SaratogaRIM

2020 Quarterly Report

April 7, 2020

Q1

History Matters

Market Statistics							Source: FactSet (Mar. 31), Federal Reserve, * Spot prices (Mar. 31)
Stocks		**Yields (%)**				**Commodities**	
DJIA	21,917.16	Fed Funds	0.25	US Tr. 3-Y	0.27	Baltic Dry Index	626
P/E ratio	14.51	Disc. Rate	0.25	US Tr. 5-Y	0.37	Gold ($/oz)	1,583
S&P 500	2,584.59	Libor 1-Mo	0.99	US Tr. 10-Y	0.68	Silver ($/oz)	13.93
P/E ratio	16.75	US Tr. 1-Y	0.14	US Tr. 30-Y	1.32	Crude ($/bbl)* (NYM Light Sweet Crude)	20.48

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Investment Results

While our usual approach is to report trailing twelve month investment results within the text of our quarterly reports, this quarter we are also reporting investment results for Q1 2020 as well as approximate results from the February market peak through the end of the quarter. Furthermore, in addition to our official composite benchmark of the S&P 500 TR, we have also included the iShares MSCI USA Quality ETF as an additional reference point.

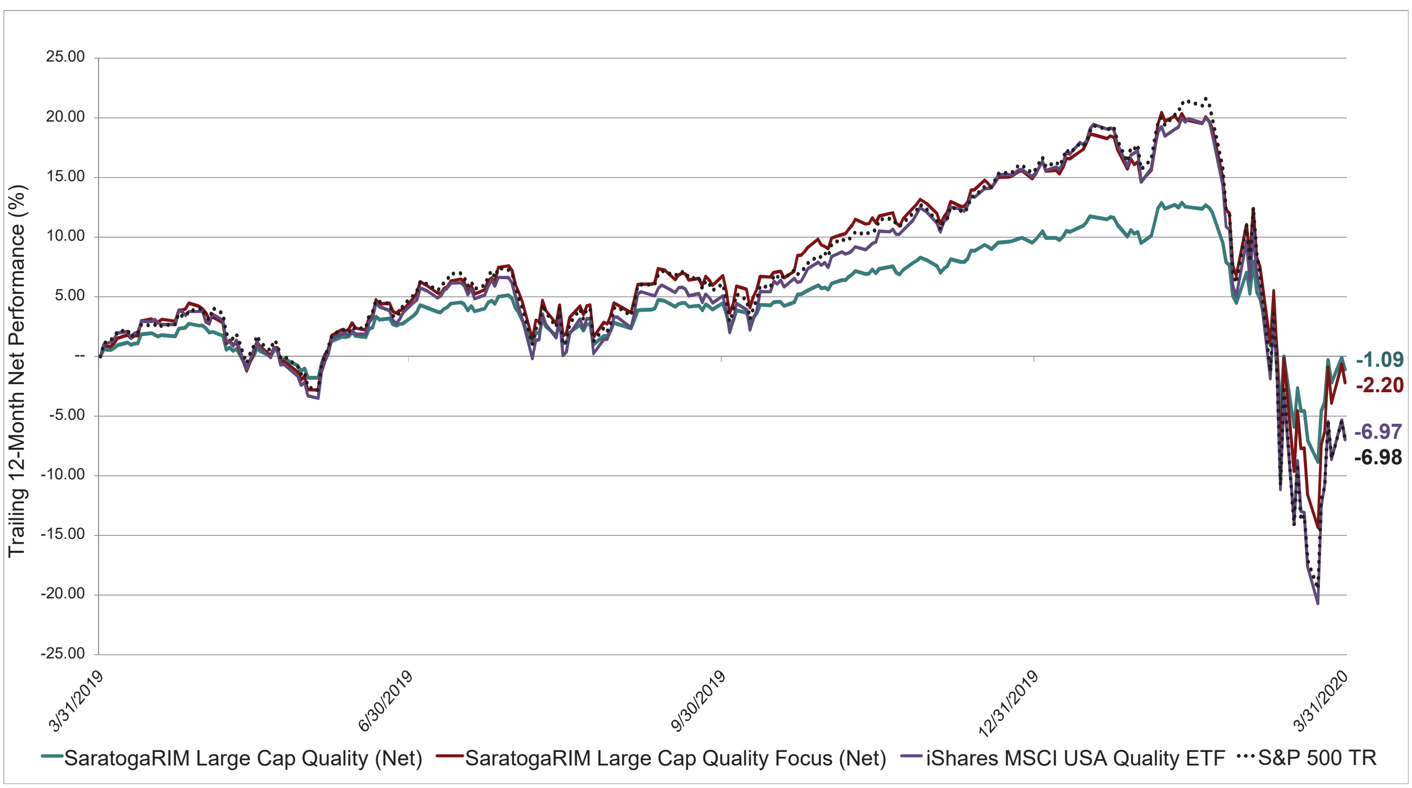
Over the 12 months that ended March 31st, net of fees, the SaratogaRIM Large Cap Quality and Large Cap Quality Focus composites slipped 1.09% and 2.20% respectively. Over the same period, the S&P 500 Total Return Index dropped 6.98%. The iShares MSCI USA Quality ETF was down 6.97% over the last year (See Fig. 1).

During the first quarter of 2020 ending March 31st, net of fees, the SaratogaRIM Large Cap Quality and Large Cap Quality Focus composites were down 9.36% and 14.97% respectively. All major indices were in the red, and the S&P 500 Total Return Index plunged 19.60% while the iShares MSCI USA Quality ETF lost 19.37% in the first quarter (See Fig. 2).

From the market peak on February 19th through March 31st, net of fees, the SaratogaRIM Large Cap Quality composite fell approximately 11.73% and the Large Cap Quality Focus composite dropped about 18.46%. Over that same time, the S&P 500 Total Return Index was down 23.48% and the iShares MSCI USA Quality ETF sank 22.46% (See Fig. 3).

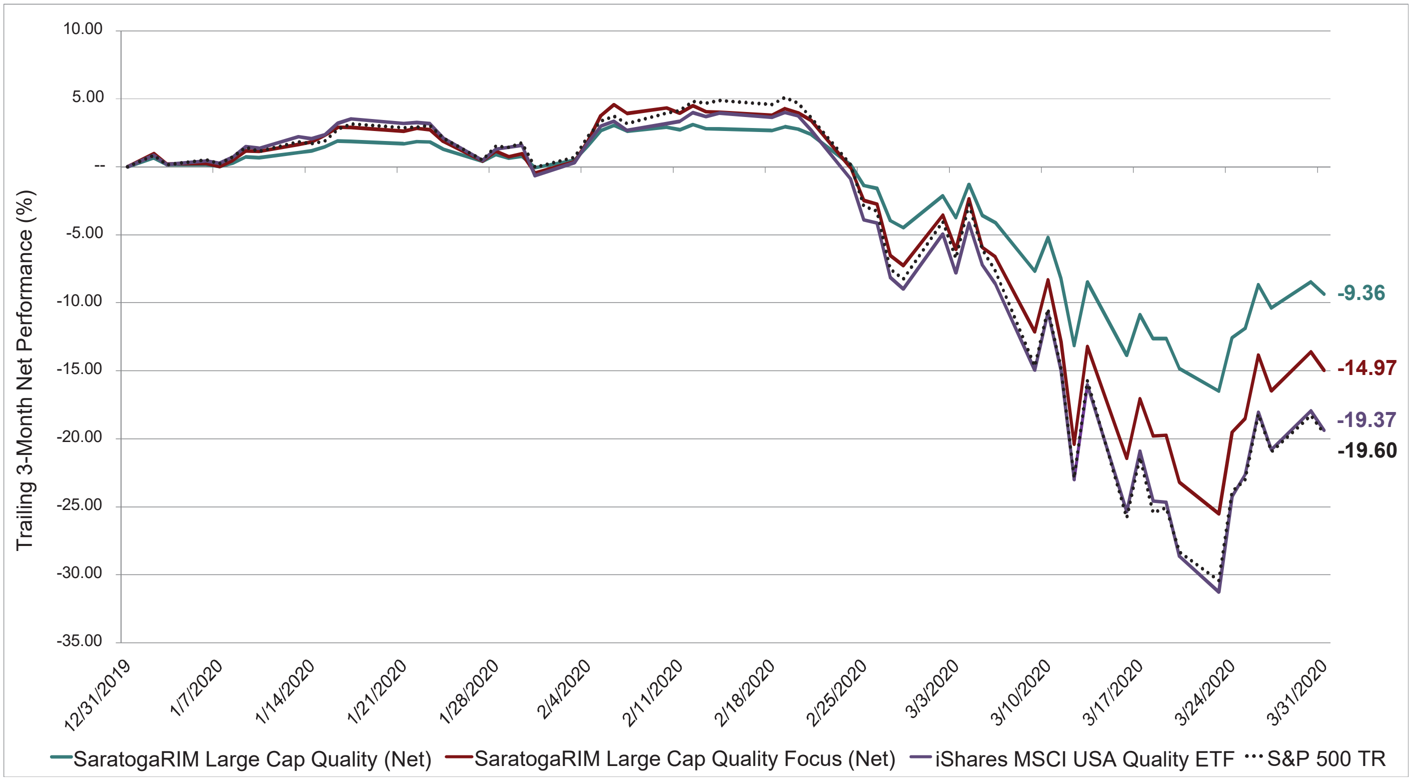
Our results were consistent with what we would expect at this phase in the economic and market cycles. As with any discussion of investment results, the SEC requires that we remind you that past performance is no guarantee of future returns. Please see full disclosures at the end of this report.

