SaratogaRIM

2019 Quarterly Report

April 5, 2019

Q1

Away from the Herd

Market Statistics								Source: FactSet (Mar. 31), Federal Reserve, * Spot prices (Mar. 31)
Stocks		**Yields (%)**				**Commodities**	
DJIA	25,928.68	Fed Funds	2.50	US Tr. 3-Y	2.22	Baltic Dry Index	689
P/E ratio	16.56	Disc. Rate	3.00	US Tr. 5-Y	2.24	Gold ($/oz)	1,293
S&P 500	2,834.40	Libor 1-Mo	2.50	US Tr. 10-Y	2.42	Silver ($/oz)	15.10
P/E ratio	18.27	US Tr. 1-Y	2.40	US Tr. 30-Y	2.82	Crude ($/bbl)* (NYM Light Sweet Crude)	60.14

Contents	Page

Letter to Investors

Over the last 12 months the global economy transitioned from one widely characterized by synchronized global growth to one that may be approaching stall speed. Volatility also re-emerged over the last two quarters as a mini peak-to-trough-to-peak market cycle played out, highlighted by fearful selling in Q4 and an ensuing rebound rally in Q1. Today, we're right back to where we were in October 2018 (and July 2018 and January 2018) with the S&P 500 trading at 2800. This eventful and exhausting run on the market's treadmill ultimately took us nowhere.

Déjà Vu?

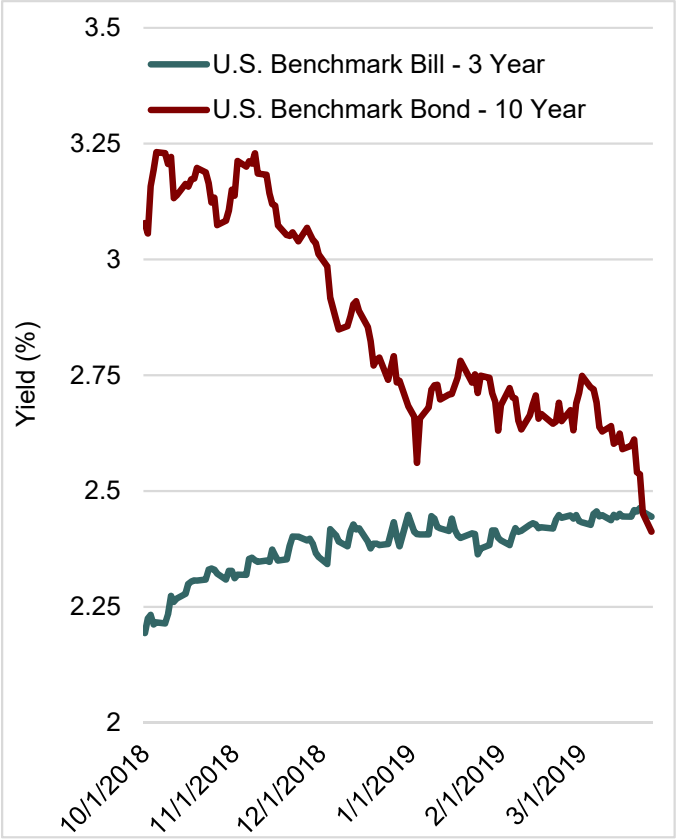
Despite fireworks over the last two quarters, the more things have changed the more they've seemed to stay the same. Domestically, our newly dovish Federal Reserve looks to have concluded its hiking cycle earlier than anticipated. The Fed capitulated to the market's Q4 temper tantrum and agreed to pause rate hikes for at least the remainder of 2019. After proclaiming the balance sheet runoff to be on "auto-pilot" in December, just weeks later our central bank succumbed and pledged to halt this process in Q3 at $3.5 trillion – still incredibly accommodative by any historical measure, and a far cry from any semblance of normal.

Meanwhile, in Europe, pockets of the economy have slipped into recession and Brexit remains unresolved with no compromise in sight. Turning to Asia, with the Chinese economy slowing noticeably, Washington and Beijing remain locked in a tariff war that appears to have reached a stalemate. That's despite regular updates of progress and countless market rallies on rumors of good news. No wonder the market can't seem to make up its mind which direction to go.

What's Changed?

Please note – we're not market forecasters, we don't pretend to have a crystal ball and don't ever claim to know how the market will trade over the near term. That said, in late March the yield curve officially "inverted." Yields on three-month U.S. Treasury bills were actually greater than yields on 10-year U.S. Treasury notes (see Fig 1). Normally, long-term bonds offer significantly higher yields than short-term bonds in order to compensate for increased risk. However, currently the market is offering more for a three-month loan

Fig. 1: Yield Curve Inversion



Source: FactSet, SaratogaRIM. See full disclosures at the end of this report.

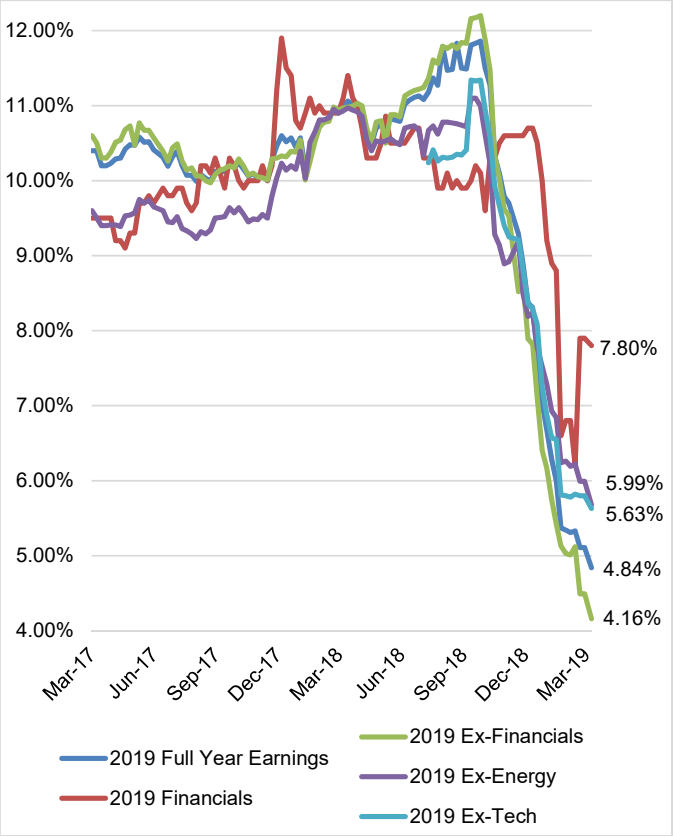
than for a 10-year loan – this is called a yield curve inversion. Historically this has been one of the most reliable leading indicators of a coming recession. Since the 1980s, each of the three times the yield curve inverted for an extended period of time, a recession has followed within the next 12-18 months. Over the last 30 years at least, as Duke Professor Campbell Harvey wrote in *Barron's*, "There have been no false signals to date. The joke that an indicator has forecast 11 of the last three recessions does not apply here." To be clear, we're only days into this. It's possible the inversion may be short-lived, or that our seemingly manic-depressive Fed could even intervene and cut short-term rates just to manipulate the shape of the curve – at this point, no one really knows what they'll do.

