SaratogaRIM

2023 Annual Report

January 17, 2024

Q4

Moat Series Part 3: Consumer Staples Sector

Market Statistics		Source: FactSet (Dec. 31), Federal Reserve, * Spot prices (Dec. 31)					
Stocks		**Yields (%)**				**Commodities**	
DJIA	37,689.54	Fed Funds	5.50	US Tr. 3-Y	4.01	Baltic Dry Index	2,094
P/E ratio	20.94	Disc. Rate	5.50	US Tr. 5-Y	3.85	Gold ($/oz)	2,062.4
S&P 500	4,769.83	Libor 1-Mo	5.47	US Tr. 10-Y	3.88	Silver ($/oz)	23.79
P/E ratio	22.83	US Tr. 1-Y	4.78	US Tr. 30-Y	4.03	Crude ($/bbl)* (NYM Light Sweet Crude)	71.65

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Letter to Investors

By Kevin Tanner

All I want to know is where I'm going to die, so I'll never go there. – Charlie Munger

We were saddened when Charlie "went there" on November 28th, passing away just weeks shy of his 100th birthday to conclude one of the financial world's most consequential lives. Like many of his trademark maxims, the one quoted above incorporates humor related to our shared human existence, but also presents a critical investment idea: that the common causes of business failures are well-known and, thus, avoidable by the astute investor seeking to cheat the financial equivalent of death through prudent capital allocation.

Munger knew he couldn't predict the future, so he didn't bet on momentum stocks or believe that "greater fools" could be relied upon to bail out mistakes. Which is why he strived never to own junk, and instead advocated investing in great businesses that could compound the fruits of persistently above average profitability long into the future. A viewpoint that rubbed off, over time, on one Warren Edward Buffett, thus cementing a partnership of ideas that would deliver one of the greatest accumulations of wealth in the modern age.

Munger was certainly a pioneer of what has come to be known as Quality investing. But the earliest proponents of Quality may very well have been Benjamin Graham and David Dodd. These intellectual giants quite literally invented *Security Analysis** when they published their book with that title in 1934. The duo developed a framework that identified the three primary sources of risk as business model risk, excessive leverage and valuation risk. Building off of this, Graham and Dodd advocated investing in the stocks of companies that had strong balance sheets, consistent earnings, and low debt, but only when they could do so at attractive prices – the value investing component. Munger, who like Buffett was greatly influenced by Graham and Dodd, helped shape the Quality investing philosophy of Berkshire Hathaway.

It was Munger's influence that led Buffett to embrace the concept of a "business moat", which is a durable competitive advantage that protects a company from its rivals. Munger also emphasized the benefits that come from investing in sensibly priced businesses with high returns on equity, low leverage, and stable earnings growth and then owning them for a long time to benefit from compounding.

One of Charlie's most important insights was that: "A great business at a fair price is superior to a fair business at a great price." He taught us that: "In the long term, it's difficult for a stock to earn a much better return than the business which underlies it earns. If the business earns a 6% return on capital for 40 years and you hold it for 40 years, you're not going to do much different than a 6% return, even if you buy it at a huge discount. Conversely, if a business earns 18% return on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with one hell of a result."

Charlie Munger was not only a great investor, but also a generous teacher and mentor to many others, including myself. He shared his wisdom and insights through Berkshire annual meetings, his speeches, interviews, and through books written about him, such as *Poor Charlie's Almanack* and *The Tao of Charlie Munger*. Early in SaratogaRIM's history when I was developing our investment process, Charlie, through a series of letters, faxes and a phone call, helped me to better understand the significance of the role of maintenance capital expenditures in the analysis of corporate cash flows and valuation. To this day, "Block II" of our screening process is built largely on what I learned from him.

While often blunt, sometimes to the point of seeming rude, Munger had no tolerance for nonsense. He was widely respected and admired for his intelligence, integrity, and humor. Charlie built upon the insights of his predecessors and peers and contributed his own unique perspective and experience for all of us to benefit from. Always a champion of lifelong learning, he will be remem-

*Ben Graham is widely recognized as the father of the Value style of investing. I believe a case can be made that the Quality style, which would emerge decades later, is also Graham's bastard child. In my opinion, the ideas conveyed in his writings, chapter 11 of *The Intelligent Investor* in particular, laid the foundation upon which the Quality style of investing would later be built.

bered as one of the most influential and respected investors of all time.

Thank you, Charlie, and Rest in Peace.

Charles Thomas Munger
01/01/1924 – 11/28/2023

* * *

***Predicting rain doesn't count, building an ark does.* – Warren Buffett**

The Oracle of Omaha dubbed this the Noah Rule, which he outlined amidst great market uncertainty in Berkshire Hathaway's 2001 Annual Report. This lesser-known Buffett aphorism conveys why constructing portfolios that are built to last is far more important to long-term investment success than going with the flow or relying on Wall Street's narratives or forecasts.

A year ago, I closed out 2022 with an essay entitled "Pondering an Uncertain Future." Its main thrust was, on the face of it, undramatic: it warned that the prevailing economic weather patterns we'd all enjoyed over the last couple decades were likely to change in the foreseeable future. I suggested that structural and secular realignments in the U.S. and global economies were likely to result in modestly, but persistently, higher inflationary headwinds going forward, with storms that could batter the term structure of interest rates and ultimately the valuations of all risky assets – the metaphorical equivalence of a flood.

Demographics featured prominently in my thesis. As seven decades of declining birth rates collide with the retirement of tens of millions of baby boomers, labor shortages have arrived and seem destined to persist not just in the U.S. but across developed nations around the world. To be sure, the extent to which reductions in productivity (inflationary) caused by the ongoing mass retirement of our most skilled and experienced workers will be offset by increased productivity (disinflationary) driven by technology – robotics, factory automation, artificial intelligence – is unknown at this point. What's clear is that today we're already facing a labor shortage with 1.3 job openings for every unemployed person in the country. We also know that the trend in, and sheer mass of, baby boomer retirements will intensify over the next decade. All else equal, this should put persistent upward pressure on wages as companies scramble to retain and attract talent going forward.

Concurrently, deglobalization is another inflationary headwind. Geopolitical forces and national security concerns, combined with companies seeking to improve resiliency in the wake of the pandemic, are driving widespread dismantling of far-flung supply chains. Reshoring, onshoring, and friend-shoring are each inflationary as production is shifted away from the most cost-effective locations towards those deemed more resilient and reliable and that comply with U.S. industrial and national security policy. Also, one thing I didn't point out last year but should have in retrospect, is the ongoing transition to renewable energy. This greening of energy and transportation grids will require massive investment in infrastructure and the reskilling of workers, adding to the inflationary headwinds now evident across the macroeconomy. The point is, there are big secular and structural forces that I believe will render inflation higher than it would have been otherwise for the foreseeable future.

This transition from the old low-inflation regime to the new modestly higher-inflation regime should be considered a multi-year process with secular drivers separate and distinct from the types of shorter-term, cyclical economic forces that tend to dominate near-term market movements and Wall Street narratives. I continue to expect very long stretches of turbulence and two-way volatility as this transition unfolds. Despite the predictable cyclical slowdown that's occurring as the impact of the Fed's aggressive tightening campaign trickles through the economy, nothing has happened over the last twelve months that would lead me to alter any part of this longer-term thesis.

In coming years, I expect to see much greater dispersion between higher and lower quality companies than we have experienced since the 2007-09 Global Financial Crisis (GFC). To a certain extent, we're already seeing it in the performance gap between small & large companies over the last two years and, in particular, with the higher quality mega-cap companies dominating just about everything else over this timeframe. This new regime disproportionately benefits large companies with strong balance sheets and lots of cash. Indeed, members of this elite group have long enjoyed unique access to public credit markets on a global scale and were able to lock in (term out) long-term loans at fixed and historically low interest rates.

Microsoft is a great example. It has more cash and short-term investments than debt, a position that makes it resilient to rising rates. Still, Microsoft took advantage of the extremely low interest rates over recent years to lock in its borrowing costs at more favorable fixed terms for a much longer timeframe than lower quality businesses could secure. In Q3 '23 Microsoft's interest expenses ($492 million) were virtually the same as in Q3 of 2022. However, the interest it earned on its cash increased from $552 million to $905 million from Q3 '22 to Q3 2023. Net, it actually benefited from the same interest rate environment that hammered so many companies of lesser quality.

Companies that fit our definition of Quality possess a combination of financial strength and sustainable competitive advantages (moats) that set them up as cash flow machines resilient to downturns. Free cash flow is what drives a business's ability to evolve and grow flexibly over time; its presence enables optionality.

On the flipside, lower quality companies have weaker balance sheets, thinner profit margins and fewer options for financing even though they are often more dependent on debt, on which they must pay higher interest rates due to their questionable credit quality. Such businesses are, I believe, far more at risk over coming years as their maturing debt will need to be refinanced at higher rates in the new interest rate regime.

Quality companies that are generating ample free cash flow have seven enviable choices on how to deploy their riches. Three of them are investment options:

1. Capital expenditures – they can invest in property, plant, and equipment or other internal growth opportunities.

2. Acquisitions – they can acquire other businesses that they expect to improve their own profitability or value proposition.

3. They can invest in their workforce by paying their employees more or hiring more employees.

The remaining four entail returning capital to shareholders:

4. They can pay cash dividends.

5. They can pay down debt.

6. They can reduce the share count through buybacks, increasing the owner ship percentage of all remaining shares.

7. They can retain earnings and defer making any of the six decisions above until further out in the future.

Such optionality enables Quality companies to adapt to changing market conditions much more effectively than lower quality companies. Quality companies have the flexibility and agility to respond to changing customer preferences, technological disruptions, and environmental and social challenges. Optionality enables them to better anticipate and meet the evolving wants and needs of their customers, and to offer new and improved products or services. It also puts them in a stronger position to leverage innovation and new technologies to enhance efficiency and productivity, further reinforcing their moat. The string of positive cashflows provided through the generation of persistently above average profitability leads to a truly virtuous circle.

Our entire investment process is built to try to identify these types of Quality companies. Over the long term, we aim to build adequately diversified portfolios of the stocks of these businesses when they are sensibly priced. We're unaware of any approach that better fits the analogy of "building an ark" in finance.

In the essay that follows on page 8, we present Part 3 of our Moat Series. This quarter's installment is focused on the Consumer Staples sector (Healthcare and Technology were covered in Parts 1 & 2 respectively over the last two quarters and can be referenced on the "Reports" page of SaratogaRIM.com). We think this moat series ties nicely into the metaphorical ark we believe that our Quality style of investing is intended to provide.

We can never know when the next economic flood will occur, but by following in Charlie's footsteps and consistently limiting our portfolios to sensibly priced stocks of well managed and financially sound businesses that possess sustainable competitive advantages (moats), we expect that, like Noah, we'll be better prepared for any floods when they eventually do emerge.

Kevin Tanner | Chairman | CEO | CIO ■

Consumer Staples Company Overviews & Moat Synopses

On the bottom of pages 12 through 19, you will find a brief synopsis of the formal moat report for each of our consumer staples companies outlined below. Full moat reports are available upon request.

Company	Sub-Industry	Overview
Coca-Cola Co. (KO)	Soft Drinks & Non-Alcoholic Beverages	Coca-Cola is the largest non-alcoholic ready-to-drink beverage company in the world. The Coca-Cola System has a highly aligned (and largely franchised) global bottler network. This allows Coca-Cola to focus on key scalable business functions like marketing while enabling agile execution. *Moat Synopsis: Pg. 12*
Colgate-Palmolive Co. (CL)	Household Products	Colgate is a leading consumer packaged goods company with a portfolio that spans four categories: Oral Care, Personal Care, Home Care, and Hill's Pet Nutrition. Colgate is the global leader in oral care, which reflects the company's ability to win in high-margin spaces through innovation. *Moat Synopsis: Pg. 13*
Diageo plc (DEO)	Distillers & Vintners	Diageo is the world's largest spirits company. It has a vertically integrated business model and a portfolio spanning most major spirits categories. Diageo is favorably positioned to capitalize on industry growth trends and holds leadership positions in premium growth areas like scotch and tequila. *Moat Synopsis: Pg. 14*
PepsiCo, Inc. (PEP)	Soft Drinks & Non-Alcoholic Beverages	PepsiCo is the second largest non-alcoholic ready-to-drink beverage company and the largest snack food company in the world. PepsiCo's mix of iconic brands and better-for-you alternatives benefit from continuous brand investment and strong retail relationships. *Moat Synopsis: Pg. 15*
Procter & Gamble Co. (PG)	Household Products	Procter & Gamble is one of the largest consumer products companies in the world. Their product superiority strategy has helped the company extend their leadership across five business segments: Fabric & Home Care; Baby, Feminine & Family Care; Beauty, Hair & Personal Care; Health Care; and Grooming. *Moat Synopsis: Pg. 16*
Reckitt Benckiser Group plc (RBGLY)	Household Products	Reckitt is a consumer products company focused on science-backed differentiation in niches with limited competition, minimal private label penetration, and strong margins. Their operations span three divisions: Hygiene, Health, and Nutrition. *Moat Synopsis: Pg. 17*
Unilever plc (UL)	Household Products	Unilever is a leading consumer products company with a powerful emerging markets presence. The company estimates that they have over 3 billion global customers consuming brands across the company's five business segments: Beauty & Wellbeing, Personal Care, Home Care, Nutrition, and Ice Cream. *Moat Synopsis: Pg. 18*
Walmart Inc. (WMT)	Consumer Staples Merchandise Retail	Walmart is the world's largest retailer by revenue. 90% of Americans live within 10 miles of a Walmart store, and the company boasts over 200 million weekly shoppers. Walmart's omnichannel strategy has strengthened their status as a primary shopping destination and has helped them develop higher-margin profit opportunities. *Moat Synopsis: Pg. 19*

Moat Series Part 3: Consumer Staples Sector

By Phil Spencer

Like healthcare and information technology, the consumer staples sector ("staples") has been a foundational component of our investment strategies over the years. Since all of our readers are also consumers, staples is also the most intuitive sector, as most people are very familiar with the products of these companies. Staples categories are typically characterized by relatively stable competitive dynamics between a limited set of dominant firms with long histories. This stability provides a solid foundation for company evaluation and modeling. On the other hand, seemingly minor changes in industry dynamics can lead to steady, secular changes in the competitive landscape that can be tough to analyze.

We divide staples companies into two broad categories: consumer products or retail trade and distribution services. Within consumer products (e.g., Procter & Gamble) we like companies that make great products, own leading brands, and have efficient supply chains. We tend to favor companies that sell frequent-use products that are prone to habitual repurchase and that achieve pricing power through brand strength and product performance. In other words, we like it when consumers are loyal because they're frequently reminded why they chose the product in the first place. With retail trade and distribution services (e.g., Walmart) there must be a compelling value proposition for customers, often facilitated by cost advantages and higher levels of service or convenience.

Many staples categories are mature, meaning volume growth is typically low. This is particularly true in developed markets in categories where household penetration is already high. For example, personal care products like toothpaste or deodorant are unlikely to see significant changes in usage frequency among developed market consumers. Beverages are another example: Coca-Cola estimates that ¾ of all developed market beverage consumption is already commercialized and carbonated soft drink volumes peaked in the U.S. in the late 1990s.

Maturity and industry concentration reflect significant barriers to competition, but smaller competitors are frequently working to disrupt categories. This means companies are often wrestling with similarly sized peers as well as nimbler local, upstart, and niche players. Companies are constantly fighting for market share, identifying ways to grow their categories, and exploring white spaces, such as new markets, services, or usage occasions. In each case, sustainable competitive advantages – or "moat sources" – are pivotal. The primary moat sources that we identify in this sector are intangible assets and cost advantages.