Fig. 1: SaratogaRIM Large Cap Quality & Focus vs. S&P 500 TR & iShares MSCI USA Quality ETF Trailing 12-Months (3/31/19 - 3/31/20)



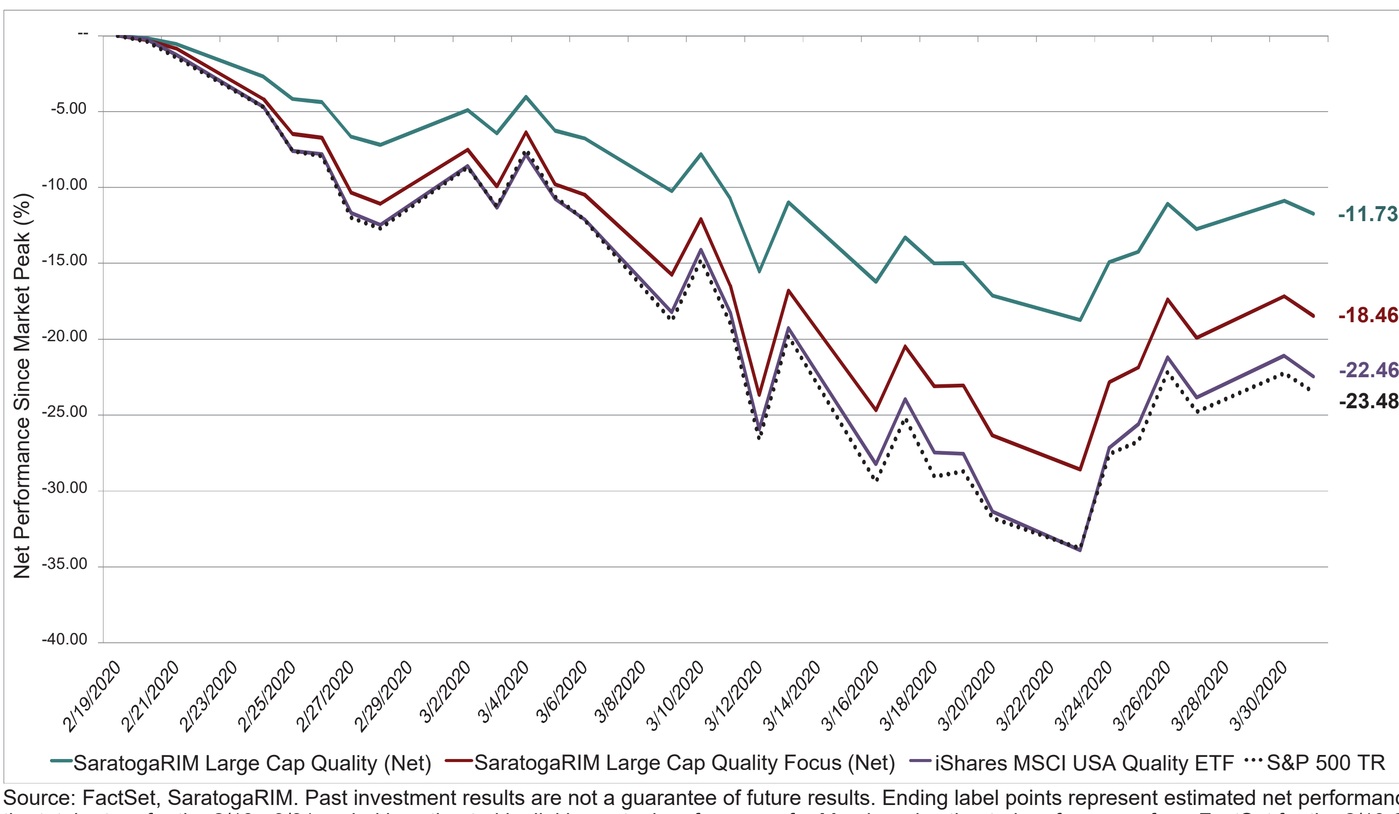
Source: FactSet, SaratogaRIM. Past investment results are not a guarantee of future results. See full disclosures at the end of this report.

Fig. 2: SaratogaRIM Large Cap Quality & Focus vs. S&P 500 TR & iShares MSCI USA Quality ETF Trailing 3-Months (Q1 2020: 12/31/19 - 3/31/20)



Source: FactSet, SaratogaRIM. Past investment results are not a guarantee of future results. See full disclosures at the end of this report.

Fig. 3: SaratogaRIM Large Cap Quality & Focus vs. S&P 500 TR & iShares MSCI USA Quality ETF Q1 2020 Market Peak to Quarter's End (2/19/20 - 3/31/20)



Source: FactSet, SaratogaRIM. Past investment results are not a guarantee of future results. Ending label points represent estimated net performance; the total return for the 2/19 - 3/31 period is estimated by linking actual performance for March and estimated performance from FactSet for the 2/19-2/29 period based on month-end holdings. The plot depicted shows estimated daily price movements based on month-end holdings.

Letter to Investors

The chance of gain is by every man more or less overvalued, and the chance of loss is by most men undervalued. – **Adam Smith**

A small black-and-white photo, taken at another time of crisis, hangs in our office. It depicts my father, then age 33, as he holds a newborn child just delivered in the central highlands of Vietnam. As a young doctor, he served as a battalion surgeon during one of that war's most violent periods. Today he and his girlfriend, both native New Yorkers in their eighties who divide their time between the two coasts, are stranded in California amongst the millions of Americans sheltered in place as the wave of COVID-19 cases spreads across the country.

Thus far, New Yorkers have borne the brunt of the crisis; Californians are braced for what is coming. I am thankful to report that SaratogaRIM's employees and their families are doing well. Most of us work from home; those still using the office observe strict social distancing protocols. Our emergency back-up site – we call it Zion, after the rebel redoubt in the sci-fi series, *The Matrix* – sits unused but ready, just in case. I wish to be writing with the pandemic firmly in the rearview mirror. Unfortunately, we are (at best) at a place Winston Churchill called "the end of the beginning." Already, Americans are succumbing to COVID-19 at a rate that matches the worst weeks of the Vietnam War, and nationally, more have died from the virus as I write on April 2nd than did on the beaches of Normandy during the D-day invasion in 1944. Sobering times, these are.

On March 17th, we issued a brief email with a Preliminary Letter for Q1 2020 (see the email and original letter following the 2020 Q1 Composite Statistics). We did so not only to answer questions that had been streaming in from clients, but also because we knew what we had to say, and, given the circumstances, saw no wisdom in waiting. Consider this an addendum. Our approach to investing during this crisis remains what it always has been, as outlined a few weeks back. Nothing about today's market environment fundamentally changes anything for our process or how we execute it. Officially, the longest U.S. bull market in history ended on March 11th. History suggests that the young bear market has yet to show its worst.

We are buying and selling opportunistically; checking and rechecking our valuation work based on the flow of new information; holding numerous virtual meetings daily to discuss news, the ongoing economic contraction unfolding globally and company-specific issues brought to the table by each member of our team. Each of us are keenly aware that the work we're doing right now, and will be doing over coming months and quarters, ranks amongst the most important of our investment lifetimes. We are also working hard to stay safe. Suffice it to say, I am extremely proud of the work that our investment, operations, and investor relations teams are doing, and their display of what Ernest Hemmingway called "grace under pressure."

Mohamed El-Erian, chief economic advisor at Allianz, coined a phrase for the pandemic's impact on commercial activity. He calls it "a massive economic sudden stop." Factories are shutting down, supply chains are broken, and economic actors of every sort – schools, businesses and government agencies – are locking their doors and sending employees home. "It's the sort of thing that happens in fragile states," he said in a mid-March interview. "It doesn't happen economy wide and it certainly doesn't happen worldwide, but that's what is occurring right now."

Businesses must meet fixed costs with little or no cash flow, a recipe sure to sting across the corporate landscape given today's high levels of leverage. "Solvency problems mean unemployment … a deeper recession [and] a more permanent scar to the global economy," El-Erian warns. Already, data points suggest this process has begun. Goldman Sachs estimates that U.S. GDP will shrink 34% for the coming quarter and that unemployment will surge to 15% by mid-year. Initial claims for unemployment for the two weeks ending on March 28th soared by roughly 10 million, shattering all historical precedent. And guess what? The market shrugged off the data.

Don't struggle to make sense of this. There is no deep logic; it's just that hope really does spring eternal. By March 23rd the market had fallen roughly as much as the historical average for bear markets. This was enough, apparently, to kick algorithmic traders and others speculatively inclined into overdrive. Hope that government stimulus will suffice and "fear of missing out" drive a reflex rally as we go to print. Throughout financial history, these types of spectacular rallies have rarely occurred when the market and economy were on firm footing.

Our warning here is very simple: kinetic volatility and huge up-days – even strings of furious up days – are signature characteristics of bear markets. The single-day record was set way back in 1933, during a huge rally that marked a legendary false dawn for investors roughly eight years before the Great Depression finally ended. Within four turbulent months in late 2008, during the heart of the Global Financial Crisis, the S&P 500 experienced six distinct 1-6 day trading bounces (bear market rallies) of 9% or more, with a few bigger than 19% – most attributed to optimism related to fiscal or monetary policy support. Yet, the market didn't put in its ultimate low – 40% lower – until several months later. History matters.