James Mackintosh recently made an interesting argument in the *Wall Street Journal* when he suggested that Quantitative Easing (QE) may have fundamentally changed the bond market by lowering the term premium. In past letters, we've also discussed how QE anywhere essentially equals QE everywhere because liquidity tends to

flow towards its most productive use. Globally, negative yielding bonds recently hit the $10 trillion mark for the first time since the fall of 2017– in Germany, even their 10-year bunds trade with a negative yield now. It's possible that this global glut of negative yielding bonds may be negating the historic signaling effect of this U.S. yield curve inversion. We don't know how this will turn out yet. In general, we tend to be very wary of "this time is different" arguments. In investing, it's rarely truly different, except when it is.

But even if the economy manages to keep its head above water, corporate earnings may not. As companies struggle to pass on the costs of rising labor, transportation and raw materials to customers, U.S. profit margins are on track to suffer their first fall since 2015. Coming off a secular upward trend in profit margins over the past two to three decades, and an all-time high in 2018, S&P 500 profit margins are expected to decline to 10.7% in Q1, according to FactSet projections. *WSJ* reporter Justin Lahart attributed the multi-decade margin expansion to a handful of key items – "a steady decline in labor costs,

Fig. 2: 2019 S&P 500 Earnings Expectations



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

increases in global trade, lower taxes and gains in market share. Unfortunately for companies, each one of these trends seems at risk to at least partially reverse itself in the years ahead."

Given our current political environment and rising economic frustrations, there appears to be a strong sentiment working against most if not all cited drivers of margin expansion. Europe already has started cracking down on the tech giants' so-called monopoly power, and many seem to hope that the U.S. follows suit. We're starting to see labor costs picking up, and it's very clear that global trade is heading in the wrong direction. Alan Greenspan recently warned that current conditions are starting to resemble stagflation. Collectively, these trends are concerning and need to be monitored closely.

What's Next?

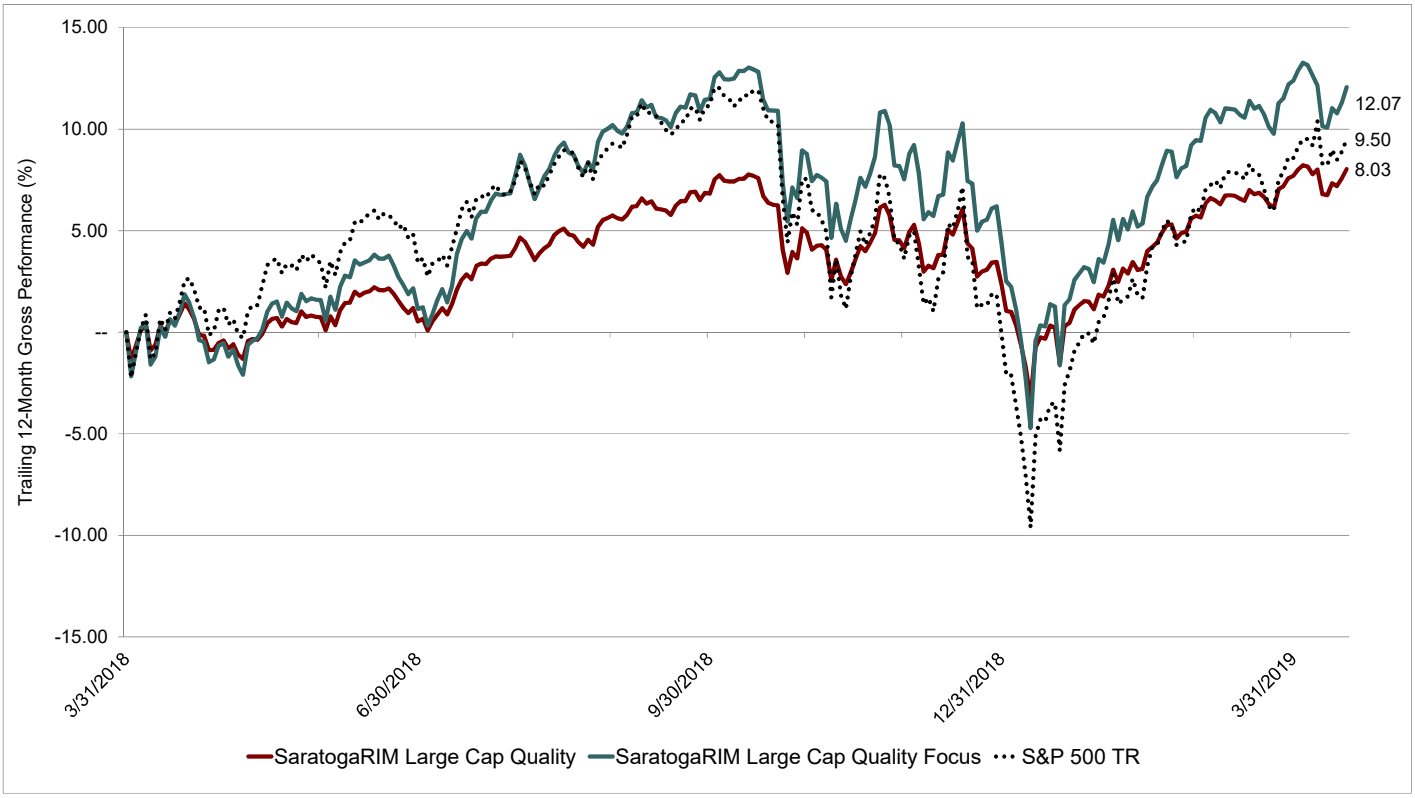
Honestly, we don't know. Next quarter could just as easily look like Q4 of last year and fall 14%, or rise 13% as it did in Q1. Going forward, we expect to see much more volatility over coming years. We could easily see a series of mini-market cycles like the one we've just gone through. Regardless, at SaratogaRIM we'll keep doing what we do. We'll continue to execute our process and to evaluate risks and opportunities in our portfolio on a company-by-company basis regardless of the macroeconomic environment. We'll keep investing in some of the highest quality companies when afforded a margin of safety. We'll search for opportunities that asymmetrically expose us to risk and reward. And we will focus on one of the few things we can control – our own behavior. We take great care to be aware of our behavioral biases and have faith in our investment process which was specifically designed to minimize them. In the following essay, Adam Sato examines our contrarian tendencies and how we strive to avoid herding bias. In a volatile market, the best way to avoid the herd mentality is by ignoring it. Fortunately for us, that simply means staying focused on our process and what we do best.

