due to an unprecedented shutdown of non-emergency hospital units and surgery centers across the globe. Edwards’ revenues declined -15%, though we expect 2020 revenues will still finish the year ahead of 2019 because hospitals and surgery centers have learned to cope with COVID-19 and will not repeat the shutdowns seen during March and April 2020.

PayPal continued to disproportionately benefit from the behavioral shifts occurring due to COVID-19. Revenue growth accelerated to +22% as PayPal helped enable record levels of daily e-commerce transaction volume in the U.S. and across international borders. New users are signing up with PayPal at a record pace while transacting more frequently than previous users as lockdowns have funneled consumer spending online. We continue to think PayPal’s addressable market is as open-ended as e-commerce and expect several more years of exceptional growth driven by its large user base (approaching 350 million) and merchant base of over 25 million.

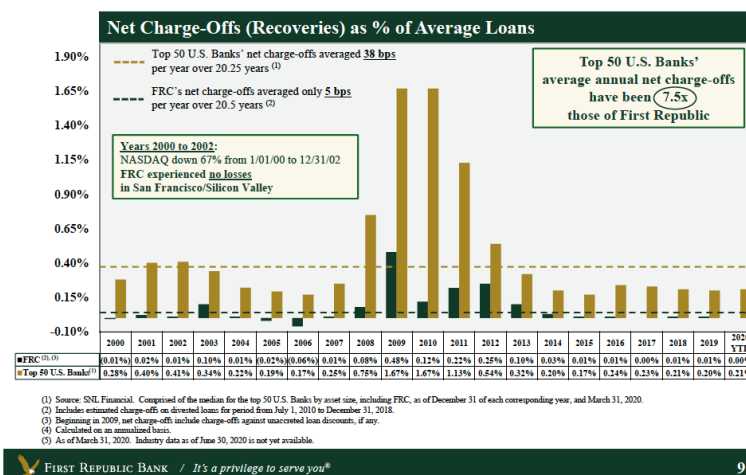
Company Commentaries

First Republic Bank

First Republic Bank was founded in 1985 on the idea that a culture of exceptional, concierge client service brought to bear on commodity banking and wealth management would lead to an exceptional business model. The founders were right. First Republic Bank is an exceptional growth company that happens to be in the lackluster banking industry. Starting in 1985 with \$8.8 million *de novo* capitalization, the virtuous circle of high-touch, empowered client service coupled with low-turnover, experienced client-facing employees has led to equally low-turnover, referral-rich, satisfied clients. With just 78 banking offices (just 10 more since 2014) clustered in wealthy zip codes primarily in San Francisco, Palo Alto, Los Angeles, Santa Barbara, Newport Beach, and San Diego, California; Portland, Oregon; Jackson, Wyoming; Palm Beach, Florida; Boston, Massachusetts; Greenwich, Connecticut; and New York, New York, the Company has organically grown its deposit base to \$99 billion and wealth management assets of \$156 billion. Wealth management generates about 14% of overall Company revenues.

Over the past five years (2014—2019), the Company has generated compound growth of loans, deposits, Tier-1 capital, and wealth management assets of +19%, +19%, +16%, and +23%, respectively. In addition, over the same five years, the Company has compounded revenue growth at +15% per annum, tangible book value at +14% per annum, and earnings per share at +11% per annum. We believe that the Company has more than a few years of double-digit runway growth ahead of it.