Figure 4 depicts a list of the 20 largest single-day percentage gains and losses on the S&P 500 since 1926. Take a look at the dates; think about the economic environments they occurred in. Every single one of these monstrous moves, either up or down, occurred during one of three time frames: the Great Depression, the Global Financial Crisis or in the cluster of volatility that came with the 1987 stock market crash and its aftershocks, that is, until March of 2020. The key takeaway should be that powerful rallies don't sound all clear bells during bear markets.

Should the market's closing low of 2,237.40 set on March 23rd turn out to have been the actual trough of this bear market, it would prove to have been the fastest, most volatile and shortest bear market ever. For perspective, since the middle of the 19th century, the median bear market has taken 17 months to complete its decline from peak-to-trough – and never has one been resolved in

Fig. 4: S&P 500's 20 Largest Single-Day Percentage Gains and Losses from 1926-2020

Largest % Gains			Largest % Losses		
Rank	Date	% Change	Rank	Date	% Change
1	March 15, 1933	16.61%	1	October 19, 1987	-20.47%
2	October 30, 1929	12.53%	2	October 28, 1929	-12.94%
3	October 6, 1931	12.36%	**3**	**March 16, 2020**	**-11.98%**
4	September 5, 1939	11.86%	4	October 29, 1929	-10.16%
5	September 21, 1932	11.81%	5	November 6, 1929	-9.92%
6	October 13, 2008	11.58%	**6**	**March 12, 2020**	**-9.51%**
7	October 28, 2008	10.79%	7	October 18, 1937	-9.12%
8	June 22, 1931	10.51%	8	October 5, 1931	-9.07%
9	**March 24, 2020**	**9.38%**	9	October 15, 2008	-9.03%
10	April 20, 1933	9.52%	10	December 1, 2008	-8.93%
11	**March 13, 2020**	**9.29%**	11	July 20, 1933	-8.88%
12	August 8, 1932	9.26%	12	September 29, 2008	-8.79%
13	October 21, 1987	9.10%	13	July 21, 1933	-8.70%
14	November 14, 1929	8.95%	14	October 10, 1932	-8.55%
15	June 19, 1933	8.87%	15	October 26, 1987	-8.28%
16	August 3, 1932	8.86%	16	October 5, 1932	-8.20%
17	July 24, 1933	8.81%	17	August 12, 1932	-8.02%
18	October 8, 1931	8.59%	18	July 26, 1934	-7.83%
19	December 18, 1931	8.29%	19	June 16, 1930	-7.64%
20	February 11, 1932	8.27%	20	October 9, 2008	-7.62%

Source: Bianco Research LLC, SaratogaRIM fewer than three months. With just 23 trading days between the market peak on February 19th and the recent low point, history suggests that March 23rd was just *a* low, not *the* low.

As you know, we believed markets were overvalued well before coronavirus rose up out of nowhere. Our sense is that COVID-19 simply catalyzed a correction that needed to happen. Nevertheless, the mechanics of sudden shutdowns around the world are unique and bode ill for the global economy not months, but potentially years, into the future.

DoubleLine Capital CEO Jeffrey Gundlach has gone so far as to caution that the abrupt economic downturn "looks like a depression scenario" in which up to 35 million jobs could disappear.

Companies synonymous with American excellence – Ford Motor Company, Boeing, and General Electric, to name just three – have entered existential crises with no guarantee of survival should government support ultimately prove insufficient. Add every airline to that list, and most carmakers, and thousands of dry cleaners, restaurants, etc. This translates to careers ruined, vacations not taken, purchases not made, consumption and capital expenditures delayed or cancelled. Policymakers are using every tool available to them to mitigate the damage, but only time will tell the extent to which they blunt defaults, layoffs and bankruptcies. For all investors today, capital preservation is paramount.

Yet even in the throes of a crisis, long-term investors needn't fixate on near-term pain. As we detail below, with lower purchase prices future returns should be higher, and vice versa; and for businesses financially strong enough to survive a crisis, even significant near-term hits to earnings don't necessarily impact value much. In his April 2020 market commentary, value-oriented fund manager John P. Hussman makes these points with trademark alacrity. He starts with a premise that's radical in this age of algorithms and momentum trading: "A share of stock is nothing but a claim on a very long-term stream of expected future cash flows that will be delivered into the hands of shareholders over time."

Hussman's latest missive examines the pricing of one simple future cash flow to show why the return that you will earn on any investment is directly related to its purchase price. My version of this exercise is as follows: Consider a simple example of an investment that promises to pay $1,000 in precisely 10 years – a 10-year zero-coupon Treasury bond. If you pay $1,000 today and hold it to maturity, your yield (return) to maturity will be zero, zip, nada. If you paid $820 today, your annual return would be roughly 2%. At $614 today it would rise to 5%. As an investor needing to make at least 10% a year, you mustn't pay more than $386 today. Working backwards from the quoted price of the bond, we can also determine its yield to maturity: bonds are priced as a percentage of par (face value, usually $1,000), so at a quoted price of 46.32 ($463.20) its yield to maturity would be 8% (i.e. $1,000/$463.20)^(1/10)-1=8%). For what it's worth, a quoted price of over $1,000 today would obviously result in a negative yield to maturity.

This same math is the foundation of discounted cash flow analysis and is applicable to any and all investments purchased for their future cash flows – whether they're called coupons, rental payments, or earnings. But unlike a zero-coupon Treasury bond (backed by the full faith and credit of the United States government), future earnings of businesses are uncertain and therefore must be approximated. To adjust for uncertainty, a risk premium needs to be applied to compensate the purchaser for assuming incremental risk.

If the collective "wisdom" of the market sets these risk premiums too low by bidding stock prices into the stratosphere, investors aren't being adequately compensated for risk. As future returns implied by risk premiums are built into purchase prices, the adjustment mechanism when risk is subsequently repriced higher is for prices to decline.

If we've said it once, we've said it a thousand times. Price matters: even for stocks of great companies, it's critical not to pay too much.

Stocks, Hussman explained, represent "claims on decades and decades of discounted future cash flows" that, when properly discounted, are impacted very little if the first year or two of those cash flows are wiped out. Yet, if those same cash flows are valued at extreme prices – read: if risk premiums are set too low and investors pay too much for stocks – "even a modest increase in the expected return demanded by investors will trigger breathtaking losses." In reference to the March sell-off, he continued, "That is exactly what happened last month.” In other words, there was a sudden repricing of risk as investors *en masse* judged that higher future returns were required to compensate for the uncertainties of a post-pandemic future. During a March 31st conference call, macro strategist Jim Bianco echoed this assessment: “This is not a panic. It’s a repricing to a new environment, a new type of economy … to a new reality.”

Hussman’s historical analysis of deep economic declines since the Great Depression shows that, on an annualized basis, GDP fell by about 5.6% on average. He further illustrates that the corresponding temporary declines in corporate cash flows that accompanied those recessions ultimately represented only “a very small fraction” of the actual cash flows that would be realized over coming decades. So even if earnings “get clobbered” in this year’s downturn, his argument is that long term impact on returns should be relatively minor.

We agree with this observation. Speaking generically about valuation, when modeling any very long term string of future cash flows, the first year or two don’t materially alter the math. Which is why, if you believe we’re going to see anything resembling a V-shaped recovery, valuations haven’t been substantially impacted from a long term perspective. My *strong* caution here is that there simply is no historical precedent for the economic environment we’re experiencing today. Nor do we know yet the efficacy of recent governmental interventions or the extent to which permanent changes in household behavior and spending habits will exist after this pandemic subsides.

Hussman argues that the far bigger risks that loom relate to leverage in the system and the fragility, complacency and sheer expensiveness of the market coming into this crisis. From the February 19th market peak, stocks would need to fall some 65% “to bring the most reliable valuation measures [down] to their run-of-the mill historic norms,” Hussman observes. In other words, at its recent lows, the bear market might only have been little more than half way to its ultimate trough should the stock market fully revert to its mean, shifting risk premiums upwards to levels that are consistent with average historical valuations.

In such a scenario, stocks priced for much lower returns prior to the downturn would suffer much heavier losses. While difficult to handicap and impossible to rule out, we think this is a reasonably low probability scenario – but with a huge caveat. On the one hand, should the prevalence and magnitude of interest rate suppression around the world persist, it would be difficult to imagine risk premiums expanding to the magnitude implied by Hussman with risk-free rates still hovering around zero. On the other hand, should real inflation emerge as a result of the sheer magnitude of fiscal and monetary responses now being unleashed around the world, all bets are off.

For our part, we have always refused to pay prices that implied future returns that wouldn’t adequately compensate us for the risk we believed we were taking. We know that when the economic chips are down, people sleep far better at night when they own financially strong, high quality businesses that not only are best positioned to make it through the immediate crisis, but are also most likely to return to some semblance of normalcy when the world is ready to reboot – even if it’s an entirely new normal. Positioned to survive business interruptions for far longer than their peers, these types of companies can utilize cost, scale and branding advantages – even gain in their respective sectors while “also-rans” flounder (or fall by the wayside) around them. *The Economist* examined this phenomenon in a March 26th article titled “Best in Show,” concluding that “[a]mid the chaos one thing is clear: a few powerful firms are set to gain more clout.” Downturns like this one are “capitalism’s sorting mechanism,” the essay concludes.