Respectfully,

Joe Pollard, CFA
Analyst & Portfolio Manager

Trailing 12-Month Investment Results

Fig. 3: SaratogaRIM Large Cap Quality & Focus vs. S&P 500 TR 3/31/18 - 3/31/19



Past performance is no guarantee of future returns. All returns presented gross of (before) fees. This chart is supplemental and comprises daily return estimates calculated by FactSet utilizing month-end holdings data and may differ from actual daily performance. See full disclosures at the end of this report.

Over the 12 months that ended March 31st, net of fees, the SaratogaRIM Large Cap Quality composite earned 7.46% and our SaratogaRIM Large Cap Quality Focus composite returned 11.47%. Over the same period, the S&P 500 Total Return rose 9.50%. Our results were consistent with what we would expect at this phase in the economic and market cycles. The SEC requires that we remind you past performance is no guarantee of future returns (please see full disclosures at the end of this report).

Everyday Contrarians
How SaratogaRIM invests outside the herd
By Adam Sato

It is company policy at SaratogaRIM that every investor or advisor who wishes to hire us must sit through our due diligence presentation. In addition to acquainting ourselves with potential clients on a personal level, our goal is to educate them about our style of investing and manage realistic expectations. This, we hope, ensures we are a good fit for the potential investor, and vice versa. Our presentation includes a thorough explanation of our investment process – what we do, how we do it, and why we believe it works over time. For the purpose of this essay, the "why" aspect is most relevant.

To review, our approach is built on three foundational objectives. We seek to minimize risk of permanent loss during extreme market and economic environments, protect purchasing power and outperform the S&P 500 by more than our fees over whole market cycles measured peak-to-peak or trough-to-trough. Today I'll focus on our third objective – long-term outperformance – and the explicit and implicit challenges to meeting this goal. To be successful, we must implement independent critical analysis throughout our investment process and always be willing to take a contrarian position. Self-reliance is especially important if we are to avoid the herd mentality and ho-hum results it fosters.

Oaktree Capital co-founder Howard Marks makes the seemingly obvious point that in order to do better than the market, you have to be different from the market. That – being different – requires independent, unique analysis and going your own way, which itself demands a contrarian mindset necessary to ignore Bloomberg or CNBC. Sometimes it even requires agreement with the market. In any case, investors who "beat the market" over the long run are invariably independent decision-makers who seek asymmetrical exposure to risk and reward. Contrast that with following the herd and the market, which yields only average results. To us, this means making our own decisions, even if we are alone in our pursuit.

Beware of the Siren

In 2015, the CFA Institute surveyed members to determine which behavioral bias "affects investment decisions the most." The top answer: "herding." The CFA Institute defines herding as "being influenced by peers to follow trends." If I had taken the survey, I probably would have answered herding as well because I've found that it can be profoundly difficult to step away from the comfort of the consensus and make decisions at odds with the current zeitgeist.

Herding can be deeply seductive. During booms, everyone seems to be making easy money – which, even for investors who understand the risks inherent in the mass psychology of crowds, can make not joining in downright frightening. During busts, herds panic and run off the proverbial cliff by selling everything, including the good stuff. Even the best investors among us can succumb to the Siren's song.

One of my favorite investment anecdotes comes from a famous protégé of George Soros. In a 2015 speech, Stanley Druckenmiller described his fateful decision to embrace tech stocks at the peak of the dotcom bubble in March of 2000. After years of witnessing the melt up in technology from the sidelines (his Quantum fund was up only 7% on the year vs. more than 50% gains for many of its peers), he said:

> "So like around March I could feel it coming. I just – I had to play. I couldn't help myself. And three times during the same week I pick up a – don't do it. Don't do it. Anyway, I pick up the phone finally. I think I missed the top by an hour. I bought $6 billion worth of tech stocks, and in six weeks I had left Soros and I had lost $3 billion in that one play. You asked me what I learned. I didn't learn anything. I already knew that I wasn't supposed to do that. I was just an emotional basket case and I couldn't help myself. So, maybe I learned not to do it again, but I already knew that."

Druckenmiller's candid description of the biggest mistake of his career is a textbook demonstration of how herding, that common behavioral bias, can hobble even great investors.

Contrarians, by definition, eschew the herd. Yet this means different things to different people; an

"The hardest thing over the years has been having the courage to go against the dominant wisdom of the time."

-Michael Steinhardt

unconstrained hedge fund, say, can flitter from one asset class to another and be contrarian simply by parking money in what is unloved at the time. Given that we invest in a small subset of very high quality companies that trade publicly in the United States, our contrarianism stems not from any visceral effort to be unfashionable, but rather from a process that periodically puts us squarely outside the bounds of what is trendy, popular or hot. Like Warren Buffett, we strive to be greedy when others are fearful and vice versa – which requires a strategy implemented on a company-by-company basis regardless of any current consensus. The herd is something we neither join nor flee – but ignore.

Reductive by Design

The concept is straightforward. Yet the old adage about investing – that it might be simple, but it isn't easy – certainly applies. Our approach, crafted as it is to counteract behavioral biases, nonetheless demands courage and independent thinking as well as a willingness on our part to adapt a contrarian mindset. In my own experience, this is challenging work.

