



Mind the Moat

FOUNDERS CAPITAL MANAGEMENT
2024 ANNUAL REPORT

Investing for the Long Term. Every Day.



An innovative money management firm investing in publicly traded equities and fixed-income securities. A deep base in business management with a truly global perspective. A drive to identify true fundamental value. A commitment to buy carefully and hold for the long term. A passion to provide customized investment solutions tailored to each client's financial goals and risk tolerance.

This is Founders.

Founders Capital Management, LLC

2024 Annual Report:

“Mind the Moat”

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2024 PRINCIPALS' LETTER

From: Founders Capital Management

“Mind the Moat”

“If I wish to engage, then the enemy, for all his high ramparts and deep moat, cannot avoid engagement; I attack that which he is obliged to rescue.”

— Sun Tzu: The Art of War

2024 was the year we collectively fell in love with the promise of artificial intelligence (AI). We “got” the appeal: Who wouldn't want a computer program that can write poems and predict the weather? But when a compelling storyline takes hold, it can be hard to see the world outside of its mesmerizing aura. Remember the U.S. Housing Bubble that burst in 2008 and the dot-com boom of the late 1990s and early 2000s? You've heard of the South Sea Bubble of 1720 and the infamous Dutch Tulip Bubble of the 1630s? Human nature hasn't changed much over the decades and centuries—if the story is captivating enough, investors are still ready to pour money into companies at levels that far exceeds their intrinsic value. Humans will always be drawn to exciting stories—even if the numbers don't always add up.

This year's market rise was a curious phenomenon. Sure, the overall 25% gain in the S&P 500 hot rod looked terrific, but lift the hood, and you'll find that one engine did a lot of the work: Nvidia. This one stock accounted for more than 20% of the total S&P 500 return over the past 12 months. This is a reminder that averages can be deceiving: One outlier can skew the whole picture, making it seem like everyone's winning—even if most aren't. And what about the expert predictions of leading investment firms of 9%–10% annual market returns in 2025? Our opinion is that predicting the future is a fool's errand, even for experts. The economy is a complex system that is driven by emotions, incentives, and a million unpredictable events. The most skilled and careful market forecasts are likely to be wrong. The best one can do is to acknowledge the market's uncertainty, stay humble, and temper any excitement around its outlook. We must remember that sometimes, the most valuable asset is a healthy dose of skepticism. In other words: Investors should lower their expectations of high future market returns.

The past few years have been like riding Disney World's Rock 'n' Roller Coaster, leaving investors feeling more than a little seasick. We experienced the 2020 pandemic, interest rate hikes during 2022 that made our heads spin, a series of bank failures and runs at the beginning of 2023 that raised concerns about the soundness of the U.S. banking sector, and the U.S. Federal Reserve's first interest rate cut in more than three years—all capped by a stock market that rocketed to record highs by the end of 2024. It's enough to make any investor question his sanity, let alone his portfolio.

Throughout these manic market episodes, we've tried to make sense of it all with timely communications to our clients, connecting the dots between earnings, interest rates, and those dizzying market swings. But even with the clearest analysis, the truth is that valuation often feels more like an art than a science, inevitably leading to a wide range of outcomes. Market variables are always in motion, and thus the future is always shrouded in uncertainty. And lately, it seems like the whole game is tilting toward a handful of companies with gravity-defying valuations. So this year, we're going to take a step back from the distractions of the macro market picture. Instead, we'll deep-dive into something more

fundamental: The business moat—a company’s ability to maintain a competitive advantage to protect its market share and profits over the long term.

Imagine a beach, stretching out as far as the eye can see. Dotted the sand are elaborate sandcastles, each a testament to the vision and efforts of its builder. Looking more closely, we notice colossal sandcastles whose magnificence and strength have withstood the tests of time and tide, while others are littered remnants of once-mighty fortresses—half-submerged and crumbling under the relentless assault of the tide. We also notice that the walls of every castle—no matter how grand or simple—are surrounded by a moat; a deep, wide trench filled with water, dug to protect its walls from the incoming tide by diverting the water flow around it.

These builders understand something crucial: It’s not enough to build something beautiful—you have to protect it. The tides are relentless, and without that moat, even the most magnificent creation will eventually crumble.

Think of the sandcastle builders as CEOs, with castles created not of sand but of ideas, products, and brands, with the relentless tides of competition always threatening to wash away their hard work. To protect the business’s products and profits from erosion by competitors, companies need to build a unique set of advantages—an economic moat.

Furthermore—in business as in nature—the competitive tide can change. Sometimes it’s a gentle lapping; other times a raging storm. A static moat—no matter how impressive—will eventually be breached. The best CEOs, like the smartest sandcastle builders, understand this. They adapt and they rebuild. They anticipate the next wave and get ready for it.

Take Cisco in the year 2000. At the peak of the dot-com boom, it was the most valuable company in the world. Its moat seemed impenetrable. But the tide turned: Competition flooded in, and Cisco’s dominance faded. Today, 25 years later, its value is a fraction of what it once was.

Now look at Microsoft. In 2000, it was already a software giant, but it didn’t stand still—it adapted. It reinvented itself, time and time again. With the development of its Azure platform, the company has successfully navigated the transition to cloud computing and is now aggressively pursuing AI with investments in OpenAI and its own AI initiatives. Microsoft’s ability to reinvent itself and build new moats in emerging technologies is a testament to the company’s strategic vision and adaptability. Microsoft has constantly reshaped its defenses, staying ahead of the waves.

Today, the tidal wave is called artificial intelligence. Nvidia—the king of AI chips—is now vying for the throne, its valuation seesawing back and forth with Apple for the crown of “most valuable business on earth.” But for how long? Will its moat hold? Or will it, too, be overcome by the inevitable surge of competition?

This is the question that should be on every investor’s mind: What is happening to the moat? Is it getting wider? Is it staying the same? Or is it slowly being eroded? In a market increasingly dominated by a handful of emerging “new economy” companies, understanding a company’s moat is more critical than ever.

It’s tempting to get intoxicated with the hype of new technologies and visionary companies. But remember, the world of imagination has no limits. The world of reality does. Investors must temper their enthusiasm with a clear-eyed assessment of a company’s economic capabilities and competitive position. The companies that truly endure—the ones that build lasting value—are not just those with innovative products or compelling narratives, but companies that understand a simple truth: That they must be masters of their moats; the tireless defenders of their castles. These are the companies that build and rebuild to withstand any tide.

* * *

Durable Economic Moats: The Cornerstones of Long-Term Competitive Advantage

When we venture into the world of investing, it's easy to get swept up in the allure of the next company that promises to revolutionize an industry or change the world. Amid all the hype and excitement, it's crucial to remember the fundamental principle that underpins successful investing: The ability to identify *durable* economic moats.

In the business world, an economic moat is a collection of competitive advantages that allow a company to defend its market share, profitability, and—ultimately—its intrinsic value from the relentless onslaught of competitors that all want the keys to the business kingdom. If a company's competitive advantages are not clearly fathomable, investors are better off placing their money in a company whose economic moat is more sharply defined.

Moats can be tricky—they're not always obvious. Sometimes they're hidden deep within a company's operations, culture, brand, and/or technology. Just as a castle's defenses can take many forms—from sturdy walls and vigilant archers to cunning traps, hidden tunnels, and lurking alligators—economic moats come in various shapes and sizes. Let's explore some of the most common types.

Intangible Assets: Brand Power and Product Protection

Consider a company like Apple: Its brand is so powerful that people camp out overnight to buy the latest iPhone. That level of brand loyalty is the kind of intangible asset that creates a moat wide enough to keep competitors at bay. (And let's be honest: Who hasn't secretly coveted a sleek new Apple iPhone 16?) Iconic brands like Coca-Cola, PepsiCo, Nestlé, and Google—these names evoke instant recognition, trust, and loyalty. That's the power of a strong brand—it creates an intangible connection with consumers, allowing a company to command premium prices and fend off competitors.

Disney's brand moat comes in the form of an enchanted kingdom. Disney has captured the magic of childhood and the spirit of family and woven them into a brand that's almost impossible to replicate. Who hasn't felt the pull of a Disney theme park or the joy of a Pixar movie? That's the power of Disney's moat, built on deep emotional connections. Try competing with a business that holds a share of the emotional mind—it is hard to dislodge, can be passed on to future generations, and people are willing to pay more for the experience.

Other companies have legal protections: Patents, trademarks, and other forms of intellectual property also fall under the “intangible asset” category, providing legal protection for valuable innovations and granting companies exclusive rights to produce and sell certain products or services. This can be a formidable moat, especially in industries like pharmaceuticals and technology, in which innovation is paramount—but intellectual property can become susceptible to competition when patents expire or when new technologies emerge, displacing the old.

Superior quality is yet another intangible asset—Rolex's reputation for meticulous watchmaking serves as a durable and valuable asset.

Switching Costs: The Inertia of Habit and the Cost of Change

Have you ever tried switching banks or software providers? It can be a real hassle, involving paperwork, transferring data, and learning new systems. These are examples of “switching costs,” and they can be a powerful deterrent for customers considering jumping ship to a competitor.

As a small business owner, have you ever tried switching accounting software? It's a nightmare. That's the beauty of Intuit's QuickBooks. Once a business has integrated QuickBooks into its operations, switching to a competitor is like trying to rebuild a castle brick by brick. The cost and hassle of switching create a powerful lock-in effect, giving Intuit a wide moat.

