SaratogaRIM

2020 Quarterly Report

October 8, 2020

Q3

Birds in the Bush

Market Statistics		Source: FactSet (Sept. 30), Federal Reserve, * Spot prices (Sept. 30)					
Stocks		**Yields (%)**				**Commodities**	
DJIA	27,781.70	Fed Funds	0.25	US Tr. 3-Y	0.16	Baltic Dry Index	1,725
P/E ratio	21.41	Disc. Rate	0.25	US Tr. 5-Y	0.28	Gold ($/oz)	1,888
S&P 500	3,363.00	Libor 1-Mo	0.15	US Tr. 10-Y	0.68	Silver ($/oz)	23.73
P/E ratio	25.00	US Tr. 1-Y	0.13	US Tr. 30-Y	1.45	Crude ($/bbl)* (NYM Light Sweet Crude)	40.22

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Letter to Investors

Nothing sedates rationality like large doses of effortless money. – **Warren Buffett**

The fable known as "The Nightingale and the Hawk" is among the oldest in the Greek lexicon. Aesop, slave and legendary storyteller, spun a version circa 600 BC that (per 19th century renderings) coined the aphorism "a bird in the hand is worth two in the bush." Famously, Warren Buffett calls this the foundational idea in valuation analysis. Writing in early 2000, near the crest of a previous stock market bubble, he told Berkshire Hathaway shareholders:

> *"Aesop's investment axiom, thus expanded and converted into dollars, is immutable. It applies to outlays for farms, oil royalties, bonds, stocks, lottery tickets, and manufacturing plants. And neither the advent of the steam engine, the harnessing of electricity nor the creation of the automobile changed the formula one iota — nor will the Internet. Just insert the correct numbers, and you can rank the attractiveness of all possible uses of capital throughout the universe."*

The concept Buffett conjures here is called the time value of money. The proverb hinges on something of certain value – a nightingale already in a hawk's talons – trying to avoid a quick dispatch by urging his captor to pursue a bigger, though uncertain, prize in the forms of plumper fowl hiding nearby. The hawk, we know, rejects the deal and devours his quarry. As an investment concept, the key takeaway is that if you're going to take risk, you'd better expect to get paid for it.

In Buffett's construct, calculating the price at which making such a deal would pay off comes down to three questions:

> *"How certain are you that there are indeed birds in the bush? When will they emerge and how many will there be? What is the risk-free interest rate (which we consider to be the yield on long-term U.S. bonds)? If you can answer these three questions, you will know the maximum value of the bush and the maximum number of the birds you now possess that should be offered for it. And, of course, don't literally think birds. Think dollars."*

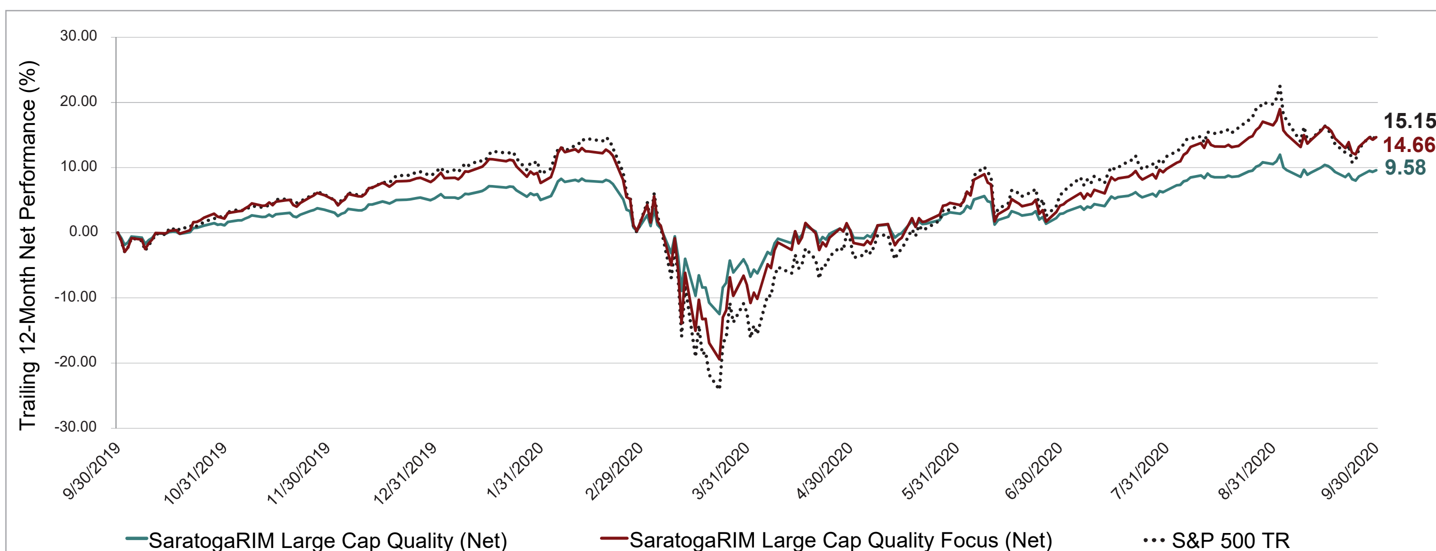
Then, Buffett's first letter of the new millennium offered some hard truth. Birds in the bush (like great businesses) rarely go on sale, he said. "…And during times of rapid technological change, industries at the forefront lack long-term trajectories discernible by even the most brilliant investors." (*In today's market, think Tesla.)* In such cases, "any capital commitment must be labeled speculative," Buffett warned, noting further that investors should beware the intoxicating nature of hot markets:

> *"The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities, that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands."*

**

Back in April's 2020 Q1 Report, I explained why long-term investors in financially sound businesses needn't be overly fixated on volatility, especially during a crisis. Starting from the premise that a share of stock represents nothing more than a claim on the long-term stream of future cash flows that will be paid out to its owners over time, the crux of our analysis was that: A.) From lower purchase prices, future re-

Fig. 1: SaratogaRIM Large Cap Quality & Focus vs. S&P 500 TR Trailing 12-Months (9/30/19 - 9/30/20)



Source: FactSet, SaratogaRIM. Past investment results are not a guarantee of future results. All charts are presented as supplemental data. Data presented net-of-fees. See full disclosures at the end of this report.