Intangible Assets

The primary intangible assets that impact competitiveness among staples companies are brands. Brands – which encompass everything from ethos and messaging to performance and design – greatly assist consumers by facilitating efficient exploration in a world overridden with choices. In other words, brands reduce search costs for consumers. Companies in this sector typically manage significant advertising and marketing budgets – usually between 10-20% of sales – with additional spending on product R&D to support these brands.

Brands are powerful; they drive product trial, repeat purchase, and loyalty. Initial purchase decisions are essential and tend to follow a predictable pattern. An entire literature has evolved around this subject but one thought leader has been Procter & Gamble ("P&G"), who began enumerating "moments of truth" to serve as a roadmap for consumer behavior. We highlight a handful of moments below to provide intuition.

The Zero Moment is when a consumer recognizes the need for a product and begins researching. The First Moment is the interaction with the product at the store (or online) when a purchase is made. The Second Moment is the experience using the product. The Third Moment is when the consumer offers feedback for the company and other consumers through word of mouth, product reviews, or social media.

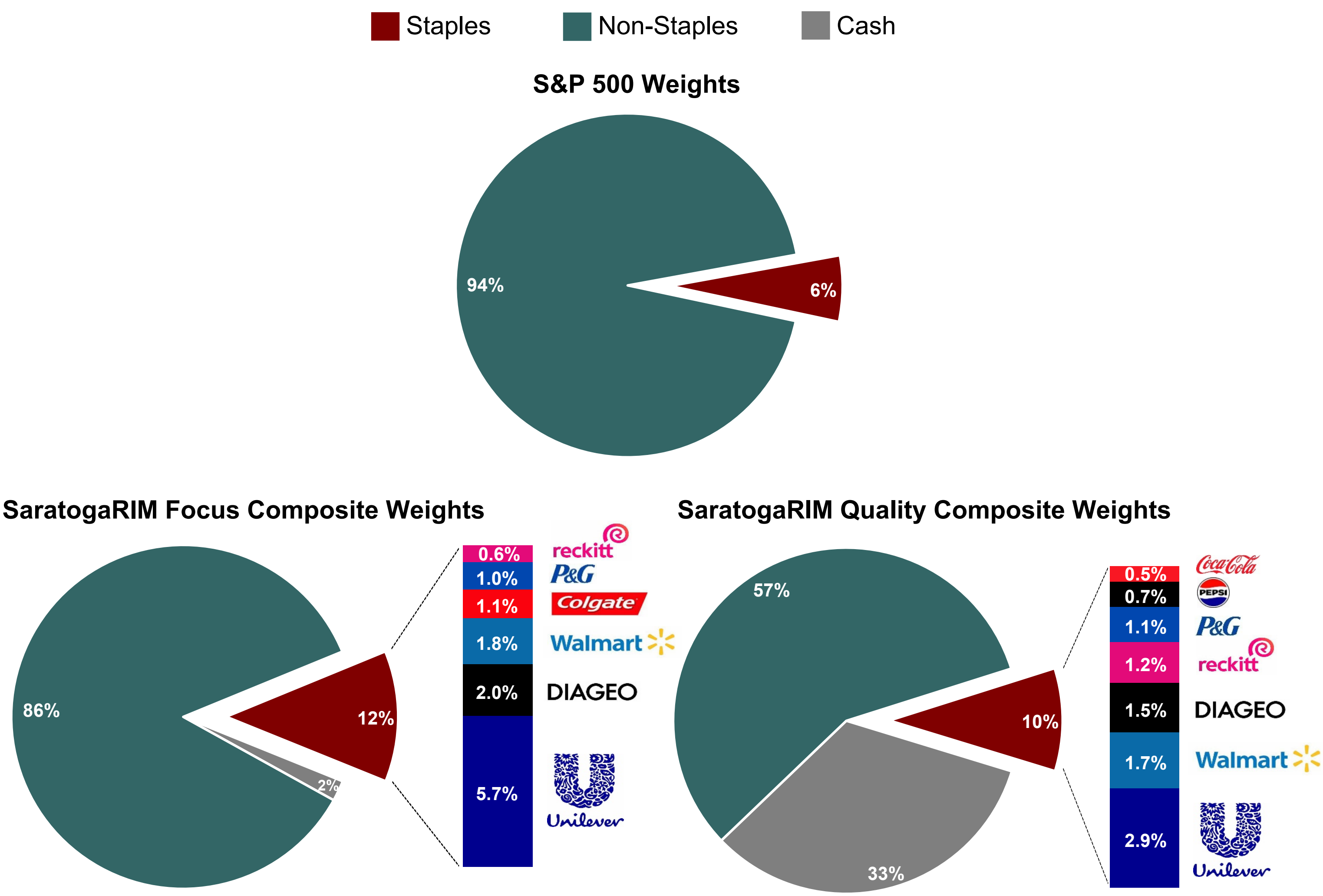
This basic framework describes the exploration and evaluation phases of a purchase decision. Once consumers are familiar with a product, they tend to fall into repeat purchase behavior that requires low involvement. In other words, repurchasing becomes habitual until the consumer identifies a reason to consider switching again.

This behavior is typical for staples categories like personal care and home care. In other categories like food and beverages, consumers may exhibit higher demand for variety, but they will still tend to favor familiar products and brands, and they will shop for them in their usual channels. Brand strength takes years to build and is a significant barrier to entry for potential competitors who must accumulate mindshare against brands that are already familiar to consumers.

Relationships with distributors, retailers and suppliers are another essential intangible asset. Staples manufacturers rely on suppliers to fulfill demand and on retailers and distributors to make their products ubiquitous – they act as a filter for what consumers can purchase. Good relationships complement other facets of the business, such as pricing power or cost advantages. Relationships also pose a competitive barrier since they must be cultivated over time through service, trust, and mutual growth. In certain cases, distributors or manufacturers operate exclusively with a single producer. Examples of this include Coca-Cola's bottler network or Diageo's alcohol distribution network in the U.S. Relationships are another significant barrier to entry.

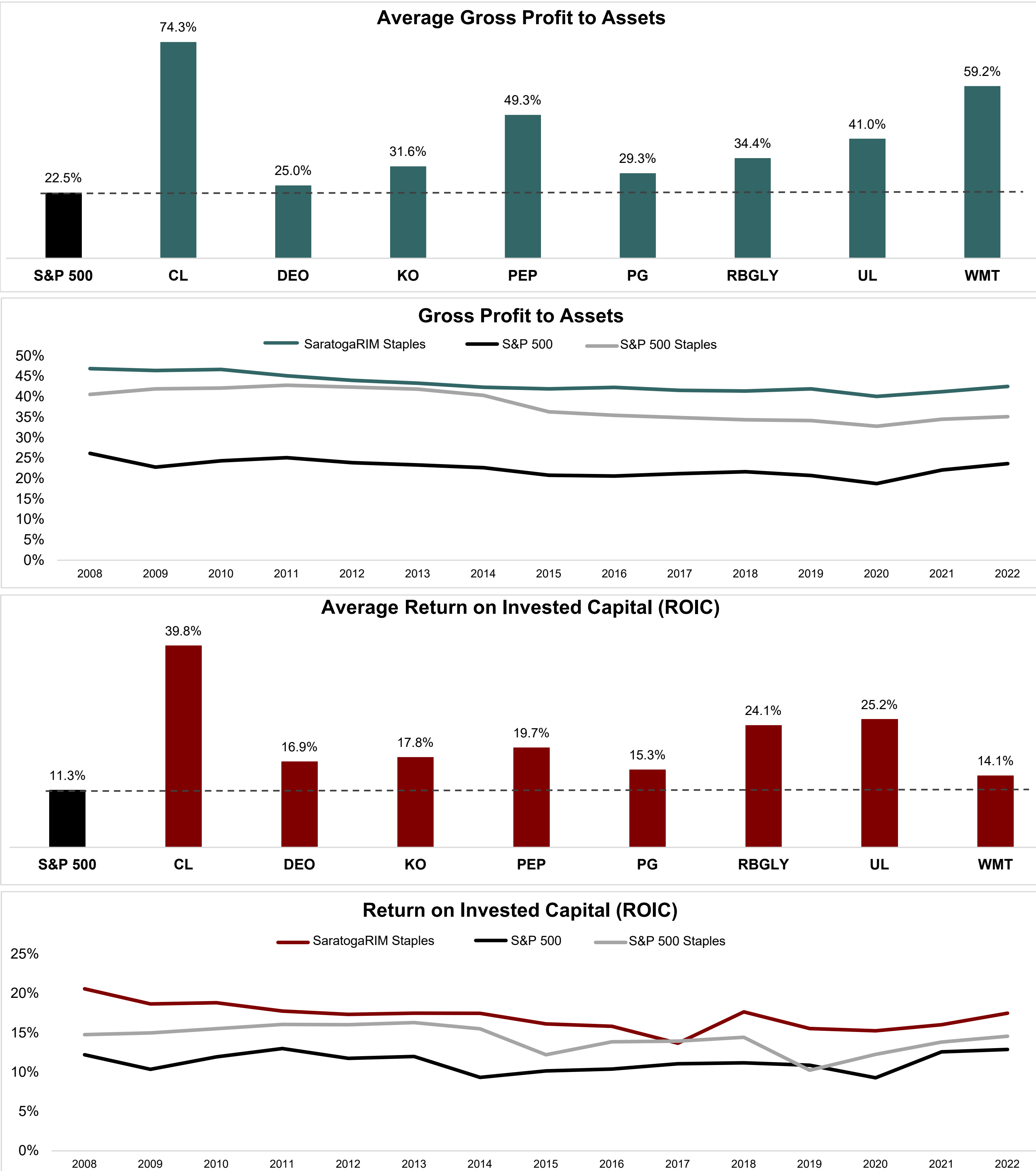
Other intangible assets also contribute to competitiveness. Intellectual property like patents and trademarks are integral to brands and provide legal protection against competitors. Data and expertise in critical areas like revenue growth management ("RGM") and innovation are also valuable. Throughout this essay, we'll discuss how analytics and digital transformations are helping organizations operate more effectively.

Fig. 1: Sector Weights — S&P 500 Index, SaratogaRIM Large Cap Quality Focus & SaratogaRIM Large Cap Quality Composites as of 12/31/23



Source: FactSet, SaratogaRIM. Past investment results are no guarantee of future results. This report is incomplete without Disclosures (page 30), GIPS Composite Report: SaratogaRIM Large Cap Quality Focus (page 25) and GIPS Composite Report: SaratogaRIM Large Cap Quality (page 29).

Fig. 2: SaratogaRIM's Staples Sector Constituents vs. S&P 500 (Excluding Financials) and S&P 500's Staples Sector Constituents as of 12/31/23 — Profitability Metrics from 2008 through 2022



Source: FactSet, SaratogaRIM. All metrics in the ROIC and Gross Profit to Assets charts are derived from FactSet's data and calculations. Average Gross Profit to Assets figure uses historical estimates from FactSet. Past investment results are no guarantee of future results. The SaratogaRIM and S&P figures displayed above do not reflect actual market or composite performance and are not meant to represent any one client's investment experience. See information about Gross Profit to Assets and Return on Invested Capital (ROIC) within the Disclosures on page 30. This report is incomplete without Disclosures, GIPS Composite Report: SaratogaRIM Large Cap Quality Focus (page 25) and GIPS Composite Report: SaratogaRIM Large Cap Quality (page 29).

Cost Advantages

Cost advantages in staples tend to be driven by economies of scale across business functions, and virtually all leading companies in this sector benefit from economies of scale to varying degrees. Our focus will be on discussing some of the ways top operators are able to outperform by managing their costs.

Our assessment of a company's cost advantages starts with their supply chain operations, which comprise the functions involved in procurement, manufacturing, logistics, and distribution to the end customer. Bargaining power over suppliers and bulk sourcing optimization are key gross margin contributors. Stable supplier relationships mean steady supply and favorable fulfillment, which contributes to efficient inventory management, internal logistics, and production. Consistency and predictability support capital investment at the supplier level that can create cost savings for the buyer, too. Companies that have built out the right infrastructure and that have digitized their supply chain are reaping benefits of optimization across the supply chain.

Our staples holdings represent some of the best supply chains in the world. Gartner ranks Colgate, PepsiCo, Walmart, Coca-Cola, and Diageo in their 2023 Top 25, while P&G and Unilever are perennially ranked in their own category above the Top 25 as "Supply Chain Masters." This survey reflects a ranking of supply chain capabilities based on a composite of fundamentals and ratings from peers and expert analysts. To achieve "Masters" status, a company must have posted a top five composite score in at least seven of the last ten years – no small feat.

Procter & Gamble has been particularly effective at removing costs from their operations since 2012, when the company began emphasizing productivity as part of their culture. Productivity programs from 2012-2022 removed more than $20B in costs while drastically reducing operational complexity. In aggregate, P&G has reduced total manufacturing sites by 20% with a 50% reduction in manufacturing platforms since 2012. During that time, they've also drastically simplified and shortened their routes to retailers; in the U.S., for instance, 80% of P&G's production can get to retail shelves within 24 hours.

Analytics and digitalization have been key facilitators for supply chain productivity in recent years. "Digital twins" are a good example of how the digital transformation of supply chains drives greater productivity. Digital twins are computer models of physical environments like plants and warehouses that constantly collect and stream data from a company's operations. Companies then develop models to automate or assist with various functions.

Unilever's "digital factory" is a nice example of this concept. They're using digital twins to automate processes, assist human decision making, and even experiment with things like product formulation, manufacturing processes, and quality control. It offers real-time access to inventory and production data to assist in planning functions like sourcing, logistics, and manufacturing. Unilever has also integrated more deeply with customer systems to offer better service. More generally, having more voluminous and timely data – and the capabilities to use it – creates opportunities for companies to optimize operations.

Other key functions like advertising, marketing, and R&D have also become more efficient in the digital age. Across our coverage, we see companies growing investment in these areas. Perhaps most importantly, they're looking to get more from each dollar spent. For example, companies like PepsiCo and P&G have been able to shift advertising spending towards "working dollars" – or the money spent to create and serve content – by increasing the efficiency of non-working dollars and reducing agency fees. Companies are increasingly creating content in-house, too. Unilever's U-Studio is one of the most successful in-house advertising agencies, and the company is a perennial leader in the Effie Index for most effective marketers. We also see companies leveraging analytics to improve marketing productivity and hone R&D.

Another common trend has been for companies to develop shared business services to cut redundancy and scale core functions. Coca-Cola and P&G have global business services units, and Colgate, Diageo, and PepsiCo have shared business service centers around the world. Along with reducing overhead costs, these structures also develop and deploy innovative models and tools for use across the organization. For example, Diageo has Trax for tracking on-shelf inventory, EDGE365 and Diageo One for improving sales operations execution, Catalyst for brand and market-level investment planning, Sensor for digital media mix, and CreativeX for digital content delivery.

The Role of Innovation

What we find in our study of sustainable competitive advantages is that innovation is an essential factor that applies to the organization and its infrastructure and processes as much as it does to products. We've seen how innovation can facilitate more efficient operations, more effective customer engagement, and better product differentiation. Innovation is also about adaptation and agility. While staples is a relatively stable and predictable sector, technology has had a major impact over time.

One of the most significant changes over the last decade has been the massive growth in online shopping and the shift toward "omnichannel" retail, which has driven companies to offer a unified experience across physical and digital channels. During this period, we've found that primary moat drivers for the industry – intangible assets and cost advantages – remain intact, but there are significant implications, nonetheless.

Retail Transformation: Progression of the digital economy has greatly impacted retailers. Walmart's evolution in recent years is an interesting case study in adaptation. Having found itself at a competitive disadvantage in e-commerce to Amazon, Walmart leaned on its competitive advantages to redefine its business model. The company's powerful physical retail network and robust core business gave them the foundation needed to become the leading omnichannel retailer. Amazon remains the clear leader in e-commerce, but Walmart's competitive advantages gave them headroom to experiment and invest.