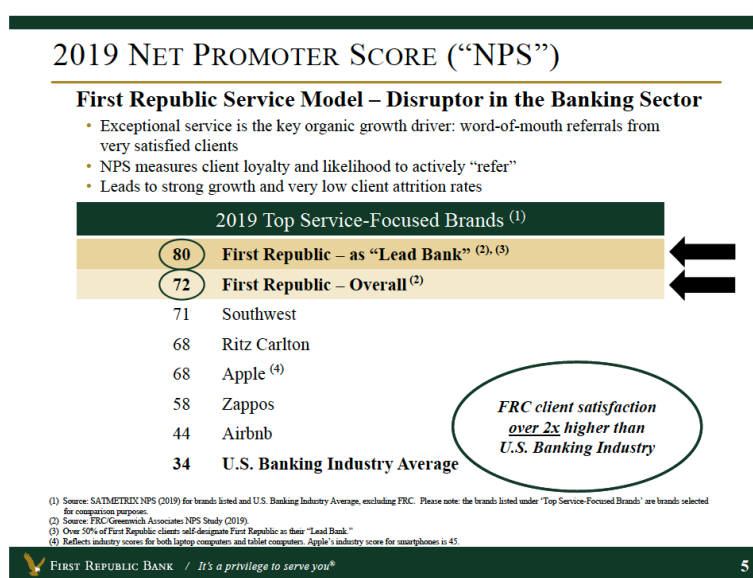
2000-2020: LOSS EXPERIENCE - ALL LOANS



In addition, the Company has long exhibited a parallel culture of extremely conservative lending, conservatively funded by a stable deposit base (84% of liabilities). Knowing its

client well and knowing their respective loans well is exemplified by the fact that 90% of the Company's real estate loans are within just 20 miles of a Company office. In addition, 90% of loans since the Company's founding were originated by bankers still employed by the Company. Consistent across the Company's loan portfolio are conservative loan-to-value ratios; high customer liquidity; and for individuals, high average FICO scores of 774. Consider this amazing statistic: since the Company's founding in 1985, the Company has originated \$288 billion in loans, yet cumulative loan losses have been just 0.12% (\$289 million). Indeed, in the last reported quarter, the Company reported that nonperforming assets remained at a very low level – 13 basis points of total assets – and net charge-offs were just \$1.1 million, or less than 1 basis point of average loans.

First Republic Bank views its culture of concierge service as its brand. All clients (not customers) enjoy a single point of contact. Happy clients refer their family, friends, business associations, and the boards and charities they may serve on – the list goes on. The Company estimates that at least 50% of its growth comes from existing clients, plus another 25% from referrals. Specifically, client referrals account for 32% of checking deposit account growth and 29% for new loan origination growth. Relatedly, the Company boasts that its annual checking deposit attrition rate of 2% is significantly lower than industry's attrition rate of +8%. It is no surprise the Company's Net Promoter Score is off the charts for a client service-focused company.

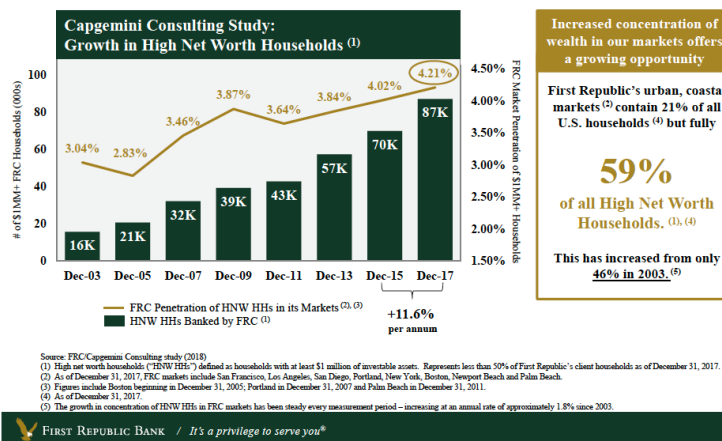


We expect households banked by the Company to continue to increase at least at a high single-digit pace given the Company's still-low market penetration. These expectations may be conservative given the turmoil in most of the U.S. banking industry. The majority of U.S. banks are starved for growth – particularly in the high-net-worth sector. Employee turnover in senior client-facing positions has plagued the banking industry for years. Couple that with the current shrinkage in branches across the industry and it's easy to assume that client

service levels are poorer still. The current environment is ripe for First Republic to gain even greater household penetration.