Companies like Microsoft, with its ubiquitous Windows operating system and Office suite of programs—and Google, with its deeply entrenched search engine, android software, and chrome browser—are businesses that

benefit greatly from high switching costs. Customers are often reluctant to abandon familiar products and incur the costs and inconvenience of switching, even if a competitor offers a slightly better or cheaper alternative.

Network Effects: The Power of the Crowd and the Value of Connection

Imagine a communications network with only a handful of users. Not very useful, is it? But as more people join the network, its value increases exponentially. This is the essence of network effects: The more users a product or service has, the more valuable it becomes to each individual user.

Social networks like Facebook and Instagram, payment platforms like Visa and Mastercard, and an online marketplace like Amazon all exhibit strong network effects. Their vast user bases create a powerful barrier to entry for competitors, and new entrants struggle to attract users to a smaller, less valuable network.

Cost Advantages: The Efficiency of Scale and the Pursuit of Frugality

Some companies simply have a knack for doing things more efficiently than their rivals. They might have access to cheaper raw materials, benefit from economies of scale, employ lean manufacturing processes, or possess unique distribution methods. These cost advantages allow them to squeeze every penny and pass savings on to the customer. Such companies also undercut competitors and enjoy higher profit margins, creating a formidable competitive barrier.

Walmart, the retail behemoth, is a prime example of a company with a significant cost advantage. Its massive scale, efficient supply chain, and relentless focus on cost control allow it to offer everyday low prices that are difficult for competitors to match.

Amazon Web Services (AWS), the dominant player in cloud computing, has built a moat as vast as the internet itself. AWS's massive infrastructure and relentless focus on efficiency allow it to offer computing power at a scale and price that's hard to match. This cost advantage, combined with a comprehensive suite of cloud services, has made AWS a go-to platform for businesses of all sizes.

Efficient Scale: The Natural Monopoly and the Limits of the Market

In some industries, the market can only support a limited number of profitable players due to factors such as high infrastructure costs, limited natural resources, or regulatory constraints. In such cases, the companies that establish themselves early on can enjoy a natural moat that makes it difficult for new entrants to gain a foothold.

Utility companies, large integrated cloud providers, regional cable providers, and railroads are businesses that operate in markets with factors that tend to limit the ability for multiple players to thrive. Imagine trying to start a new railroad to compete with the giants that already control the tracks—you'd need tens of billions of dollars to obtain land, federal permission to lay down tracks, and—if you could get it built—you'd have to convince customers to switch over. It would be like trying to build a castle out of sand to rival Fort Knox—not exactly an easy feat.

Foretelling the future of a business with any precision is virtually impossible or, at least, very difficult to do, despite its economic moat. Sometimes the business model that protects a company's castle is relatively easier to discern.

The Business Model: The Engine of Value Creation

Let's turn our attention to business models. In past letters, we have merged business models and strategies into an all-encompassing theme. However, there is a distinct difference: A business model is essentially the blueprint for a company's success—a framework that outlines how a company plans to create, deliver, and capture value—while a business strategy defines the specific approach a company plans to use to compete in the market and achieve its goals.

A sound business model is essential for any company, but it's particularly crucial for those seeking to build a lasting competitive advantage—a wide and deep economic moat—around its business castle.

Think of it this way: A moat protects a castle from invaders, but the castle itself must be well designed and functional to thrive. Similarly, a strong business model provides the foundational structure for a company's success, while the economic moat protects that success from competitive erosion.

Diverse Designs: The Many Forms of Business Models

Businesses, like building structures, aren't all the same—some are designed to be fortresses, focused on defense, while others are sprawling estates designed for expansion. Businesses come in different shapes, different styles, and different ways of making money.

Take the **razor-and-blades** model: Sell the razor cheap, then make your money on replaceable blades. Gillette figured this out a long time ago. Printer manufacturers do this, too—sell the printer at cost, and make money by selling replacement cartridges. It's like a clever trap, luring you in with a low price, then keeping you hooked with the need to buy refills. While the razor-and-blades model can be highly profitable, it's vulnerable to disruption—competitors' ability to offer compatible “blades” (e.g., razor refills; ink cartridges) at lower prices can undercut the model's profitability. Constant innovation and product differentiation are required to maintain these companies' moats.

Then there's the **subscription** model. Netflix, Spotify, and your gym membership all work this way: Pay a monthly fee to get access to something you want. This provides a steady stream of income, like a river flowing reliably into the castle's cisterns. For example: Adobe, the software giant, recognized the need to adapt its business model to combat piracy and to generate reliable recurring revenue. The company transitioned from selling individual software licenses to a subscription-based model (Creative Cloud) that provides access to a suite of integrated creative applications for a monthly fee. This shift created a more predictable revenue stream and strengthened Adobe's customer relationships.

The **freemium** model operates a bit like a Trojan horse—a way to get inside the walls, then convince people to stay and pay. The idea of this model is to provide basic or limited features of a product or service for free, then charge a premium for the good stuff. It's a delicate dance, offering a taste of value up front to entice users, then converting them to paying customers with irresistible premium features. Dropbox, Fortnite, and lots of other apps do this.

Franchise models are like little outposts of the main castle, and they're everywhere: McDonald's and Subway are examples of this model, which provides a way to expand a business empire without building every castle yourself. The idea is to let others do the work (and put in most of the money) but charge the franchisee for the right to fly your banner.

Flywheel model: Amazon's dominance in e-commerce is built on a self-reinforcing “flywheel” model: Low prices attract customers, which in turn attracts more sellers, leading to greater selection and further driving down costs through economies of scale. The flywheel model creates a powerful moat by combining a cost advantage with unparalleled customer convenience.

And finally, there's the **direct-to-consumer** model: Cut out the middleman, and go straight to the customer. Geico and Warby Parker apply this business model, which is akin to building a secret tunnel that bypasses the traditional routes to market.

Each of these models, whether used in isolation or in some combination, represents a different way of building a business—a different way of creating and capturing value. They're not all equally effective, of course. Some work better in certain industries; some depend on specific circumstances.

Understanding basic business models and seeing how they work is like having a map of the business landscape: It helps investors understand how various types of companies make money, compete, and—ultimately—how they build their own unique business castles.

The Synergistic Blend: Integrating Business Models and Moats

What if your business model could actually *build* your economic moat? This is where magic happens. The most successful companies don't have either a strong model or a strong moat—they have both, working together like two gears in a machine. Take Costco, for example. Its subscription model, fanatical customer service, curated product selection, and incredibly efficient delivery network create an ecosystem that's nearly impossible to copy. Try matching Costco's bulk buying power or its employee loyalty—it would not be easy. Costco's innovative blended model, combined with smart investments in technology and logistics, has resulted in the creation of a formidable moat around its business.

The Architect's Vision: Designing for Long-Term Success

When evaluating a company, remember that a well-designed business model isn't just a blueprint—it can be a moat-building machine. Ask yourself: Does this model create a real competitive advantage—something that would be truly hard to replicate? Does it reinforce the company's defenses, or could it be tweaked to do so? And—perhaps most important—can it adapt as the world changes? The best companies are like medieval castles that have stood for centuries—not just beautiful, but built to withstand any siege. They have a business model that not only creates value but protects it from the relentless forces of competition. These are the companies that truly stand the test of time.

Economic Moats and Business Model Enhancers

Moats aren't just about patents or brands—they're about building a business that people love; a company that customers want to stick with, not because they have to, but because they *want* to.

Customer Intimacy

Customer intimacy goes beyond selling products or services; it's about building a relationship.

Think of Spotify, an audio-streaming service that collects and applies user data to create algorithmic music recommendations that are relevant and targeted to each specific user. Spotify's "Discover Weekly" feature is a popular example of how the company's algorithms anticipate user preferences and provide a tailored experience.

Ritz-Carlton, the luxury hotel chain, is renowned for its exceptional customer service and attention to detail. The company empowers employees to go above and beyond to meet guests' needs and create memorable experiences. The Ritz-Carlton even tracks guest preferences to personalize future stays.

Consider Warby Parker: It's not just selling glasses; it's selling an experience. Features such as friendly service and a try-at-home program convey a sense that it genuinely cares. Warby Parker is the kind of company that makes you feel good about doing business with it.

Operational Excellence

Then there's the less glamorous side of the moat: Operational excellence is about running a tight ship, squeezing every ounce of efficiency out of the system. Think of UPS (United Parcel Service), a logistics machine. UPS has been moving goods around the world for more than a century. Its global network and sophisticated tracking systems are a testament to its operational expertise. UPS has its business down to a science, moving goods around the world like a well-oiled machine. It's not flashy, but it's a powerful advantage.

Innovation

Even the most efficient companies can't afford to stand still—the world is constantly changing, consumer tastes evolve, and new technologies emerge. This is where innovation comes in: It's all about constantly pushing the boundaries; surprising and delighting customers.

In the early 2000s, LEGO was facing an existential crisis: The company's classic bricks—once a childhood staple—were losing their appeal as kids turned increasingly to video games and other toys. LEGO's profits were collapsing more quickly than a poorly built tower.

Just when all hope seemed lost, LEGO rebuffed its competitive tide—not by trying to make better bricks, but by reinventing itself. The company introduced Bionicle, a line of action figures made with LEGO components that had detailed backstories and sprawling science fantasy narratives that unfolded across comics, movies, and video games.