Walmart has been a multi-decade leader in logistics and efficiency with substantial advantages in terms of scale and bargaining power. These advantages are relevant to e-commerce, but the digital shopping experience – along with the infrastructure required for servicing it – required major changes to the business. Walmart's development was haphazard at times as they gradually "discovered" their omnichannel strategy. Broken eggs during this process included a slew of acquisitions like Jet.com, Moosejaw, and Bonobos, which provided little more benefit than exploration and experience. On the other end of the spectrum, the acquisitions of leading Indian e-commerce and digital payment platforms Flipkart and PhonePe have been enormously successful.

Over the last five years in particular, Walmart has made significant progress building their digital business. E-commerce built a foundation on the company's grocery and consumables leadership by offering shoppers the option to "BOPIS," or Buy Online Pickup In Store. This approach took advantage of Walmart's physical proximity to consumers to offer convenience and flexibility for everyday shopping – after all, 90% of the U.S. population lives within 10 miles of a Walmart store. Shoppers have steadily increased their digital engagement with Walmart, and the pandemic provided a nice boost.

Today, e-commerce has grown to roughly 15% of total sales. Walmart Marketplace offers 400 million SKUs, which has helped Walmart attract more shoppers. More Walmart customers are engaging with the company both physically and digitally. CEO Doug McMillion has suggested that this type of omnichannel engagement leads shoppers to "spend about twice as much" with the company. This indicates that shoppers are treating Walmart as a primary shopping destination and taking advantage of the convenience and flexibility the omnichannel model offers. Walmart is also developing new high-margin income streams that leverage the company's strengths to further support profitability.

Coca-Cola Co. (KO; Soft Drinks & Non-Alcoholic Beverages) – Moat Synopsis

Coca-Cola Company is the largest non-alcoholic ready-to-drink beverage company in the world, engaged in the manufacturing, marketing and distribution of a broad portfolio of brands. Their moat has been built over time on intangible assets and cost advantages. Coca-Cola has developed iconic products across beverage categories and owns five out of the six largest carbonated soft drink brands. The company estimates that they currently represent over 3% of global daily beverage intake, illustrating the company's massive scale but also highlighting significant growth opportunities. Coca-Cola's brands have realized strong pricing power and value growth over time, often despite facing pressure on consumption volumes. The Coca-Cola System – which includes a highly-aligned global bottler network – leverages scaled business functions while enabling agile execution on a local basis through their bottler network. The System facilitates effective strategy execution and represents a significant competitive barrier. Coca-Cola's sustainable competitive advantages compose a wide economic moat.

The Producer Impact: Producers have also had to adapt to changes in the way consumers engage with companies and make purchase decisions. Online retail has allowed entrants to circumvent traditional retail and media channels and go to market by targeting consumers digitally. The growth of online channels and the proliferation of information mean consumers have easy access to pricing, rich review data, and new media, such as influencer content. Along with digital tools for advertising and analytics, retailers have also deployed recommender systems. The result has been a reduction in search costs and more effective exploration for consumers. In other words, barriers to entry and switching costs have been reduced.

On the other hand, brands continue to drive shopper purchase decisions, and sophisticated companies now have much more powerful tools to differentiate products and target consumers. For example, consumer companies are building expertise in digital media, increasing their digital ad allocation, and realizing higher returns on ad spend ("ROADS"). Over 50% of Procter & Gamble's ad spend is now digital. Companies are also developing idiosyncratic first-party datasets through digital engagement with consumers, giving them insights into trends and behaviors.

The ongoing omnichannel shift means that supply chains are more important today than ever. Companies are increasingly operating across more channels and markets, managing tighter inventories, and promising better service and shorter lead times. At the same time, companies are working to expand their gross margin and improve operating efficiency to fund brand investments. Across our coverage, we've observed a strategic emphasis on meaningful differentiation through innovation.

Superior Products & Organizations: Product innovation falls in the spectrum between transformational breakthroughs and incremental improvements. Breakthrough innovations are entirely new products or form factors that create or fundamentally change a category. This type of innovation, when successful, drives multi-year category growth, pricing power, and share gains. When P&G developed the pod format for fabric care in 2012, their Tide PODS and Gain Flings brands were responsible for nearly all category growth over the next ten years. P&G gained five percentage points of market share in the U.S. fabric care category as a result. Colgate has released breakthrough teeth whitening innovations using hydrogen peroxide and peroxymonosulfate ("MPS"). New products using this technology have helped the company gain five percentage points of share in the whitening category in their top eight markets since 2020. Reckitt has developed breakthrough innovation to broaden the scope of their Lysol brand through entirely new categories. In 2017, they pioneered the laundry sanitizer category, which has since reached more than 10% household penetration.

Breakthrough innovation occurs infrequently, whereas incremental innovation is part of the daily cadence. This type of innovation includes line extensions, relaunches, and more gradual product changes, such as improvements to packaging, messaging, and formulation. While less impactful than true breakthroughs, incremental innovation is a consistent source of improvement and growth. It helps companies take pricing, reinforce brand loyalty, and protect (or gain) market share. When Colgate relaunched their Hill's Science Diet brand in 2019, it included an updated recipe and packaging that reflected their understanding of changing consumer preferences. The result was a multi-year run of above-market growth.

Colgate-Palmolive Co. (CL; Household Products) – Moat Synopsis

Colgate-Palmolive Company is a leading consumer packaged goods company with a focused portfolio spanning four categories: Oral Care, Personal Care, Home Care, and Hill's Pet Nutrition. Colgate's intangible assets (especially brands and intellectual property) and cost advantages are the source of the company's wide moat. Colgate focuses on daily-use consumables in high-margin spaces. They differentiate their products through science-backed innovation and professional recommendations. Additionally, FDA regulation, clinical testing, and patents are key barriers to competition, particularly in oral care. While Colgate isn't as large as Unilever or P&G, they offset their relative size disadvantage through a narrow category focus. Colgate is the global leader in oral care and liquid hand soap, and it has a strong number 2 position in bar soap, liquid body cleansing, fabric conditioners, and dishwashing. The Hill's business holds a global leadership position in specialty pet nutrition. Colgate also has an impressive supply chain, landing the company in Gartner's Top 25 supply chains for 2023.

One challenge with product-level innovation is identifying and measuring drivers of consumer selection and targeting those drivers. Analytical capabilities play a meaningful role in execution of product development strategies to achieve what managers like to call "unmissable product superiority" or "meaningful differentiation." For instance, P&G and Unilever have both developed multi-factor approaches to assessing product differentiation. P&G has identified five "vectors of superiority": product, package, brand communication, retail execution, and value. Management has frequently asserted that "leading category growth with superior offerings mathematically builds market share." Similarly, Unilever is deploying a six-factor approach that considers product, proposition, packaging, place, promotion, and pricing.

Product strategies for PepsiCo, Coca-Cola, and Diageo focus on creating authentic customer experiences and innovating for specific trends and consumption occasions. PepsiCo has built on its dominance in savory snacks by acquiring and innovating in other parts of the snacking category and rotating its portfolio into better-for-you and guilt-free products. Coca-Cola's development of Zero Sugar branding – which has been applied across a long list of products – has proven to be one of the most impactful innovations they've had. Diageo's portfolio of non-alcoholic spirits, while still small, has grown 13x since 2017 behind Guinness, Tanqueray, Captain Morgan, and other famous names. All three companies have also stepped into ready-to-drink ("RTD") alcoholic beverages. In each case, companies are demonstrating their ability to overcome barriers to entry by using their brands and supply chains to access white space opportunities.

Innovation also happens at the organization level. One area worth focusing on is analytics, or how companies use data and models to improve execution across the organization. Between investments in digital transformation and advances in computing and machine learning, analytics are positioned to play an increasingly important role today. With this in mind, we can highlight three themes that reflect how the industry is being shaped by technology.

The first theme is that companies are developing highly sophisticated revenue growth management ("RGM") strategies. McKinsey provides a succinct explanation for RGM:

> *"The goal of revenue growth management is to maximize the revenue potential of a business by understanding and influencing the behavior and preferences of its customers, and by aligning its offerings and actions with the market dynamics and opportunities."*

RGM touches numerous value drivers across the supply chain, including marketing, brand investment, and product development. As capabilities evolve, we expect RGM to support agile decision-making and to provide a growing toolset for improving growth and profitability. For instance, data-driven insights can help companies identify where to invest to address untapped growth and underserved markets or categories. We believe that companies that build a competitive advantage in RGM will see stronger growth and margins, thus deepening the moat and facilitating further reinvestment.

Second, companies are honing their product portfolios and R&D investments using analytics. During Unilever's third quarter trading update, freshman CEO Hein Schumacher provided a strategy update that included a goal of doubling the size of the company's average innovation. To do this, Unilever will focus more resources on their power

Diageo plc (DEO; Distillers & Vintners) – Moat Synopsis

Diageo plc is the world's largest spirits company and one of the largest diversified alcohol companies with an estimated 4.7% share of total beverage alcohol. It has a vertically integrated business model and a portfolio spanning most major spirits categories. Spirits are slower-moving goods and tend to be treated by consumers as affordable luxuries with a strong premiumization trend. Diageo is well positioned for this dynamic with over 60% of sales coming from the premium-plus price tier. Diageo is a global business with an enviable competitive position in highly profitable markets like the United States. The company has a wide moat predicated on intangible assets and cost advantages. At the product level, Diageo effectively differentiates through brand investment, expertise in distilling and aging spirits, and new product development. Category-leading, iconic brands like Johnnie Walker and Casamigos are distributed through a network that includes both owned and third-party distribution arrangements, giving Diageo a high degree of control over its product strategy. Diageo benefits from a wide moat.

brands and work towards developing technologies that can be used across multiple products and categories. This isn't a new theme, however: Unilever's average project size today is already 2 to 3 times larger than it was in 2020. Likewise, in 2020 Coca-Cola highlighted its strategy of killing "zombie innovation" early and increasing investment behind opportunities that are more scalable and that offer better gross margins. Reckitt has laid out a five-factor framework for R&D investment that aims to increase the frequency of demand-centric breakthrough innovation while improving time to market and scalability.

The emphasis on running simpler, more focused portfolios is often associated with resource allocation efficiency. In 2014, P&G began the process of divesting around 100 brands that represented just 10% of sales and 5% of profits. In 2020, Coca-Cola announced it would be eliminating roughly half of its brands to focus on 200 "master brands." This reduction had just a 1% impact on sales and profit. Since early 2022, Unilever has culled roughly a quarter of their stock keeping units ("SKUs") to streamline their product lineup. These companies are reducing complexity across the supply chain and freeing up investment for value creation in more impactful parts of the business, and they are using analytics to improve execution.

While there are risks to concentrating on fewer projects, we believe the upside is significant. Most importantly, companies ensure that their most important projects and products are well-capitalized. P&G has demonstrated that managing a tighter portfolio with fewer categories in the right framework can improve the probability of achieving sought-after product superiority. As evidence that this is the case, consider P&G's product superiority indicator: CFO Andre Schulten recently reported that 80% of their product portfolio is scoring as "superior" versus just 30% in 2016-2017. Having fewer products means less diversification, but it also reduces waste and complexity. In addition, operating a simpler but more innovative portfolio strengthens relationships with retailers who are working to increase their own productivity through simpler shelves and higher turnover.

Third, we are just starting to see meaningful benefits from digitalization in operations. Companies are building next-generation supply chains and optimizing capacity utilization, they're developing capabilities in key marketing and planning functions, and they're improving customer service capabilities. At the same time, they're using these tools to reduce costs in areas like labor scheduling and manufacturing.

Tangible examples can be found throughout our coverage. For instance, Procter & Gamble's Supply Chain 3.0 initiative leverages the company's digital tools and a synchronized supply chain network to improve demand planning, accelerate decision making, and reduce logistics and manufacturing costs. In total, management has identified $1.5B in annual savings (or nearly 2% of FY 2023 sales) from this program. Procter & Gamble is also tightly integrated with the systems of its suppliers and retail partners, which facilitates better planning and customer service capabilities.

We can turn again to Walmart, where investments are being made to improve omnichannel retail efficiency. Walmart is building automated Market Fulfillment Centers ("MFCs") in their stores to automate inventory storage and retrieval. They have also opened three next-generation automated e-commerce fulfillment centers. This infrastructure supports higher accuracy and tighter inventory management while significantly increasing productivity. CFO John David Rainey

PepsiCo, Inc. (PEP; Soft Drinks & Non-Alcoholic Beverages) – Moat Synopsis

PepsiCo, Inc. is the second largest non-alcoholic ready-to-drink beverage company and the largest snack food company in the world. PepsiCo has a wide moat with sustainable competitive advantages in the form of intangible assets and cost advantages. The company has a diversified beverage portfolio with leading positions in major categories like carbonated soft drinks and sports drinks. They've achieved a dominant position in salty snacks with the Frito Lay business, and they've been growing their portfolio of healthy snacks and convenient foods. PepsiCo has industry-leading manufacturing and distribution capabilities, and Gartner ranks their supply chain in the top 25. PepsiCo's portfolio scope, strong brands, and infrastructure – which includes direct-store-delivery capabilities – serve to strengthen relationships with retailers, making products ubiquitous.

estimates these centers are achieving "twice the throughput from twice the volume…at about a 30% efficiency improvement." In other words, Walmart can fulfill more orders more quickly while expanding assortment and reducing the risk of out-of-stocks and item substitutions. The knock-on effects are significant: omnichannel success drives total transactions, wallet share, and growth in higher-margin services like advertising.

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I will live in the Past, the Present, and the Future! – Ebenezer Scrooge, A Christmas Carol

Competitive advantages improve the likelihood that a company will generate excess profitability, but without constant adaptation, moats will shrink, and profitability will experience mean reversion. The perpetual leaders in the sector today have taken steps to adapt their businesses over time, and many have undergone major transformations. While restructuring and rebuilding can be painful in the short term, it is often necessary to defend a moat in the long term. The qualitative research that we do focuses on the *sustainability* of competitive advantages. We are constantly assessing what competitive advantages a company has benefitted from in the past, what their strategies are today, and how we think their businesses (and advantages) are likely to evolve in the future. What follows are brief summaries of our holdings in the staples sector, their strategies, and how they tie in with their competitive advantages.

Coca-Cola: In recent years, Coca-Cola has leaned into brand investment while honing the organization, the portfolio, and the innovation approach. Their strategy begins with their "networked organization," which was the result of reorganization of the business in 2020. This structure was designed to streamline decision-making, improve agility, and centralize and scale key shared functions. Specifically, they consolidated into 9 operating units (from 17) and introduced a Platform Services organization. The Platform Services unit comprises consumer analytics, social hubs, finance, and other digital/IT functions. This gives the company synergy in global functions while allowing for better resource allocation at a product or local market level. They've also invested in RGM, an area where they're widely recognized as a leader. Coca-Cola works with bottlers and retailers to manage product strategies, including merchandising.

Operationally, they have completed an enormous amount of work to align their bottler network, which they call the "System." The System has gone through a significant restructuring over the last decade; Coca-Cola has refranchised territories in North America, Europe, and turned over properties in its Bottling Investments Group. While this sort of work is constantly ongoing, the System today is healthy and aligned in terms of objectives, territories, and revenue. The company's incidence-based concentrate pricing model means bottlers pay Coca-Cola based on pricing, product and channel mix. This gives Coca-Cola more control over the network and keeps everyone focused on retail partners and consumers. Another area of focus is digital commerce, and Coca-Cola has been introducing platforms like MyCoke for digital ordering. This makes inventory management more convenient and leads to increased retailer engagement and data mining opportunities which are valuable for marketing and planning functions.