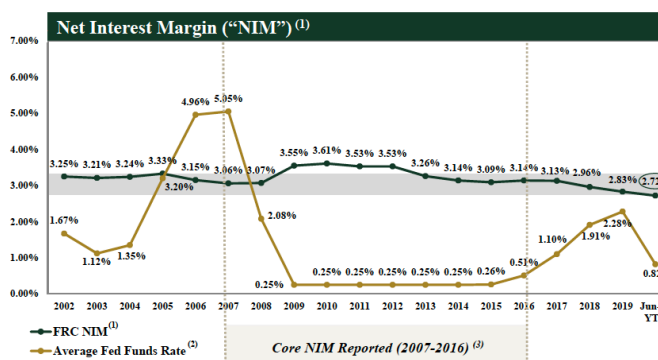
MARKET SHARE GROWTH

Market share remains quite modest = substantial upside



Despite First Republic's differentiated banking business model, like all lending institutions it too must manage an interest rate-spread environment that continues to tighten, hindering net earnings growth. The offset to tightening lending spreads is top-line revenue growth – where the Company excels. The Company's latest reported quarter put an exclamation point on its ability to grow loan originations unlike any industry peer. During the second quarter, the Company's loan originations totaled \$1.4 billion, an annual increase of +19% – its best quarter ever of loan originations.

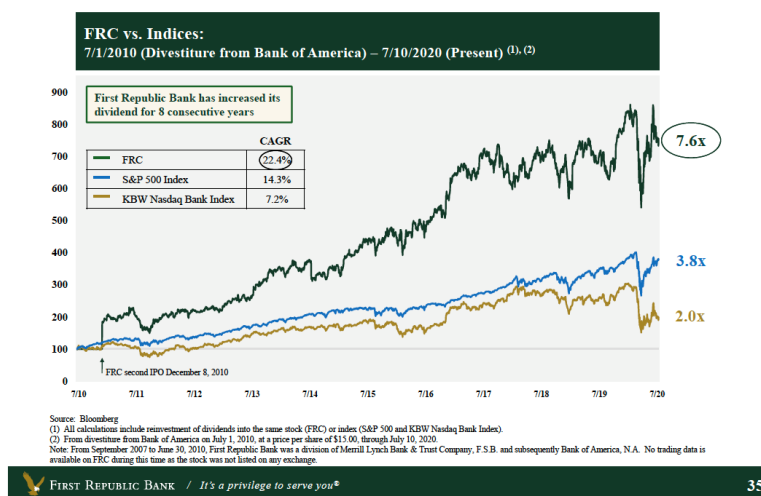
STABLE NET INTEREST MARGIN



⁽¹⁾ Beginning in 2018, reflects the new reduced federal tax rate of 21% following the enactment of tax reform legislation in December 2017.
⁽²⁾ Represents full-year averages, except Jan-20 YTD, which represents year-to-date average.
⁽³⁾ For 2007 through 2016, the net interest margin is presented on a non-GAAP basis ("core net interest margin"). For a reconciliation of the core net interest margin to its equivalent ratio under GAAP for these periods, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Use of Non-GAAP Financial Measures" in the Bank's Annual Reports on Form 10-K for the years ended December 31, 2010 through December 31, 2016 and in the Bank's Registration Statement on Form 10, as amended.

Just as First Republic's business model and its long history of growth are unique in the banking industry, the stock's valuation has been at a premium to its so-called banking peers. Despite the stock's long history of premium valuation, the Company's growth has long been rewarded as a premium performer versus both its banking peers and the stock market. If the Company continues to execute as we expect over the next years, we expect that the stock will be duly rewarded in kind.