Everyone has a list of almost-buys or targets tossed aside. Not too long ago, a particular company I followed made a sizeable acquisition – a head-scratcher that didn't quite fit the company's existing business, had a weak business moat and rendered the combined entity more capital-intensive. Yet the company had an outstanding track record, so initially we gave management the benefit of the doubt and continued coverage. Shortly thereafter, a cyclical downturn in the company's core end-markets plus a legal tussle with several major customers caused its stock to fall by more than half. Initially, this excited me because the stock (a perennial high-flier) finally looked like it might be attractively priced. But as the quarters rolled on, it eventually became evident that forecasted cost-savings and promised synergies from the merger had simply failed to materialize.

In the end, we never purchased the stock and ultimately dropped coverage altogether after concluding the acquisition proved too dilutive to its sustainable competitive advantages. The time and effort we had invested was considerable. We had discussed this company numerous times during investment team meetings, built multiple valuation models and written detailed moat reports – all in an effort to better understand the post-acquisition business. At times it felt like we had nothing to show for our substantial efforts.

Arguably, it might have been contrarian to have purchased the stock during the post-acquisition sell-off. But our process isn't as simple as doing "B" because "A" is or isn't fashionable, or ever trying to predict what might be in or out next month or next year. Rather, we aim for dispassion – our reliable antidote to the various behavioral biases which vie to drive market sentiment.

Recently I asked Kevin to recall an example of when the market consensus tempted him to change an investment decision. Characteristically, his answer was very thorough, replete with "war stories" spanning his career. But after a lengthy conversation I found that none of his anecdotes were, in fact, examples of him succumbing to the herding bias. He acknowledged instances where, in retrospect, he felt he was too concentrated or mistimed a decision. Yet my conclusion is that Kevin's attention is honed on executing our process to such a degree that most anything emanating from the chattering class in our industry registers as white noise to him. Over time he's passing this mindset to the rest of the team.

Index Huggers & Quarterly Performance Derby

External pressures inherent to the investment management industry also magnify the herding instinct in finance. Though every active manager should strive to beat the market/benchmark over the long run, the reality is that business risk and even career risk often drive them into herds because there is safety in numbers. Being great means being different, per Marks, but that's a double-edged sword because being different also means being "wrong" in the eyes of the market. You can't have it both ways.

Even when you are right in the end, it's a fact that many of the most profitable investments begin in distress. Contrarians seeking to capitalize on such opportunities always run the risk of looking foolish by being early. So, the risk of being different sometimes manifest in poor shorter-term performance records extending quarters or years, which represents a business and career risk for investment professionals whose clients are unwilling or unable to stay the course. In real time, early is often indistinguishable from wrong.

That explains the ubiquity of index huggers and closet indexers. Rather than creating unique, differentiated portfolios, they engage in herding behavior by not allowing their holdings to drift too far away from their benchmarks. Managers stay close to the herd because average results rarely get anyone fired. Seth Klarman attributes this phenomenon to investment committees' obsession over short-term returns, which he calls "the quarterly performance derby."

Process, Process & Process

There is no contrarian quick-fix for short-termism. Forces both external and internal nudge investors into groups. Yet, automatically avoiding what's popular is not a logical response either given how often "the market" is, in fact, correct. Rather, being different to us means executing a rigorous, well-defined process regardless of the "noise" around us. As most of you know by now, we limit our investable universe to high-quality businesses characterized by sound balance sheets, non-capital intensive business models and high-quality owner earnings. We also require a track record of persistently above-average profitability, sensible capital allocation and a belief that sustainable competitive advantages exist. We invest only when we can do so at prices significantly below our estimate of intrinsic value.

As value investors we'll stop buying a stock, regardless of popularity or momentum, when we no longer believe a sufficient margin of safety exists. Once invested, we hope to be an owner for a very long time. (Having said that, we're disciplined on the sell side too.) The insistence on margins of safety – a core tenet of value investing – is in and of itself a contrarian concept because it prevents falling victim to popularity contests when the market is booming or missing good buys when pessimism pervades. Thus, any approach that seeks to buy low and sell high will have a natural contrarian flavor. "The most common cause of low prices is pessimism – sometimes pervasive, sometimes specific to a company or industry," Buffett once said. "We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer."

Warren's teacher struck a similar tone in his 1934 classic *Security Analysis*, writing: "You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right." I would argue that, in fact, the market is right far more often than it is wrong – which is why great businesses rarely go on sale and oftentimes when they do there is a valid underlying reason. Which explains why we're so focused on understanding underlying fundamentals and sustainable competitive advantages. This allows us to always take a methodical and dispassionate approach in our analysis.

To be sure, *nobody* is immune to behavioral biases. On that point even the smartest investors agree. "Even once we are aware of our biases, we must recognize that knowledge does not equal behavior," writes GMO's James Montier. "The solution lies in designing and adopting an investment process that is at least partially robust to behavioral decision-making errors." To that end, I work on a team of self-aware investors who consistently execute a well-defined investment process. We don't show up for work each morning thinking 'it's time to be contrarian.' Yet what we do day in and day out differentiates us, not just from the herd, but from the vast majority of investment firms that seek to imitate it. ■

February 6, 2019

Ms. Aileen Kay Braga
SaratogaRIM
14471 Big Basin Way, Suite E
Saratoga, California, 95070

Report of Independent Verification

Dear Aileen:

We are pleased to report that we have examined whether SaratogaRIM has complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS®) on a firm-wide basis for the period March 1, 2000 through December 31, 2018 and designed its processes and procedures to calculate and present performance results in compliance with GIPS as of December 31, 2018. SaratogaRIM's management is responsible for the claim of and compliance with GIPS, the design of its processes and procedures, and for the performance presentations. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with the guidelines provided by GIPS, including the *Guidance Statement for Verification*. The verification included examining, on a sampling basis, evidence about SaratogaRIM's compliance with the GIPS requirements, evaluating the design of SaratogaRIM's processes and procedures, and performing the procedures for a verification set forth by GIPS as well as other procedures we considered necessary. Verification does not ensure the accuracy of any specific composite presentation. We believe that our examination provides a reasonable basis for our opinion, which is that SaratogaRIM has, in all material respects:

- Complied with all composite construction requirements of the Global Investment Performance Standards on a firm-wide basis for the period March 1, 2000 through December 31, 2018, and

- Designed its processes and procedures to calculate and present performance results in compliance with the Global Investment Performance Standards as of December 31, 2018.