It was a bold move—a departure from the company’s traditional focus on simple building blocks—and it proved to be a stroke of genius. Bionicle captured the imaginations of kids, drawing them into a world of heroes, villains, and epic adventures. Suddenly, LEGO wasn't just about building; it was about storytelling; about creating worlds and characters that kids could connect with on a deeper level. And that connection—that emotional engagement—is what saved LEGO from being swamped by the competition.

Bionicle proved that even the most established companies can reinvent themselves, that innovation can come from unexpected places, and that sometimes, the best way to build a stronger foundation is to tell a better story. That's the power of innovation: It keeps you relevant, keeps you growing, and keeps your moat from drying up.

Employee Development

And finally, the secret business model enhancement weapon: A company’s people. Investing in the employees that show up every day, put in the work, and make the magic happen—nurturing their talents and creating a culture in which they feel valued and can thrive—is not just good management; it's good business.

Happy employees lead to happy customers, which leads to a stronger, more resilient company. This creates a virtuous cycle, a self-reinforcing loop that builds a moat from the inside out.

These elements—customer intimacy, operational excellence, innovation, and employee development—are the building blocks of a truly enduring business. They reinforce and amplify each other, creating a virtuous cycle that strengthens a company's moat and propels it toward lasting success.

The Vigilant Steward: Maintaining and Strengthening Moats

We have taken a detailed look at why successful investing is not just about finding companies with great products or exciting stories—the key is to identify those with enduring business models and formidable economic moats, which enable them to withstand the tests of time and competitive tides to deliver lasting value to shareholders. Our examination would not be complete without a look at what it takes to build and maintain a wide moat.

Companies with wide moats are more likely to generate consistent profits, withstand economic downturns, and deliver superior returns over time. But building an economic moat is not a “one-and-done” event—it requires constant vigilance and adaptation. The competitive landscape is dynamic, with new technologies, changing consumer preferences, and disruptive business models emerging all the time. Companies must actively manage and strengthen their moats to ensure their long-term survival and prosperity. Solidifying a company’s competitive advantage requires clear strategy.

Controlling the Drawbridge: The “Tollgate” Strategy

Imagine a bustling city in which a single bridge connects two vital areas. Let’s say that we’re the proud owners of that bridge. Every business, every commuter, every delivery truck must pay us a toll to cross. This illustrates the power of a strategic bottleneck—a critical choke point at which controlling the passage of value from one region to another can give a company incredible leverage.

Such bottlenecks aren't just about physically blocking movement—they can be anything that creates a crucial dependency—a point of control that others simply can't bypass. Let’s look at a few examples.

In the realm of pharmaceuticals: A biotechnology company discovers a cure for a devastating disease. The company erupts in celebration—not just for the scientific breakthrough, but for the golden ticket they now hold: A patent that provides them exclusive property rights over the discovery. This patent transforms the company into a gatekeeper of hope that can assign a hefty fee for any use of its life-saving invention over a

specific period of time. This company has built its castle on a bridge of intellectual property, and everyone who wants to access its benefits must pay the toll.

Consider resource control, such as the rare earth elements that are essential for modern electronics: China's vast reserves provide the country significant power over this vital global supply chain. Or think of lithium, a critical component of rechargeable batteries used in electric vehicles and other devices: A handful of countries and companies control the lion's share of lithium production. These resource emperors sit atop mountains of essential materials, wielding immense power over industries worldwide that depend on their ability to access them.

In a world of global trade, imagine owning the only deepwater port in a bustling region. Every container ship, laden with goods from across the seas, must dock at your harbor, pay your fees, and play by your rules. Or perhaps we control the railway lines that connect a resource-rich hinterland to the coast: A railroad owner can become the ultimate traffic controller, dictating the flow of goods between regions and charging handsomely for the privilege.

In this age of technology, the most valuable bottlenecks are often the platforms that connect us. Think of Apple's App Store—gateway to the world's billions of iPhone and iPad users. App developers must play by Apple's rules—paying the company's fees and adhering to its guidelines—to reach this vast audience. Or consider Google Adx (Ad Exchange), the bustling marketplace in which digital advertisers bid for our attention. Google sits in the middle, facilitating transactions and taking its cut. Even Meta's Facebook, with its billions of users, acts as a bottleneck for businesses seeking to target and connect with its users. These tech wizards have built the digital bridges we all traverse, and they hold the keys to the kingdom.

Brands built on years of customer experience and trust, such as Hershey or Coca-Cola, can create psychological bottlenecks of their own: Consumers crave their products, retailers practically beg to stock their shelves, and competitors scramble to emulate their success. These companies' bottlenecks arise from their reputations—fortresses built on years of customer loyalty and brand cultivation.

Wielding a bottleneck is like walking a tightrope: It can support immense performance power, but it also menaces potential peril in the forms of regulatory scrutiny, competition, and the constant need to innovate. Patents expire, new resources are discovered, and technology marches on. Maintaining a bottleneck requires vigilance, adaptability, and a touch of strategic brilliance.

Investors should seek to determine if a hidden bridge, critical chokepoint, or controlling position may be providing a business its source of power and, if so, evaluate whether this power is growing or is vulnerable to erosion.

Beyond the Gate: Product Differentiation and Shelf Space Domination

The “product ladder” and “shelf space domination” strategies are powerful tools in a company's arsenal for capturing market share and driving sales. When used effectively, they can create a synergistic effect that maximizes a product's reach and appeal.

Imagine a ladder whose rungs each represent a different product within a category, varying in price and features. This is the essence of the product ladder strategy—by offering a range of products at different price points, companies can cater to diverse customer needs and budgets, capturing a wider slice of the market.

Procter & Gamble's oral care line provides an example. At the lower rung, you have Crest Cavity Protection, a basic toothpaste focused on value. Moving up the ladder, you encounter Crest 3D White, offering whitening benefits at a premium price. Further up, you find Oral-B electric toothbrushes, targeting consumers seeking advanced cleaning technology. This tiered approach allows P&G to capture consumers across the spectrum, from budget-conscious to those seeking premium features.

The benefits of a product ladder extend beyond market share, fostering brand loyalty by providing options within a familiar brand family as consumer needs evolve. Product ladders also allow for price segmentation, maximizing profitability by capturing different levels of consumer ability or willingness to pay.

The product ladder strategy also presents challenges: Companies must carefully manage the product ladder to avoid cannibalism, whereby its lower-priced products eat into the sales of its higher-priced ones. This strategy also adds complexity to product development, marketing, and inventory management.

While the product ladder focuses on product differentiation, shelf space domination aims to maximize a product's visibility and presence at the point of purchase—where the battle for consumer attention is won or lost.

PepsiCo, a master of this strategy, doesn't just secure eye-level placement for its snack foods—it floods the shelves with a dizzying array of options—for example, offering Lay's potato chip in flavors ranging from “classic” to “barbecue” to exotic “wasabi ginger,” and in a variety of sizes, from single-serving bags to family-size containers. This tactic caters to diverse tastes and occasions and encourages impulse purchases. By maximizing shelf presence for its snack foods, PepsiCo effectively crowds out competitors and captures consumer attention.

Effective shelf space domination involves more than just quantity—it leverages consumer psychology. Visually prominent displays and the perception of abundance can subconsciously influence buying decisions. Innovative packaging shapes and designs also play a crucial role in grabbing attention.

Investors should understand how the product ladder and shelf space domination strategies work synergistically. By ensuring that each product on the ladder has optimal visibility and placement, companies can maximize their reach across different consumer segments. A well-executed product ladder, combined with a dominant shelf presence, creates a powerful one-two punch that drives sales, builds brand dominance, and gives a company a competitive advantage.

The Inner Workings: Organizational Structure

Within its castle walls, a company's organizational structure plays a crucial role in its resilience. Organizational structures are more than just charts and hierarchies; they're the invisible mechanism that shapes how companies operate, adapt, and compete. While there are countless variations, we'll take a look at two fundamental organizational models: Mechanistic and organic structures.

Imagine a well-oiled machine, with each part performing its specific function in perfect synchrony—that's the essence of a **mechanistic organization**. This structure is characterized by:

- *Hierarchy*: A clear chain of command with centralized decision-making
- *Specialization*: Narrowly defined roles and responsibilities for employees
- *Standardization*: Well-defined processes and procedures that are followed rigorously

Mechanistic structures thrive in stable, predictable business environments in which efficiency and control are paramount—for example, companies like FedEx or UPS, which require precise logistics and standardized operations to reliably deliver millions of packages rapidly and on time. Even giants like this need to adapt, however. While their core delivery processes remain highly mechanistic, they must also embrace technological advancements and respond to evolving customer expectations, requiring a degree of flexibility within their organizational structure.

In contrast, picture a living organism, constantly adapting to its environment: That's the spirit of an **organic organization**. This structure emphasizes:

- *Decentralization*: Decision-making is distributed across teams and individuals
- *Flexibility*: Roles and responsibilities are more fluid and adaptable
- *Collaboration*: Teamwork and communication are highly valued

Organic structures excel in dynamic, uncertain business environments in which innovation and rapid response to change are essential. Companies like Nike, which operates in the fast-paced worlds of fashion and technology, exemplify this approach. Nike decentralizes decision-making, empowering design teams to

experiment and respond quickly to shifting trends. While the company outsources manufacturing, it retains tight control over its brand, marketing, and distribution channels.