TOTAL SHAREHOLDER RETURN (TSR)



NVIDIA

We sold our position in NVIDIA Corp to fund the purchase of First Republic Bank during the quarter. NVIDIA has blown past previous peak valuation multiples as demand for its gaming and datacenter graphical processing units (GPU) have soared due to a new product cycle, as well as easy comparisons to slow 2019 sales. Earlier this year, the Company launched its new Ampere line of GPUs. Hypercloud customers such as Amazon AWS, Google Cloud, and Microsoft Azure have been quick to deploy the new “A100” chips as thousands of artificial intelligence/machine learning (AI/ML)-focused startups, enterprises, and research institutes demand more parallel processing power to run larger AI/ML models. Over the past decade, NVIDIA has developed a substantial library of software to help developers more easily utilize NVIDIA GPUs for industry-specific and domain-specific applications, ensuring limited competition from accelerated computing chip rivals. However, despite these notable achievements, NVIDIA's datacenter end-market is quite concentrated around a handful of very large hypercloud customers that have quickly changed their buying patterns in the past – and no doubt will in the future. We estimate the market is assuming around a +25% compounded annual growth rate of NVIDIA's revenue for the next five years, along with aggressive margin expansion. While that outcome is not impossible, we expect the path to that kind of growth will not be linear and that the market will rerate the stock lower, similar

to previous cycles, if growth decelerates in its datacenter GPU franchise. NVIDIA has also enjoyed a significant boost in demand for gaming GPUs; because stay-at-home orders are conducive to increased gaming consumption. Coupled with a recent product launch, NVIDIA's gaming unit should see robust demand for several more quarters. Unlike previous cycles, we think NVIDIA should have limited exposure to any kind of correction in bitcoin mining. NVIDIA continues to be an excellent business, with enviable market positioning and is benefitting from secular demand for compute acceleration in datacenters. However, key to our sell decision, we believe the market has discounted much of NVIDIA's potential in the stock's current huge valuation and would rather invest in less well-understood opportunities that have similarly dominant franchises but exhibit more attractive valuations.

Payments Industry: Visa and PayPal

We believe this is an opportune time to update clients about our sizable payments industry exposure, as the coronavirus pandemic has resulted in meaningful positive developments for the industry. With no insensitivity intended toward people whose health and livelihoods have been harmed, significant portions of the market have been trading like a pandemic somehow has been a positive thing for their businesses; in the case of these two companies, this is very much true.

We long have discussed the substantial, nearly open-ended global opportunities for the digital payments industry as multiple long-term secular trends have all favored a shift toward digital, rather than cash, payment: everything from the rise of e-commerce to the digitization of business-to-business ("B2B") payments to the electronic disbursement of government funds.



Source: Visa investor presentation, 2/11/20

Furthermore, digital payments providers constantly have pointed out that their greatest competitor – and, therefore, their greatest opportunity – is cash; and the inexorable, steady shift from cash to digital transactions over an extended period of time will create share gain and growth for digital payments for the foreseeable future. While there are no perfect studies for the share of cash in any market since cash transactions can't be tracked reliably, the following graphic shows that even many developed economies still conduct a massive proportion of transactions in cash, either by transaction count (as presented below) or by volume. We should note that cash share by volume (\$ amount, for example) tends to be lower than cash share of transaction count, because the digital share of transactions tends to be larger as the size of the transaction becomes larger; think of B2B transactions or big-ticket purchases from retail businesses by consumers (“B2C” or business-to-consumer), for example.



The pandemic has served to accelerate this long-term shift toward digital payments simultaneously around the world, as many transactions typically executed in person have moved to a remote/digital situation, either by government decree or by choice, and as people – even in the case of in-person transactions – avoid cash quite literally like the plague. Although some areas of the digital payments universe, such as leisure travel and corporate travel and entertainment, admittedly are under pressure due to current travel/lockdown restrictions, which arguably are more or less temporary, digital transactions have been gaining massive share versus cash share (see statistics below on

PayPal's active user growth or Visa's debit growth, for example), and we do not view these positive developments as temporary in nature. While we may not see the same tremendous growth rates we are seeing currently, we concur with the opinion of management from both Companies that current share gains for digital payments are more or less permanent. Furthermore, the lasting legacy of the pandemic will be to cause businesses, consumers, and governments to continue to accelerate the shift toward digital payments – which had been happening, and which had made perfect sense, anyway.