Investment Results: *Over the 12 months that ended September 30th, net of fees, the SaratogaRIM Large Cap Quality and Large Cap Quality Focus composites gained 9.58% and 14.66% respectively. Over the same period, the S&P 500 Total Return Index rose 15.15%. 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.*

turns should be expected to be higher than they otherwise would have been, and B.) For businesses financially strong enough to survive a crisis, even significant near-term hits to earnings wouldn't necessarily impact value much over time.

The simple mathematics we used to buttress my claim back in April work just as well now to explain why, if measured from today's higher prices, future returns (on essentially everything) should be expected to be lower going forward. In our Q1 Report, I asked readers to consider, as an illustration, a simple investment that promised to pay $1,000 in precisely 10 years – a 10-year zero-coupon Treasury bond. An investor needing to make at least 10% a year couldn't pay more than $386 today to earn that yield. Since we can work backwards from its purchase price to determine a bond's yield to maturity, if instead of paying the $386 you paid $436.20, the yield to maturity would fall to 8% per year. At an even higher price of $614 today, that yield would drop to 5%. From an $820 purchase price, your annual return would only be 2%. Anyone silly enough to pay $1,000 today for such a bond and then hold it to maturity would enjoy a return of, literally, zero. Pay anything higher and the yield would be negative. As to why anyone would agree to such terms, your guess is as good as mine. Yet in fact, across today's *Bizarro World* of negative interest rates and other anti-gravity devices, people are doing just that.

For example, as I'm writing, a zero-coupon Treasury maturing in precisely ten years (08/15/2030) is now quoted at a dollar price of $915.37, which equates to a 0.89% yield to maturity before taxes and inflation. After adjusting for both, buyers of that Treasury bond all but lock in negative real returns. Think of this in terms of a pound-for-pound exchange of poultry today for poultry ten years hence. Adjusted for spoilage (taxes and inflation), from today's exchange rate, you're virtually guaranteed to get back less poultry in the future than you'd be putting up.

If all of this sounds upside-down to you, join the club. What happens if the financial world we've known since the 1930s is broken? Might well-intentioned government interventions inadvertently trigger destabilizing deflation/inflation, or

knock interest rates so far out of whack that capitalism can't properly function? Could the value of a dollar today actually be worth less, not more, than a dollar tomorrow? Or, might the cumulative *unintended consequences* of central bank efforts to "save the world" whenever economies swoon have so damaged the market mechanism for risk pricing that a bird in the hand isn't presently worth two in the bush?

These questions are rhetorical. Given that market-based economies are the epitome of complex systems, understanding the important inner workings – much less forecasting very long-term outcomes into the future with precision – is as impossible as predicting next Tuesday's lottery numbers. I don't have the answers, nor does anyone else. The best we can do is to discount such uncertainties by refusing to take risk with our own (or anyone else's) money unless we have confidence that our actions will be adequately compensated over time.

* * *

It's been a strange and wild ride so far in 2020. Economies crashed along with the markets in February and March as shelter-in-place orders brought the world to a screeching halt. Then, just as abruptly, markets soared as economies reopened, governments blanketed the globe with free money and hopes proliferated that new treatments and vaccines for the virus were just around the corner. P/E multiples surged as central banks flooded the world with liquidity and suppressed discount rates and risk premiums in general. Similar to the plunge that proceeded it, the combined magnitude and speed of the summer surge of 2020 have placed it on par with the most spectacular rallies ever witnessed, including those during the Great Depression.

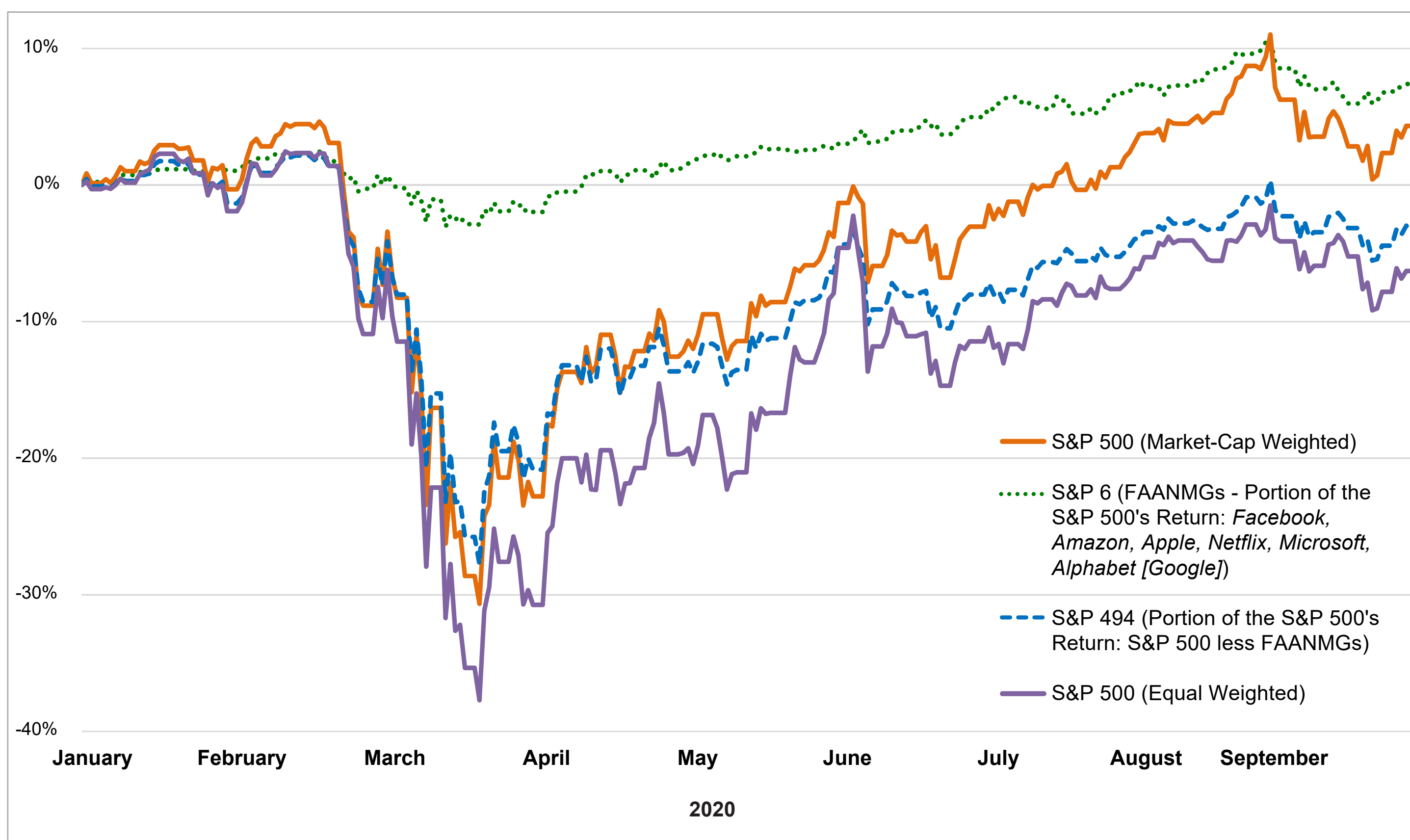
This summer's snap back in the S&P 500 may not, however, imply anywhere near as much about the health of our overall economy (or even stock market, for that matter) as many may believe. The rally may have been less of an "all clear" bell than a simple confirmation that a very small group of gigantic companies have continued to thrive even though the rest of the world was going to Hell in a handbasket. As summer came to a close, the most widely held narratives in the stock market seemed to rest on confidence that the worst of this recession was already behind us and that corporate earnings were all but certain to quickly snap back to pre-pandemic levels. As cozy as that all sounds, one look under the proverbial hood exposes a more problematic reality.