It's important to recognize that few organizations exist purely as mechanistic or organic—rather, most successful companies find a balance between the two, adapting their structure to their specific industry, size, and strategic goals. The key for an investor is to understand the trade-offs:

- *Efficiency vs. Adaptability*: Mechanistic structures excel at efficiency, while organic structures prioritize adaptability
- *Control vs. Empowerment*: Mechanistic organizations maintain tight control, while organic ones empower employees
- *Stability vs. Innovation*: Mechanistic structures favor stability, while organic ones foster innovation

Ultimately, investors should understand that the most effective organizational structure is the one that best aligns a company's unique ability to serve its customers with its ability to thrive in a competitive landscape.

Expanding the Kingdom: Segregation vs. Vertical Integration

A company can design its operations and distribution network as a segregated structure or as a more vertically integrated structure. This choice is a fascinating aspect of business strategy that touches on concepts such as vertical integration, outsourcing, and franchise models.

Imagine that we're building a business empire. We have a winning product, but how do we get it from the factory floor into the hands of eager customers? That's where our operational strategy comes into play, and there are two fundamentally different paths we could take: Segregation or vertical integration.

Segregation is like a well-choreographed dance with different partners that enables a company to focus on its core strength. Consider Coca-Cola, a company whose genius lies in creating soft drinks. Coke partners with independent bottlers to handle the messy logistics of bottling up the product, hiring truck drivers, and getting it onto store shelves. This allows Coca-Cola to stay focused on providing the secret syrup, brand management, and marketing magic. Using this “capital-light” approach enables a business to avoid massive up-front investments by leveraging partners' domain expertise and local knowledge.

Vertical integration, on the other hand, is like being a master chef who controls every ingredient and step in the culinary process. You own the farms, the processing plants, the trucks, and even the restaurants. Boeing, the aircraft giant, traditionally followed this model, meticulously overseeing every stage of production from raw materials to finished airplanes. This gave the company tight control over quality and efficiency—but also meant shouldering the immense costs and complexities of managing a vast, interconnected operation.

Boeing's experience highlights the trade-offs inherent in each approach. Boeing's decision to segregate a significant chunk of its manufacturing in the early 2000s backfired spectacularly, and the resultant difficulties continue today. Product flaws emerged, demonstrating the risks of relinquishing control over critical processes. In contrast, Coca-Cola—with its segregated model—enjoys flexibility and asset-light operations but relies heavily on its bottlers' performance.

Ultimately, the choice between segregation and vertical integration depends on the industry, access to resources, and appetite for risk. It requires a strategic balance of quality control, operational efficiency, quality engineering, and strategic capital investment, with no one-size-fits-all answer. For investors, understanding a company's operational structure provides valuable insights into its potential strengths and vulnerabilities. Investors should be cognizant of how a business operation is constructed and how this strategy can lead to a competitive advantage.

All these strategies, when skillfully combined and executed, create formidable economic moats, transforming companies into resilient fortresses capable of withstanding the constant siege of competition.

The Investor's Perspective: Seeking Enduring Value

Ultimately, successful investing is not about assessing how an industry is going to change the world or how fast a business can scale. What is most important is determining the competitive advantage of a business and understanding the ingredients that provide it—and how durable and sustainable this advantage is likely to be over time. Our view is that the true test of a business moat is represented by its pricing power: If a company can raise prices without losing business to a competitor, that's a company that's surrounded by a strong moat.

This means that a company's moat and business model must be relatively simple to understand and remain rather stable, or predictable, over the long term. For example, at Founders, we believe that we have a good understanding of how people will drink beverages, eat snacks, and consume candy 10 or 20 years from now. Artificial intelligence (AI) will not change the consumption equation of these products—although their placement and distribution may become more efficient through the application of AI.

We favor businesses and industries that have cemented such deep roots within their specific ecosystems that it would be very difficult for new entrants to penetrate their business castles. While we realize that it's not impossible for competitors to breach even a strong moat, we search for businesses that integrate the special ingredients we have discussed, making it more likely for them to maintain tremendous competitive strength several decades from now.

When evaluating a business's endurance potential, consider the following:

- *Moat Durability*: How sustainable is the company's competitive advantage? Is it based on factors that are difficult to replicate or are easily eroded?
- *Moat Scope*: How wide and deep is the company's moat? How much pricing power does it have? How easily can competitors enter the market?
- *Management Quality*: Is management skilled at allocating capital, innovating, and adapting to change? Is the management team committed to maintaining and strengthening the company's moat?

In the ever-changing world of business, investors who understand the different types of moats, their relationship to competitive advantages and business models, and the importance of actively managing and strengthening them are well positioned to identify companies with the potential to withstand the test of time and deliver enduring value. But be wary....

The Unbreachable Moat is A Fool's Paradise

Investors should cover their ears if they hear the siren song of an “unbreachable moat.” It's a tempting notion—this idea of a business fortress so strong and so secure that it can withstand any challenge. Like medieval castles, however, even the mightiest businesses can crumble.

A moat is not a magical force field. As we have discussed, it's built on tangible elements such as a strong brand, a cost advantage, and a network of loyal customers—but these advantages are not static; they're constantly evolving, subject to the relentless forces of change.

Sometimes, the moat dries up: A patent expires, a new technology emerges, a competitor finds a way to do it better, cheaper, faster. The advantage that once seemed unassailable suddenly disappears.

Think of the erstwhile king of film photography: Kodak had an unparalleled moat built on patents, brand recognition, and a dominant market share. Then along came digital photography, and Kodak's film business evaporated as customers opted for digital cameras. The arrival of smartphones with built-in cameras further exacerbated the demise of Kodak and other camera manufacturers. Legacy businesses did not adapt quickly enough, and their castles crumbled due to one of the greatest castle killers: *Commoditization*. Film-based photography products no longer provided value and became commoditized, losing their superior price protection. They were subsumed by emerging technologies.

Other times, the castle becomes weakened from within. Poor management, bad decisions, a loss of focus—such issues can erode a moat from the inside out. Management grows complacent, makes ill-advised acquisitions, or loses sight of the core values that built the business in the first place.

Think of Sears—once a retail giant. The company had a vast network of stores, a trusted brand, and a loyal customer base. But Sears lost its way, failing to innovate and adapt to the changing retail landscape. Its moat became a shallow dried-up ditch, and its castle was overrun by the likes of Walmart and Amazon.

Sometimes, the attackers are just too strong: A new competitor emerges with a disruptive business model, a superior product, or a relentless drive to conquer, overwhelming the defenders, no matter how valiant. For example: Blockbuster was once the king of video rentals. The company had a massive network of stores and a loyal customer base. But then Netflix came along with its mail-order DVDs and, later, adapted to streaming service. Blockbuster couldn't keep up, and its castle fell.

It's a fact of life: The world moves on. Tastes shift. New technologies emerge. Competitors rise with disruptive innovations and hungry ambition. And it's a common investor pitfall—the tendency to fall in love with a company's story, its products, its charismatic CEO. We see the moat today and assume that it will endure forever. But that's a dangerous illusion—a trap for the unwary investor.

When most people think of the Fortune 500, they envision a line-up of corporate titans—the giants of industry that seem to stand on top of the world. Here's a sobering thought: More than half of the companies that graced the Fortune 500 list in 2003 have vanished. Gone. Poof. Like castles swallowed by the sands of time.

These fallen giants, once seemingly invincible, are a stark reminder that many of the mightiest businesses crumble. A moat—that cherished competitive advantage that may be recognizable in a company today—is not a guarantee of eternal success. It's a living entity, constantly needing to be nurtured, defended, and adapted to the ever-shifting tides of the business world.

So what brings these titans down? What erodes those once-impenetrable moats? Lost innovation, poor strategic decisions, a toxic company culture—these are all contributing factors. But at the heart of it all lies a more fundamental truth: Human fallibility.

Hubris and arrogance blind us to our weaknesses. Bloat and bureaucracy weigh us down, slowing our progress. And complacency—that insidious enemy—lulls us into a false sense of security, making us vulnerable to the inevitable attacks of competitors and the relentless march of change.

And so a humbling reminder: Even the most successful companies are led by human beings—mortals who are susceptible to the same flaws and foibles that plague us all. Anyone can become complacent, arrogant, or simply lose sight of what led to success in the first place.

The lesson is clear: Vigilance is essential. We must constantly challenge ourselves, question our assumptions, and remain open to new ideas. We must cultivate a culture of humility, in which learning and adaptation are valued above all else—because in the end, it's not just the strength of companies' moats that will determine our investment success. Ultimately, we will sink or swim based on the strength of our character: Our ability to recognize our own limitations, to learn from our mistakes, and to never stop striving for improvement.

Wise investors understand this. They don't just fall in love with a story—they look at the numbers, the competitive landscape, the management team. They constantly ask tough questions, challenge assumptions, and remain vigilant for signs of weakness.

Most important: They remain humble.

Like a good gardener, they tend to their portfolios, constantly evaluating, pruning, and rebalancing based on their ability to assess the business—not by “following the money” placed by “most investors” in one exciting new sector or another. They know that even the grandest castles can fall, and that the most enduring businesses are the ones that also understand the need to never stop building, adapting, and defending their moats.