Product level changes have also been significant. As discussed earlier, at the beginning of the pandemic, Coca-Cola drastically simplified their portfolio and honed their R&D approach. The goal was to introduce discipline as a principle in the innovation process. Coca-Cola is applying this discipline across the pipeline and taking ad-

Procter & Gamble Co. (PG; Household Products) – Moat Synopsis

Procter & Gamble Co. is one of the largest consumer products companies in the world with a leading position in all five of its business segments: Fabric & Home Care; Baby, Feminine & Family Care; Beauty, Hair & Personal Care; Health Care; and Grooming. Intangible assets and cost advantages form the basis for the company's wide moat. The company's brands – which include Tide, Olay, and Pantene – have been in consumer households for decades, winning mind share and repeat business through "meaningful differentiation." P&G continuously invests in brands and innovation across five identified "vectors of superiority" to build market share and grow its categories. P&G further distinguishes itself through its leading supply chain and operations. Gartner rates P&G as a Supply Chain Master, and the company's Supply Chain 3.0 initiative aims to improve productivity and execution even further.

vantage of their experience to model innovation results. They closely evaluate new products as they're launched to identify ones that are thriving versus those that should be terminated or tweaked. Their success in the Zero Sugar lineup is a great example of how Coca-Cola can leverage brand cache against consumer insights and their bottler network to develop lucrative new markets. Coca-Cola's access to hundreds of markets and products gives them a very large sandbox for experimentation and data collection.

Colgate-Palmolive: Colgate has achieved leading positions across most of their business, including global leadership in toothpaste, manual toothbrushes, and liquid hand soap. They are the number two competitor in mouthwash, bar soap, liquid body cleansing, liquid fabric conditioners, and hand dishwashing. Their Hill's brand is also the leading product line sold in vet clinics across the U.S. Each of these products meets the "daily use" criterion that tends to drive habitual repurchase by consumers. These products also face very low private label penetration, and many are sold through professional recommendation.

When CEO Noel Wallace took over at Colgate, the biggest challenge he faced was reinvigorating organic sales growth. Wallace increased investment in Colgate's brands through advertising and R&D; he wanted to unleash scientists and marketers to "transform and disrupt categories" by focusing on breakthrough innovation. This has improved the product pipeline and helped Colgate support its pricing power with retailers and consumers in the current inflationary environment. Better product innovation has also helped the company improve market share in key areas like oral care and pet care.

Wallace also pushed Colgate into underpenetrated adjacencies (e.g., electric toothbrushes, mouthwash, and teeth whitening) and channels (e.g., the pharmacy channel in Europe) where Colgate could compete effectively to capture their fair share of the market. The whitening category was a growth area where Colgate was underrepresented. Following several years of pipeline development, Colgate now offers a full "Chair to Sink" lineup that ranges from the $4 consumer price point to the $350+ professional tier. Between inflationary pressure and the higher level of product reinvestment, margins remain depressed versus pre-pandemic levels. The changes in the organization have supported higher sales and profit growth, however, which has fueled reinvestment in the business.

Diageo: Diageo is the largest spirits company in the world, and the company has built a leadership position in major categories like scotch and tequila with a portfolio of premium-plus brands. Three secular tailwinds work in Diageo's favor: spirits have gained share within total beverage alcohol ("TBA"); tequila, scotch, and whiskey have gained share within spirits; and premium-plus brands have gained share from lower-priced alternatives, growing at roughly twice the rate of the rest of the category over the last ten years. And although beer has lagged spirits, Diageo's main beer asset, Guinness, is one of the fastest growing beer brands. Earlier this year, it was even named the most popular beer in the U.S. based on public opinion data collected by YouGov. Consumers are drinking higher quality rather than necessarily consuming higher quantities. As they premiumize, they're looking to make an emotional connection to brands through authentic experiences. Diageo's portfolio has consistently captured these themes. Despite Diageo's size, their sales compose less than 5% of TBA globally with a goal of reaching 6% share by 2030.

Premiumization, market, and category exposures are helping the company achieve their share consolidation goal, but just as important is product innovation. Diageo has proven adept at RGM and identifying consumer trends. Between their mar-

Reckitt Benckiser Group plc (RBGLY; Household Products) – Moat Synopsis

Reckitt Benckiser Group plc is a leading consumer products company with operations in three product segments: Hygiene, Health, and Nutrition. Reckitt uses consumer insights to differentiate their portfolio of frequent-use consumables and drive habitual repurchases. They maintain a focus on premium spaces and specific niches within large categories where they can win through breakthrough innovation. Furthermore, these are areas where the opportunity for value-tier or private label competition is limited. Despite their smaller stature, Reckitt has been able to achieve category leadership in relevant markets across the majority of the business through this strategy. The company's moat has been built on intangible assets like brands and intellectual property. The strength of their brand portfolio is reflected in well-known brands like Lysol, Air Wick, Mucinex, and Enfamil which have strong household penetration, customer loyalty, and pricing power.

keting acumen, supply chain capabilities, and experience across spirits categories, Diageo can adapt to industry dynamism – they don't need to be at the bleeding edge of consumer trends to be successful. Their development of low-alcohol and no-alcohol products (like Guinness 0.0) has required the development of new manufacturing methods, flavors, and brands. We believe this demonstrates their ability to execute in new product spaces to address emergent consumption occasions.

Their development of Johnnie Walker Blonde in Latin America provides another good example of how brand expressions can be developed to address different price points and markets. Blonde slots into the price point between Black and Red to keep consumers in the Johnnie Walker portfolio in a challenging market environment without devaluing existing products. Smirnoff Spicy Tamarind is yet another example of how the company can take local insights and a popular local flavor to create products that work globally.

Diageo also makes strategic acquisitions, which immediately benefit from their advantages in distribution and brand investment. Their development of the premium tequila market and current status as the leading tequila company in the world are a result of good execution on M&A. Diageo was early to identify the potential for explosive demand growth in premium tequila in the United States. They took full control over the prestigious Don Julio brand in 2014 and acquired Casamigos in 2017. In both cases, Diageo leveraged their intangible assets and supply chain to enhance the brand ethos and increase product visibility and availability. Furthermore, despite a challenging agave market, Diageo's premium brand positioning and captive agave supply meant the company could continue premiumizing and growing the category while managing supply constraints. Recently, Diageo has made strategic acquisitions in super-premium-plus rum (Don Papa Rum) and super-premium-plus whiskey (Balcones Distilling). Both cases reflect strong brands with significant room for growth through Diageo's infrastructure.

PepsiCo: PepsiCo has been a standout performer in recent years in terms of product innovation, merchandising, and supply chain execution. For the last two decades, PepsiCo has been steadily shifting its portfolio away from carbonated soft drinks. In recent years, they've accelerated investment behind more positive food and beverage choices – products with less sugar, less fat, and less sodium. Their innovation efforts have delivered healthier options that still taste great, like Baked chips. They were quick to get to market with their own "Zero Sugar" lineup (following Coca-Cola), and they expanded the Gatorade brand to include Gatorlyte, G2, into powders and tablets after Coca-Cola with innovations like multi-packs.

They've engaged in portfolio reshaping to offload products with challenging profitability like fruit juice and killing off non-core brands. Conversely, they've made investments in growthy areas like energy (e.g., Rockstar and Celsius) and in better-for-you snack brands (e.g., PopCorners, Bare Foods, and Off The Eaten Path). When PepsiCo acquired BFY Brands, they immediately increased distribution of products like PopCorners and made it the fastest growth better-for-you brand in the U.S. They also invested in a new R&D facility to support pipeline growth. Portfolio reshaping has helped PepsiCo extend their salty snack leadership into the broader "convenient foods" category. Convenient foods are now around 60% of total revenue with beverages making up the other 40%.

Unilever plc (UL; Household Products) – Moat Synopsis

Unilever plc is a leading consumer products company that operates across five business segments: Beauty & Wellbeing, Personal Care, Home Care, Nutrition, and Ice Cream. Unilever's long-term success has been established through the company's key competitive advantages, which can broadly be categorized as intangible assets – especially brands (e.g., Dove and Hellmann's) – and cost advantages. Unilever's portfolio strength is broad-based, as evidenced by category leadership positions in 80% of their business and household penetration reflecting an estimated 3.4 billion daily product users. The company has built enviable long-term relationships with retailers and suppliers, and their operational capabilities have made them a perennial Gartner Supply Chain Master. Unilever is innovative and acquisitive, and both levers have helped the company pivot toward growth categories over the last five years. The company has also worked on increasing efficiency and improving execution through their category-focused organizational structure. We believe Unilever has a wide moat and the potential to deepen that moat over time.

PepsiCo has also invested in analytics to drive product strategy and RGM. They've demonstrated an ability to address both the affordable and premium ends of the spectrum with product/pack architecture such as multi-packs or portion control-oriented form factors like Minis. They've adapted to consumer demand for mini-meals and convenience. RGM performance during the pandemic and the inflationary period that has ensued reflected excellent pricing power and favorable consumer elasticity. RGM execution has benefited from better customer data and the company's supply chain – which includes direct-store-delivery ("DSD") – and allows PepsiCo to cater to specific markets, channels, and categories. We think PepsiCo's RGM and supply chain capabilities are essential, especially in challenging operating environments.

Procter & Gamble: P&G's strategy for most of the last decade has focused on "irresistible superiority" and productivity with great success. It was no surprise that as former CFO Jon Moeller moved into the CEO role, he effectively doubled-down. For instance, Moeller recognizes that superiority is a dynamic concept, so P&G has defined more granular standards for assessing it. In doing so, they've reset their superiority score to around 20-30% versus 80% before these changes. In other words, they've identified meaningful ways to continue improving their performance across the five superiority vectors. Likewise, Supply Chain 3.0 aims to raise the bar even further for productivity and agility.

Importantly, superiority and efficiency have become core components of the corporate culture at P&G, and their strong operating performance reflects the value of that culture. Furthermore, we believe the company's momentum in product development – as indicated by strong competitiveness indicators like market share – is likely to continue as the company reinvests efficiency savings to improve its capabilities in analytics and R&D. P&G is actively investing to strengthen its cost advantages and intangible assets to support its moat.

Reckitt Benckiser: Reckitt has established itself as a leader in all three of their product divisions – Health, Hygiene, and Nutrition – with brands like Mucinex, Lysol, and Enfamil. Their business model is to identify frequent-use niches within staples where science-backed innovation can be deployed to create premium products with minimal competition. Reckitt has a well-rounded brand portfolio and some of the strongest profitability in our coverage. However, they are in the midst of a multi-year turnaround due to years of underinvestment in their brands and infrastructure that have led to business disruption and contributed to deterioration in the company's competitive advantages.

CEO Laxman Narasimhan began the process of shoring up the moat back in 2019. He focused on firming up the supply chain, increasing investment in innovation and marketing, and improving overall efficiency. Narasimhan also wanted to refocus Reckitt's R&D on "demand-centric" R&D and the development of science and technology platforms (e.g., materials development and manufacturing processes) that can be applied across the portfolio to generate breakthrough innovation. Reckitt has nearly quadrupled their R&D budget since 2019 and has seen a massive increase in pipeline assets and patent filings and more revenue from "disruptive innovation" as a result.

After a short tenure, Narasimhan left Reckitt to become CEO at Starbucks and the head of Reckitt's Health unit, Kris Licht, took over. Licht was brought over to Reckitt from PepsiCo by Narasimhan and worked directly on Reckitt's

Walmart (WMT; Consumer Staples Merchandise Retail) – Moat Synopsis

Walmart Inc. is the world's largest retailer by revenue. With this size comes significant cost advantages, including bargaining power over producers and economies of scale in the supply chain. Walmart is a leader in logistics and is building capabilities in next-generation technologies like automation and robotics. The company's in-store product breadth, consumer traffic, and proximity to consumers are also key advantages for their omnichannel strategies. A typical supercenter carries around 130,000 SKUs, and 90% of Americans live within 10 miles of a Walmart store. Walmart's ability to offer flexible, convenient shopping across digital and physical channels has made the company an omnichannel retail leader with over 200 million weekly shoppers. The company is now leveraging its positioning, infrastructure, and customer base to build a platform of higher-margin services like advertising to boost profitability. Walmart also has a growing membership base through both Walmart+ and Sam's Club. Despite the highly competitive and relatively low-margin nature of retail, Walmart has established a shallow but wide moat around their business.

transformation strategy, so the overall strategic direction for Reckitt remains intact. In his most recent strategy update, Licht highlighted product superiority, in-market execution, and cost structure as key areas of focus.

Unilever: Unilever has gone through major changes over the last several years, and many of those changes mirror those made by P&G. Unilever has de-matrixed their organization, simplified the portfolio, revamped their approach to product development, and are investing in digital and analytics capabilities across the business. This has already been impactful in their RGM and supply chain productivity during the pandemic and the inflationary period that has ensued.

The new organization comprises five category-based business units, which they call their "Compass Organization," to simplify lines of communication and improve accountability, agility, and execution. They've exited low-growth, less-differentiated product lines like spreads, tea, and non-core personal care while investing in high-growth premium categories with bolt-on acquisitions like Dermalogica, Paula's Choice, and Liquid I.V. In aggregate, they've turned over 20% of their business as measured by sales since 2015.

Divestitures have been productive, and acquisitions in recent years have been more successful. Through reshaping, Unilever has built two new billion-Euro business units with double-digit growth profiles within the Beauty & Wellbeing business group: Prestige Beauty and Health & Wellbeing. CEO Hein Schumacher has noted that doing fewer deals with better strategic alignment and an opportunity for Unilever to clearly add value tends to lead to better M&A. Schumacher intends to continue reshaping Unilever's business with these insights in mind. We've also talked about the company's reinvigorated innovation model and SKU rationalization to simplify the portfolio.

Research capabilities are anchored by four global innovation hubs and evidenced by more than 20,000 patents. This patent portfolio has a wide scope, but Unilever is recognized as a leader in sustainability. Innovations include sustainable packaging, ice cream that remains stable at higher temperatures, and laundry detergents that are just as effective with cold water. More broadly, Unilever has several technological platforms supporting product differentiation, including expertise in antioxidants, the human biome, and pro-lipids.

Altogether, Unilever has a better organizational structure, better focus, and more favorable category exposures. We believe these changes will be drivers of better resource allocation and execution, which should drive acceleration in top- and bottom-line growth. For instance, we expect the updated R&D approach and a better grasp of key product differentiators to support higher return on investment for R&D spend while also lifting the batting average on breakthrough innovations. Unilever has already seen their emphasis on bigger, more scalable innovation lead to stronger contributions to sales growth.