Looking at the influence of the pandemic on each specific company, PayPal has been a clear beneficiary, helped especially by its heavy reliance upon consumers and its relatively low exposure to travel and event spending. Such exposure normally constitutes less than 10% of its business. Although the Company's business did take a hit when the pandemic first struck, economies locked down, and panicked consumers, for a time, weren't spending much money on anything aside from essentials. PayPal still saw rising TPV (Total Payment Volume, or the dollar value of total transactions) at its trough, with March TPV up 7%. Then, beginning in April, the share gains we mentioned above versus cash transactions brought business roaring back, and this was helped even further as economies began to reopen.

From March's trough, PayPal then began to add record numbers of new users and to see higher transactions per user, leading to growth rates of +30% and +21% versus the prior year in TPV (excluding currency changes) and users, respectively, in its most recently reported quarter. The Company is even reporting that both consumers and retail merchants have been pressuring PayPal to introduce in-store payment solutions as a result of the pandemic, providing more options for noncash payment. While this represents a potentially large new opportunity for TPV growth for PayPal, the Company is only pursuing this initiative slowly at the moment, as there is still plenty of opportunity in the online/digital world; plus, this in-store/physical business would likely generate lower financial returns for PayPal.

While the stock's absolute valuation on any number of metrics is very healthy and is at an all-time high, the same can be said for most of the large-cap market at the moment. That said, PayPal is one of the few companies for which the pandemic has been a clear near and long-term positive. When we consider the stock's fuller valuation in relation to the rest of the market, given the long and significant growth opportunity we continue to see in front of the Company, we remain constructive with our current position.

Visa has seen a similar experience to PayPal, although the rebound, in Visa's case, has not been quite as robust. Some of this is due to the fact that it is a much more mature, more entrenched, more broadly deployed payment solution, meaning that it does not have as many "new users" to attract as PayPal. Some of this is also due to Visa's heavier reliance on corporate travel and entertainment spending, both of which have dried up in a pandemic world. Visa does, of course, still benefit from the accelerating share gains in digital payments versus cash.

Like PayPal, Visa's business bottomed in March, although its unique business exposure meant that the trough was a meaningful decline in payment volumes, rather than just a

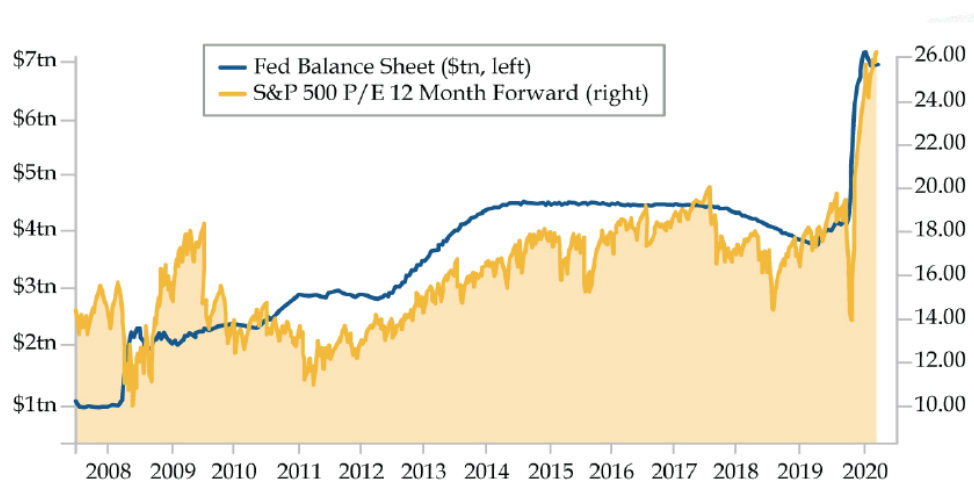
slower growth rate. As economies have begun staggered re-openings around the world, and as digital payments take advantage of share gains versus cash, Visa returned to positive transaction growth in July, with payment volumes growing in the high-single-digit percentage range. While these numbers are nowhere near PayPal's growth rates, they are very healthy numbers amidst a weak economic backdrop. While travel spending has remained especially weak (which has kept the credit card portion of the business in negative territory), Visa has seen rebounds particularly in debit volumes – a direct substitute for cash. On the credit side of the business, it has also seen tremendous growth in “card not present” volume; basically, online or remote transactions, rather than by presenting a card in person – excluding, of course, the travel category.