Sorting, we expect, will be both time-consuming and brutal this time. News of COVID-19’s rapid spread across many of our country’s largest cities – and of the ravages it has already inflicted from Wuhan to Milan, Seoul, London and New York City – suggests the global public health emergency will take time to dissipate. Forecasting specific infection rates, mortality rates or timelines for effective treatments are outside our scope of expertise. Further, we don’t invest in a context that is situational, nor base any important decisions solely on macroeconomic news. The key variables we monitor include our companies’ financial strengths, sustainable competitive advantages, earning power over time, valuations and the risks entailed in ownership.

Periods of crisis have historically yielded opportunities. Economic stresses invariably deliver unique buying moments for those ready to seize them. Great companies occasionally go on sale, as it were. Fear and panic-selling sometimes compress the prices for everything; sector leading "top dogs" included. Our aim is to know what we want, calculate what we're willing to pay to assume the risk of ownership, and build portfolios that will meet our clients' needs and expectations over time. Which is to say, we're doing exactly what we've been doing since day one.

Back in 1968, the same year the photograph to the right was taken, my dad was awarded the Bronze Star Medal with valor for heroism in ground combat. He was recognized for risking his own life to save the life of another while under fire – the very mission of a front-line doctor. Today I am reminded of this each time I see footage of EMTs, nurses and doctors treating waves of new patients struck down by the coronavirus. Their courage is on prominent display in real time at triage stations, hospital ICUs and Critical Care Units around the world. As is true for any war, there simply aren't words to convey what front-line warriors are experiencing right now. Heroism comes in many forms.

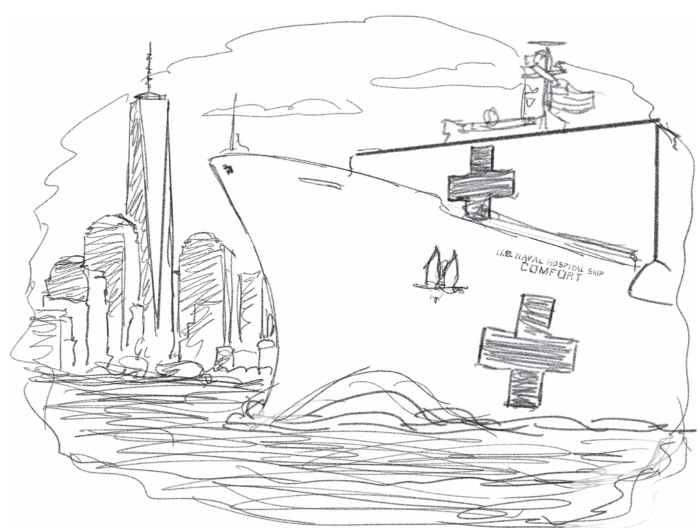
These are historic times we're living in, no doubt. Times are tough, and make no mistake, they are likely to get much tougher before they get better. Yet, someday in the future, a younger generation is going to ask you: "What it was like?" Our goal is for the stock market not to be the first thing that pops into your mind. Hopefully, you'll be able to find some positives, like how you built family bonds and virtually reconnected with old friends. Please stay safe and do yourself a favor by not transfixing on the day-to-day movements in the stock market; as difficult as this is going to be for all of us, we will get through it together. We've got your back.

As always, we stand ready to address any specific questions you have.

Sincerely,

Kevin Tanner
Chairman, CEO & Chief Investment Officer

Captain Ralph Tanner (1968) holding a newborn baby delivered on the front lines of the Vietnam War.



SaratogaRIM Large Cap Quality

Composite Statistics

Q1 2020

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SaratogaRIM Large Cap Quality (LCQ) - Snapshot

Name	SaratogaRIM Large Cap Quality
Manager Name	Kevin Tanner
Inception Date	2/29/2000
Firm Total Assets	$ 2,088,891,000
Strategy Assets	$ 1,274,469,000
GIPS Compliance	Yes
GIPS Compliance Date	12/31/2019

Firm Overview: Saratoga Research & Investment Management, founded in 1995, is an SEC Registered Investment Advisor specializing in constructing and managing equity portfolios composed of high caliber businesses utilizing common sense investment principles for individual and institutional investors.

Composite Overview: The SaratogaRIM Large Cap Quality Composite (SaratogaRIM Equity Composite) invests strictly in long-only equity positions, including ETFs. The minimum requirement to establish a new account is $100,000. The minimum asset level is $50,000. Inception date: February 29, 2000. Creation date for GIPS: August 30, 2010.

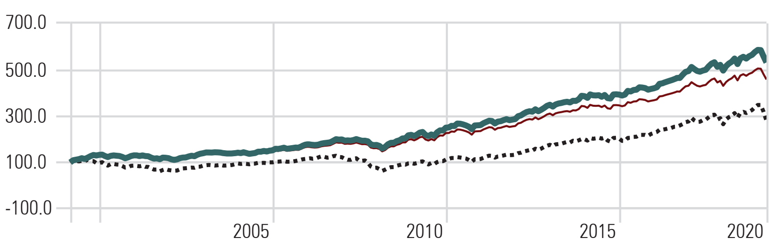
Investment Results As of Date: 3/31/2020

	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Inception
SaratogaRIM LCQ (Gross)	-0.57	6.39	6.42	7.96	8.81	9.29	8.67
SaratogaRIM LCQ (Net)	-1.09	5.82	5.85	7.37	8.20	8.55	7.87
S&P 500 TR USD	-6.98	5.10	6.73	9.62	10.53	7.58	5.26

Investment Growth Relative to Benchmark*

Time Period: 3/1/2000 to 3/31/2020

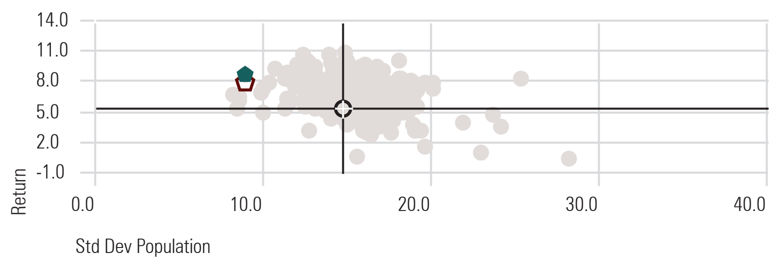
Source Data: Total Return



Standard Deviation vs. Annualized Rate of Return Relative to Benchmark & Peer Group*

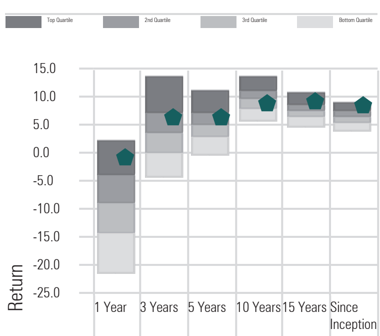
Time Period: 3/1/2000 to 3/31/2020

Peer Group (1-100%): Large Cap SA   Source Data: Total Return

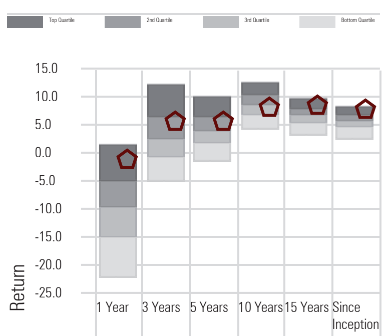


Investment Results Relative to Peer Group* As of Date: 3/31/2020

Peer Group (5-95%): Large Cap SA   Source Data: Gross Return



Peer Group (5-95%): Large Cap SA   Source Data: Net Return

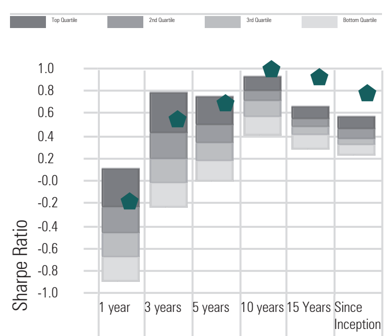


• SaratogaRIM LCQ (Gross)   • SaratogaRIM LCQ (Net)

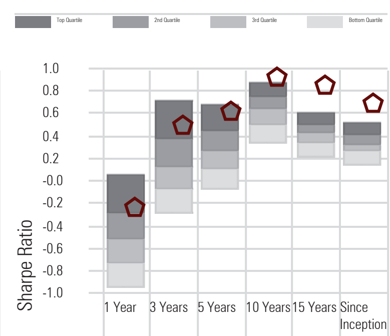
Gross Net	1 Year		3 Years		5 Years		10 Years		15 Years		Since Inception	
SaratogaRIM LCQ	**-0.57**	-1.09	**6.39**	5.82	**6.42**	5.85	**8.81**	8.20	**9.29**	8.55	**8.67**	7.87
Median	**-8.82**	-9.57	**3.63**	2.61	**5.11**	4.07	**9.73**	8.58	**7.62**	6.64	**6.45**	5.57
Average	**-9.14**	-10.00	**3.90**	2.89	**5.14**	4.13	**9.64**	8.61	**7.66**	6.62	**6.54**	5.60
Count	**1,611**	1,595	**1,526**	1,513	**1,376**	1,365	**1,101**	1,093	**845**	843	**469**	471
Std Dev	**7.35**	7.27	**5.34**	5.32	**3.42**	3.47	**2.30**	2.45	**1.79**	1.94	**1.55**	1.70
5th Percentile	**2.30**	1.34	**13.48**	12.22	**11.08**	10.08	**13.44**	12.63	**10.75**	9.68	**8.98**	8.12
25th Percentile	**-4.02**	-5.07	**7.27**	6.34	**7.22**	6.35	**11.03**	10.28	**8.71**	7.79	**7.64**	6.86
50th Percentile	**-8.82**	-9.57	**3.63**	2.61	**5.11**	4.07	**9.73**	8.58	**7.62**	6.64	**6.45**	5.57
75th Percentile	**-14.18**	-14.83	**0.19**	-0.77	**2.73**	1.77	**8.00**	6.96	**6.49**	5.34	**5.53**	4.61
95th Percentile	**-21.26**	-21.97	**-4.07**	-5.03	**-0.32**	-1.26	**5.89**	4.40	**4.64**	3.41	**4.13**	2.62