Markets first. Throughout the year, the bond market has been telling a very different story than the stock market. The ultra-low nominal (negative real) interest rates extending out across the entire Treasury yield curve seem to foreshadow some form of Japanification for the United States. Unlike the optimistic outlook seemingly on display in the equity market, bonds are pricing in a virtually no-growth economy not just for this year, but for at least the next decade or two. The narratives being told by stock and bond markets can't both be right.

For years, the stock market has been growing ever more top-heavy as disruptive innovators emerged Titans from winner-take-all struggles. These are the so-called FAANMGs: Facebook, Apple, Amazon, Netflix, Microsoft & Alphabet (the company formerly known as Google). Since the market peak in February, the stocks of these companies have continued to shine. They declined much less as the market melted down in late February and March, recouped what ground they did lose by early May and, despite the September correction, have still dramatically outperformed this year. There's underlying logic to this, as the FAANMGs are much more than the speculative darlings they're often portrayed as.

While each must be evaluated separately, by and large they do share important common characteristics. Relative to the rest of the market, all but one of them are lightly leveraged with rock-solid balance sheets, have higher profit margins and regularly reinvest more of their profits back into their businesses. Furthermore, the global pandemic has only supercharged many of their advantages. Despite already being giants, they're still growing sales and earnings significantly faster than most companies. For example, the FAANMGs are expected to grow their revenues by roughly 15% in 2020 versus a collective decline of 5% for the remaining constituents of the S&P 500. It really shouldn't come as any surprise that

Fig. 2: Breaking Down the S&P 500 Returns – Market-Cap Weighting Impact (1/1/20 - 10/1/20)



Source: Bianco Research, Arbor Research, SaratogaRIM. The S&P 500 Index is broken down into segments for illustrative purposes only. See full disclosures at the end of this report.

yield and growth-starved investors have continued to gravitate towards the FAANMGs.

The giant flies in the ointment are that any stocks that go up too fast can correct just as quickly while even great businesses can make lousy investments from prices that are too high. It remains an uncomfortable truth that even after a recent hiccup (a sharp 10% correction in September), the combined market-caps of just those six stocks still make up roughly one quarter of the entire S&P 500 by value. Not since 1970 has the market been this top-heavy or dependent on the ongoing good fortune of so few companies.

To further illustrate the extent to which the FAANMGs have carried the market, look at the contribution of just those six stocks – call it the FAANMG index or S&P 6 – to the S&P 500's performance in 2020 compared to the contribution of the remaining S&P 494. As you can see from Fig. 2 above, these 6 stocks not only drove the market on the upside, their relatively solid performance during the selloff also prevented the carnage from being much worse. Absent their contributions, the stock market narrative would be completely different.

As I write, nearly 60% of all U.S. stocks are still down for the year. The total returns year-to-date for the market-cap weighted S&P 600 (small-cap) and S&P 400 (mid-cap) indices remain down 16.25% and 9.78%, respectively, for 2020. The performance of the S&P 500 when viewed on an equally-weighted basis – where all 500 stocks in the index have the same impact on price movement – also confirms the observation that stocks aren't doing anywhere near as well as people think they are; on an equally-weighted basis the index is still down 6.28% in 2020. When you bore down even deeper you can see there are individual sectors that are clearly struggling. Per the KBW Nasdaq Bank Index, banks are off by roughly 35.76% for the year.

Now, the real economy. We're far enough into the pandemic to have a better feel for how this recovery is actually playing out, and if I were to