With Visa's valuation also sitting at all-time highs on most metrics, we would reiterate much of what we said regarding PayPal: in relation to a broad market also trading at very healthy valuations, and considering that the pandemic has accelerated the primary drivers of Visa's business, we remain comfortable with our position.

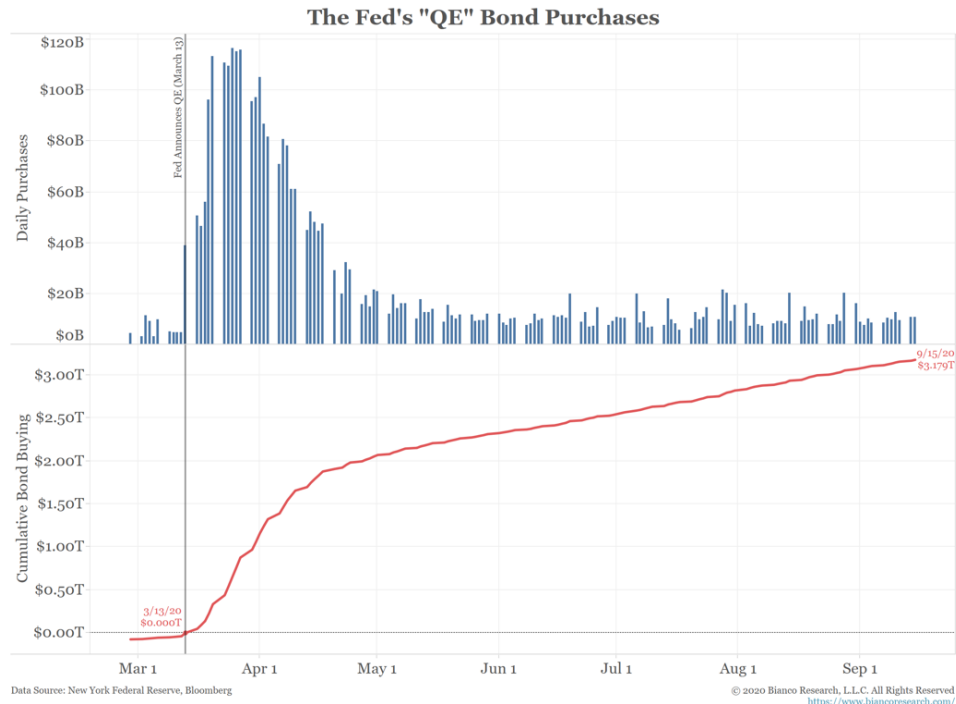
Mr. Market Goes to Washington

As we have discussed in our past two Letters, the stock market continues to take its cue from the unprecedented monetary and fiscal stimulus to thwart the pandemic emanating from Washington, D.C. As illustrated in the table on the first page, the six-month gain in the stock market is the third-best six-month start to a bull market in modern history. We are hard pressed to see this narrative changing – even if we won't know the outcome of the presidential election for days or weeks. Powell & Co. at the Federal Reserve continue to do their herculean monetary part in supporting financial markets.

Fed Balance Sheet Growth Has Had a Strong Pull on Stock Market Valuations. Has a Limit Been Reached?