Sharpe Ratio Relative to Peer Group* As of Date: 3/31/2020

Peer Group (5-95%): Large Cap SA   Source Data: Gross Return



Peer Group (5-95%): Large Cap SA   Source Data: Net Return



• SaratogaRIM LCQ (Gross)   • SaratogaRIM LCQ (Net)

Gross Net	1 Year		3 Years		5 Years		10 Years		15 Years		Since Inception	
SaratogaRIM LCQ	**-0.17**	-0.22	**0.56**	0.50	**0.69**	0.62	**0.99**	0.92	**0.93**	0.85	**0.78**	0.70
Median	**-0.46**	-0.51	**0.20**	0.13	**0.35**	0.28	**0.71**	0.64	**0.49**	0.43	**0.38**	0.32
Average	**-0.45**	-0.50	**0.22**	0.16	**0.35**	0.28	**0.69**	0.63	**0.49**	0.42	**0.39**	0.33
Count	**1,611**	1,595	**1,526**	1,513	**1,376**	1,365	**1,101**	1,093	**845**	843	**469**	471
Std Dev	**0.54**	0.53	**0.31**	0.31	**0.23**	0.23	**0.16**	0.17	**0.11**	0.12	**0.11**	0.11
5th Percentile	**0.11**	0.05	**0.79**	0.72	**0.74**	0.67	**0.93**	0.88	**0.66**	0.61	**0.58**	0.51
25th Percentile	**-0.23**	-0.29	**0.43**	0.37	**0.50**	0.44	**0.80**	0.75	**0.56**	0.50	**0.46**	0.41
50th Percentile	**-0.46**	-0.51	**0.20**	0.13	**0.35**	0.28	**0.71**	0.64	**0.49**	0.43	**0.38**	0.32
75th Percentile	**-0.67**	-0.72	**-0.01**	-0.08	**0.18**	0.12	**0.57**	0.51	**0.41**	0.34	**0.32**	0.26
95th Percentile	**-0.89**	-0.93	**-0.23**	-0.29	**0.00**	-0.08	**0.42**	0.34	**0.29**	0.21	**0.23**	0.14

Items with an asterisk (*) are presented as supplemental data from Morningstar & SaratogaRIM. Results of Morningstar's calculations may vary slightly from SaratogaRIM's own reported statistics due to rounding. The disclosures on the following page are a part of this presentation.

Sector Weightings - GICS*

Portfolio Date: 3/31/2020

	LCQ	S&P 500
Consumer Discretionary %	7.05	9.80
Consumer Staples %	12.61	7.79
Energy %	0.00	2.65
Financials %	6.53	10.93
Healthcare %	22.89	15.39
Industrials %	11.40	8.22
Information Technology %	28.42	25.48
Materials %	1.70	2.43
Communication Services %	9.41	10.74
Utilities %	0.00	3.57

Holding Fundamentals*

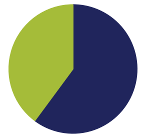
Dividend Yield	1.93
P/E Ratio (TTM)	19.33
P/CF Ratio (TTM)	15.11
P/B Ratio (TTM)	3.87
ROE % (TTM)	34.42
ROA % (TTM)	13.13
Net Margin %	18.77
Est. LT EPS Growth	8.46
Historical EPS Growth	493.42

Market Capitalization*

Average Market Cap (mil)	140,578.69
Market Cap Giant %	68.83
Market Cap Large %	20.70
Market Cap Mid %	10.47

Asset Allocation*

Portfolio Date: 3/31/2020

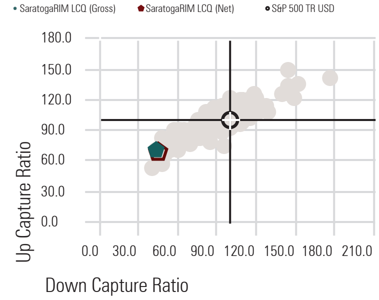


	%
•Stock	60.1
•Bond	0.0
•Cash	39.9
•Other	0.0
Total	**100.0**

Market Capture Relative to Benchmark & Peer Group*

Time Period: 3/1/2000 to 3/31/2020

Peer Group (1-100%): Large Cap SA Source Data: Total Return



Items with an asterisk (*) are presented as supplemental data from Morningstar & SaratogaRIM. Results of Morningstar's calculations may vary slightly from SaratogaRIM's own reported statistics due to rounding. Market Capitalization, Holding Fundamentals, and GICS Sector Weightings statistics reflect the weightings of the stock portion of the portfolio.

Composite Performance Statistics

Year	Gross TWR	Net TWR	S&P 500 Total Return	Median TWR	Standard Deviation	3 Yr Ann Standard Dev Quality Composite	3 Yr Ann Standard Dev S&P 500 Total Return	# of Portfolios in Composite	% Non-Fee Paying Accts	End of Period Composite Assets	% of Firm Assets	# of Firm Portfolios*	End of Period Total Firm Assets
2000 (2/29)	32.49	31.45	-2.45	n/a	n/a	-	-	48	0.0%	14,909,737.56	55.76	62	26,739,561.04
2001	-1.62	-2.56	-11.93	-1.65	3.58	-	-	64	0.0%	30,514,646.98	82.74	72	36,880,627.71
2002	-9.37	-10.17	-22.06	-11.06	3.01	-	-	89	0.0%	34,000,857.47	86.67	102	39,231,009.50
2003	18.24	17.18	28.68	16.69	2.44	-	-	96	0.0%	43,183,465.08	82.41	120	52,403,457.10
2004	1.58	0.66	10.88	-0.29	2.96	-	-	103	0.2%	47,974,118.35	82.67	129	58,032,372.36
2005	7.11	6.13	4.91	5.54	2.39	-	-	105	0.2%	50,770,162.66	82.71	130	61,384,012.72
2006	16.94	15.87	15.80	14.48	2.82	-	-	99	0.2%	56,390,733.74	76.99	127	73,239,570.68
2007	12.06	11.02	5.49	10.29	3.31	-	-	99	0.2%	61,759,766.07	77.97	130	79,206,822.92
2008	-11.91	-12.74	-37.00	-12.32	4.20	-	-	126	0.5%	63,833,081.56	78.86	162	80,940,276.85
2009	24.77	23.65	26.46	23.89	2.18	-	-	259	0.4%	149,451,162.21	81.46	300	183,475,713.20
2010	14.27	13.43	15.06	13.89	0.76	-	-	494	0.3%	308,291,988.80	72.80	544	423,498,666.41
2011	4.31	3.69	2.11	3.27	0.53	11.86	18.71	1,176	0.4%	675,883,971.31	89.07	1,306	758,793,592.13
2012	9.93	9.30	16.00	9.33	0.61	9.98	15.09	1,539	0.4%	952,886,545.56	91.19	1,689	1,044,972,076.70
2013	21.65	20.98	32.39	21.10	1.63	7.85	11.94	1,823	0.3%	1,260,548,713.94	89.81	2,033	1,403,561,332.53
2014	10.58	9.98	13.69	10.37	0.94	6.30	8.97	1,912	0.7%	1,338,763,052.59	82.94	2,163	1,614,090,418.39
2015	1.77	1.22	1.38	1.07	1.00	6.96	10.47	1,989	1.6%	1,268,091,067.90	77.41	2,298	1,638,083,262.30
2016	6.94	6.36	11.96	6.32	0.89	6.48	10.59	2,194	1.8%	1,330,011,476.70	73.85	2,573	1,800,890,893.30
2017	17.71	17.08	21.83	16.93	1.52	6.15	9.92	2,380	2.0%	1,481,531,427.12	70.11	2,887	2,113,160,549.13
2018	0.41	-0.13	-4.38	-0.28	0.48	6.54	10.80	2,479	2.3%	1,402,520,781.74	69.65	2,987	2,013,567,458.02
2019	18.03	17.40	31.49	17.62	2.08	7.39	11.93	2,583	2.5%	1,505,375,555.14	64.51	3,097	2,333,608,905.18
03/31/20	-9.23	-9.36	-19.60	n/a	n/a	8.47	15.00	2,448	2.7%	1,274,468,514.53	61.01	3,022	2,088,890,835.39

Columns with an asterisk (*) are presented as supplemental data from SaratogaRIM.