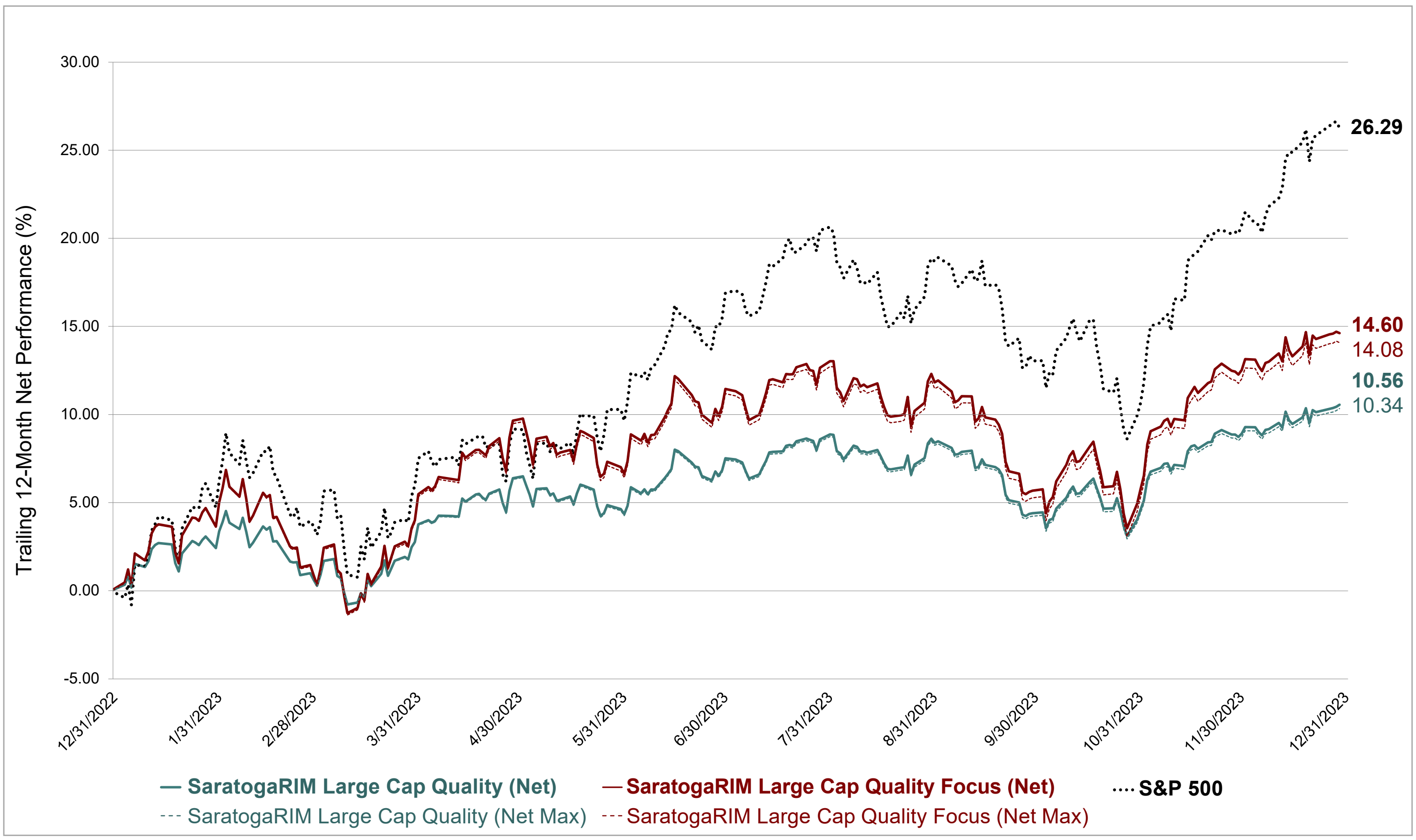
Walmart: Walmart is in the early stages of their "flywheel strategy," which is focused on building an "interrelated ecosystem" with the consumer at the core. At the customer level, Walmart has continued to excel at core retail. They've renovated stores, improved in-store service, and consistently maintained strong price gaps during the current inflationary period. Marketplace has grown to over 400 million items, drastically increasing assortment for shoppers and creating demand for Walmart Fulfillment Services. An increasingly seamless omnichannel shopping experience and Every Day Low Prices ("EDLP") have attracted incremental consumer traffic, including among higher-income shoppers. Walmart is also investing in customer-facing services, such as digital entertainment, health clinics and financial products. Management has not divulged statistics around the Walmart+ program, but long-term, the ecosystem Walmart is creating will be what determines membership demand.

They're still innovating to improve retail and supply chain efficiency. For example, they're working towards reducing costs for e-commerce fulfillment through the automated distribution centers and in-store market fulfillment centers that we mentioned earlier. Walmart's massive store base and shopper frequency puts the company in a unique position to develop other efficient fulfillment pathways by densifying and shortening the "last mile." Walmart is developing a store-based order fulfillment model and infrastructure that will be tough to match. Delivery is being offered through their Spark and GoLocal platforms, which management thinks could eventually turn e-commerce fulfillment into a profitable business before subsidizing with high-margin services. Their GoLocal delivery network is also offering delivery as a white label service for third parties like Home Depot. These types of relationships could eventually turn a major cost center into a potential profit center in the future while increasing delivery network density.

Walmart Connect advertising and Luminate analytics are two additional high-growth and high-margin budding businesses. Like Marketplace and Fulfillment Services, these businesses tap into the company's massive customer traffic to deliver a valuable service to advertisers and merchants. The company's 240 million weekly visits across their global store base of over 10,000 locations offers a unique proposition in retail media: Walmart and Sam's Club aggregate and correlate online and offline interactions with brands and advertisers for hundreds of millions of unique shoppers. This allows for effective ad targeting, merchandising, and product recommendations with measurability. Between market share gains in omnichannel retail, ongoing productivity initiatives in the supply chain, and these incremental profit drivers, Walmart's positioning looks promising. ■

Trailing 12-Month Investment Results

Fig. 3: SaratogaRIM Large Cap Quality & Focus vs. S&P 500 TR Trailing 12-Months (12/31/22 - 12/31/23)



Source: FactSet, SaratogaRIM. Past investment results are not a guarantee of future results. Data presented net-of-fees. See full disclosures at the end of this report. This report is incomplete without Disclosures (page 30), GIPS Composite Report: SaratogaRIM Large Cap Quality Focus (page 25) and GIPS Composite Report: SaratogaRIM Large Cap Quality (page 29).

Over the 12 months that ended December 31st, net of fees, the SaratogaRIM Large Cap Quality Focus and Large Cap Quality composites earned 14.60% and 10.56% respectively. Net of maximum fees (which we refer to as Net Max), Focus and Quality returned 14.08% and 10.34% respectively. Over the same period, the S&P 500 Total Return Index was up 26.29%. These 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 the Large Cap Quality Focus and Large Cap Quality Composite Statistics and GIPS Composite Reports in addition to the full disclosures at the end of this report.

SaratogaRIM Large Cap Quality Focus

Composite Statistics

Q4 2023

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

Firm Overview: Saratoga Research & Investment Management, founded in 1995, is an SEC Registered Investment Advisor specializing in the construction and management of 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 includes all discretionary portfolios that invest in what the Firm believes to be high-quality companies with low balance sheet, business model (including capital intensity) and valuation risk. This composite will likely have a greater turnover ratio than other composites as it typically restricts cash to no more than 5% of the total portfolio value. See the GIPS Composite Report (Page 4) for the complete composite description.

SaratogaRIM Large Cap Quality Focus (LCQF) - Snapshot

Composite Name	SaratogaRIM Large Cap Quality Focus
Inception Date	8/29/2014
Firm Total Assets	$ 2,740,179,000
Composite Assets	$ 932,998,000
GIPS Compliance	Yes

Investment Results

As of Date: 12/31/2023 Source Data: Total, Monthly Return

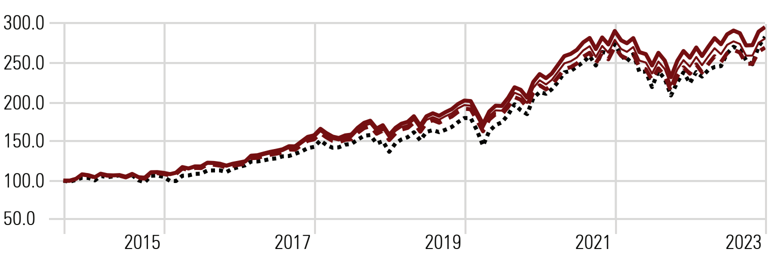
	Quarter to Date	Year to Date	1 Year	3 Years	5 Years	7 Years	Since Inception
SaratogaRIM LCQF (Gross)	8.59	15.22	15.22	7.84	13.32	13.35	12.33
SaratogaRIM LCQF (Net)	8.44	14.60	14.60	7.25	12.70	12.74	11.72
SaratogaRIM LCQF (Net Max)	8.32	14.07	14.07	6.76	12.19	12.23	11.22
S&P 500 TR USD	11.69	26.29	26.29	10.00	15.69	13.42	11.81

Investment Growth Relative to Benchmark

Time Period: 9/1/2014 to 12/31/2023

Source Data: Total Return

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

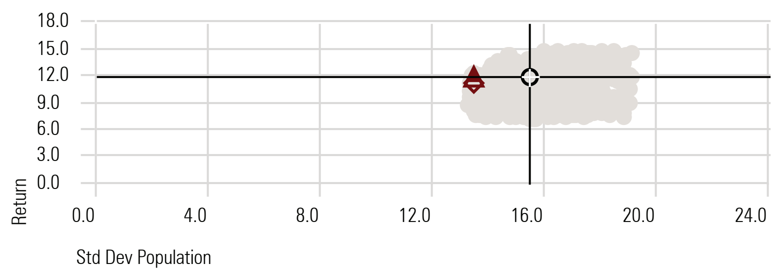


Standard Deviation vs. Annualized Rate of Return Relative to Benchmark & Peer Group

Time Period: 9/1/2014 to 12/31/2023

Peer Group (5-95%): Large Cap SA Source Data: Total, Monthly Return

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

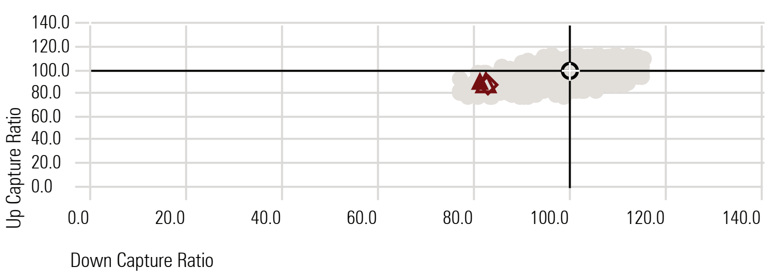


Market Capture Relative to Benchmark & Peer Group

Time Period: 9/1/2014 to 12/31/2023

Peer Group (5-95%): Large Cap SA Source Data: Total, Monthly Return

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

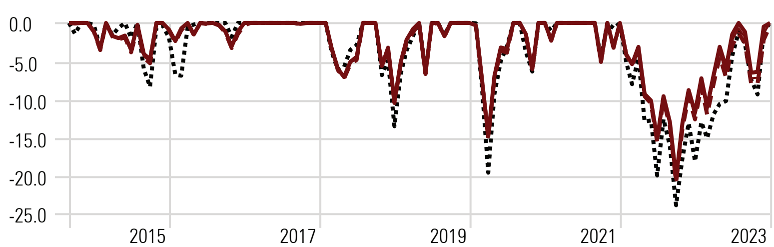


Drawdown Relative to Benchmark

Time Period: 9/1/2014 to 12/31/2023

Source Data: Total, Monthly Return

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



Sector Weightings - GICS

Portfolio Date: 12/31/2023

	LCQF	S&P 500
Consumer Discretionary %	10.02	10.85
Consumer Staples %	12.55	6.16
Energy %	0.00	3.89
Financials %	9.02	12.97
Healthcare %	20.01	12.62
Industrials %	13.43	8.81
Information Technology %	21.57	28.86
Materials %	1.66	2.41
Communication Services %	11.73	8.58
Utilities %	0.00	2.34

Holding Fundamentals

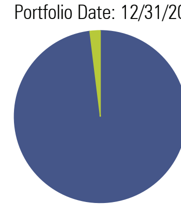
Dividend Yield	1.72
P/E Ratio (TTM)	25.10
P/CF Ratio (TTM)	17.90
P/B Ratio (TTM)	3.99
ROE % (TTM)	30.80
ROA % (TTM)	11.79
Net Margin %	17.22
Est. LT EPS Growth	9.23
Historical EPS Growth	13.74

Market Capitalization

Average Market Cap (mil)	258,640.96
Market Cap Giant %	58.53
Market Cap Large %	35.75
Market Cap Mid %	5.72

Asset Allocation

Portfolio Date: 12/31/2023

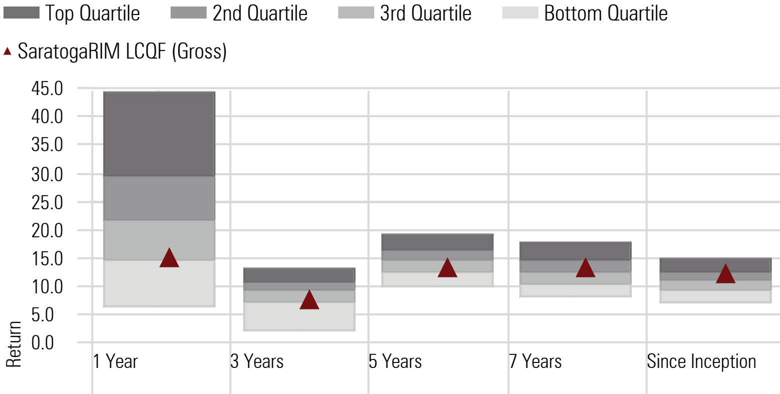


	%
Stock	98.1
Bond	0.0
Cash	1.9
Other	0.0
Total	**100.0**

GICS Sector Weightings, Holding Fundamentals, and Market Capitalization statistics reflect the weightings of the stock portion of the portfolio. Results of Morningstar's calculations may vary slightly from SaratogaRIM's own reported statistics within the GIPS Composite Report due to rounding. See Disclosures and Definitions (Page 3) and the GIPS Composite Report: SaratogaRIM Large Cap Quality Focus (Page 4).

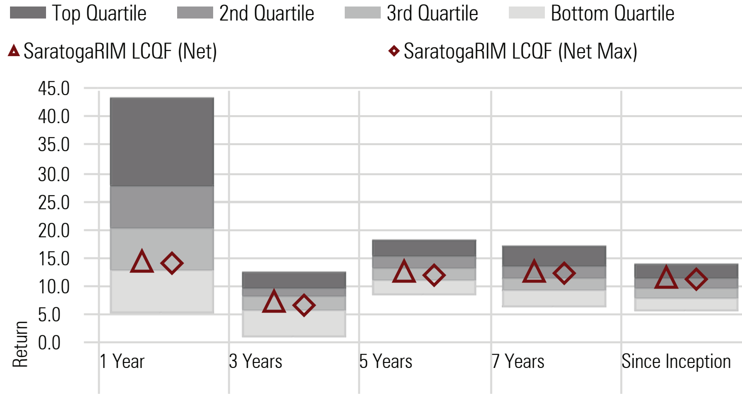
Investment Results Relative to Peer Group (Gross)

As of Date: 12/31/2023 Peer Group (5-95%): Large Cap SA Source Data: Gross, Monthly Return



Investment Results Relative to Peer Group (Net)

As of Date: 12/31/2023 Peer Group (5-95%): Large Cap SA Source Data: Net, Monthly Return



Investment Results Relative to Peer Group (Gross)

As of Date: 12/31/2023 Source Data: Gross, Monthly Return Peer Group: Large Cap SA

	1 Year	3 Years	5 Years	7 Years	Since Inception
SaratogaRIM LCQF (Gross)	15.22	7.84	13.32	13.35	12.33
S&P 500 TR USD	26.29	10.00	15.69	13.42	11.81
Median	21.71	9.07	14.47	12.41	10.84
Average	23.09	8.54	14.42	12.53	10.77
Count	1,657	1,558	1,449	1,334	1,175
5th Percentile	44.56	12.99	19.11	17.76	14.74
25th Percentile	29.33	10.59	16.25	14.42	12.25
50th Percentile	21.71	9.07	14.47	12.41	10.84
75th Percentile	14.36	7.16	12.41	10.33	9.18
95th Percentile	6.22	2.06	9.82	8.22	7.17

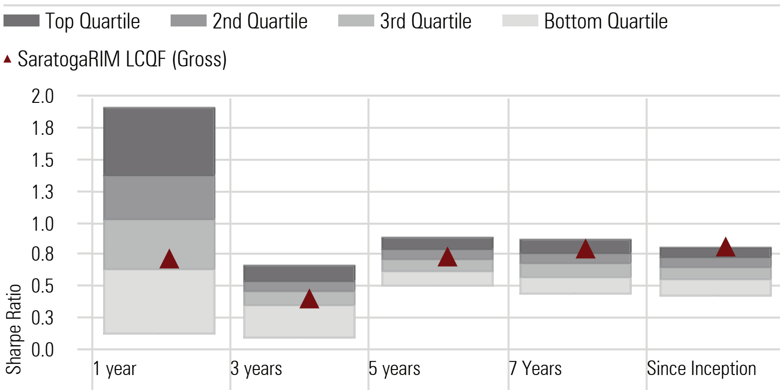
Investment Results Relative to Peer Group (Net)