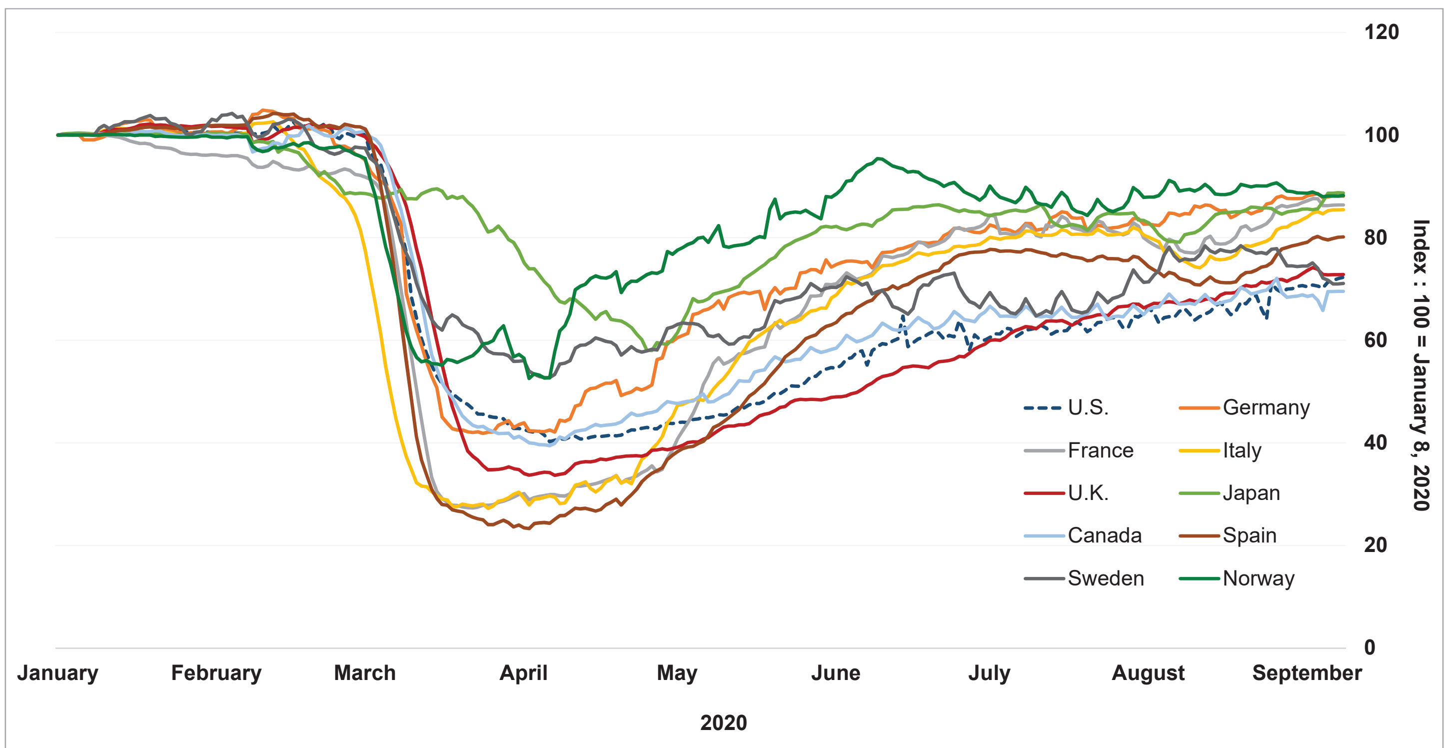
put a letter on it, the best descriptor is a capital "K." Why? While our overall economy remains mired in a deep recession (or worse), the real economy has bifurcated in such a way that significant portions of our populace and business communities are suffering greatly (the big down leg) while other segments are not just rebounding nicely but thriving in the present environment (the big up leg).

Economic conditions have swung violently over the course of the year. Rents on apartment units in some large cities like New York and San Francisco have plunged, and unemployment levels still hover higher than at any point since the Great Depression. Nevertheless, cross currents exist. Even as urban rents plunge, home prices are rising as city-dwellers seemingly test out the "Grass is Always Greener" theory by seeking to swap a balcony or roof-top terrace with a view of the skyline for an actual backyard where kids can play or for other features like extra bedrooms to double serve as home offices. Complicating matters, in fast moving economies, with economic conditions changing rapidly over short timespans (as they have throughout the year), some traditional economic statistics can lose their effectiveness as indicators. This is particularly true for those that are only reported quarterly, or with a lag. When economic conditions are fluid, these types of data points can be functionally obsolete by the time they're published.

For example, on July 30th when the advance estimate of negative 32.9% for Q2 GDP was released, the economy had already been rebounding sharply for a month or two. Then too, if high-frequency economic indicators are to be believed, the global recovery was already starting to peter out by July (see Fig. 3 below). The widely anticipated rebound in Q3 GDP may prove ancient history by the time it's finally released on October 29th.

To help see through the fog, entities like Bloomberg Economics have developed useful analytical tools to capitalize on the availability of more timely data. Bloomberg's dynamic factor model aggregates a number of high-frequency indicators (e.g., credit- and debit-card spending, mobility trackers, restaurant bookings, TSA checks, initial claims for unemployment etc.) to better track the pace of economic recoveries across industrialized nations in real time. This model suggests the following:

Fig. 3: High-Frequency Economic Indicator Indices – Bloomberg's Activity Gauge Based on Alternative Economic Data (1/8/20 - 9/15/20)



Source: Bianco Research, Arbor Research, SaratogaRIM. See full disclosures at the end of this report.

Indexed to January 2020 pre-pandemic levels, economic activity around the world collapsed in March and April as shut-downs were imposed but spiked as economies reopened through May and June. Since then, however, the story being told is grim. Per this model, global economic activity has stagnated at levels significantly below pre-pandemic readings. Year-to-date, Norway, Germany and Japan have held up best, while the U.K., the U.S., Sweden and Canada have been laggards with aggregate economic activity roughly a third lower than pre-Covid levels.

To be sure, a large part of our economy is actually rebounding smartly and seemingly headed back towards full capacity. That's not the issue. The problem is that other segments have been absolutely devastated, with many simply unable to cope with the realities of our new world. You can see this dynamic playing out in the news every day if you're paying attention. For instance, there was a good article in the *New York Times* that captured this dynamic: "Movie Theaters Returned, Audiences Didn't. Now What?" *Wall Street Journal* articles with titles like "New York City Hotels Fear Raft of Closures Due to Coronavirus" or "With Indoor Dining Upended, Some Restaurants Call it Quits" also highlight the issue. Some industries may never fully recover, and for others it could take many years. Since traditional government statistics are geared for the sum, not the parts, should they eventually affirm Bloomberg's dynamic model's conclusions, history books will someday refer to the depression of 2020, great or otherwise.

Sadly, longer-term trends in income and wealth inequality have also been exacerbated this year. Since the mid-1970s, the portion of national income earned by workers has declined in percentage terms from the mid-60s to the mid-50s with the corresponding increases accruing to the owners of capital. More recent hits from the lockdown-induced recession have disproportionately fallen on the poorest sectors of our society while massive monetary responses have largely benefited those at the very top who own most of the assets. Taken together, it's clear that recent events have dramatically widened the chasm. Most readers of this letter are beneficiaries of this dynamic, to be sure, yet we also realize that extreme disparity in wealth and income historically have been closely correlated with both social unrest and financial crises.