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Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. To receive a completed list and description of composites and/or a presentation compliant with the GIPS standards, please contact Marc Crosby, President, at (408) 741-2332 or Marc@SaratogaRIM.com. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. **Disclosures:** Valuations are computed and performance reported in U.S. dollars based on trade dates as of month-end, net-of-fees, while accounting for dividend reinvestment. SaratogaRIM net-of-fees returns are calculated net of actual management fees and transaction costs and gross of custodian fees and external consultant or advisory fees. SaratogaRIM fee is normally 1% for the SaratogaRIM Large Cap Quality (Equity) Composite; may be negotiated, as warranted by special circumstances. SaratogaRIM gross-of-fees returns are calculated gross of management, custodial and external consultant or advisory fees and net of transaction costs. Composite returns are calculated using asset-weighted Time Weighted Rate ("TWR"), beginning market values, and external cash flows. Gross and Net TWRs are calculated based on the geometric linking of the monthly internal rate of return for portfolios present for the entire month. Daily reconciliation is performed between the firm's records and the custodian and broker records through Advent to verify client assets. Individual portfolios are revalued monthly; portfolios also are revalued intra-month when large external cash flows occur in excess of 10% of the portfolio's fair value. Results of the SaratogaRIM Large Cap Quality (Equity) Composite do not reflect the results of any one portfolio in the composite. Statistics are based off of the most recent quarterly portfolio unless otherwise noted. Statistics are based off of gross-of-fee and/or net-of-fee monthly performance data uploaded to Morningstar. The Peer Group contains U.S. Large Cap separate account managers that appear in the Morningstar database for the relevant periods shown. *Performance figures are based on historical information and do not guarantee future results.* Actual current performance may be higher or lower than the performance presented. All investing entails the risk of loss. This summary is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities and may not be relied upon in connection with any offer or sale of securities. It is not intended to serve as a substitute for personalized investment advice. Prospective clients should recognize the limitations inherent in the composite strategy and should consider all information presented regarding the firm's investment management capabilities. The contents of this report are only a portion of the original material and research and should not be relied upon in making investment decisions. The information and statistical data contained herein have been obtained from sources that we believe to be reliable but in no way are warranted by us as to accuracy or completeness. **Definitions:** Excess Return measures the difference in return, cumulative or annualized, between the strategy and a benchmark. Standard Deviation measures the dispersion of a dataset relative to its mean. Sharpe Ratio is a risk-adjusted measure that is calculated by using excess return and standard deviation to determine reward per unit of risk. The higher the Sharpe Ratio, the better the portfolio's historical risk-adjusted performance. Market Capture Ratios measure the extent to which a strategy participates in market moves over time. Up (Down) Market Capture measures relative performance in months which the benchmark generates positive (negative) returns over time. The 3-year standard deviation (external dispersion) is based on net-of-fees returns. Dispersion is calculated as the asset-weighted standard deviation of annual net-of-fees portfolio returns around the median portfolio return in the composite. Dispersion is based only on portfolios that were in the composite for the full annual period, and is only shown for the annual periods where the composite had more than 5 portfolios for the full year. **Benchmark Disclosures:** Benchmarks are unmanaged and provided to represent the investment environment in existence during the time periods shown. The S&P 500® Total Return Index has been selected as the benchmark for comparison purposes. The S&P Total Return Index assumes that all dividends and distributions are reinvested. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of benchmarks. An index is not available for direct investment, and does not reflect any of the costs associated with buying and selling individual securities or any other fees, expenses, or charges. The S&P 500 Index is a product of S&P Dow Jones Indices LLC ("SPDJI"), and has been licensed for use by SaratogaRIM. Standard & Poor's®, S&P®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by SaratogaRIM. SaratogaRIM's products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 Index.

SaratogaRIM Large Cap Quality Focus

Composite Statistics

Q1 2020

Saratoga Research & Investment Management
Tel: (408) 741-2330
E-mail: Contact@SaratogaRIM.com

14471 Big Basin Way, Suite E
Saratoga, CA 95070
SaratogaRIM.com

SaratogaRIM Large Cap Quality Focus (LCQF) - Snapshot

Name	SaratogaRIM Large Cap Quality Focus
Manager Name	Kevin Tanner
Inception Date	8/29/2014
Firm Total Assets	$ 2,088,891,000
Strategy Assets	$ 507,750,000
GIPS Compliance	Yes
GIPS Compliance Date	12/31/2019

Firm Overview: Saratoga Research & Investment Management, founded in 1995, is an SEC Registered Investment Advisor specializing in constructing and managing equity portfolios composed of high caliber businesses utilizing common sense investment principles for individual and institutional investors.

Composite Overview: The SaratogaRIM Large Cap Quality Focus Composite invests strictly in long-only equity positions, including ETFs, with higher concentration, particularly in the top 10 positions; collectively, the top 10 positions make up at least 50% of the portfolio. This strategy will likely have a greater turnover ratio than other composites and typically will not hold more than 5% cash. The minimum requirement to establish a new account is $100,000 (reduced from $250,000, effective May 1, 2019). The minimum asset level is $75,000 (reduced from $225,000, effective May 1, 2019). Inception date: August 31, 2014. Creation date for GIPS: August 31, 2014.

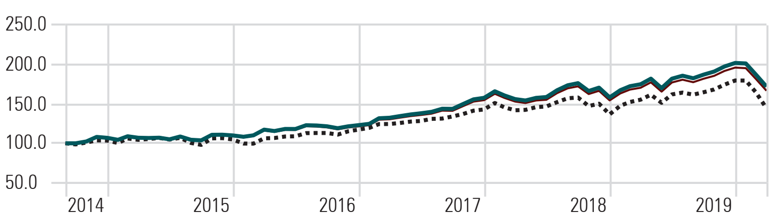
Investment Results As of Date: 3/31/2020

	1 Year	3 Years	5 Years	Since Inception
SaratogaRIM LCQF (Gross)	-1.67	9.12	9.96	10.22
SaratogaRIM LCQF (Net)	-2.19	8.53	9.37	9.61
S&P 500 TR USD	-6.98	5.10	6.73	6.83

Investment Growth Relative to Benchmark*

Time Period: 9/1/2014 to 3/31/2020

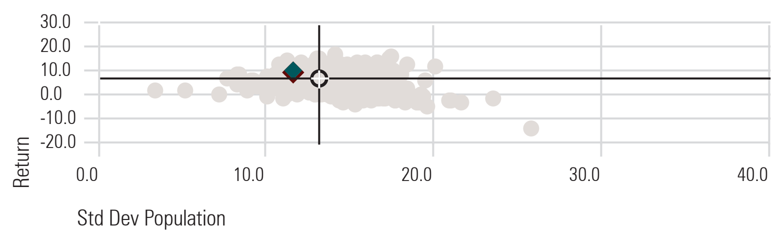
Source Data: Total Return



Standard Deviation vs. Annualized Rate of Return Relative to Benchmark & Peer Group*

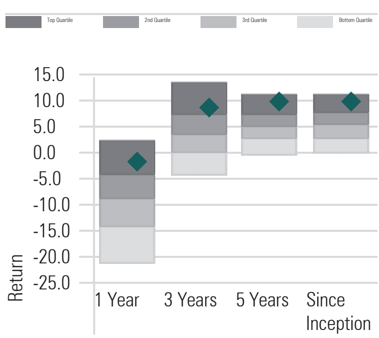
Time Period: 9/1/2014 to 3/31/2020

Peer Group (1-100%): Large Cap SA   Source Data: Total Return

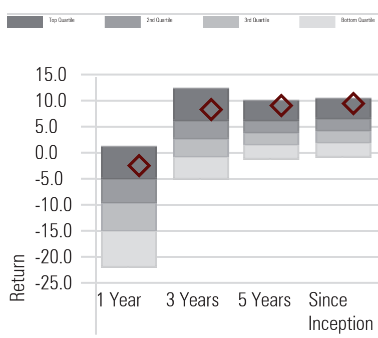


Investment Results Relative to Peer Group* As of Date: 3/31/2020

Peer Group (5-95%): Large Cap SA   Source Data: Gross Return



Peer Group (5-95%): Large Cap SA   Source Data: Net Return

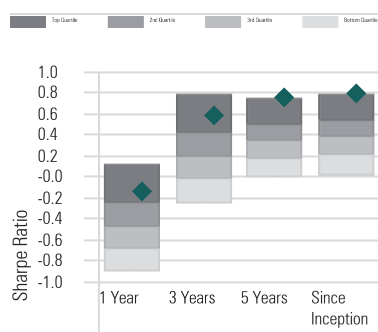


◆ SaratogaRIM LCQF (Gross)   ◇ SaratogaRIM LCQF (Net)

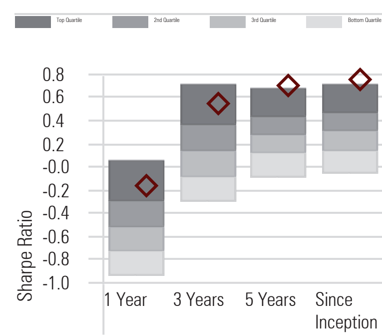
Gross Net	1 Year		3 Years		5 Years		Since Inception	
SaratogaRIM LCQF (Net)	**-1.67**	-2.19	**9.12**	8.53	**9.96**	9.37	**10.22**	9.61
Median	**-8.82**	-9.57	**3.63**	2.61	**5.11**	4.07	**5.40**	4.39
Average	**-9.14**	-10.00	**3.90**	2.89	**5.14**	4.13	**5.44**	4.43
Count	**1,611**	1,595	**1,526**	1,513	**1,376**	1,365	**1,336**	1,327
Std Dev	**7.35**	7.27	**5.34**	5.32	**3.42**	3.47	**3.43**	3.48
5th Percentile	**2.30**	1.34	**13.48**	12.22	**11.08**	10.08	**11.36**	10.46
25th Percentile	**-4.02**	-5.07	**7.27**	6.34	**7.22**	6.35	**7.59**	6.64
50th Percentile	**-8.82**	-9.57	**3.63**	2.61	**5.11**	4.07	**5.40**	4.39
75th Percentile	**-14.18**	-14.83	**0.19**	-0.77	**2.73**	1.77	**2.88**	1.99
95th Percentile	**-21.26**	-21.97	**-4.07**	-5.03	**-0.32**	-1.26	**0.19**	-0.90