As of Date: 12/31/2023 Source Data: Net, Monthly Return Peer Group: Large Cap SA

	1 Year	3 Years	5 Years	7 Years	Since Inception
SaratogaRIM LCQF (Net)	14.60	7.25	12.70	12.74	11.72
SaratogaRIM LCQF (Net Max)	14.07	6.76	12.19	12.23	11.22
S&P 500 TR USD	26.29	10.00	15.69	13.42	11.81
Median	20.34	7.97	13.16	11.29	9.54
Average	21.89	7.42	13.18	11.32	9.58
Count	1,637	1,535	1,428	1,314	1,159
5th Percentile	43.49	12.25	18.25	16.97	13.88
25th Percentile	27.62	9.66	15.30	13.32	11.38
50th Percentile	20.34	7.97	13.16	11.29	9.54
75th Percentile	12.88	5.72	11.03	9.00	7.79
95th Percentile	5.35	0.79	8.29	6.46	5.47

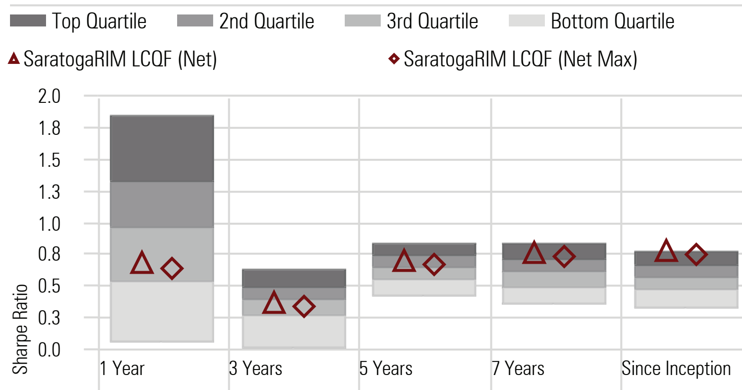
Sharpe Ratio Relative to Peer Group (Gross)

As of Date: 12/31/2023 Peer Group (5-95%): Large Cap SA Source Data: Gross, Monthly Return



Sharpe Ratio Relative to Peer Group (Net)

As of Date: 12/31/2023 Peer Group (5-95%): Large Cap SA Source Data: Net, Monthly Return



Sharpe Ratio Relative to Peer Group (Gross)

As of Date: 12/31/2023 Source Data: Gross, Monthly Return Peer Group: Large Cap SA

	1 Year	3 Years	5 Years	7 Years	Since Inception
SaratogaRIM LCQF (Gross)	0.72	0.41	0.74	0.80	0.82
S&P 500 TR USD	1.31	0.49	0.78	0.73	0.71
Median	1.03	0.45	0.71	0.67	0.64
Average	1.02	0.42	0.70	0.66	0.63
Count	1,657	1,558	1,449	1,334	1,175
5th Percentile	1.91	0.66	0.88	0.87	0.81
25th Percentile	1.38	0.53	0.78	0.76	0.72
50th Percentile	1.03	0.45	0.71	0.67	0.64
75th Percentile	0.63	0.34	0.62	0.56	0.55
95th Percentile	0.12	0.09	0.51	0.44	0.43

Sharpe Ratio Relative to Peer Group (Net)

As of Date: 12/31/2023 Source Data: Net, Monthly Return Peer Group: Large Cap SA

	1 Year	3 Years	5 Years	7 Years	Since Inception
SaratogaRIM LCQF (Net)	0.68	0.37	0.71	0.77	0.78
SaratogaRIM LCQF (Net Max)	0.65	0.34	0.68	0.73	0.75
S&P 500 TR USD	1.31	0.49	0.78	0.73	0.71
Median	0.95	0.39	0.65	0.61	0.57
Average	0.94	0.36	0.64	0.60	0.56
Count	1,637	1,535	1,428	1,314	1,159
5th Percentile	1.85	0.63	0.84	0.83	0.76
25th Percentile	1.32	0.48	0.74	0.71	0.67
50th Percentile	0.95	0.39	0.65	0.61	0.57
75th Percentile	0.54	0.26	0.56	0.49	0.47
95th Percentile	0.05	0.01	0.42	0.36	0.33

Results of Morningstar's calculations may vary slightly from SaratogaRIM's own reported statistics within the GIPS Composite Report due to rounding.
See Disclosures & Definitions (Page 3) and the GIPS Composite Report: SaratogaRIM Large Cap Quality Focus (Page 4).

Disclosures & Definitions

See additional important disclosures and composite-specific information within the GIPS Composite Report (Page 4).

Saratoga Research & Investment Management (“SaratogaRIM” or "the Firm") is an SEC Registered Investment Advisor. SEC Registration does not constitute an endorsement of the Firm by the Commission, nor does it indicate the advisor has attained a particular level of skill or ability. Advisory services are not made available in any jurisdiction in which SaratogaRIM is not registered or otherwise exempt from registration.

This report was generated by SaratogaRIM through Morningstar Direct’s Presentation Studio using data from Morningstar Direct and Advent Axys. SaratogaRIM composite performance statistics are based off gross-of-fee or net-of-fee monthly performance data uploaded to Morningstar. Results of Morningstar's calculations may vary slightly from SaratogaRIM's own reported statistics within the GIPS Composite Report due to rounding. The Peer Group statistics within this report contain U.S. Large Cap separate account managers that appear in the Morningstar database for the relevant periods shown as of the report generated date. The information and statistical data contained herein have been obtained from sources that SaratogaRIM believes to be reliable but in no way are warranted by the Firm as to accuracy or completeness.

Results of the SaratogaRIM Large Cap Quality Focus Composite do not reflect the results of any one portfolio in the composite. 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.

Gross-of-fee returns are calculated gross of management, custodial and external consultant or advisory fees and net of transaction costs. Net-of-fee returns are calculated net of actual management fees and transaction costs and gross of custodian fees and external consultant or advisory fees. Prior to October 31, 2022, non-fee-paying accounts were included in composite net-of-fee return calculations without a fee rate; per the SEC Marketing Rule effective November 4, 2022, net-of-fee returns labeled “Net” now include a model fee rate of 1.00% for all non-fee-paying accounts. Additionally, a separate net-of-fee return calculation has been added to SaratogaRIM marketing materials using the current maximum fee rate charged by SaratogaRIM for the SaratogaRIM Large Cap Quality Focus Composite (1.00%, labeled “Net Max”). Calculations are available upon request. Information pertaining to the Firm’s advisory fees is set forth in SaratogaRIM’s current disclosure statement, which is available upon request.

Definitions: 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. Excess Return measures the difference in return, cumulative or annualized, between the strategy and a benchmark. 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. Drawdown is a measure of peak-to-trough decline over the period of time until a new high is reached.

Benchmark Disclosures: Benchmarks are unmanaged and provided to represent the investment environment in existence during the time periods shown. The S&P 500® Total Return Index has been selected as the benchmark for comparison purposes. The S&P Total Return Index assumes that all dividends and distributions are reinvested. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of benchmarks. An index is not available for direct investment, and does not reflect any of the costs associated with buying and selling individual securities or any other fees, expenses, or charges. | The S&P 500 Index is a product of S&P Dow Jones Indices LLC (“SPDJI”), and has been licensed for use by SaratogaRIM. Standard & Poor’s®, S&P®, and S&P 500® are registered trademarks of Standard & Poor’s Financial Services LLC (“S&P”); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by SaratogaRIM. SaratogaRIM's products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 Index.

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Composite Performance Statistics

Year	Composite Gross TWR	Composite Net TWR	Composite Net Max TWR	S&P 500 Total Return	Standard Deviation	3 Yr Ann Standard Dev Composite Net TWR	3 Yr Ann Standard Dev S&P 500 Total Return	# of Portfolios in Composite	End of Period Composite Assets	End of Period Total Firm Assets
2014 (8/31)	6.95	6.71	6.59	3.46	n/a	-	-	31	59,408,640.33	1,614,090,418.39
2015	2.85	2.29	1.83	1.38	0.18	-	-	88	122,809,323.37	1,638,083,262.32
2016	11.96	11.35	10.83	11.96	0.63	-	-	151	198,406,977.89	1,800,890,893.30
2017	28.23	27.52	26.96	21.83	0.49	8.70	9.92	287	362,440,319.53	2,113,160,549.13
2018	0.38	-0.18	-0.62	-4.38	0.60	10.30	10.80	303	316,630,422.08	2,013,567,458.02
2019	27.67	26.98	26.39	31.49	0.63	11.41	11.93	403	533,438,674.16	2,333,608,905.18
2020	16.71	16.08	15.56	18.40	1.00	15.84	18.53	626	793,063,147.30	2,631,534,466.80
2021	23.31	22.64	22.09	28.71	0.67	15.07	17.17	924	1,039,079,017.33	2,957,751,865.10
2022	-11.74	-12.22	-12.62	-18.11	0.52	17.57	20.87	913	853,935,678.90	2,603,780,552.47
2023	15.22	14.60	14.07	26.29	0.46	15.16	17.29	939	932,998,240.67	2,740,178,820.20

Trailing Annualized Returns as of 12/31/23

1 Year	15.22	14.60	14.07	26.29
5 Year	13.32	12.70	12.19	15.69
10 Year				
Composite Inception	12.34	11.72	11.22	11.81

Firm Description: Saratoga Research & Investment Management ("SaratogaRIM" or "the Firm") is an SEC Registered Investment Advisor specializing in the construction and management of equity portfolios composed of high caliber businesses utilizing common sense investment principles. SEC Registration does not constitute an endorsement of the firm by the Commission, nor does it indicate the advisor has attained a particular level of skill or ability. The Firm's investment process is designed to meet the long-term needs of conservative individual and institutional investors. Advisory services are not made available in any jurisdiction in which SaratogaRIM is not registered or otherwise exempt from registration. The Firm was founded in 1995; prior to March 7, 2007, Saratoga Research & Investment Management was known as Tanner & Associates Asset Management.

Composite Description: The SaratogaRIM Large Cap Quality Focus Composite includes all discretionary portfolios that invest in what the Firm believes to be high-quality companies with low balance sheet, business model (including capital intensity) and valuation risk. This composite will likely have a greater turnover ratio than other composites as it typically restricts cash to no more than 5% of the total portfolio value. Individual position sizes typically range from 1% to 10% of the total portfolio value, but there is no maximum size for an individual position. This composite has higher levels of concentration, particularly in the top 10 positions; collectively, the top 10 positions make up at least 50% of the portfolio. While the investment criteria for this composite narrows the investable universe to predominantly large-cap companies based in the U.S., the composite has no restrictions on market cap size or where the company is domiciled. Investment ideas that do not meet the stated composite criteria ("outside the box ideas") are allowed so long as they do not cumulatively represent more than 10% of the total portfolio value. 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.

GIPS Compliance: 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 by The Spaulding Group for the periods March 1, 2000 through December 31, 2022. | A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The SaratogaRIM Large Cap Quality Focus Composite has had a performance examination for the periods September 1, 2014 through December 31, 2022. The verification and performance examination reports are available upon request. | GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. | A list of SaratogaRIM's composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. To obtain GIPS-compliant performance information for SaratogaRIM's strategies and products, please contact Marc Crosby, President, at (408) 741-2332 or Marc@SaratogaRIM.com.

Disclosures: Results of the SaratogaRIM Large Cap Quality Focus Composite do not reflect the results of any one portfolio in the composite. Valuations are computed and performance is reported in U.S. dollars based on trade dates as of month-end, net-of-fees, while accounting for dividend reinvestment. Aggregate composite returns are calculated using the Average Capital Base equation (also known as the Modified Dietz method), which utilizes the beginning asset value plus weighted 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 are also revalued intra-month when large external cash flows occur in excess of 10% of the portfolio's fair value. Daily reconciliation is performed between the Firm's records and the custodian and broker records through Advent to verify client assets. Gross-of-fee returns are calculated gross of management, custodial and external consultant or advisory fees and net of transaction costs. Net-of-fee returns are calculated net of actual management fees and transaction costs and gross of custodian fees and external consultant or advisory fees. Prior to October 31, 2022, non-fee-paying accounts were included in composite net-of-fee return calculations without a fee rate; per the SEC Marketing Rule effective November 4, 2022, net-of-fee returns labeled "Net" now include a model fee rate of 1.00% for all non-fee-paying accounts. The model fee rate for non-fee-paying portfolios was applied quarterly until October 2022, when the Firm switched to deducting monthly. Additionally, a separate net-of-fee return calculation has been added to SaratogaRIM marketing materials using the current maximum fee rate charged by SaratogaRIM for the SaratogaRIM Large Cap Quality Focus Composite (1.00%, labeled "Net Max"). The "Net Max" return fee data represents the reduction of the gross of fee composite returns by the monthly portion of the annual model fee rate of 1.00%. The SaratogaRIM fee is normally 1.00% for the SaratogaRIM Large Cap Quality Focus Composite; may be negotiated, as warranted by special circumstances. Dispersion is calculated as the asset-weighted standard deviation of annual net-of-fee portfolio returns around the median net-of-fee 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. The 3-year annual standard deviation (external dispersion) is based on net-of-fee returns.

Benchmark Disclosures: Benchmarks are unmanaged and provided to represent the investment environment in existence during the time periods shown. The S&P 500® Total Return Index has been selected as the benchmark for comparison purposes. The S&P Total Return Index assumes that all dividends and distributions are reinvested. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of benchmarks. An index is not available for direct investment, and does not reflect any of the costs associated with buying and selling individual securities or any other fees, expenses, or charges. | The S&P 500 Index is a product of S&P Dow Jones Indices LLC ("SPDJI"), and has been licensed for use by SaratogaRIM. Standard & Poor's®, S&P®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by SaratogaRIM. SaratogaRIM's products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 Index.

SaratogaRIM Large Cap Quality

Composite Statistics

Q4 2023

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Firm Overview: Saratoga Research & Investment Management, founded in 1995, is an SEC Registered Investment Advisor specializing in the construction and management of 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 includes all discretionary portfolios that invest in what the Firm believes to be high-quality companies with low balance sheet, business model (including capital intensity) and valuation risk. This composite allows cash to accumulate at certain stages of the market cycle and has no maximum cash position size. See the GIPS Composite Report (Page 4) for the complete composite description.