* * *

The Founders investment philosophy is deeply rooted in the principles of value investing, with a strong emphasis on identifying companies with enduring competitive advantages. We seek businesses in which we can discern a clear vision for the future, a strong competitive position today, and the ability to withstand the inevitable storms of the market. We're particularly drawn to companies with unique business models, strong brands, or innovative cultures—the kinds of qualities that are hard to replicate. While others chase short-term gains, we remain patient and disciplined, waiting for opportunities to acquire these exceptional businesses at attractive prices. Given the increasingly skewed market behavior of recent times that leans toward speculation, we are keeping one of our favorite quotes top of mind:

“The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs.”

—Warren Buffett

We will continue to invest with our eyes wide open and with the confidence that we have acquired a collection of securities at prices that will provide a fair return over time (despite gyrating markets and higher-than-normal speculation). This includes our investments in selected fixed-income instruments that offer a commensurate risk/reward relationship, as well as acquiring interests in strong individual companies through the equity market that are very profitable and have a wide competitive moat. Our investment activity in all market conditions confirms our conviction about another Warren Buffett quote:

“We will continue to price, rather than time, our purchases. In our view, it is folly to forgo buying shares in an outstanding business whose long-term future is predictable, because of short-term worries about an economy or a stock market that we know to be unpredictable. Why scrap an informed decision because of an uninformed guess?”

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MANAGEMENT'S DISCUSSION & BUSINESS REVIEW

Equity Holdings: 2024 Highlights

The intrinsic value of our aggregate equity holdings gained traction during 2024, despite the economic pressure of higher interest rates that increase both consumer and business costs and decrease spending. We remain positive about our capital allocations, including expected returns over the next 10 years, despite the considerable price fluctuations that have surfaced over the past five years that will likely continue into the future.

Given uncertain market circumstances, we'd like to reiterate the following points about our core holdings:

- **We are confident in the high character displayed by the leadership of the companies in our aggregate portfolio** and believe that the companies are managed in a resilient manner that allows them to adapt in changing times.
- **We believe that we are business partners in actual companies that are focused on building sustainable and secure businesses that increase long-term profitability**, as opposed to being members of a group of shareholders that are interested only in a rising stock price that is divorced from a commensurate movement in business value.
- **We believe that we own a collection of businesses that fall into the "valuable" and "invaluable" categories and that their increasing intrinsic business value will be realized over time.**
- **Our invested companies have durable competitive moats, with business models that are enduring, resilient, and able to adapt to a changing marketplace.** Our companies possess a long-term competitive advantage in their respective industries and have earnings capabilities that are sustainable over the foreseeable future.

As long-term investors, we are confident that the wonderful franchises in which we have an ownership stake will continue to strengthen their long-term enterprises, independent of any short-term gyrations in their stock prices.

The following is a summary of business highlights from our portfolio companies during 2024, along with our expectations for their future.

CONSUMER GROUP

They say that tough times reveal true strength. In the face of inflation and economic headwinds, our Consumer Group has shown remarkable resilience. While some fret about the future of consumer spending, we see opportunity. Why? Because people still crave connection, comfort, and little moments of joy. And that's where our investments in iconic brands like PepsiCo, Nestlé, and Coca-Cola come in. These aren't just companies; they're part of the fabric of our lives, woven into our daily routines and shared experiences. That kind of deep-rooted connection doesn't disappear overnight. It's a source of enduring value, and we're confident that these franchises will continue to thrive for decades to come.

PepsiCo

PepsiCo, our flagship consumer holding, had another strong year despite the challenges confronting the industry. PepsiCo managed to keep costs in check while delivering the snacks and beverages that people love, growing both sales and profits. But here's a crucial observation: PepsiCo is not just riding the wave; it's creating it.

Consider this scenario: The world's population is growing, emerging markets are expanding, and people's tastes are evolving. PepsiCo is perfectly positioned to capitalize on these trends. With iconic brands like Pepsi, Gatorade, and Lay's, PepsiCo has captured a share of the consumer mind that's hard to match.

The company's secret weapon? A global distribution network that's virtually impossible to replicate (Coca-Cola—another of our holdings—enjoys this same advantage). PepsiCo's distribution apparatus is like the circulatory system of the consumer goods world, delivering products to every corner of the planet. This network not only gives the company unparalleled reach but also allows it to acquire promising new brands—such as the Mexican-American food company, Siete—and instantly plug them into a global marketplace.

PepsiCo's moat is more than just logistics—it includes understanding what people want, whether it's a classic Dorito or a healthier alternative. The company has a product to offer every taste, every occasion, every corner of the globe. And with a growing middle class in emerging markets like China and India, the company's potential for growth is staggering.

This is a company that knows how to adapt. PepsiCo is constantly innovating, launching new products, and expanding into new markets. And it's sharing its success with shareholders, raising dividends and buying back stock. PepsiCo, along with Coca-Cola, is a classic example of a company built to last—a true castle in the world of business.

PepsiCo continues to demonstrate its commitment to shareholders, delivering a refreshing increase to its annual dividend. This steady stream of growing dividends is a hallmark of a healthy and confident company, like a tree bearing fruit and sharing its bounty with those who have nurtured it.

But PepsiCo isn't just about dividends—the company is also buying back its own stock, another way of putting cash directly into the hands of its owners. This is a clear signal that PepsiCo believes in its own future and is willing to invest alongside its shareholders.

When you combine these dividends with the buybacks, you're looking at a total shareholder yield of 4.25%. That's a compelling return in today's market, especially when you consider PepsiCo's strong competitive position and its long runway for growth.

As long-term investors, we appreciate companies that pay you something while you wait. PepsiCo is doing just that, sharing its profits with its owners and demonstrating a commitment to creating lasting value.

Nestlé

Sometimes, the best opportunities arise when fortunes are down. That's what we saw with Nestlé in late 2024. During the first 10 months of this year, Nestlé saw its stock price dip significantly. We recognized this as a chance to increase our stake in a company with a century-long track record of adapting to changing tastes and economic climates. Nestlé's brand portfolio is earth's largest food fortress, with products woven into the fabric of daily life in nearly every country. With more than 2,000 brands, Nestlé is the name behind everything from Kit Kat and Nespresso to Gerber baby food and Purina pet food. And while the market may waver, people still need to eat, drink, and feed their pets. That's the kind of enduring demand that makes Nestlé a compelling long-term investment, especially when it's on sale.

But here's where things get even more interesting: Nestlé has a secret, an asset that most investors overlook: A 20% ownership stake in L'Oréal, the world's largest cosmetics company. That's right, the makers of Kit Kat and Nespresso also has a significant partnership in the beauty business with the Bettencourt family, which owns nearly 35% of this great company. This strategic investment not only provides diversification; it adds a layer of value to Nestlé's already impressive portfolio. We estimate that this stake alone is worth upwards of \$37 billion, a significant chunk of Nestlé's current market cap. It's like finding a treasure chest within an already magnificent castle.

Nestlé continues to serve up a combo meal of growth and shareholder value—with more than \$100 billion in revenue and a healthy serving of profits, this global food giant is a feast for any long-term investor.

But Nestlé isn't just about filling the plate; it's about sharing the bounty. The company's dividend yield exceeds 3.25%, providing a steady income stream for investors. On top of that, Nestlé is buying back its own stock, adding another layer of value and demonstrating the company's confidence in its future.

This commitment to shareholder returns is a key ingredient of Nestlé's recipe for success. When you combine those dividends with the buybacks, you're looking at a total shareholder yield of more than 5%. That's a pretty tasty dish, especially when you consider Nestlé's strong competitive position and long runway for growth.

And let's not forget the special ingredient: Nestlé's stake in L'Oréal. This valuable asset adds even more flavor to the mix, with diversification providing an additional layer of value that many investors overlook.

Nestlé is a company with a strong track record, a growing dividend, and a commitment to returning value to its shareholders. It's the kind of investment that will nourish our portfolio for years to come, providing both sustenance and satisfaction.

In summary, both PepsiCo and Nestlé exemplify the kind of companies we seek in the consumer space: Strong brands with global reach that operate with a deep understanding of consumer needs. These companies aren't just selling products: They're building enduring connections with people around the world. In a world of constant change, that's a recipe for lasting success.

We're confident that our Consumer Group, anchored by these two exceptional companies, will continue to deliver strong returns for our investors. These are the kinds of businesses that can weather any storm, providing both stability and growth for years to come.

TRANSPORTATION GROUP

Ever stop to think about how that package arrives on your doorstep overnight? Or how those groceries make it to the store shelves? It's a modern marvel, the intricate web of trains, planes, and delivery trucks that keeps the world moving. Within this vital network, a few companies stand out. Our Transportation Group is anchored by two such giants: CSX Corporation and FedEx Corporation, closely followed by Union Pacific Railroad and UPS.

Ponder this for a minute: These special companies have woven themselves into the fabric of our economy, connecting businesses and consumers across continents. As the world's population grows and economies expand, the demand for transportation will only increase. And these businesses, with vast tentacles that span the globe and decades of experience, are uniquely positioned to capitalize on this growth.

These are organizations that have built their moats not with bricks and mortar, but with steel rails, trucks, and airplanes. They've spent decades—even centuries—creating infrastructure networks that are virtually impossible to replicate. Try building a railroad that spans a continent or an air fleet that delivers millions of packages overnight. It's not something you can do on a whim.