Aileen, we appreciate having you as a client and the opportunity to conduct this verification for you.

Sincerely,

John D. Simpson, CIPM
Executive Vice President

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Your Partner in Performance Measurement™
33 Clyde Road · Suite 103 · Somerset, NJ 08873 · (732) 873-5700 · Fax (732) 873-3997 · www.SpauldingGrp.com

SaratogaRIM Large Cap Quality

Composite Statistics

Q1 2019

Saratoga Research & Investment Management
Tel: (408) 741-2330
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Saratoga, CA 95070
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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	$ 2,173,272,000
Strategy Assets	$ 1,450,322,000
GIPS Compliance	Yes
GIPS Compliance Date	12/31/2018

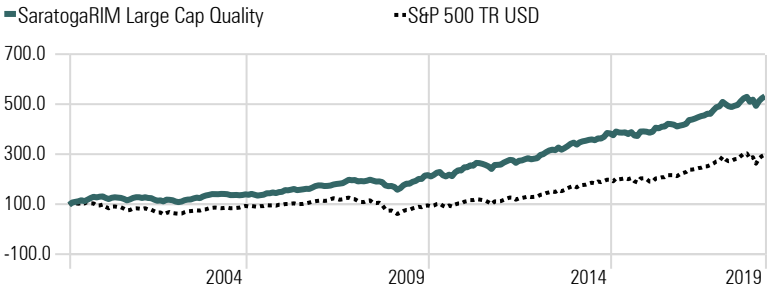
Firm Overview: Saratoga Research & Investment Management, founded in 1995, is a SEC Registered Investment Advisor specializing in constructing and managing equity portfolios composed of high caliber businesses utilizing common sense investment principles for individual and institutional investors.

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 Growth*

Time Period: 3/1/2000 to 3/31/2019

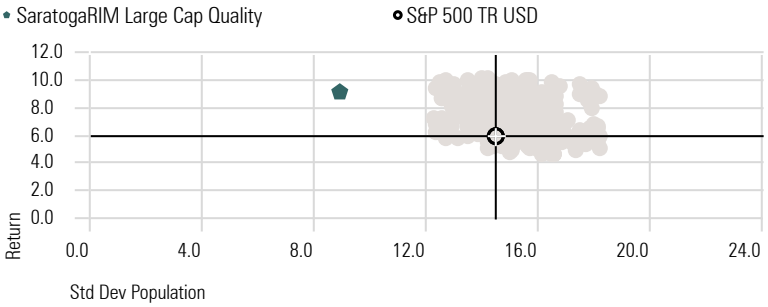
Source Data: Gross Return



Standard Deviation vs. Annualized Rate of Return*

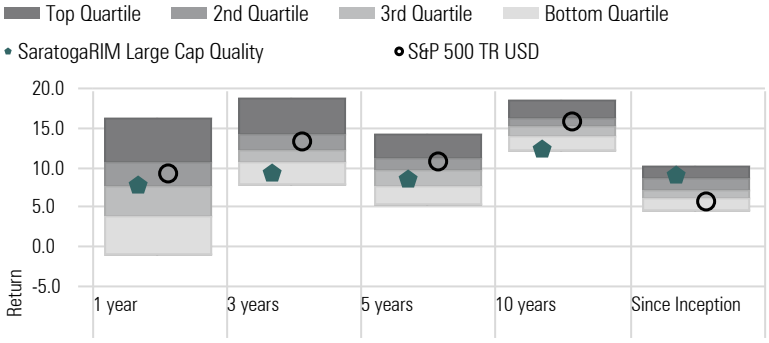
Time Period: 3/1/2000 to 3/31/2019

Source Data: Gross Return



Investment Results Relative to Peer Group*

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

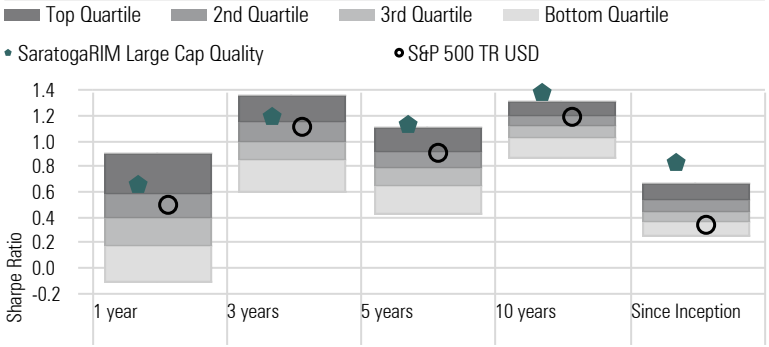


Peer Group Investment Results*

	1 year	3 years	5 years	10 years	Since Inception
SaratogaRIM Large Cap Quality	8.02	9.35	8.59	12.36	9.18
S&P 500 TR USD	9.50	13.51	10.91	15.92	5.94
Median	7.57	12.29	9.58	15.28	7.21
Average	7.47	12.70	9.56	15.21	7.39
Count	1,535	1,442	1,337	1,070	482
Std Dev	5.59	3.43	2.75	2.06	1.77
5th Percentile	16.38	18.93	14.17	18.53	10.13
25th Percentile	10.75	14.32	11.18	16.41	8.72
50th Percentile	7.57	12.29	9.58	15.28	7.21
75th Percentile	3.77	10.59	7.73	14.02	6.18
95th Percentile	-0.99	7.86	5.28	12.12	4.57

Sharpe Ratio Relative to Peer Group*

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



Peer Group Sharpe Ratio*

	1 year	3 years	5 years	10 years	Since Inception
SaratogaRIM Large Cap Quality	0.66	1.20	1.13	1.40	0.84
S&P 500 TR USD	0.51	1.12	0.91	1.20	0.35
Median	0.40	1.00	0.79	1.12	0.44
Average	0.39	1.00	0.78	1.11	0.45
Count	1,535	1,442	1,337	1,070	482
Std Dev	0.33	0.24	0.21	0.14	0.13
5th Percentile	0.90	1.36	1.10	1.32	0.66
25th Percentile	0.59	1.15	0.92	1.20	0.54
50th Percentile	0.40	1.00	0.79	1.12	0.44
75th Percentile	0.17	0.85	0.64	1.03	0.36
95th Percentile	-0.12	0.61	0.43	0.87	0.25

SaratogaRIM claims compliance with the Global Investment Performance Standards (GIPS®) and has presented this report in compliance with the GIPS standards. SaratogaRIM has been independently verified for the period of March 1, 2000, through December 31, 2018. The verification report is available upon request. 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 Aileen Braga, CCO, at (408) 741-2339 or Aileen@SaratogaRIM.com.