But like so many things about the year 2020 itself, this recession is clearly different from others we've seen or studied. First, the sheer size of the fiscal and monetary responses governments mounted – and the rapidity of the roll-outs – is unprecedented. These efforts were successful in initially goosing consumer spending with enhanced unemployment benefits and stimulus checks. They were mostly palliative, though, and may have merely pushed some of the economic pains normally associated with severe recessions further out into the future. The ban on evictions recently extended to the end of 2020, for example, requires that renters *pay all back rent due* at the dawn of 2021 or face losing their digs – potentially putting whichever presidential candidate and political party that wins in this year's elections in the throes of an immediate housing crisis upon taking/returning to office.

Second, this pandemic and the policies implemented to combat it have accelerated various technological and consumer trends already visible before Covid-19 struck, with years of advancement jammed into a very short timeframe. This fast-forward lurch hits the losers most impacted by the shutdowns, particularly those unable to rapidly adapt their business models to the new reality. It also boosts big winners among the innovators who've benefited the most from the acceleration of these trends and from disruption itself. Digital, in-home, contact-free: companies that enable this lifestyle are winning big and taking no prisoners. Conversely, most small businesses – even the viable, hard-to-disrupt variety – have suffered disproportionately and are likely to continue to do so at least through 2021.

Even though they don't show up in any of the stock market averages, small businesses are a big deal in the United States. There are more than 30 million of them in this country and historically, they've collectively generated roughly 85% of new employment and half of our gross domestic product. According to data analytics from Yelp, since the March pandemic shut-

downs and recession that followed, more than 163,000 small businesses have shut their doors. That's up 23% since July and as of August 31st nearly two thirds of those that have closed have indicated that they won't be reopening. From mid-July through the end of August the number of small businesses describing their closures as permanent increased by 34%. A recent survey by the National Federation of Independent Business indicates that more than 1 in 5 small businesses are reporting that sales remain 50% or more below pre-pandemic levels with the same proportion warning that they too are at risk of going out of business unless economic conditions improve soon.

Banks are usually better barometers of the broader economy than tech stocks, and recently they have signaled that this year's recession could be longer and deeper than anticipated just a few months ago. Jamie Dimon, veteran CEO of JPMorgan Chase, warned during the quarter that the financial damage brought on by the pandemic had yet to fully register. His reasoning was fairly straightforward. The $2.2 trillion CARES Act injected billions of dollars into households and businesses, masking over the immediate impact of widespread business closures and job loss. The real pain, he said, wouldn't be felt until the key components of that program had run their course and the 25.6 million Americans who'd been receiving enhanced unemployment benefits were left to sink or swim on their own. "In a normal recession unemployment goes up, delinquencies go up, charge-offs go up, home prices go down; none of that's true here," Dimon says. "Savings are up, incomes are up, home prices are up. So you will see the effect of this recession; you're just not going to see it right away because of all the stimulus coupled with the historic steps taken by the Federal Reserve to prop up financial markets."

The implications both for employment and broad-based economic growth are troubling. JPMorgan Chase maps out five different paths our economy could take going forward. In their base-case scenario, unemployment hits nearly 11% by year's end. In their darkest scenario, which assumes a fall Covid-19 surge that forces another round of shelter-in-place orders, widespread business shutdowns follow and unemployment surges to Great Depression-like levels of 23%.

Dimon acknowledges that nothing can be forecast with precision. "If you look at the base case, and the extremely adverse case, they're all possible and we're just guessing at the probabilities of those things; that's all we're doing," he says. He concluded that the economic environment remains murky and everyone should be prepared for hardship. Forecasting the American economy is difficult in the best of times. Today, it's like looking down into a dark well and trying to guess how deep it is.

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The Berkshire Hathaway Annual Report of 2000 has always been one of my favorites. Buffett's lessons are timeless and they're as clear and concise as they are pertinent. While every new era is unique, there are obvious parallels between some of our current circumstances and those the world's greatest investor was commenting on in real-time two decades ago.

The notion that one should demand to be compensated for taking risk seems almost quaint today – old school, even. Blind faith by legions of day traders that the Fed will always have their back is buttressed by two simple facts: many of today's market participants hadn't entered their first trade by the 2008/09 Great Financial Crisis, while some hadn't even been potty-trained when a previous generation of day traders got crushed during the dot.com bust. In today's world, we simply can't assume the idea that you need to get paid for taking risk is generally understood, let alone baked into market prices. Back then, like now, markets were intoxicated by a wicked blend of liquidity and day-traders stoking the madness around them. In his 2000 letter Buffett also cautioned, "[A] pin lies in wait for every bubble. And when the two eventually meet, a new wave of investors learns some very old lessons: First, many in Wall Street – a community in which quality control is not prized *[think Robinhood today - KT]* – will sell investors anything they will buy. Second, speculation is most dangerous when it looks easiest." Aesop's investment axiom remains as foundational today as it did then.

– Kevin Tanner

SaratogaRIM Large Cap Quality

Composite Statistics

Q3 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 (LCQ) - Snapshot

Name	SaratogaRIM Large Cap Quality
Manager Name	Kevin Tanner
Inception Date	2/29/2000
Firm Total Assets	$ 2,494,463,000
Strategy Assets	$ 1,454,417,000
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: 9/30/2020

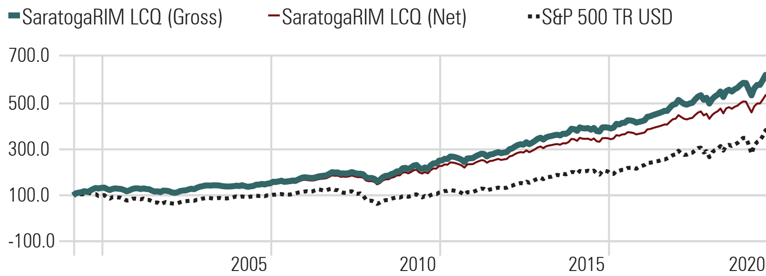
	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Inception
SaratogaRIM LCQ (Gross)	10.18	9.82	10.37	9.44	10.35	9.89	9.23
SaratogaRIM LCQ (Net)	9.59	9.23	9.78	8.85	9.74	9.16	8.42
S&P 500 TR USD	15.15	12.28	14.15	12.68	13.74	9.19	6.53