These aren't easy businesses to build and maintain. They require massive investments in infrastructure, and they are sensitive to the ups and downs of the economic cycle. But that's precisely what makes them so compelling and their moats so wide—what makes these companies truly special is the “network effect.” The more they connect, the more valuable they become. It's like a snowball rolling downhill, gaining momentum with every new mile of track and every additional flight path. This creates a powerful barrier to entry, making it nearly impossible for newcomers to compete.

CSX Corporation

Imagine a company that's been “moving America” for nearly two centuries. That's CSX, a railroad giant with roots that stretch back to the very dawn of the nation's transportation system. This is a company that has witnessed the rise and fall of industries, the growth of cities, and the constant evolution of American commerce. Through it all, CSX has kept the trains running, connecting businesses and communities across the eastern U.S.

CSX is more than just a relic of the past—it's a modern marvel, a testament to the enduring power of railroads in a digital age. Its network of steel rails stretches for 20,000 miles—a vast circulatory system that carries

everything from the grain that feeds us to the energy that powers our homes. CSX is a tangible reminder of the interconnectedness of our economy, the physical links that bind us together.

Here's the thing that is worth emphasizing: The CSX network is virtually irreplaceable. Attempting to build a railroad that spans the eastern portion of the continent is not something one can accomplish in decades, or even in a century. It takes generations of investment, expertise, and a deep understanding of the land, its people, and the government. That's the kind of wide moat that provides CSX with a durable advantage that's hard to replicate and built to last.

The numbers: CSX had a bit of a breather this year. Revenues were flat, and profits dipped a little. But that's not unusual for a railroad. These businesses are tied to the economy, and sometimes things slow down a bit. It's like a train going uphill; it might lose a little momentum at times, but overall, it keeps chugging along.

The important point is that CSX remains a fundamentally sound business. It has a valuable rail transportation network, a strong competitive position, and a management team that's focused on efficiency and shareholder value. Even in a slower year, CSX still managed to return a healthy chunk of cash to its owners—more than \$2.5 billion through dividends and buybacks. That's the kind of steady performance we like to see.

Looking ahead, we expect the CSX locomotive to pick up steam. The economy is poised for a rebound, and that means more freight moving across CSX's rails. We anticipate per-share earnings will grow by about 10% next year, and the company will likely return even more cash to shareholders. That's a recipe for attractive long-term returns.

Some investors might get impatient when a company hits a flat spot—they see the stock price stall and start looking for greener pastures. But that's where discipline comes in. We're not in this for the quick buck; we're in it for the long haul.

CSX is like a well-built locomotive, designed to travel for miles and miles. It might encounter some hills along the way, but it's got the power and the track record to keep moving forward. And for those of us who are willing to stay on board, the journey promises to be a rewarding one.

FedEx Corporation

In a world that's increasingly interconnected, FedEx is the invisible hand that delivers the goods. From that last-minute holiday gift to the critical components that keep factories humming, FedEx is there, moving billions of packages each year across continents and oceans, connecting businesses and consumers in a global choreography of commerce.

But FedEx is more than just planes and trucks: It's a network of innovation, constantly adapting to the changing needs of a dynamic world. Consider the rise of e-commerce, which has been transforming how we shop and created a surge in demand for fast, reliable delivery. FedEx is at the forefront of this revolution, building the infrastructure and technology to meet the needs of a digital age. This is the company that pioneered overnight delivery and redefined speed and reliability, and its name has become synonymous with getting items where they need to be, when they need to be there.

And then there's the globalization of trade, with businesses sourcing and selling products across borders like never before. FedEx is the vital link in this global supply chain, ensuring that goods flow smoothly from factory to consumer, no matter where they are in the world. FedEx planes crisscross the skies, their trucks navigate bustling city streets, and their delivery drivers are a familiar sight on doorsteps in every part of the globe.

This intricate web of movement is what sets FedEx apart. Its business is not just about speed; it's about reach; about connecting the world in ways that were unimaginable just a few decades ago. FedEx has built a global nervous system for commerce—a network that pulses with the lifeblood of the modern economy.

And that network is only getting stronger. With investments in cutting-edge technology—from autonomous vehicles to advanced logistics systems using AI—FedEx is constantly pushing the boundaries of what's possible. The company is not just delivering packages; it's delivering the future of global trade.

This commitment to innovation is also evident in FedEx's DRIVE program, a multi-year initiative to streamline operations and create a more unified and efficient network. This initiative amounts to taking an already impressive machine and fine-tuning it to perform even better. This focus on continuous improvement is what sets FedEx apart, ensuring that it remains at the forefront of the industry for years to come.

In a world that's constantly changing, FedEx is a constant: The dependable source that delivers our goods, connects our businesses, and brings our world closer together. When you look closely, you see a company with a powerful franchise, a wide moat, and a management team that's focused on delivering value to its shareholders.

Let's get to the numbers. In 2024, FedEx is expected to earn more than \$4.6 billion in net income, or about \$19 per share. We believe those earnings will grow significantly in the years to come, driven by the continued expansion of e-commerce, the globalization of trade, and the ever-increasing demand for efficient logistics.

Some might look at the current stock price and say, "Well, that does not exactly look cheap." But remember, we're not concerned with a high stock price, as the value of that metric is relative, depending on the number of shares that are outstanding. At today's price, investors are getting an entry earnings yield of nearly 7%. That's a solid return, especially when you consider the potential for those earnings to grow significantly over the next five years.

FedEx is also taking steps to improve its profitability. The company is streamlining operations, reducing costs, and becoming more efficient. That's music to our ears, because it means more of those earnings will flow down to the bottom line and, ultimately, back to shareholders.

As the global economy continues to grow, so too will the demand for FedEx's services. This is a company with a wide moat, a strong management team, and a bright future. We're confident that FedEx will continue to deliver a package of value to its shareholders for many years to come.

TECHNOLOGY & COMMUNICATION GROUP

Let's travel back to the early 1990s—life before the internet; before smartphones; before we could access the world's information with a few taps on a screen. It's hard to even picture now, isn't it? That's the power of technology: It can reshape our world at a dizzying pace, creating both incredible opportunities and daunting challenges.

The technology and communications sector is a whirlwind of innovation; a constant churn of new ideas, disruptive businesses, and ever-evolving trends. It's a sector in which fortunes have been made and lost overnight and today's giants can become tomorrow's relics. Look at what happened with the rise of the smartphone: Just 18 years ago, Steve Jobs unveiled that sleek little device, and everything changed. The iPhone wasn't just a phone; it was a revolution—a pocket-size portal to a world of information, connection, and entertainment. In just a few years, Apple's iPhone went from a novelty to a necessity, transforming how we communicate, work, and live.

Predicting the future of technology is a fool's errand, however. Who could have foreseen the rise of social media, the dominance of cloud computing, or the transformative potential of artificial intelligence? It's a sector that demands careful vision, humility, a willingness to embrace change, and readiness to adapt to the unexpected.

Accordingly, our approach to investing in technology is grounded in both optimism and realism. We seek companies that are not just riding the wave of innovation, but shaping it; companies with strong moats, visionary leadership, and a deep understanding of human needs. Microsoft, Alphabet, and Meta Platforms are

the titans of the digital age that are building the infrastructure and platforms that connect us, inform us, and entertain us.

Even these giants are not immune to disruption, however. That's the nature of technology: It's a constant race to stay ahead, to anticipate the next big thing, to adapt or be left behind. As investors, we're committed to navigating this dynamic landscape, seeking out the companies positioned not only to survive but to thrive in a world of constant change.

Microsoft

Microsoft is a fascinating case study in adaptation and resilience. This company, once the undisputed king of the software world, faced a crossroads a decade ago: The rise of smartphones and tablets, coupled with the dominance of Apple's integrated ecosystem of digital devices and services, had many investors writing them off as a dinosaur.

Investors often mistake a dominant company for an invincible one. They see the success of the past and assume it'll just keep rolling along. That's a dangerous trap, especially in the tech world, where change is the only constant. Microsoft, with its focus on its Windows cash cow, almost missed the boat on the whole tech revolution. It was looking like a classic case of what psychologists call “anchoring bias”—getting stuck on what's worked in the past and having trouble adapting to new realities.

To its credit, Microsoft didn't fade away. The company brought in Satya Nadella, a leader who understood the potential of the cloud—a global network of servers that would enable users to access data, applications, and other computing resources over the internet from almost any device, rather than having to be connected to a specific computer. And wow, did he shake the organization up. Nadella had the vision: He saw that the future wasn't going to be just about selling software; it would pivot on providing services more flexibly and reliably, increasing performance and efficiency while lowering IT costs for businesses, and empowering people with new tools.

Microsoft put its money where its mouth was. The company invested billions in the Microsoft Azure cloud computing platform, and today Microsoft is right up there with Amazon, competing for the top spot. That's what we call adapting to change. And Microsoft didn't stop there: The company saw AI coming, and it jumped right in, investing in OpenAI, the company that developed and launched ChatGPT in 2022. Microsoft also introduced its own generative AI chatbot, Microsoft Copilot, in 2023. At the beginning of 2024, Microsoft closed on its acquisition of Activision Blizzard, a deal that makes Microsoft one of the biggest video gaming companies in the world. Clearly, Microsoft is not just following the trends—it's trying to stay ahead of them.

This is what separates the great companies from the good ones—it's not just about having a moat; it's about knowing when to build a new one. Microsoft has demonstrated its ability to do just that. Since its founding in 1975, Microsoft has reinvented itself, adapted to new realities, and found new ways to create value.