Sector Weightings - GICS*

Portfolio Date: 3/31/2019

	LCQ	S&P 500
Consumer Discretionary %	8.56	10.15
Consumer Staples %	14.53	7.33
Energy %	0.00	5.43
Financials %	5.96	12.69
Healthcare %	16.72	14.57
Industrials %	11.94	9.48
Information Technology %	35.52	21.19
Materials %	0.00	2.64
Communication Services %	6.77	10.11
Utilities %	0.00	3.33

GICS Sector Weightings, Market Capitalization, and Holding Fundamentals statistics reflect the weightings of the stock portion of the portfolio.

Market Capitalization*

Average Market Cap (mil)	150,862.14
Market Cap Giant %	81.97
Market Cap Large %	8.11
Market Cap Mid %	9.92

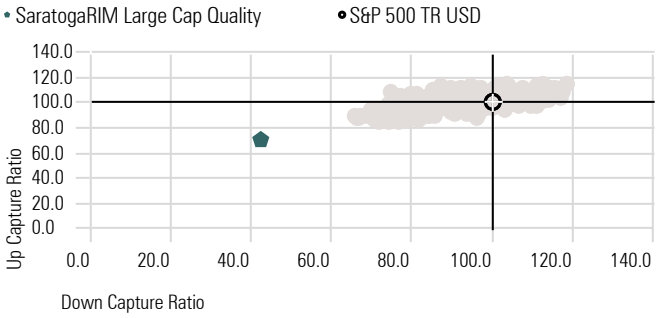
Holding Fundamentals*

Dividend Yield	1.94
P/E Ratio (TTM)	21.78
P/CF Ratio (TTM)	14.78
P/B Ratio (TTM)	4.62
ROE % (TTM)	32.52
ROA % (TTM)	11.66
Net Margin %	16.97
Est. LT EPS Growth	8.97
Historical EPS Growth	-0.48
Portfolio Date	3/31/2019

Market Capture*

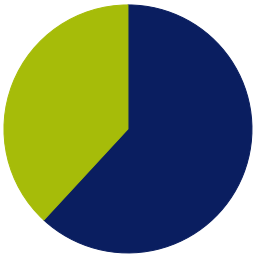
Time Period: 3/1/2000 to 3/31/2019

Source Data: Gross Return



Asset Allocation*

Portfolio Date: 3/31/2019



	%
Stock	61.9
Bond	0.0
Cash	38.1
Other	0.0
Total	**100.0**

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	Number of Portfolios	% Non- Fee Paying Accts	End of Period Total Assets	Pct of Firm Assets	Number 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%	30,514,640.98	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%	42,848,809.47	81.77	120	52,403,457.10
2004	1.58	0.66	10.88	-0.29	2.96	-	-	103	0.2%	47,681,947.54	82.16	129	58,032,372.36
2005	7.11	6.13	4.91	5.54	2.39	-	-	105	0.2%	50,517,691.96	82.30	130	61,384,012.72
2006	16.94	15.87	15.80	14.48	2.82	-	-	99	0.2%	56,390,733.75	76.99	127	73,239,570.68
2007	12.06	11.02	5.49	10.29	3.31	-	-	99	0.2%	61,759,766.08	77.97	130	79,206,822.92
2008	-11.91	-12.74	-37.00	-12.32	4.20	-	-	126	0.5%	63,833,081.54	78.86	162	80,940,276.85
2009	24.77	23.65	26.46	23.89	2.18	-	-	259	0.4%	149,451,161.47	81.46	300	183,475,713.20
2010	14.27	13.43	15.06	13.89	0.76	-	-	494	0.3%	308,594,397.72	72.87	544	423,498,666.41
2011	4.31	3.69	2.11	3.27	0.53	11.86	18.71	1,176	0.4%	675,644,949.35	89.07	1,306	758,587,627.80
2012	9.93	9.30	16.00	9.33	0.61	9.98	15.09	1,539	0.4%	952,297,851.47	91.19	1,689	1,044,258,285.00
2013	21.65	20.98	32.39	21.10	1.63	7.85	11.94	1,823	0.3%	1,260,548,699.31	89.81	2,033	1,403,561,317.89
2014	10.58	9.98	13.69	10.37	0.94	6.30	8.97	1,912	0.7%	1,338,762,813.12	82.94	2,163	1,614,090,178.92
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%	1,329,975,377.78	73.85	2,573	1,800,854,794.70
2017	17.71	17.08	21.83	16.93	1.52	6.15	9.92	2,380	2.0%	1,481,470,247.11	70.11	2,887	2,113,099,369.12
2018	0.41	-0.13	-4.38	-0.28	0.48	6.54	10.80	2,479	2.3%	1,402,426,328.45	69.65	2,987	2,013,473,004.73
03/31/19	7.72	7.59	13.65	n/a	n/a	6.48	10.58	2,513	2.5%	1,450,321,855.86	66.73	3,077	2,173,272,016.75

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. 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. 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. Past investment results are not a guarantee of future results. Results of the SaratogaRIM Large Cap Quality (Equity) Composite do not reflect the results of any one portfolio in the composite.

Notes: 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. 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. SaratogaRIM fee is normally 1%; may be negotiated, as warranted by special circumstances. 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. Daily reconciliation is performed between the firm's records and the custodian and broker records through Advent to verify client assets. Prior to March 7, 2007, Saratoga Research & Investment Management was known as Tanner & Associates Asset Management.