Investment Growth Relative to Benchmark*

Time Period: 3/1/2000 to 9/30/2020

Source Data: Total Return

SaratogaRIM LCQ (Gross) — SaratogaRIM LCQ (Net) — S&P 500 TR USD

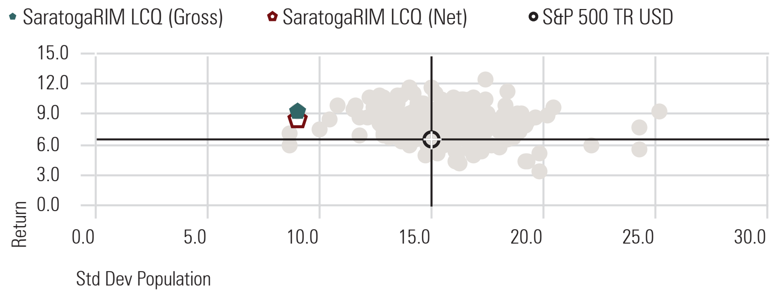


Standard Deviation vs. Annualized Rate of Return Relative to Benchmark & Peer Group*

Time Period: 3/1/2000 to 9/30/2020

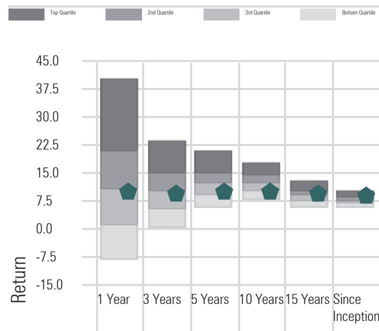
Peer Group (1-100%): Large Cap SA Source Data: Total Return

SaratogaRIM LCQ (Gross) — SaratogaRIM LCQ (Net) — S&P 500 TR USD



Investment Results Relative to Peer Group* As of Date: 9/30/2020

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



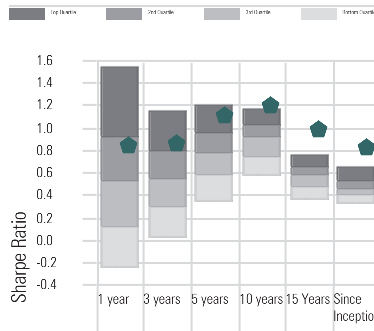
Peer Group (5-95%): Large Cap SA Source Data: Net Return

Return — 1 Year, 3 Years, 5 Years, 10 Years, 15 Years, Since Inception

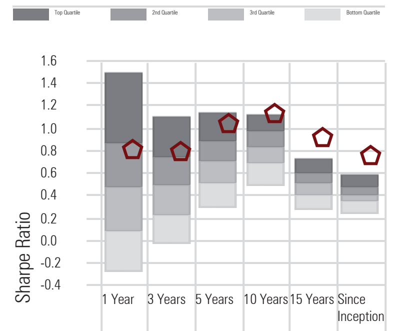
SaratogaRIM LCQ (Gross) — SaratogaRIM LCQ (Net)

Sharpe Ratio Relative to Peer Group* As of Date: 9/30/2020

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	**10.18**	9.59	**9.82**	9.23	**10.37**	9.78	**10.35**	9.74	**9.89**	9.16	**9.23**	8.42
Median	**10.84**	9.68	**10.04**	9.04	**12.18**	11.06	**12.65**	11.52	**9.12**	8.14	**7.86**	7.04
Average	**12.84**	11.77	**10.76**	9.69	**12.53**	11.44	**12.74**	11.66	**9.20**	8.14	**7.93**	6.98
Count	**1,303**	1,303	**1,247**	1,247	**1,133**	1,133	**916**	916	**722**	725	**381**	383
Std Dev	**16.71**	16.54	**7.45**	7.37	**4.73**	4.73	**2.95**	3.04	**2.22**	2.35	**1.38**	1.54
5th Percentile	**40.01**	38.62	**23.44**	22.32	**20.84**	19.77	**17.88**	16.82	**12.87**	12.01	**10.17**	9.35
25th Percentile	**20.92**	19.46	**14.98**	13.94	**15.26**	14.08	**14.43**	13.56	**10.46**	9.49	**8.86**	8.06
50th Percentile	**10.84**	9.68	**10.04**	9.04	**12.18**	11.06	**12.65**	11.52	**9.12**	8.14	**7.86**	7.04
75th Percentile	**1.04**	0.04	**5.45**	4.34	**9.05**	7.98	**10.53**	9.46	**7.69**	6.54	**6.99**	6.10
95th Percentile	**-7.99**	-8.77	**0.42**	-0.65	**5.94**	4.67	**8.22**	6.73	**5.77**	4.52	**5.89**	4.30

Gross Net	1 Year		3 Years		5 Years		10 Years		15 Years		Since Inception	
SaratogaRIM LCQ	**0.86**	0.81	**0.86**	0.81	**1.12**	1.05	**1.21**	1.14	**1.00**	0.92	**0.84**	0.76
Median	**0.52**	0.48	**0.55**	0.50	**0.79**	0.71	**0.92**	0.83	**0.58**	0.52	**0.46**	0.40
Average	**0.56**	0.52	**0.56**	0.51	**0.77**	0.71	**0.89**	0.82	**0.57**	0.51	**0.47**	0.41
Count	**1,303**	1,303	**1,247**	1,247	**1,133**	1,133	**916**	916	**722**	725	**381**	383
Std Dev	**0.57**	0.57	**0.35**	0.35	**0.26**	0.26	**0.18**	0.19	**0.13**	0.13	**0.10**	0.10
5th Percentile	**1.54**	1.50	**1.15**	1.11	**1.20**	1.14	**1.17**	1.12	**0.77**	0.72	**0.65**	0.59
25th Percentile	**0.92**	0.87	**0.81**	0.75	**0.95**	0.89	**1.02**	0.97	**0.66**	0.60	**0.53**	0.48
50th Percentile	**0.52**	0.48	**0.55**	0.50	**0.79**	0.71	**0.92**	0.83	**0.58**	0.52	**0.46**	0.40
75th Percentile	**0.12**	0.09	**0.30**	0.24	**0.58**	0.52	**0.75**	0.69	**0.48**	0.41	**0.40**	0.36
95th Percentile	**-0.23**	-0.27	**0.04**	-0.02	**0.36**	0.30	**0.59**	0.50	**0.36**	0.28	**0.33**	0.24