Sharpe Ratio Relative to Peer Group* As of Date: 3/31/2020

Peer Group (5-95%): Large Cap SA   Source Data: Gross Return



Peer Group (5-95%): Large Cap SA   Source Data: Net Return



◆ SaratogaRIM LCQF (Gross)   ◇ SaratogaRIM LCQF (Net)

Gross Net	1 Year		3 Years		5 Years		Since Inception	
SaratogaRIM LCQF (Net)	**-0.13**	-0.16	**0.59**	0.55	**0.76**	0.72	**0.80**	0.76
Median	**-0.46**	-0.51	**0.20**	0.13	**0.35**	0.28	**0.39**	0.31
Average	**-0.45**	-0.50	**0.22**	0.16	**0.35**	0.28	**0.39**	0.31
Count	**1,611**	1,595	**1,526**	1,513	**1,376**	1,365	**1,336**	1,327
Std Dev	**0.54**	0.53	**0.31**	0.31	**0.23**	0.23	**0.23**	0.24
5th Percentile	**0.11**	0.05	**0.79**	0.72	**0.74**	0.67	**0.78**	0.72
25th Percentile	**-0.23**	-0.29	**0.43**	0.37	**0.50**	0.44	**0.53**	0.47
50th Percentile	**-0.46**	-0.51	**0.20**	0.13	**0.35**	0.28	**0.39**	0.31
75th Percentile	**-0.67**	-0.72	**-0.01**	-0.08	**0.18**	0.12	**0.21**	0.14
95th Percentile	**-0.89**	-0.93	**-0.23**	-0.29	**0.00**	-0.08	**0.03**	-0.05

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Sector Weightings - GICS*

Portfolio Date: 3/31/2020

	LCQF	S&P 500
Consumer Discretionary %	6.38	9.80
Consumer Staples %	12.16	7.79
Energy %	0.00	2.65
Financials %	7.59	10.93
Healthcare %	21.66	15.39
Industrials %	13.05	8.22
Information Technology %	27.10	25.48
Materials %	1.24	2.43
Communication Services %	10.82	10.74
Utilities %	0.00	3.57

Holding Fundamentals*

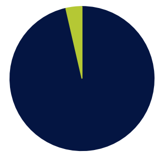
Dividend Yield	1.91
P/E Ratio (TTM)	18.71
P/CF Ratio (TTM)	14.62
P/B Ratio (TTM)	3.77
ROE % (TTM)	35.68
ROA % (TTM)	13.53
Net Margin %	19.56
Est. LT EPS Growth	8.43
Historical EPS Growth	495.22

Market Capitalization*

Average Market Cap (mil)	144,354.78
Market Cap Giant %	69.12
Market Cap Large %	21.00
Market Cap Mid %	9.88

Asset Allocation*

Portfolio Date: 3/31/2020

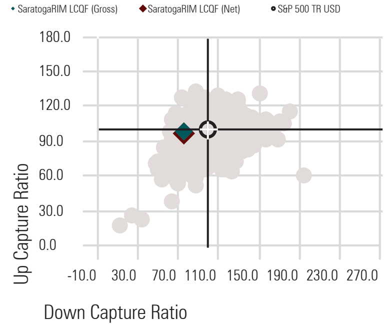


	%
•Stock	96.4
•Bond	0.0
•Cash	3.6
•Other	0.0
Total	**100.0**

Market Capture Relative to Benchmark & Peer Group*

Time Period: 9/1/2014 to 3/31/2020

Peer Group (1-100%): Large Cap SA Source Data: Total Return



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Composite Performance Statistics

Year	Gross TWR	Net TWR	S&P 500 Total Return	Median TWR	Standard Deviation	3 Yr Ann Standard Dev: Focus Composite	3 Yr Ann Standard Dev: S&P 500 Total Return	# of Portfolios in Composite	% Non-Fee Paying Accts	End of Period Composite Assets	% of Firm Assets	# of Firm Portfolios*	End of Period Total Firm Assets
2014 (8/31)	6.95	6.71	3.46	n/a	n/a	-	-	31	0.0%	59,408,640.33	3.68	2,163	1,614,090,418.39
2015	2.84	2.28	1.38	2.70	0.25	-	-	88	0.0%	122,809,323.37	7.50	2,298	1,638,083,262.30
2016	11.93	11.33	11.96	11.18	0.63	-	-	151	0.0%	198,406,977.89	11.02	2,573	1,800,890,893.30
2017	28.21	27.49	21.83	27.49	0.55	8.70	9.92	287	0.1%	362,440,319.53	17.15	2,887	2,113,160,549.13
2018	0.35	-0.20	-4.38	-0.41	0.58	10.30	10.80	303	0.3%	316,630,422.08	15.72	2,987	2,013,567,458.02
2019	27.67	26.98	31.49	27.10	0.62	11.41	11.93	403	0.3%	533,438,674.16	22.86	3,097	2,333,608,905.18
03/31/20	-14.85	-14.97	-19.60	n/a	n/a	13.20	15.00	465	0.5%	507,750,108.86	24.31	3,022	2,088,890,835.39

Columns with an asterisk (*) are presented as supplemental data from SaratogaRIM.

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Performance figures are based on historical information and do not guarantee future results. Actual current performance may be higher or lower than the performance presented. All investing entails the risk of loss. This summary is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities and may not be relied upon in connection with any offer or sale of securities. It is not intended to serve as a substitute for personalized investment advice. Prospective clients should recognize the limitations inherent in the composite strategy and should consider all information presented regarding the firm's investment management capabilities. The contents of this report are only a portion of the original material and research and should not be relied upon in making investment decisions. The information and statistical data contained herein have been obtained from sources that we believe to be reliable but in no way are warranted by us as to accuracy or completeness.

Definitions: Excess Return measures the difference in return, cumulative or annualized, between the strategy and a benchmark. Standard Deviation measures the dispersion of a dataset relative to its mean. Sharpe Ratio is a risk-adjusted measure that is calculated by using excess return and standard deviation to determine reward per unit of risk. The higher the Sharpe Ratio, the better the portfolio's historical risk-adjusted performance. Market Capture Ratios measure the extent to which a strategy participates in market moves over time. Up (Down) Market Capture measures relative performance in months which the benchmark generates positive (negative) returns over time. The 3-year standard deviation (external dispersion) is based on net-of-fees returns. Dispersion is calculated as the asset-weighted standard deviation of annual net-of-fees portfolio returns around the median portfolio return in the composite. Dispersion is based only on portfolios that were in the composite for the full annual period, and is only shown for the annual periods where the composite had more than 5 portfolios for the full year.

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The SaratogaRIM Announcement email below and the Letter to Investors that follows was sent to SaratogaRIM clients and advisors on March 17, 2020:

Saratoga Research & Investment Management has posted a portion of the 2020 Q1 Report.

March 17th, 2020

We hope that you, your family and your colleagues are healthy and weathering today's global health crisis as best you can. We want to let you know that SaratogaRIM continues to work hard as your investment manager, even as the county of Santa Clara issued their "shelter in place" order yesterday afternoon, effective this morning at 12:01 a.m.

In anticipation of this mandate, over the last few weeks, each SaratogaRIM employee has tested our protocols for working from home, and we have had no operational issues; we each have the needed connectivity, technology and access to all necessary resources to allow us to operate as close as possible to business as usual. Since last week our entire investment team has been working from home. Therefore, we have full confidence that our county's "shelter in place" status will not affect how we conduct our business. Should you have any questions or need to contact our investment team or anyone at SaratogaRIM, we remain available through all of our regular communication channels.

We know that stocks aren't necessarily your biggest concern at this moment, but we have been fielding numerous questions regarding this month's deep market sell-off. Rather than offering short piecemeal answers, we instead have decided to publish the "Letter to Investors" from our regular 2020 Q1 Report early, as it explains our views of today's market environment and how we go about navigating it. While this letter is still what we would consider to be a rough draft, we feel it's important to share our current thoughts earlier than planned. To access the preliminary 2020 Q1 Letter to Investors, please click here, or visit SaratogaRIM.com.

Stay safe, stay smart, stay healthy.

Kevin Tanner
Chairman, CEO & Chief Investment Officer
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Letter to Investors - March 17, 2020

"If humans fight the last war, nature fights the next one." – **Nassim Nicholas Taleb**

Pandemics are the quintessential rare events. It should come as no surprise that I personally think that COVID-19 poses manifold challenges ahead. In human terms, the outbreak's scope is potentially staggering. Gabriel Leung, dean of Hong Kong University's medical school and recognized global authority on novel coronaviruses including SARS, warned in mid-February that COVID-19 "could infect 60% of the global population if unchecked." Bill Gates fears it will kill millions of Africans. On March 2nd, China announced that more than 3,300 of its healthcare workers had been infected with COVID-19, and up to that point at least 13 had died. "If you've never been in an epidemic and never seen the healthcare workers on the front line, you cannot imagine how stressful it is," says Pulitzer Prize winning science writer Laurie Garrett. "The only thing that comes close is being a soldier on a battlefield."

Everywhere, the tally of lives and businesses being disrupted rises daily. Grim, saddening, scary; there are few other words to describe it.