Benchmark Disclosures: The S&P 500 Total Return is the total return version of the S&P 500® Index, which has been widely regarded as the best single gauge of large-cap U.S. equities since 1957. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. (Note: A total return index assumes that all dividends and distributions are reinvested.) 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 2019

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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	$ 2,173,272,000
Strategy Assets	$ 451,052,000
GIPS Compliance	Yes
GIPS Compliance Date	12/31/2018

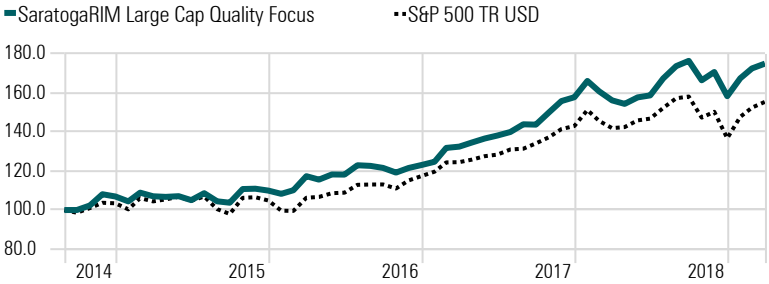
Firm Overview: Saratoga Research & Investment Management, founded in 1995, is a SEC Registered Investment Advisor specializing in constructing and managing equity portfolios composed of high caliber businesses utilizing common sense investment principles for individual and institutional investors.

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 will make up at least 50% of the portfolio. This strategy will likely have a greater turnover ratio than other composites and may hold no more than 5% cash. The minimum requirement to establish a new account is $250,000. The minimum asset level is $225,000. Inception date: August 31, 2014. Creation date for GIPS: August 31, 2014.

Investment Growth*

Time Period: 9/1/2014 to 3/31/2019

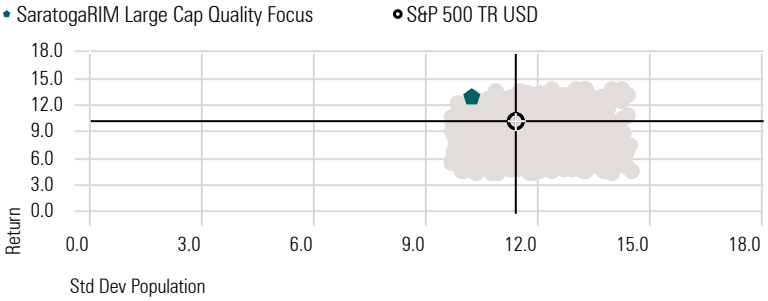
Source Data: Gross Return



Standard Deviation vs. Annualized Rate of Return*

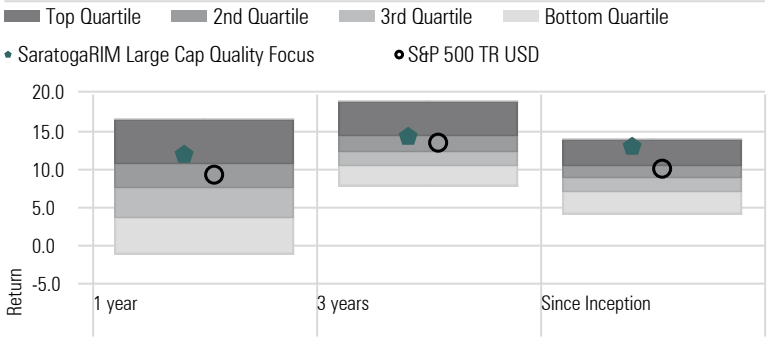
Time Period: 9/1/2014 to 3/31/2019

Source Data: Gross Return



Investment Results Relative to Peer Group*

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

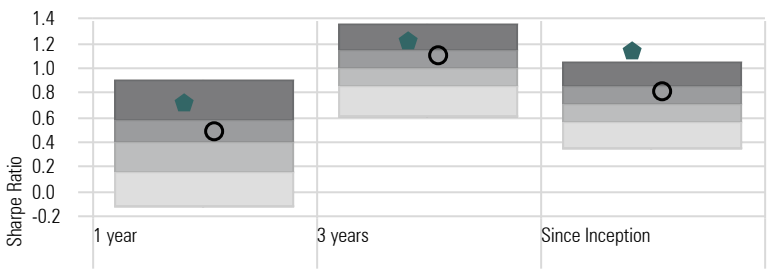


Peer Group Investment Results*

	1 year	3 years	Since Inception
SaratogaRIM Large Cap Quality Focus	12.07	14.26	13.00
S&P 500 TR USD	9.50	13.51	10.11
Median	7.57	12.29	8.89
Average	7.47	12.70	8.89
Count	1,536	1,443	1,349
Std Dev	5.60	3.43	2.93
5th Percentile	16.37	18.93	13.85
25th Percentile	10.73	14.32	10.57
50th Percentile	7.57	12.29	8.89
75th Percentile	3.76	10.60	7.01
95th Percentile	-1.00	7.87	4.31

Sharpe Ratio Relative to Peer Group*

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



Peer Group Sharpe Ratio*

	1 year	3 years	Since Inception
SaratogaRIM Large Cap Quality Focus	0.73	1.23	1.15
S&P 500 TR USD	0.51	1.12	0.82
Median	0.40	1.00	0.71
Average	0.39	1.00	0.70
Count	1,536	1,443	1,349
Std Dev	0.33	0.24	0.22
5th Percentile	0.90	1.36	1.05
25th Percentile	0.59	1.15	0.85
50th Percentile	0.40	1.00	0.71
75th Percentile	0.17	0.85	0.56
95th Percentile	-0.12	0.61	0.35

SaratogaRIM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. SaratogaRIM has been independently verified for the period of March 1, 2000, through December 31, 2018. 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. The SaratogaRIM Large Cap Quality Focus Composite has been examined for the period of September 1, 2014, through December 31, 2018. The verification and performance examination reports are available upon request. To receive a completed list and description of composites and/or a presentation compliant with the GIPS standards, please contact Aileen Braga, CCO, at (408) 741-2339 or Aileen@SaratogaRIM.com.

Sector Weightings - GICS*

Portfolio Date: 3/31/2019

	LCQF	S&P 500
Consumer Discretionary %	8.60	10.15
Consumer Staples %	14.11	7.33
Energy %	0.00	5.43
Financials %	6.96	12.69
Healthcare %	16.34	14.57
Industrials %	14.02	9.48
Information Technology %	30.79	21.19
Materials %	0.00	2.64
Communication Services %	9.18	10.11
Utilities %	0.00	3.33

GICS Sector Weightings, Market Capitalization, and Holding Fundamentals statistics reflect the weightings of the stock portion of the portfolio.