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. Peer group displays data reported to Morningstar by 10/15/2020. The disclosures on the following page are a part of this presentation

Sector Weightings - GICS*

Portfolio Date: 9/30/2020

	LCQ	S&P 500
Consumer Discretionary %	7.87	11.55
Consumer Staples %	14.25	7.02
Energy %	0.00	2.06
Financials %	6.59	9.67
Healthcare %	19.74	14.23
Industrials %	14.38	8.29
Information Technology %	25.44	28.15
Materials %	1.74	2.62
Communication Services %	10.01	10.80
Utilities %	0.00	2.97

Holding Fundamentals*

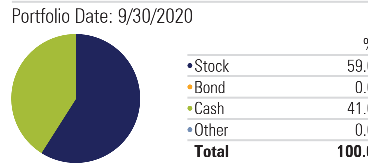
Dividend Yield	1.77
P/E Ratio (TTM)	24.52
P/CF Ratio (TTM)	17.10
P/B Ratio (TTM)	4.32
ROE % (TTM)	29.91
ROA % (TTM)	9.77
Net Margin %	13.84
Est. LT EPS Growth	6.67
Historical EPS Growth	19.26

Market Capitalization*

Average Market Cap (mil)	162,858.11
Market Cap Giant %	65.90
Market Cap Large %	23.03
Market Cap Mid %	11.07

Asset Allocation*

Portfolio Date: 9/30/2020

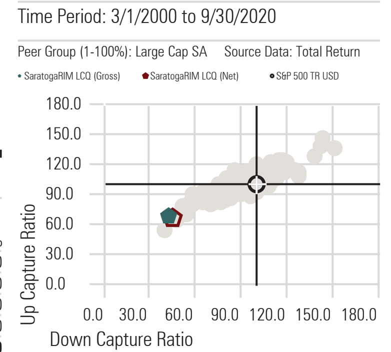


	%
•Stock	59.0
•Bond	0.0
•Cash	41.0
•Other	0.0
Total	**100.0**

Market Capture Relative to Benchmark & Peer Group*

Time Period: 3/1/2000 to 9/30/2020

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

						3 Yr Ann Standard Dev							
Year	Gross TWR	Net TWR	S&P 500 Total Return	Median TWR	Standard Deviation	Quality Composite	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
09/30/20	5.00	4.58	5.57	n/a	n/a	9.38	17.49	2,512	2.7%	1,454,417,117.94	58.31	3,202	2,494,462,868.69

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

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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. 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SaratogaRIM Large Cap Quality Focus

Composite Statistics

Q3 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	$ 2,494,463,000
Strategy Assets	$ 710,268,000
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: 9/30/2020

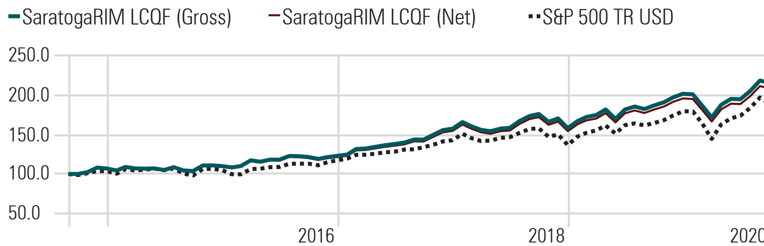
	1 Year	3 Years	5 Years	Since Inception
SaratogaRIM LCQF (Gross)	15.28	14.52	15.79	13.49
SaratogaRIM LCQF (Net)	14.68	13.90	15.16	12.87
S&P 500 TR USD	15.15	12.28	14.15	11.12

Investment Growth Relative to Benchmark*

Time Period: 9/1/2014 to 9/30/2020

Source Data: Total Return

SaratogaRIM LCQF (Gross) | SaratogaRIM LCQF (Net) | S&P 500 TR USD

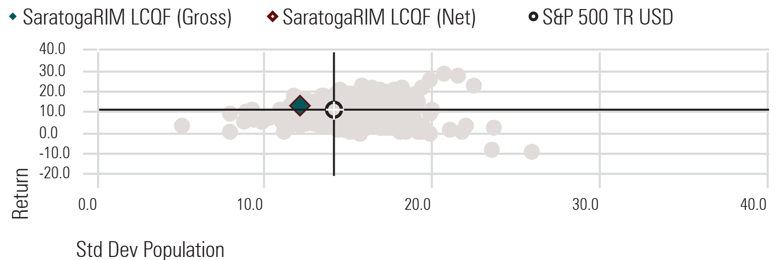


Standard Deviation vs. Annualized Rate of Return Relative to Benchmark & Peer Group*

Time Period: 9/1/2014 to 9/30/2020

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

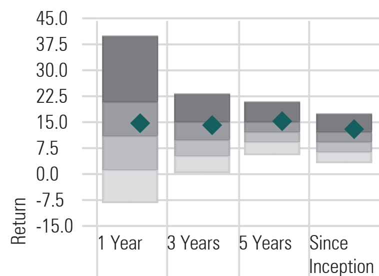
SaratogaRIM LCQF (Gross) | SaratogaRIM LCQF (Net) | S&P 500 TR USD



Investment Results Relative to Peer Group* As of Date: 9/30/2020

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

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



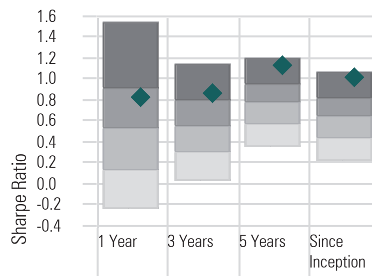
Return: 1 Year, 3 Years, 5 Years, Since Inception

SaratogaRIM LCQF (Gross) | SaratogaRIM LCQF (Net)

Sharpe Ratio Relative to Peer Group* As of Date: 9/30/2020

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

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



Sharpe Ratio: 1 Year, 3 Years, 5 Years, Since Inception

SaratogaRIM LCQF (Gross) | SaratogaRIM LCQF (Net)