Investing amidst such tragedy presents *familiar* challenges. Chief among them: ignoring the human emotions widespread suffering evokes. Fear, panic – anything that triggers the fight-or-flight instinct in our brains – impairs financial decision-making. Investing for the long-term – as opposed to speculating with time horizons measured in months, weeks, days or minutes – requires steady minds and lenses with focal lengths measured in years, even decades. It would be unforgivingly glib to say that none of today's human drama matters to the long-term investor. Still, in point of fact, for businesses that are financially healthy, non-heavily leveraged and possess real sustainable competitive advantages, when one forecasts the expected performance of those types of businesses over their remaining lifespans using discounted cash-flow analysis to estimate net-present value, even dramatic near-term events usually register as little more than a blip most of the time.

Investors, conditioned by more than a decade of U.S. Federal Reserve interventions to prevent stocks from falling too far, entered 2020 with the instinctual bias that what happened yesterday will also happen tomorrow – a powerful force when driven by millions of market participants, many of whom bought their first stock after the bull market gained its footing way back in 2009. Just six weeks ago, markets were "priced for perfection," as they say. The now defunct bull market had risen nearly fivefold over the last eleven years making it the longest bull market in U.S. history. All-time records set by major indices at the peak on February 19th implied valuations not seen but twice in human history – this despite the fact that at the aggregate level, operating corporate earnings had barely grown over the past five years. In other words, with risk itself woefully mispriced around the world, financial markets were like a bubble in search of a pin. In COVID-19, the name given to the novel coronavirus, the market found it.

The shift to pricing for a pandemic, and the fallout from policies to confront it, has been fast and furious. As of the March 16th close, the S&P 500 had fallen 29.4% since its peak on February 19th; anyone who claims to know with precision where this leads is kidding themselves. You'd have to have a crystal ball – which we don't. Uncertainty is a constant that markets often ignore but occasionally fixate on. Today is one of those days.

Volatility, after a long sabbatical, has roared back with a vengeance. In all honesty, this is not an unwelcome change given that well-functioning markets simply shouldn't chug along without mishaps like the Maytag washers of old. Unfettered, price discovery is a crucial function of markets and when policy makers seek to suppress volatility they make it worse, not better. Adaptation will eventually prove to be an essential aspect in today's global crisis. A common belief is that companies adapt only under duress. Yet in our experience, the best companies are constantly adjusting, refocusing efforts or even rebuilding business models entirely over time *because that is what great companies do*, year in and year out. Tough economic environments simply push these processes to the forefront of public consciousness.

Based on the above, we don't think the sky is falling. We have every confidence in the businesses we own today – their financial strengths and that the durability of their competitive advantages will be key differentiators as they continuously evolve along with the world around them. Our investment process is robust; from our quantitative screening and qualitative analysis to our valuation work, our approach has been tested by time. Over the past quarter century, we have learned that with every serious threat to the market – including the bursting of the tech bubble in the late 1990s and the global financial crisis a decade later, wars and terror attacks – indiscriminate selling eventually creates generational buying opportunities. Suffice it to say, our approach hasn't changed one iota since "Wuhan" became synonymous with "epidemic."

Nevertheless, the threat today's crisis poses to industries heavily dependent on travel, to global supply chains, to multilateral institutions both within and beyond the public health space and to public security are very real and indeed worrisome. Furthermore, second order economic ramifications will be widespread, severe and global in scope. Already, businesses around the world are contending with impacts from simultaneous exogenous shocks to both supply and demand. This is important because we assume policymakers would use every tool available to them to combat a global recession, but note the possibility that neither monetary nor fiscal policy will prove effective this time around.

In part, the problem is that policymakers may have left themselves with too few bullets remaining in the proverbial chambers. In recent years, too many shots that would normally have been reserved to combat recessions were fired in an effort to extend the current economic and market cycles. But it's also partly because the next global recession could be very different from recent ones, meaning that the old playbooks might not work, or could actually make things worse. Today's simultaneous supply and demand shocks are quite rare historically, and challenging to mitigate because the policy responses required to fight one or the other problem could prove contradictory. "Policymakers and altogether too many economic commentators fail to grasp how the supply component may make the next global recession unlike the last two," Harvard economist Kenneth Rogoff recently observed. "In contrast to recessions driven mainly by a demand shortfall, the challenge posed by a supply-side driven downturn is that it can result in sharp declines in production and widespread bottlenecks. In that case, generalized shortages – something that some countries have not seen since the gas lines of the 1970s – could ultimately push inflation up, not down."

Complicating matters further, is the oil price war now underway between Saudi Arabia and Russia. When OPEC plus (OPEC plus Russia) failed to agree on production cuts to offset the global drop in demand for oil, Saudi Arabia decided to launch an all-out price war to grab global market share. The result: alongside potentially inflationary supply shocks we have a man-made deflationary one – an oil glut that, if it persists for long, could prove lethal to a significant number of heavily leveraged companies across America's fracking industry. That would also be potentially devastating for the lenders they won't be able to pay back if oil prices don't rebound. Suffice it to say that business conditions are going to be turbulent.

In a recent issue of *Grant's Interest Rate Observer*, Jim Grant wrote, "What Homer Simpson so wisely said about alcohol – 'the cause of, and the solution to, all of life's problems' – might equally apply to ground skimming interest rates." On the demand side, with interest rates having been so low for so long, I doubt that the cost of capital has been a binding constraint on spending decisions by either consumers or in the business world for years. Thus, even the draconian Fed responses which have brought interest rates all the way back down to the depths of the Great Recession, would seem unlikely to have material impact on demand. Furthermore, if inflation did suddenly (and unexpectedly) reemerge in some sectors and take hold as a result of COVID-19 related supply shocks, recent Fed actions could prove the equivalent of throwing gas on a fire.

In terms of potential fiscal responses, our government already cut taxes and fattened trillion plus dollar deficits that leave policy makers little room for further meaningful action. True, the Fed can still "print and pump" as much money into the market as it wants – which may or may not ultimately support asset prices going forward. Yet, even if they can somehow manage to prop up asset values, ultimately they can't print either a solution to the disruptions in global supply chains or a vaccine for the virus that's causing them.

Warren Buffett recently said COVID-19 "is scary stuff." But then he added, "I don't think it should affect what you do in stocks." It certainly hasn't altered our own approach. In navigating the current market environment, we've remained hyper-focused on the rapidly evolving fundamentals that underlie the businesses we own or might own in the future and on valuing these businesses comprehensively from a long-term perspective.

We would also point out that great companies, unlike most of their lesser competitors, ultimately gain strength through adversity. We witnessed that during the Great Recession of 2008/09, and following the dotcom bust a decade earlier. Understanding the complex forces that shape the global economy provides insights into what all businesses navigate each day. Of late, the cliché that investors "must look beyond the current crisis" has become ubiquitous. Our process is simply to look beyond, always. Real investing has never been about fresh guidance, the newsiest 'beat' or 'miss' in quarterly performance, or what a company might announce tomorrow. It's about earning power over time; sustained long-term competitiveness as determined by a company's economic moat; maintaining valuation discipline focused on never paying too much, even for a great business; remembering that the only definition of risk that really matters is that of permanent loss of capital: these are the yardsticks we use to guide our thinking – in good times and bad.

The last thing I would profess to be is a virologist. Looking ahead, therefore, we're not relying on any assumptions regarding the duration of today's global health crisis. Indeed, we don't have an internal "forecast" for the course COVID-19 will take or the certain economic damage that implies; our investment process – which incorporates intensive analysis of individual companies including their business models, global footprints, financial health, etc. – does not rely on macroeconomic forecasting. We invest in businesses, not asset classes or markets. And we base our own decision-making on fundamentals, not momentum.

Over the last year or so we have done a lot of pruning around the edges of our portfolios by trimming outsized positions where prices were no longer obviously justified by valuation. Our focus remains on the companies we own or would like to own – what they do, whether that is sustainable over time, and how much they'll earn and evolve year in, year out. Many are reliant on overseas markets for customers or inputs and have been tested in recent years due to trade tensions, Brexit, etc. COVID-19 clearly adds a new dimension to the environment they must navigate, alongside competitors that, in our view, lack their financial strength, dynamism or potential.

To reiterate, we do not believe the sky is falling. We had already lightened up in our Quality version of our strategy before the recent surge of selling began. Furthermore, the quality and valuations of our current holdings combined with our significant cash position have already softened the impact of today's market downturn while leaving us tactically well-positioned to take advantage of any opportunities that will eventually materialize should the market pullback sufficiently – some of which we've already moved on. In our Focus accounts we're limited to using position sizing to try to take advantage of relative valuation differentials. The late, great, investor Sir John Templeton once said, "If you want to have a better performance than the crowd, you must do things differently from the crowd." It's times like these that give meaning to that wisdom.

Please stay safe. We are doing just that as we focus on executing our investment process to the best of our abilities. And try to remember, there actually is a cure for low prices – low prices! When prices fall far enough, they eventually attract buyers. When future returns are expected to be sufficient enough to adequately compensate for risk, all will once again be well with the world. Sometimes it's easy for people to forget that times like these can and do occur. But it's important to remember that it's precisely for times like these that our process was built.

Kevin Tanner
Chairman, CEO & Chief Investment Officer

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Valuations are computed and performance reported in U.S. dollars based on trade dates as of month-end, net-of-fees, while accounting for dividend reinvestment. The 3-year standard deviation (external dispersion) is based on net-of-fees returns. Net-of-fees returns are calculated net of actual management fees and transaction costs and gross of custodian fees and external consultant or advisory fees. Gross-of-fees returns are calculated gross of management, custodial and external consultant or advisory fees and net of transaction costs.

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