Source: Quill Intelligence, Bloomberg via Holger Zschaepitz

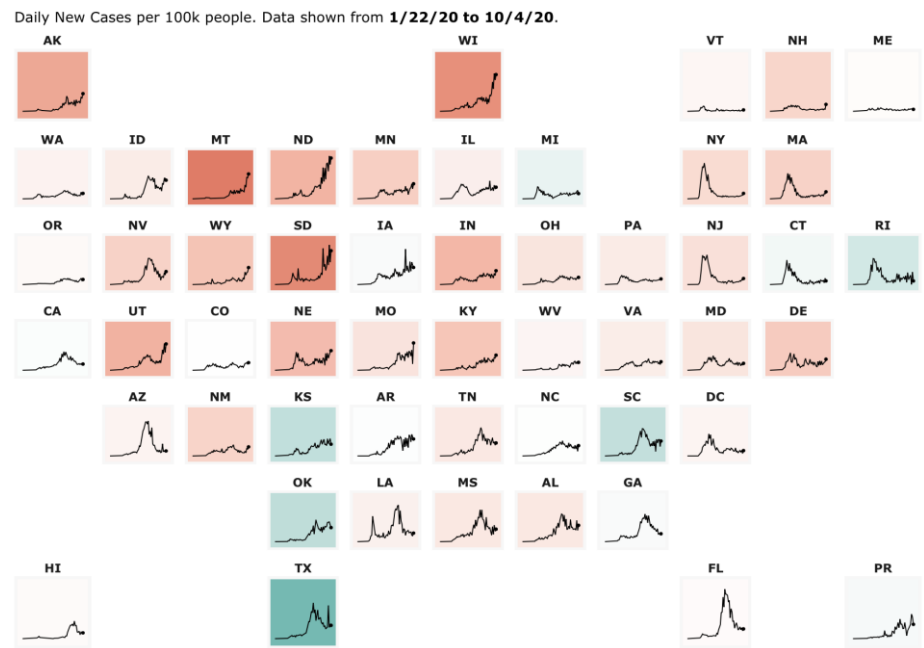
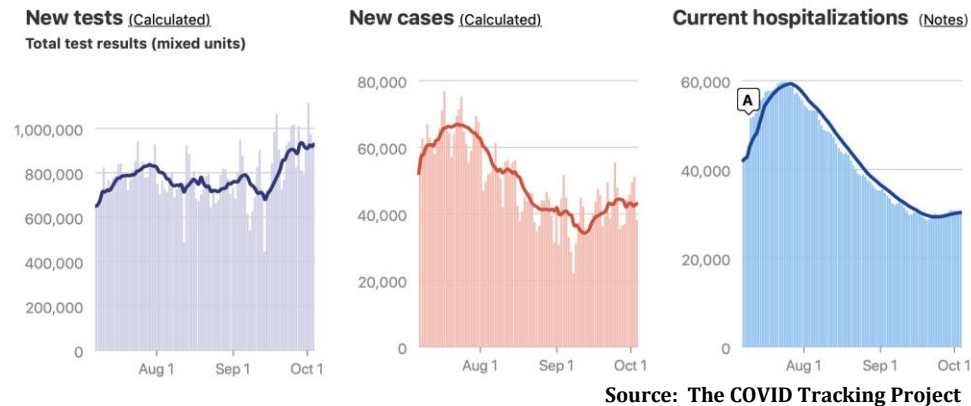


Over on the fiscal side of town, President Trump and House Speaker Pelosi are engaged in the third battle of Bull Run (pun not intended), trying to bridge the gap between the House Democrat's \$2.2 trillion stimulus package and the administration's \$1.6 trillion package. Both combatants have generally agreed on a few key relief provisions, including another \$1,200 direct payment to most Americans, funds for a second round of small business loans, money for schools, and \$25 billion to help cover airline payrolls as tens of thousands of employee furloughs hang in the balance. The battle lines are drawn on fundamental disputes about the Democrats' proposed \$436 billion in relief for state and local governments, while the Trump administration has offered \$250 billion in such aid. In addition, Speaker Pelosi is negotiating hard to reinstate the \$600 per week jobless benefit until January. The White House has proposed \$400 weekly benefits. Republicans also wanted liability protections for businesses and schools, which Democrats oppose.