This is a lesson for any investor: Don't just look at what a company *is*; look at what it can *become*. Look for companies with a history of adaptation, with management teams that are willing to embrace change, and with a culture that fosters innovation. These are the companies that are positioned to stand the test of time, even in the face of disruption.

Microsoft continues to deliver impressive results, with revenues and operating profits showing strong growth. This performance reflects not only the enduring demand for its products and services but also the company's ability to adapt and innovate in a rapidly changing technological landscape.

While some investors may focus on the short-term fluctuations of the stock market, we remain enthusiastic about Microsoft's long-term prospects. This is a company that understands the power of reinvention—having successfully navigated the transition from personal computer software to cloud computing, the company is now positioned at the forefront of the AI revolution, investing billions to ensure that it remains a leader in this transformative technology realm.

Beyond the headlines and hype, we're focused on the fundamentals: Cold, hard cash. Microsoft is generating a mountain of it—nearly \$75 billion in owner earnings this year. This is the kind of financial strength that provides a solid foundation for future growth and allows the company to reward its shareholders generously.

Speaking of shareholders: Microsoft is committed to sharing its success. The company is returning a significant portion of its earnings through dividends and buybacks—a clear indication that it's focused on creating long-term value for its owners.

This combination of strong financials, a forward-thinking strategy, and a shareholder-friendly approach makes Microsoft a compelling long-term investment. Microsoft remains a leader in an ever-growing industry, with a proven record of adaptation and innovation. We're confident that Microsoft will continue to be a core holding in our portfolio for many years to come.

Alphabet (Google)

Alphabet is more than just Google, although that search bar that dominates our online lives is a pretty good place to start. Google is the gateway to the internet for most of us—the first place we go when we have a question, a need, or just a burning curiosity.

Alphabet, the parent company of Google, is a sprawling empire of innovation, with tentacles that reach into online search and advertising, cloud computing, television, and even self-driving cars. But what truly sets Alphabet apart is its insatiable appetite for data. Every user interaction with its products feeds a vast digital brain that's constantly learning and evolving.

User data is Alphabet's most valuable asset—the fuel that powers its innovation, growth, and expansion into new markets. It's driven the company's ability to dominate the search engine market, build a thriving cloud business, and develop cutting-edge AI technologies—and it's the reason we believe that Alphabet is well-positioned to continue its dominance in the digital age.

Some investors might get lost in the complexity of Alphabet's sprawling empire. We like to focus on simple fundamentals: Strong financials, a dominant market position, and a culture of innovation.

At its core, Alphabet is a learning machine. Every user search, click, and interaction with its products and services feeds a vast network of data centers—a digital brain that's constantly growing and evolving. Google Maps knows where you are and where you want to go. YouTube knows what you like to watch. Gmail knows who you talk to. And Google Cloud Platform services are helping businesses around the world store, analyze, and apply their own data.

This constant firehose of information allows Alphabet to adapt and innovate at an incredible pace. It's how they've been able to stay ahead of the curve, from the early days of online search to the rise of mobile browsing and the emergence of AI-fueled search engines.

Speaking of AI: Alphabet is uniquely positioned to lead the way. It has the data, computing power, and talent to unlock the full potential of this transformative technology. The company's investments in AI are already bearing fruit, from self-driving cars to advanced healthcare solutions.

Alphabet is a company that's constantly learning, growing, and evolving. It's not just building products—it's building the future. For investors who are looking for a company that can navigate the complexities of the digital age, Alphabet is a compelling long-term opportunity.

Alphabet isn't just a tech titan; it's a money-making machine. This past year, the company raked in more than \$100 billion in profits—a staggering sum that would make even the most seasoned investor raise an eyebrow. And those profits aren't just sitting idle; they're fueling innovation, expanding into new markets, and rewarding shareholders.

Some might look at Alphabet's massive market cap and think, "That's an expensive company." But we like to look beneath the surface, to the underlying value that drives a business. And when you do that with Alphabet, you find a great business hiding in plain sight.

Consider this: Alphabet is currently generating around \$75 billion in owner earnings—that's the real cash flow that a business owner can pocket. And when you compare that to the company's market cap (minus the excess cash and investments on its balance sheet), you get an owner earnings yield of roughly 3.4%. That's a solid return—especially when you consider that those owner earnings are growing at a healthy clip of around 14% per year.

It's like finding a rare gem tucked away in a dusty corner of the tech bazaar. The casual shopper might overlook it, but the discerning investor recognizes true value. And that's what we see with Alphabet: A collection of promising enterprises, from search and advertising to cloud computing and artificial intelligence, all humming along and generating impressive profits.

At today's price, we believe Alphabet still offers a compelling opportunity to own a piece of the digital future. It's a company that's not just riding the wave of technological change; it's creating it. And for investors able to see beyond the short-term commotion of a challenging antitrust lawsuit and focus on the long-term potential, Alphabet is a treasure worth holding onto.

Meta Platforms (Facebook & Instagram)

Investing can sometimes feel like a roller coaster ride: You strap yourself in, excited about the rousing ride, but every now and then, the thrill exceeds your expectations. You plunge down a steep drop that leaves your stomach in your throat. That's what happened to us in 2022, right after we invested in Meta. Not long after we had added it to our portfolio, Meta's stock price took a nosedive, leaving us in the painful position of having to question our decision-making.

But here's the wonder about roller coasters: What goes down fast often comes roaring back up. And that's exactly what happened to Meta over the past two years—the company not only erased its initial losses; it made tremendous gains. That reminded us that sometimes, the scariest moments lead to the biggest thrills. (Thank heaven we decided to stay on the ride and not to bail out!)

That said: We're not interested in chasing thrills for the sake of it. We prefer a more measured approach—one that's grounded in careful analysis and long-term thinking. So one last time, let's revisit our investment in Meta to see what lessons we can learn from its wild ride.

When a stock takes a tumble, it's natural to wonder if you've made a mistake. Did we misjudge Meta's potential? Was this a “Kodak moment”—a failure to recognize when a once-great company is fading into irrelevance?

In retrospect, we can say with confidence that Meta is not Kodak. Its profits are strong, its user base is massive, and it remains a dominant force in the digital advertising world. But that doesn't mean that there aren't challenges.

The social media landscape is constantly changing—user habits evolve, new competitors and technologies emerge, and the rise of online video content is transforming how we interact online. Meta must constantly adapt and innovate to the trends to maintain its dominance. Facing recent headwinds—from Apple's privacy changes to the global rise of TikTok—Meta invested heavily in AI to better understand user behavior and to deliver more relevant ads. This worked like a charm and is probably the greatest testament to the future success of AI. Nevertheless, competing in the social media landscape is a constant battle for audience attention and engagement, and Meta will remain in the thick of it.

Remember all the hype a few years ago about the metaverse—virtual worlds in which users represented by avatars interact? It seems like everyone was talking about virtual reality and how the future of online interaction would change immediately. Meta even changed its name to reflect this vision of the future. The full-blown metaverse is still a long way off, but Meta continues to invest heavily in this area. Its Ray-Ban Meta Glasses—“smart” sunglasses that let you snap a photo or video, listen to playlists, make calls, and send texts—are beginning to gain traction, while Meta also focuses on the here and now, building its core businesses and navigating the challenges of the social media landscape.

We admit that we didn't buy Meta at the perfect time. But investing isn't about timing the market perfectly; it's about finding valuable businesses and holding onto them for the long haul. And Meta, despite its volatility, remains a valuable business.

Remember: The price you pay for a stock matters. We miscalculated Meta's value initially—the company was spending heavily on futuristic projects like the metaverse, and those investments were eating into its profits. Like a farmer planting seeds—investing today to reap the rewards tomorrow—if he is too focused on planting seeds and ignores his current crop, his harvest will suffer. That's what happened with Meta: The company was spending so much on the future that it neglected the present.

Fortunately, Meta course-corrected. The company prioritized its spending, streamlined its operations, and refocused on its core businesses. That's great news for investors, because it translates into more profits and more value in the long run.

Meta isn't without its critics. The company has been accused of spreading misinformation, harming young people's mental health, and illegal data collection, among other allegations. These are serious issues that need to be addressed. But here's the catch: Social media is here to stay. It's become an integral part of our lives—connecting, informing, and entertaining us. The question is not whether social media is good or bad; it's how we manage its impact and ensure that it's used responsibly.

Meta is in a unique position to lead the way on this. Meta has the scope and influence, the resources, and the incentive to tackle these challenges head-on. The company is investing in content moderation (AI processes for reviewing and controlling user-generated content), developing new AI tools to combat misinformation, and working with experts to understand the impact of social media on mental health.

Meta operates in a complex and evolving landscape, but we believe it is committed to doing the right thing. As investors, we're not just looking at its profits; we're also looking at its impact on society.

Ultimately, Meta is more than just its Facebook, Instagram, and WhatsApp components. It's building a future in which human beings can connect with each other in new and exciting ways—whether through virtual reality, augmented reality, or something we haven't even imagined yet.

This is a company that's constantly pushing the boundaries, exploring new frontiers, and trying to understand the future of human connection. It's a bold and ambitious vision, and it won't be without its challenges.

This is what makes investing so exciting: Buying a stake in the future, on the businesses that are shaping the world we live in. Meta—despite its occasional stumbles and setbacks—is undoubtedly one of those companies.