Market Capitalization*

Average Market Cap (mil)	164,062.54
Market Cap Giant %	82.60
Market Cap Large %	8.36
Market Cap Mid %	9.04

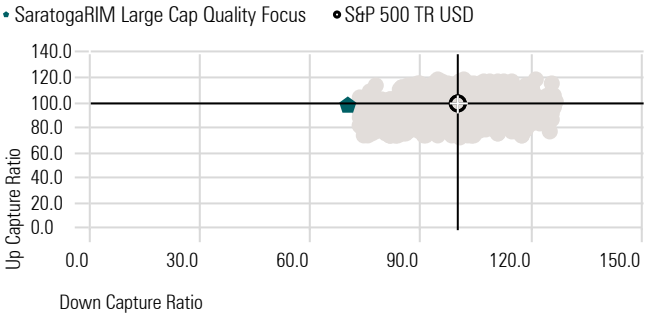
Holding Fundamentals*

Dividend Yield	1.84
P/E Ratio (TTM)	21.29
P/CF Ratio (TTM)	14.31
P/B Ratio (TTM)	4.49
ROE % (TTM)	33.04
ROA % (TTM)	12.03
Net Margin %	16.99
Est. LT EPS Growth	8.84
Historical EPS Growth	1.80
Portfolio Date	3/31/2019

Market Capture*

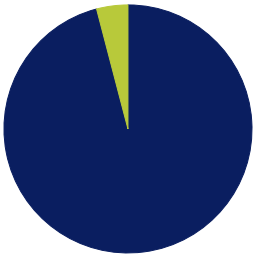
Time Period: 9/1/2014 to 3/31/2019

Source Data: Gross Return



Asset Allocation*

Portfolio Date: 3/31/2019



	%
Stock	95.9
Bond	0.0
Cash	4.1
Other	0.0
Total	**100.0**

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	Number of Portfolios	% Non- Fee Paying Accts	End of Period Total Assets	Pct of Firm Assets	Number 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	1,614,090,178.92
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%	198,406,978.21	11.02	2,573	1,800,854,794.70
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	2,113,099,369.12
2018	0.35	-0.20	-4.38	-0.41	0.58	10.30	10.80	303	0.3%	316,630,422.08	15.73	2,987	2,013,473,004.73
03/31/19	10.54	10.40	13.65	n/a	n/a	10.11	10.58	363	0.3%	451,052,232.36	20.75	3,077	2,173,272,016.75

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. 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. 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. Past investment results are not a guarantee of future results. Results of the SaratogaRIM Large Cap Quality Focus Composite do not reflect the results of any one portfolio in the composite.

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Benchmark Disclosures: The S&P 500 Total Return is the total return version of the S&P 500® Index, which has been widely regarded as the best single gauge of large-cap U.S. equities since 1957. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. (Note: A total return index assumes that all dividends and distributions are reinvested.) 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.

Disclosures

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The opinions herein are those of Saratoga Research & Investment Management (also referred to within this document as "SaratogaRIM" and "the Firm"). 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 Firm's quarterly reports focus primarily on its equity strategies. Under no circumstance is this an offer to sell or a solicitation to buy securities. All data, information and opinions are subject to change without notice. Opinions and statements of a fundamental nature are geared towards the long-term investor. SaratogaRIM is not a tax/legal advisor and therefore assumes no liability for any tax/legal research. Any information that is furnished to you should be thoroughly examined by a professional tax/legal advisor.

SaratogaRIM Large Cap Quality Composite: SaratogaRIM claims compliance with the Global Investment Performance Standards (GIPS®) and has presented this report in compliance with the GIPS standards. SaratogaRIM has been independently verified for the period of March 1, 2000, through December 31, 2018. 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.

SaratogaRIM Large Cap Quality Focus Composite: SaratogaRIM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. SaratogaRIM has been independently verified for the period of March 1, 2000, through December 31, 2018. 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. The SaratogaRIM Large Cap Quality Focus Composite has been examined for the period of September 1, 2014, through December 31, 2018. The verification and performance examination reports are available upon request.

2019 Q1 Report Charts: All charts within this report are supplemental and are created by SaratogaRIM. Fig. 1 comprises daily return estimates calculated by FactSet utilizing month-end holdings data and may differ from actual performance. Past performance is no guarantee of future returns. Fig. 2 was created by SaratogaRIM using data from FactSet. Fig 3. was inspired by a chart from Arbor Research & Trading, LLC. Arbor Research used data from FactSet, and the chart was recreated by SaratogaRIM with permission from Arbor Research. For further information or clarification regarding any of the charts or concepts within this report, please email your *specific* questions to sam@saratogarim.com.

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Benchmarks are selected based upon similarity to the investment style of the Firm's composites and accepted norms within the industry. Benchmarks are provided for comparative purposes only and holdings of the Firm's clients' portfolios will differ from actual holdings of the benchmark indexes. Benchmarks are unmanaged and provided to represent the investment environment in existence during the time periods shown. The benchmarks presented were obtained from third-party sources deemed reliable but not guaranteed for accuracy or completeness.

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Clients may access their portfolio information and reports including client-specific information through SaratogaRIM's website. The Firm recommends that you compare your Saratoga Research & Investment Management reports with the ones you receive from your custodian(s). The custodian of record is required under current law to provide separate account statements. Market values reflected in the custodian's statement and those cited in this report may differ due to the use of different reporting methods. To the extent that any discrepancies exist between the custody statement and this report, the custody statement will take precedence. Values may vary slightly because of situations such as rounding, accrued interest or the timing of information reporting. A fee statement will be posted on the Firm's website showing the amount of the Asset-Based fee, the value of clients' assets on which the Asset-Based fee is based and the specific manner in which the Asset-Based fee was calculated. These statements will be posted for one year; statements prior to that timeframe are available upon request. As a general rule, SaratogaRIM does not disclose private information regarding clients' accounts unless the Firm relies on certain third parties for services that enable the Firm to provide its investment services to their clients. The Firm may also disclose nonpublic information where required to do so under law. If you are a client needing website access or assistance, please call (408) 741-2330 or email operations@saratogarim.com.

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