Gross Net	1 Year		3 Years		5 Years		Since Inception	
SaratogaRIM LCQF	**15.28**	14.68	**14.52**	13.90	**15.79**	15.16	**13.49**	12.87
Median	**10.84**	9.68	**10.04**	9.04	**12.18**	11.06	**9.48**	8.44
Average	**12.84**	11.77	**10.76**	9.69	**12.53**	11.44	**9.73**	8.67
Count	**1,303**	1,303	**1,247**	1,247	**1,133**	1,133	**1,083**	1,083
Std Dev	**16.71**	16.54	**7.45**	7.37	**4.73**	4.73	**4.42**	4.43
5th Percentile	**40.01**	38.62	**23.44**	22.32	**20.84**	19.77	**17.35**	16.25
25th Percentile	**20.92**	19.46	**14.98**	13.94	**15.26**	14.08	**12.27**	11.27
50th Percentile	**10.84**	9.68	**10.04**	9.04	**12.18**	11.06	**9.48**	8.44
75th Percentile	**1.04**	0.04	**5.45**	4.34	**9.05**	7.98	**6.41**	5.41
95th Percentile	**-7.99**	-8.77	**0.42**	-0.65	**5.94**	4.67	**3.25**	2.24

Gross Net	1 Year		3 Years		5 Years		Since Inception	
SaratogaRIM LCQF	**0.84**	0.81	**0.88**	0.84	**1.13**	1.09	**1.02**	0.98
Median	**0.52**	0.48	**0.55**	0.50	**0.79**	0.71	**0.64**	0.58
Average	**0.56**	0.52	**0.56**	0.51	**0.77**	0.71	**0.64**	0.57
Count	**1,303**	1,303	**1,247**	1,247	**1,133**	1,133	**1,083**	1,083
Std Dev	**0.57**	0.57	**0.35**	0.35	**0.26**	0.26	**0.26**	0.26
5th Percentile	**1.54**	1.50	**1.15**	1.11	**1.20**	1.14	**1.07**	1.01
25th Percentile	**0.92**	0.87	**0.81**	0.75	**0.95**	0.89	**0.82**	0.75
50th Percentile	**0.52**	0.48	**0.55**	0.50	**0.79**	0.71	**0.64**	0.58
75th Percentile	**0.12**	0.09	**0.30**	0.24	**0.58**	0.52	**0.44**	0.37
95th Percentile	**-0.23**	-0.27	**0.04**	-0.02	**0.36**	0.30	**0.22**	0.16

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Sector Weightings - GICS*

Portfolio Date: 9/30/2020

	LCQF	S&P 500
Consumer Discretionary %	6.72	11.55
Consumer Staples %	13.98	7.02
Energy %	0.00	2.06
Financials %	7.12	9.67
Healthcare %	16.82	14.23
Industrials %	18.71	8.29
Information Technology %	24.08	28.15
Materials %	2.39	2.62
Communication Services %	10.19	10.80
Utilities %	0.00	2.97

Holding Fundamentals*

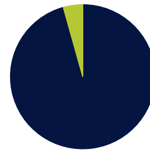
Dividend Yield	1.86
P/E Ratio (TTM)	23.83
P/CF Ratio (TTM)	16.40
P/B Ratio (TTM)	4.09
ROE % (TTM)	30.46
ROA % (TTM)	9.84
Net Margin %	14.21
Est. LT EPS Growth	6.52
Historical EPS Growth	18.84

Market Capitalization*

Average Market Cap (mil)	158,785.37
Market Cap Giant %	63.73
Market Cap Large %	24.38
Market Cap Mid %	11.89

Asset Allocation*

Portfolio Date: 9/30/2020

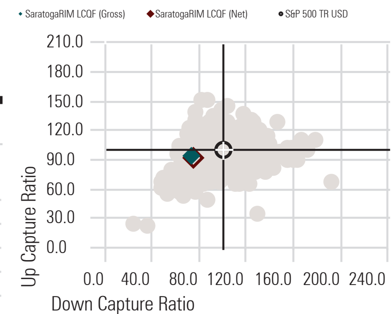


	%
•Stock	95.7
•Bond	0.0
•Cash	4.3
•Other	0.0
Total	**100.0**

Market Capture Relative to Benchmark & Peer Group*

Time Period: 9/1/2014 to 9/30/2020

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



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Composite Performance Statistics

						3 Yr Ann Standard Dev							
Year	Gross TWR	Net TWR	S&P 500 Total Return	Median TWR	Standard Deviation	Focus Composite	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
09/30/20	6.80	6.37	5.57	n/a	n/a	14.74	17.49	578	0.6%	710,268,343.64	28.47	3,202	2,494,462,868.69

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

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Composite returns are calculated using asset-weighted 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. 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. 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. SaratogaRIM's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

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The S&P SmallCap 600® seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

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SaratogaRIM.com

Matt Casas, CFA: Analyst & Portfolio Manager

Marc Crosby, CFA, CPA: President | Analyst & Portfolio Manager

Andrew Early: Analyst & Assistant Portfolio Manager

Stephen Fung, MBA: Analyst | Operations Specialist

Travis Hanson, MBA: Chief Financial Officer | Operations Specialist

Maria Harrington: Director of Client Service | Operations Specialist

Madeline Hedges, CFP: Chief Compliance Officer

Matt Keating: Analyst & Assistant Portfolio Manager

John Lapava: Office Manager

Adrena Lauti: Client Service & Operations Specialist

Mark McClenahan, CFP: Director of Investor Relations

Tierney McClenahan: Operations & Investor Relations Associate

Robert Meng, CFA: Analyst & Portfolio Manager

Adam Oreglia, GSEC, CISM: Information Security Manager | Operations Specialist

Joe Pollard, CFA: Analyst & Portfolio Manager

Adam Sato: Analyst & Portfolio Manager

Mathew Spencer: Analyst & Assistant Portfolio Manager

Phil Spencer, CFA: Director of Research | Analyst & Portfolio Manager

Jim Tanner: Director of Operations

Kevin Tanner: Chairman | CEO | Chief Investment Officer

Samantha Tanner: Investor Relations Specialist

George Wehrfritz: Editor | International Advisor to the Investment Team

Saratoga Research & Investment Management
14471 Big Basin Way, Suite E | Saratoga, CA 95070
(408) 741-2330 | contact@saratogarim.com