SaratogaRIM Large Cap Quality (LCQ) - Snapshot

Composite Name	SaratogaRIM Large Cap Quality
Inception Date	2/29/2000
Firm Total Assets	$ 2,740,179,000
Composite Assets	$ 1,090,383,000
GIPS Compliance	Yes

Investment Results

As of Date: 12/31/2023 Source Data: Total, Monthly Return

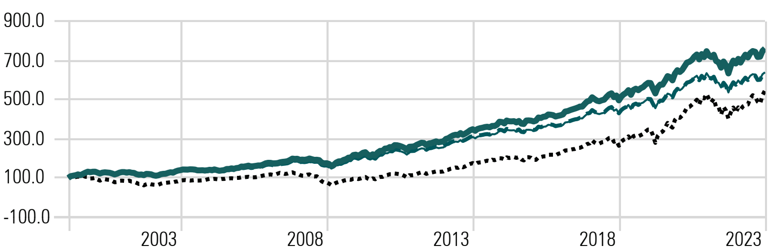
	Quarter to Date	Year to Date	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years	Since Inception
SaratogaRIM LCQ (Gross)	6.03	11.17	11.17	5.39	8.93	8.88	8.13	10.30	8.86	8.90
SaratogaRIM LCQ (Net)	5.88	10.56	10.56	4.81	8.34	8.28	7.53	9.65	8.12	8.11
SaratogaRIM LCQ (Net Max)	5.83	10.34	10.34	4.60	8.12	8.06	7.32	9.48	8.05	8.08
S&P 500 TR USD	11.69	26.29	26.29	10.00	15.69	13.42	12.03	13.97	9.69	7.40

Investment Growth Relative to Benchmark

Time Period: 3/1/2000 to 12/31/2023

Source Data: Total Return

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

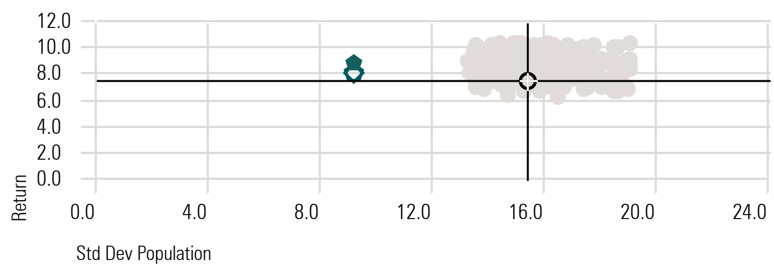


Standard Deviation vs. Annualized Rate of Return Relative to Benchmark & Peer Group

Time Period: 3/1/2000 to 12/31/2023

Peer Group (5-95%): Large Cap SA Source Data: Total, Monthly Return

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

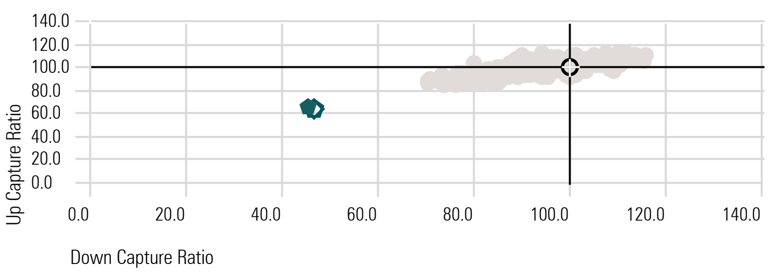


Market Capture Relative to Benchmark & Peer Group

Time Period: 3/1/2000 to 12/31/2023

Peer Group (5-95%): Large Cap SA Source Data: Total, Monthly Return

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

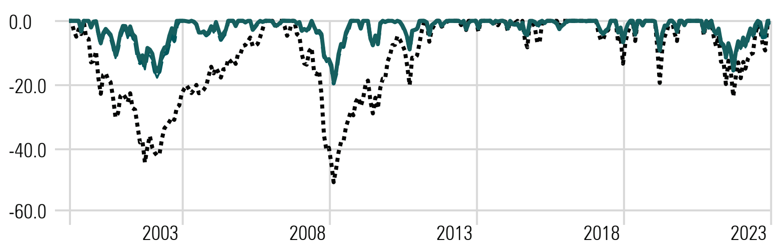


Drawdown Relative to Benchmark

Time Period: 3/1/2000 to 12/31/2023

Source Data: Total, Monthly Return

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



Sector Weightings - GICS

Portfolio Date: 12/31/2023

	LCQ	S&P 500
Consumer Discretionary %	9.99	10.85
Consumer Staples %	14.33	6.16
Energy %	0.00	3.89
Financials %	8.27	12.97
Healthcare %	18.63	12.62
Industrials %	14.23	8.81
Information Technology %	22.54	28.86
Materials %	2.06	2.41
Communication Services %	9.95	8.58
Utilities %	0.00	2.34

Holding Fundamentals

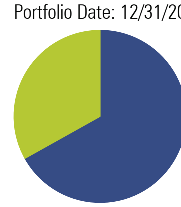
Dividend Yield	1.79
P/E Ratio (TTM)	25.14
P/CF Ratio (TTM)	17.77
P/B Ratio (TTM)	4.21
ROE % (TTM)	29.53
ROA % (TTM)	11.60
Net Margin %	16.73
Est. LT EPS Growth	9.19
Historical EPS Growth	12.78

Market Capitalization

Average Market Cap (mil)	246,935.63
Market Cap Giant %	57.09
Market Cap Large %	36.00
Market Cap Mid %	6.91

Asset Allocation

Portfolio Date: 12/31/2023



	%
Stock	66.9
Bond	0.0
Cash	33.1
Other	0.0
Total	**100.0**

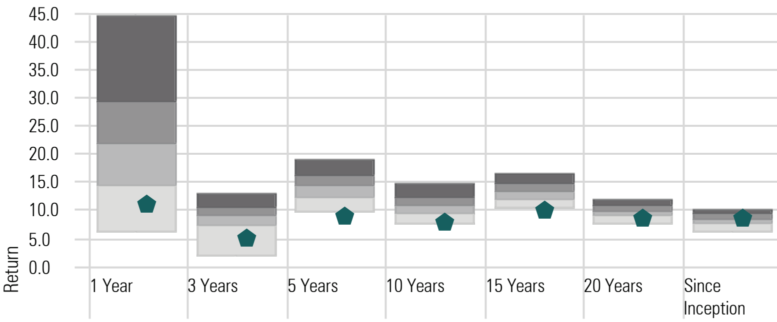
GICS Sector Weightings, Holding Fundamentals, and Market Capitalization statistics reflect the weightings of the stock portion of the portfolio. Results of Morningstar's calculations may vary slightly from SaratogaRIM's own reported statistics within the GIPS Composite Report due to rounding. See Disclosures and Definitions (Page 3) and the GIPS Composite Report: SaratogaRIM Large Cap Quality (Page 4).

Investment Results Relative to Peer Group (Gross)

As of Date: 12/31/2023 Peer Group (5-95%): Large Cap SA Source Data: Gross, Monthly Return

Top Quartile 2nd Quartile 3rd Quartile Bottom Quartile

SaratogaRIM LCQ (Gross)

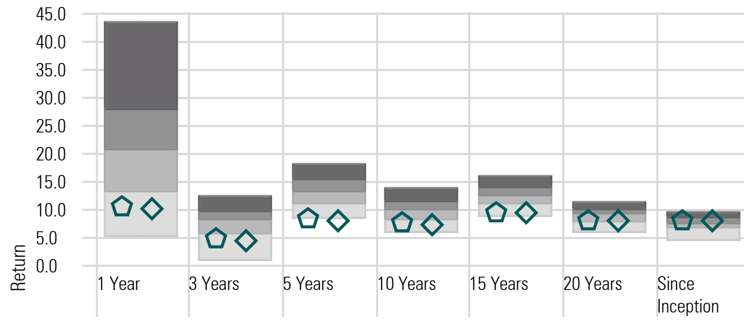


Investment Results Relative to Peer Group (Net)

As of Date: 12/31/2023 Peer Group (5-95%): Large Cap SA Source Data: Net, Monthly Return

Top Quartile 2nd Quartile 3rd Quartile Bottom Quartile

SaratogaRIM LCQ (Net) SaratogaRIM LCQ (Net Max)



Investment Results Relative to Peer Group (Gross)

As of Date: 12/31/2023 Source Data: Gross, Monthly Return Peer Group: Large Cap SA

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
SaratogaRIM LCQ (Gross)	11.17	5.39	8.93	8.13	10.30	8.86	8.90
Median	21.71	9.07	14.48	11.05	13.49	9.83	8.40
Average	23.09	8.54	14.42	10.97	13.48	9.88	8.47
Count	1,658	1,559	1,450	1,159	927	657	419
5th Percentile	44.56	12.99	19.11	14.60	16.69	11.87	10.34
25th Percentile	29.32	10.59	16.25	12.34	14.76	10.71	9.43
50th Percentile	21.71	9.07	14.48	11.05	13.49	9.83	8.40
75th Percentile	14.36	7.16	12.41	9.48	12.12	9.12	7.57
95th Percentile	6.22	2.06	9.82	7.70	10.56	7.72	6.26

Investment Results Relative to Peer Group (Net)

As of Date: 12/31/2023 Source Data: Net, Monthly Return Peer Group: Large Cap SA

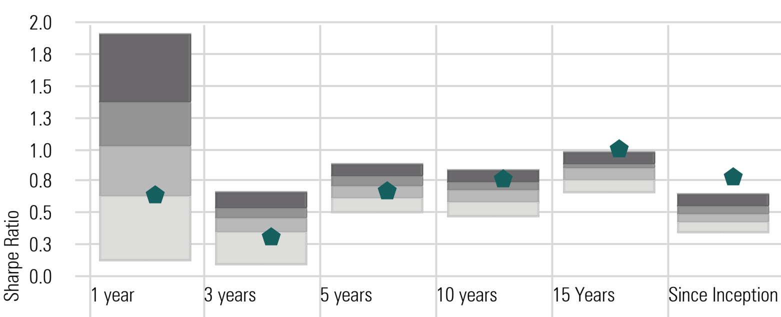
	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
SaratogaRIM LCQ (Net)	10.56	4.81	8.34	7.53	9.65	8.12	8.11
SaratogaRIM LCQ (Net Max)	10.34	4.60	8.12	7.32	9.48	8.05	8.08
Median	20.41	7.98	13.17	9.71	12.35	9.01	7.46
Average	21.89	7.42	13.18	9.76	12.29	8.73	7.41
Count	1,638	1,536	1,429	1,143	915	650	418
5th Percentile	43.49	12.24	18.25	13.68	15.82	11.19	9.65
25th Percentile	27.61	9.67	15.30	11.43	13.83	9.90	8.50
50th Percentile	20.41	7.98	13.17	9.71	12.35	9.01	7.46
75th Percentile	12.89	5.72	11.03	8.09	10.79	7.57	6.50
95th Percentile	5.35	0.79	8.29	6.00	8.63	5.97	4.50

Sharpe Ratio Relative to Peer Group (Gross)

As of Date: 12/31/2023 Peer Group (5-95%): Large Cap SA Source Data: Gross, Monthly Return

Top Quartile 2nd Quartile 3rd Quartile Bottom Quartile

SaratogaRIM LCQ (Gross)

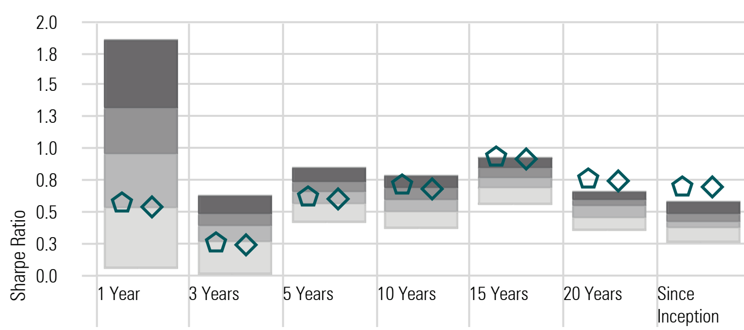


Sharpe Ratio Relative to Peer Group (Net)

As of Date: 12/31/2023 Peer Group (5-95%): Large Cap SA Source Data: Net, Monthly Return

Top Quartile 2nd Quartile 3rd Quartile Bottom Quartile

SaratogaRIM LCQ (Net) SaratogaRIM LCQ (Net Max)



Sharpe Ratio Relative to Peer Group (Gross)

As of Date: 12/31/2023 Source Data: Gross, Monthly Return Peer Group: Large Cap SA

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
SaratogaRIM LCQ (Gross)	0.64	0.31	0.67	0.78	1.00	0.84	0.79
Median	1.03	0.45	0.71	0.67	0.84	0.60	0.48
Average	1.02	0.42	0.70	0.66	0.83	0.60	0.49
Count	1,658	1,559	1,450	1,159	927	657	419
5th Percentile	1.91	0.66	0.88	0.83	0.97	0.70	0.64
25th Percentile	1.38	0.53	0.78	0.74	0.89	0.65	0.55
50th Percentile	1.03	0.45	0.71	0.67	0.84	0.60	0.48
75th Percentile	0.63	0.34	0.62	0.59	0.76	0.56	0.43
95th Percentile	0.12	0.09	0.51	0.47	0.66	0.46	0.34

Sharpe Ratio Relative to Peer Group (Net)

As of Date: 12/31/2023 Source Data: Net, Monthly Return Peer Group: Large Cap SA

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
SaratogaRIM LCQ (Net)	0.58	0.26	0.62	0.72	0.94	0.77	0.71
SaratogaRIM LCQ (Net Max)	0.55	0.24	0.60	0.69	0.92	0.76	0.70
Median	0.95	0.39	0.65	0.59	0.76	0.54	0.43
Average	0.94	0.36	0.64	0.59	0.76	0.53	0.43
Count	1,638	1,536	1,429	1,143	915	650	418
5th Percentile	1.85	0.63	0.84	0.78	0.92	0.65	0.58
25th Percentile	1.32	0.48	0.74	0.69	0.84	0.60	0.49
50th Percentile	0.95	0.39	0.65	0.59	0.76	0.54	0.43
75th Percentile	0.54	0.26	0.56	0.50	0.68	0.46	0.37
95th Percentile	0.05	0.01	0.42	0.37	0.56	0.36	0.26

Results of Morningstar's calculations may vary slightly from SaratogaRIM's own reported statistics within the GIPS Composite Report due to rounding.
See Disclosures and Definitions (Page 3) and the GIPS Composite Report: SaratogaRIM Large Cap Quality (Page 4).

Disclosures & Definitions

See additional important disclosures and composite-specific information within the GIPS Composite Report (Page 4).

Saratoga Research & Investment Management ("SaratogaRIM" or the "Firm") is an SEC Registered Investment Advisor. SEC Registration does not constitute an endorsement of the Firm by the Commission, nor does it indicate the advisor has attained a particular level of skill or ability. Advisory services are not made available in any jurisdiction in which SaratogaRIM is not registered or otherwise exempt from registration.

This report was generated by SaratogaRIM through Morningstar Direct's Presentation Studio using data from Morningstar Direct and Advent Axys. SaratogaRIM composite performance statistics are based off gross-of-fee or net-of-fee monthly performance data uploaded to Morningstar. Results of Morningstar's calculations may vary slightly from SaratogaRIM's own reported statistics within the GIPS Composite Report due to rounding. The Peer Group statistics within this report contain U.S. Large Cap separate account managers that appear in the Morningstar database for the relevant periods shown as of the report generated date. The information and statistical data contained herein have been obtained from sources that SaratogaRIM believes to be reliable but in no way are warranted by the Firm as to accuracy or completeness.

Results of the SaratogaRIM Large Cap Quality Composite do not reflect the results of any one portfolio in the composite. 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.

Gross-of-fee returns are calculated gross of management, custodial and external consultant or advisory fees and net of transaction costs. Net-of-fee returns are calculated net of actual management fees and transaction costs and gross of custodian fees and external consultant or advisory fees. Prior to October 31, 2022, non-fee-paying accounts were included in composite net-of-fee return calculations without a fee rate; per the SEC Marketing Rule effective November 4, 2022, net-of-fee returns labeled "Net" now include a model fee rate of 0.75% for all non-fee-paying accounts. Additionally, a separate net-of-fee return calculation has been added to SaratogaRIM marketing materials using the current maximum fee rate charged by SaratogaRIM for the SaratogaRIM Large Cap Quality Composite (0.75%, labeled "Net Max"). Calculations are available upon request. Information pertaining to the Firm's advisory fees is set forth in SaratogaRIM's current disclosure statement, which is available upon request.

Definitions: 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. Excess Return measures the difference in return, cumulative or annualized, between the strategy and a benchmark. 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. Drawdown is a measure of peak-to-trough decline over the period of time until a new high is reached.