As of this writing Trump has called off all negotiations with Speaker Pelosi until after the November elections. Shortly after calling off negotiations, President Trump countered with a rapid, targeted deployment of \$25 billion for airline payroll, \$135 billion for the Paycheck Protection Program for small businesses and \$1,200 stimulus checks for individuals. The markets await Speaker Pelosi's next volley.

Other risks that may mount for the economy and the financial markets include the pace of COVID-19 infections as we begin the 2020-2021 cold and flu season. In addition to more testing, states have lifted stay-at-home orders, reopened businesses, and relaxed social distancing measures. The graphics below show on a state-by-state basis whether cases of COVID-19 are increasing, decreasing, or remaining constant within each state (note red-

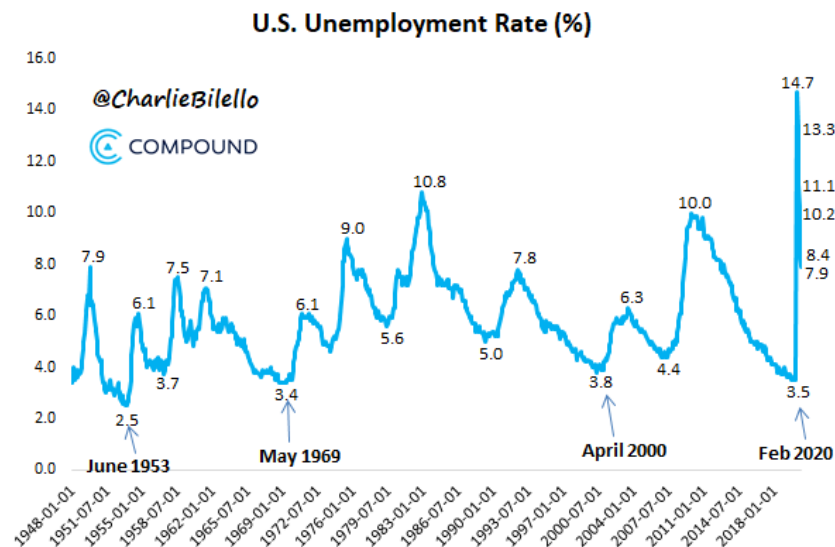
shaded states) and recent trends in hospitalizations. The good news is that the medical community knows so much more today about the epidemiology of the virus than when the pandemic began. In addition, the learning curve on treatment continues to evolve and improve. Promises (hopes) of a vaccine improve by the month. That said, beginning around Thanksgiving, asymptomatic, infected college students arrive back home for semester's end and we may see a surge in infections in the elderly population. If the cold and flu season brings a surge in cases, well, we know the playbook. Shutdowns.



Source: Johns Hopkins University & Medicine

If the new year brings heightened risk of federal, state or local business and school shutdowns (and the concomitant political folly that would no doubt ensue), the impact on

unemployment (which peaked in May at 14.7% and fell to 7.9% in September), the economy, and financial markets will not be immaterial.



We wish to once again thank those clients who have been steadfast in their support of Wedgewood Partners.

October 2020

David A. Rolfe, CFA
Chief Investment Officer

Michael X. Quigley, CFA
Senior Portfolio Manager

Christopher T. Jersan, CFA
Research Analyst

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable, but in no way are warranted by us to accuracy or completeness. We do not undertake to advise you as to any change in figures or our views. This is not a solicitation of any order to buy or sell. We, our affiliates and any officer, director or stockholder or any member of their families, may have a position in and may from time to time purchase or sell any of the above mentioned or related securities. Past results are no guarantee of future results.

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact.

Wedgewood Partners is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy, investment process, stock selection methodology and investor temperament. Our views and opinions include “forward-looking statements” which may or may not be accurate over the long term. Forward-looking statements can be identified by words like “believe,” “think,” “expect,” “anticipate,” or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security.

ⁱ Returns are presented net of fees and include the reinvestment of all income. “Net (Actual)” returns are calculated using actual management fees and are reduced by all fees and transaction costs incurred.