Benchmark Disclosures: Benchmarks are unmanaged and provided to represent the investment environment in existence during the time periods shown. The S&P 500® Total Return Index has been selected as the benchmark for comparison purposes. The S&P Total Return Index assumes that all dividends and distributions are reinvested. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of benchmarks. An index is not available for direct investment, and does not reflect any of the costs associated with buying and selling individual securities or any other fees, expenses, or charges. | The S&P 500 Index is a product of S&P Dow Jones Indices LLC ("SPDJI"), and has been licensed for use by SaratogaRIM. Standard & Poor's®, S&P®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by SaratogaRIM. SaratogaRIM's products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 Index.

GIPS Composite Report

SaratogaRIM Large Cap Quality

Q4 2023

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

Composite Performance Statistics

Year	Composite Gross TWR	Composite Net TWR	Composite Net Max TWR	S&P 500 Total Return	Standard Deviation	3 Yr Ann Standard Dev Composite Net TWR	3 Yr Ann Standard Dev S&P 500 Total Return	# of Portfolios in Composite	End of Period Composite Assets	End of Period Total Firm Assets
2000 (2/29)	31.62	30.58	30.82*	-2.45	n/a	-	-	44	13,012,273.41	26,739,562.04
2001	-1.54	-2.51	-2.27*	-11.93	2.87	-	-	56	24,787,551.38	36,880,632.99
2002	-8.93	-9.74	-9.60*	-22.06	1.84	-	-	79	28,949,501.66	39,231,009.25
2003	18.16	17.09	17.27*	28.68	2.09	-	-	87	37,399,754.37	52,738,112.73
2004	1.33	0.40	0.56*	10.88	2.06	-	-	90	39,743,734.02	58,324,543.15
2005	7.02	6.02	6.21*	4.91	2.29	-	-	88	39,293,990.53	61,636,483.18
2006	17.03	15.93	16.17*	15.80	3.14	-	-	83	44,027,113.77	73,239,570.18
2007	11.68	10.62	10.86*	5.49	2.86	-	-	84	48,997,165.75	79,207,247.76
2008	-11.48	-12.34	-12.15*	-37.00	3.24	-	-	112	50,664,984.48	80,940,276.87
2009	25.04	23.91	24.05*	26.46	2.60	-	-	260	149,105,345.03	183,475,714.03
2010	14.26	13.42	13.42*	15.06	0.79	-	-	491	308,291,988.80	419,588,547.25
2011	4.32	3.70	3.53	2.11	0.53	11.86	18.71	1,176	675,883,971.31	758,793,592.13
2012	9.93	9.31	9.11	16.00	0.61	9.98	15.09	1,540	950,046,377.00	1,044,968,031.90
2013	21.65	20.98	20.75	32.39	1.63	7.85	11.94	1,823	1,259,241,527.31	1,403,561,332.55
2014	10.59	9.99	9.76	13.69	0.94	6.30	8.97	1,913	1,338,659,044.57	1,614,090,418.39
2015	1.84	1.28	1.07	1.38	1.00	6.96	10.47	1,983	1,266,678,096.48	1,638,083,262.32
2016	6.95	6.35	6.15	11.96	0.89	6.48	10.59	2,196	1,329,320,194.32	1,800,890,893.30
2017	17.72	17.07	16.85	21.83	1.52	6.15	9.92	2,383	1,481,531,427.12	2,113,160,549.13
2018	0.41	-0.14	-0.34	-4.38	0.48	6.54	10.80	2,480	1,401,704,942.18	2,013,567,458.02
2019	18.03	17.38	17.14	31.49	2.08	7.39	11.93	2,583	1,505,375,555.14	2,333,608,905.18
2020	11.05	10.44	10.22	18.40	0.95	9.93	18.53	2,428	1,458,530,696.52	2,631,534,466.80
2021	14.96	14.32	14.09	28.71	1.15	9.56	17.17	1,921	1,439,757,287.98	2,957,751,865.10
2022	-8.41	-8.92	-9.10	-18.11	0.78	11.63	20.87	1,739	1,156,118,739.10	2,603,780,552.47
2023	11.17	10.56	10.34	26.29	0.56	10.51	17.29	1,593	1,090,382,598.01	2,740,178,820.20

Trailing Annualized Returns as of 12/31/23

	Composite Gross TWR	Composite Net TWR	Composite Net Max TWR	S&P 500 Total Return
1 Year	11.17	10.56	10.34	26.29
5 Year	8.94	8.34	8.12	15.69
10 Year	8.13	7.53	7.32	12.03
Composite Inception	8.89	8.11	8.08	7.40

**The highest potential fee rate for existing and prospective clients is currently 0.75%. Actual fee rates charged in prior years may have been higher and as a result cause the Composite Net Max TWR to be higher than the Composite Net TWR.*

Firm Description: Saratoga Research & Investment Management ("SaratogaRIM" or "the Firm") is an SEC Registered Investment Advisor specializing in the construction and management of equity portfolios composed of high caliber businesses utilizing common sense investment principles. SEC Registration does not constitute an endorsement of the Firm by the Commission, nor does it indicate the advisor has attained a particular level of skill or ability. The Firm's investment process is designed to meet the long-term needs of conservative individual and institutional investors. Advisory services are not made available in any jurisdiction in which SaratogaRIM is not registered or otherwise exempt from registration. The Firm was founded in 1995; prior to March 7, 2007, Saratoga Research & Investment Management was known as Tanner & Associates Asset Management.

Composite Description: The SaratogaRIM Large Cap Quality Composite (SaratogaRIM Equity Composite) includes all discretionary portfolios that invest in what the Firm believes to be high-quality companies with low balance sheet, business model (including capital intensity) and valuation risk. This composite allows cash to accumulate at certain stages of the market cycle and has no maximum cash position size. Individual position sizes typically range from 1.5% to 6% of the total portfolio value, but there is no maximum size for an individual position. While the investment criteria for this composite narrows the investable universe to predominantly large-cap companies based in the U.S., the composite has no restrictions on market cap size or where the company is domiciled. Investment ideas that do not meet the stated composite criteria ("outside the box ideas") are allowed so long as they do not cumulatively represent more than 10% of the total portfolio value. Prior to December 31, 2009, client-directed securities may have been permitted so long as they did not represent more than 10% of the total portfolio value. The minimum requirement to establish a new account is $100,000. The minimum asset level is $50,000 (prior to August 30, 2010, there was no account minimum). Inception date: February 29, 2000. Creation date for GIPS: August 30, 2010.

GIPS Compliance: 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 by The Spaulding Group for the periods March 1, 2000 through December 31, 2022. | A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The SaratogaRIM Large Cap Quality Composite has had a performance examination for the periods February 29, 2000 through December 31, 2022. The verification and performance examination reports are available upon request. | GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. | A list of SaratogaRIM's composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. To obtain GIPS-compliant performance information for SaratogaRIM's strategies and products, please contact Marc Crosby, President, at (408) 741-2332 or Marc@SaratogaRIM.com.

Disclosures: Results of the SaratogaRIM Large Cap Quality Composite do not reflect the results of any one portfolio in the composite. Valuations are computed and performance is reported in U.S. dollars based on trade dates as of month-end, net-of-fees, while accounting for dividend reinvestment. Aggregate composite returns are calculated using the Average Capital Base equation (also known as the Modified Dietz method), which utilizes the beginning asset value plus weighted 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 are also revalued intra-month when large external cash flows occur in excess of 10% of the portfolio's fair value. Daily reconciliation is performed between the Firm's records and the custodian and broker records through Advent to verify client assets. Gross-of-fee returns are calculated gross of management, custodial and external consultant or advisory fees and net of transaction costs. Net-of-fee returns are calculated net of actual management fees and transaction costs and gross of custodian fees and external consultant or advisory fees. Prior to October 31, 2022, non-fee-paying accounts were included in composite net-of-fee return calculations without a fee rate; per the SEC Marketing Rule effective November 4, 2022, net-of-fee returns labeled "Net" now include a model fee rate of 0.75% for all non-fee-paying accounts. The model fee rate for non-fee-paying portfolios was applied quarterly until October 2022, when the Firm switched to deducting monthly. Additionally, a separate net-of-fee return calculation has been added to SaratogaRIM marketing materials using the current maximum fee rate charged by SaratogaRIM for the SaratogaRIM Large Cap Quality Composite (0.75%, labeled "Net Max"). The "Net Max" return fee data represents the reduction of the gross of fee composite returns by the monthly portion of the annual model fee rate of 0.75%. SaratogaRIM fee is normally 0.75% for the SaratogaRIM Large Cap Quality Composite; may be negotiated, as warranted by special circumstances. Dispersion is calculated as the asset-weighted standard deviation of annual net-of-fee portfolio returns around the median net-of-fee 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. The 3-year annual standard deviation (external dispersion) is based on net-of-fee returns. As of January 2022, SaratogaRIM's composite descriptions have been revised to better reflect the criteria used in determining composite inclusion/exclusion. The resultant updates to composite constituents for the SaratogaRIM Large Cap Quality Composite caused performance differentials that modestly exceeded the Firm's materiality threshold in four years (two years being positive and two years being negative). However, since inception annualized performance was affected by an immaterial amount (0.0026%). For additional information and calculation details, please contact Marc Crosby (Marc@SaratogaRIM.com).

Benchmark Disclosures: Benchmarks are unmanaged and provided to represent the investment environment in existence during the time periods shown. The S&P 500® Total Return Index has been selected as the benchmark for comparison purposes. The S&P Total Return Index assumes that all dividends and distributions are reinvested. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of benchmarks. An index is not available for direct investment, and does not reflect any of the costs associated with buying and selling individual securities or any other fees, expenses, or charges. | The S&P 500 Index is a product of S&P Dow Jones Indices LLC ("SPDJI"), and has been licensed for use by SaratogaRIM. Standard & Poor's®, S&P®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by SaratogaRIM. SaratogaRIM's products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 Index.

Disclosures

See additional important disclosures and composite-specific information within the GIPS Composite Reports for SaratogaRIM Large Cap Quality Focus (page 25) and Large Cap Quality (page 29).

Saratoga Research & Investment Management ("SaratogaRIM" and "the Firm"), founded in 1995, is an SEC Registered Investment Advisor specializing in the construction and management of equity portfolios composed of high caliber businesses utilizing an investment process built on common sense investment principles for individual and institutional investors. SEC Registration does not constitute an endorsement of the Firm by the Commission, nor does it indicate the advisor has attained a particular level of skill or ability. Advisory services are not made available in any jurisdiction in which SaratogaRIM is not registered or otherwise exempt from registration.

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As additional peer group comparison data for the relevant period becomes available through Morningstar, statistics within the Composite Statistics pages may be updated and subsequently replaced within the version of this quarterly report that is published to SaratogaRIM.com. The Composite Statistics report generation date can be found within the footers of each Composite Statistics report. The original Quarterly Report publish date is located on the upper right hand corner of the Quarterly Report cover page and the main report page footers.

2023 Q4 (Annual) Report Charts: All charts and tables within this report are created by SaratogaRIM. **Fig. 1** displays quarter-end sector weightings for the SaratogaRIM Large Cap Quality Focus and Large Cap Quality composites along with the S&P 500 Index using FactSet data. **Fig. 2** contains four charts displaying different profitability metrics for SaratogaRIM's consumer staples sector constituents (individually and combined), S&P 500's consumer staples constituents, and the S&P 500 Index (excluding Financials) from 2008 through 2022 (using data from FactSet). The SaratogaRIM and S&P figures displayed within the charts do not reflect actual market or composite performance, rather the metrics as labeled in the corresponding chart title. Gross profit to assets (GPA) is a ratio used to determine how efficiently a firm uses its assets to generate gross profits. It is calculated as gross profits divided by the firm's total assets. Gross profits is calculated as revenues minus cost of goods sold. Total assets is the sum of all current and long-term assets. Return on invested capital (ROIC) is a calculation used to assess the profitability of internal investments made by a company. It is calculated by dividing net operating profit after tax (NOPAT) by invested capital. All metrics in the ROIC and Gross Profit to Assets charts are derived from FactSet's data and calculations. Average Gross Profit to Assets figure uses historical estimates from FactSet. **Fig. 3** illustrates cumulative daily return estimates calculated by FactSet utilizing month-end holdings data for the relevant period shown and may differ from actual performance. Ending label data points represent actual net performance and net max performance. Past investment results are not a guarantee of future results. For further information or clarification regarding any of the charts or concepts within this report, please email your *specific* questions to InvestorRelations@SaratogaRIM.com.

Gross-of-fee returns are calculated gross of management, custodial and external consultant or advisory fees and net of transaction costs. Net-of-fee returns are calculated net of actual management fees and transaction costs and gross of custodian fees and external consultant or advisory fees. Prior to October 31, 2022, non-fee-paying accounts were included in composite net-of-fee return calculations without a fee rate; per the SEC Marketing Rule effective November 4, 2022, net-of-fee returns labeled "Net" now include a model fee rate of 0.75% for all non-fee-paying accounts in the SaratogaRIM Large Cap Quality composite/1.00% in the SaratogaRIM Large Cap Quality Focus composite. Additionally, a separate net-of-fee return calculation has been added to SaratogaRIM marketing materials using the current maximum fee rate charged by SaratogaRIM for the corresponding composite, labeled “Net Max” (0.75% for the SaratogaRIM Large Cap Quality Composite/1.00% for the SaratogaRIM Large Cap Quality Focus Composite). Calculations are available upon request. Information pertaining to the Firm’s advisory fees is set forth in SaratogaRIM’s current disclosure statement, which is available upon request. Results of the SaratogaRIM Large Cap Quality Composite & the SaratogaRIM Large Cap Quality Focus Composite do not reflect the results of any one portfolio in those composites.

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. Indices are unmanaged, hypothetical portfolios of securities that are often used as a benchmark in evaluating the relative performance of a particular investment. An index should only be compared with a mandate that has a similar investment objective. An index is not available for direct investment, and does not reflect any of the costs associated with buying and selling individual securities or management fees.

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.

Direct clients may access their portfolio information and reports including client-specific information through SaratogaRIM’s Client Portal. If you are a direct client needing Client Portal access or assistance, please call (408) 741-2330 or email ClientService@SaratogaRIM.com. 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 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 are available from SaratogaRIM 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 wish to become a client of SaratogaRIM, you will be required to sign an Investment Advisory Agreement that exclusively governs the relationship between you and SaratogaRIM. You will also be required to review SaratogaRIM’s most recent Privacy Notice, Form CRS, and Form ADV, which are publicly available on SaratogaRIM.com/documents. To receive a printed copy of the Firm’s Privacy Notice, Form CRS, or Form ADV, please contact Marc Crosby, President, at (408) 741-2332 or Marc@SaratogaRIM.com.

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SaratogaRIM.com

Matt Casas, CFA: Analyst & Portfolio Manager

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

Tracey Devine: Director of Investment Team Communications | Generalist Portfolio Manager

Andrew Early, CFA: Analyst & Portfolio Manager

Stephen Fung, MBA: Operations Specialist | Analyst

Jordan Hamilton: Operations Associate

Travis Hanson, MBA: Chief Financial Officer | Operations Specialist

Maria Harrington: Director of Client Service | Operations Specialist

Madeline Hedges, CFP: Chief Compliance Officer

Matt Keating, CFA, MBA: Analyst & Portfolio Manager

John Lapava: Office Manager

Adrena Lauti: Client Service & Operations Specialist

Mark McClenahan, CFP: Director of Investor Relations

Tierney McClenahan: Investor Relations & Operations Specialist

Robert Meng, CFA: Analyst & Portfolio Manager

Adam Oreglia, CISM, GSEC: Director of Information Technology | Operations Specialist

Joe Pollard: CFA, MBA: Analyst & Portfolio Manager

Adam Sato: Analyst & Portfolio Manager

Mathew Spencer, CFA: Analyst & 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