Investing is not a sprint; it's a marathon. There will always be moments of doubt, periods of volatility, and times when you question your decisions. But if you focus on the underlying value of a business over the long term, you can ride out the storms and emerge stronger on the other side.

The numbers tell Meta's story: Its latest results demonstrate the enduring power of connection in a digital world. Meta has not only rebounded from a challenging time, but done so with a vengeance, delivering growth that would make even the most skeptical investor take notice.

This year, Meta's revenues soared by approximately 21%, topping \$163 billion. Profits surged even higher, up more than 30% to a staggering \$59 billion. And earnings per share? This jumped an impressive 36%, thanks in part to Meta's "smart share buyback program."

These numbers showcase a company that's firing on all cylinders. Meta is not just surviving; it's thriving, adapting to the changing landscape of social media and investing heavily in the future.

Speaking of the future: Meta will continue to place a big chunk of its investment funds into artificial intelligence. The company understands that the next chapter of social media will be not just about connecting people but also about understanding them, anticipating their needs, and delivering personalized experiences that keep users engaged.

It's a bold vision, and it requires significant investment. That's why Meta's profits are projected to grow at a more moderate pace next year, as the company pours resources into building the AI infrastructure that will power its next phase of growth.

This is not a cause for concern—it's a sign of a company that's playing the long game, investing in the future to create lasting value. As long-term investors, that's exactly what we want to see.

Meta is a company with a massive reach, a strong brand, and a history of innovation. It has faced challenges before and overcome them. We're confident Meta will do it again.

Meta's story is not about quick wins or overnight success—it's a story about patience, perspective, and the enduring power of human connection. In a world that's increasingly digital, Meta is at the center of it all.

FINANCIAL SERVICES GROUP

Berkshire Hathaway

Berkshire Hathaway is more than just a company—it's an institution; a testament to the power of long-term thinking and patient capital allocation. It's a sprawling collection of businesses; a financial fortress built on a foundation of enduring values and a deep understanding of human nature.

Over the course of 2024, Berkshire's diverse businesses continued to hum along, generating profits and weathering economic storms with the resilience of a seasoned sailor navigating choppy waters. From railroads and utilities to insurance giants, along with a large stock portfolio, Berkshire is a microcosm of the American economy—a diversified engine of value creation.

But there's a deeper truth that sets Berkshire apart: It's not just about the numbers. It's about the people, the culture, and the legacy of Warren Buffett and Charlie Munger—two giants of investing who have shaped the company over decades.

The passing of Charlie Munger, Buffett's longtime partner and confidant, may have marked the end of an era. He was a master of understanding human nature, of seeing the world through a multidisciplinary lens. And that perspective, that ability to connect the dots, is what made him such a valuable partner to Warren Buffett.

Charlie Munger's direct influence is surely missed, but his wisdom lives on in Berkshire's cultural DNA. Berkshire's legacy will endure, built on a foundation of strong values and a deep bench of talented managers. The torch will eventually be passed, and the next generation will have big shoes to fill. But we believe that Berkshire's culture of prudence and future-oriented thinking will continue to guide the company forward.

Warren Buffett remains at the helm, his wisdom and experience guiding the ship. And while the day will come when he passes the baton, we believe that Berkshire is well prepared for the transition. The company's culture of long-term thinking, its decentralized structure, and its focus on enduring value will continue to guide its path.

In 2024, Warren Buffett surprised many by significantly trimming Berkshire's stakes in Apple and in Bank of America. It's a move that has had some folks scratching their heads, wondering if the Oracle of Omaha has lost his touch. We see it differently. This is classic Buffett, the disciplined investor who's always willing to go against the grain. He's not swayed by market sentiment or short-term fluctuations; he's focused on intrinsic value, on buying businesses when they're undervalued and selling them when they're not.

Berkshire's 2024 stock sell-offs left the company with a mountain of cash—more than \$300 billion—approaching 1/3 of Berkshire's market value! It's a staggering sum, a testament to Buffett's patience and his willingness to wait for the right opportunities. This cash isn't just sitting idle; it's earning a tidy sum in short-term U.S. Treasury bills, generating billions in interest income while Buffett patiently sits on his hands waiting for the next great investment. This position is like a coiled spring, ready to unleash its potential when the time is right.

The numbers: Berkshire Hathaway had a very good 2024, with its various businesses gaining ground. Berkshire's unmatched diversity, strength, and predictability act as ballast that allows the enterprise to be resilient and adapt to changing economic conditions.

At the end of 2024, Berkshire is expected to report an increase in its per-share book value, up another 12% over the preceding 12 months. What is more noteworthy about Berkshire Hathaway is the fact that the company's book value per share has grown approximately 11% per year over the past seven years. This is an amazing feat, given the size of Berkshire's expansive enterprise. Warren Buffett continues to create tremendous shareholder value through the prudent allocation of capital, enhancing shareholders' interest in owning this wonderful company.

In summary, Berkshire remains a fairly valued investment that is growing at an above-average rate (on a per-share basis) and remains an allocation in which we have one of the lowest chances of permanent loss among any assets we currently own (or can contemplate owning) in today's market.

Wells Fargo

Wells Fargo—that grand old stagecoach of American banking—has hit some rough terrain during the past eight years. It's been a bumpy ride, with regulatory hurdles and scandal-ridden headlines slowing its progress. Like a seasoned wagon master navigating a treacherous river crossing, however, Wells Fargo has been steering steadily toward calmer waters.

Banking can be a difficult business—it's all about managing risk, balancing the needs of borrowers and depositors, and—of course—making a profit. One of the key ingredients in that profit recipe is something called “net interest margin” (NIM)—a financial metric that measures the difference between the interest income a bank earns on its loans and the interest it pays out on its deposits.

Think of it like a shopkeeper buying merchandise at a low price and selling high: The wider the spread, the more money the bank makes. For banks and financial institutions in recent years, that spread has been squeezed tighter than a rain-soaked cowboy hat. Low interest rates has meant slimmer profits for banks like Wells Fargo.

Here's the good news: The tide is slowly turning. Long-term interest rates have been on the rise, while short-term rates have moved lower. And that means wider margins and a chance for Wells Fargo to regain its footing. Although Wells Fargo's NIM experienced a slight setback in 2024, the sun seems to be breaking through the clouds after a long storm of declining margin spreads, bringing a renewed sense of optimism.

Of course, there's more to banking than just interest rates. Wells Fargo needs to manage other components of its business, such as investment banking, and continue to contend with lingering regulatory issues—baggage from past missteps that has weighed down its reputation and restricted its growth.

Here's where our patience comes into play. Wells Fargo is a fundamentally sound institution, with a massive deposit base and a deep-rooted presence in the American economy. The company has been working diligently to clean up its act, rebuild trust, and emerge stronger on the other side. We are hopeful that Wells Fargo's regulatory issues will be fully behind it within the next 12 to 18 months, allowing the company to grow its franchise once again.

In the meantime, Wells Fargo is not sitting idle. The company is buying back its own stock, returning value to shareholders, and positioning itself for a brighter future—a wagon train circling the wagons, conserving resources, and preparing for the next leg of the journey.

In summary: Wells Fargo may have hit a few bumps in the road, but we believe that it's on the right road. It's a resilient company with a long history of navigating challenges and emerging stronger. For investors who are willing to ride out the storm, we believe the rewards will be worth the wait.

American Express (Don't Leave Home Without It)

American Express isn't just a credit card company—it's a membership to an exclusive club at which the currency is prestige, the perks are plentiful, and the customer service is legendary. Amex is a brand that's synonymous with luxury, travel, and the finer things in life.

Most may know Amex for its iconic green card—the one that whispers “success” in every swipe. But what materially sets American Express apart is its unique closed-loop system. Unlike Visa and Mastercard, which act as a middleman between banks and merchants, Amex controls the entire transaction process, from issuing cards to processing payments.

Think of it in terms of a private railway network: Amex owns the tracks, the trains, and the stations. It controls the flow of passengers (customers) and goods (transactions), and it collects a premium for the privilege.

This closed-loop system gives Amex a powerful competitive advantage, allowing the company to cultivate deep relationships with both cardholders and merchants while creating a network effect that's hard to replicate. The system allows Amex to charge premium prices, because merchants know that Amex cardholders are more likely to spend big.

Amex's moat is more than just a closed loop system, however. The company has also built a fortress around corporate travel and entertainment spending. Amex's underlying strength lies in the business bonds it forges. More than just a transaction, using Amex is a handshake between the company and its business cardholders, a silent understanding that Amex has their back, whether it's ensuring a smooth business trip, resolving a disputed charge, or providing access to a global network of support. This trust—this relationship—is the bedrock of Amex's moat, fostering a customer loyalty that transcends mere financial exchange.

The credit card business can be a fickle one. Customers are always chasing the next best rewards program, and competition is fierce. But Amex has a secret weapon: Its brand. It's a symbol of status—a badge of belonging to an exclusive club. That kind of brand loyalty is hard to come by.

Amex isn't resting on its laurels. The company is constantly innovating and developing new products and services, from cutting-edge fraud prevention tools to personalized travel experiences. Amex continues to expand its network, finding new ways to serve its customers, worldwide. It's not just a credit card company—it's a lifestyle brand, a gateway to a world of possibilities.

American Express shares its success with shareholders through a growing stream of dividends and share buybacks—a welcome reminder that investing in great companies is not just about owning a piece of its profits; it's about participating in its journey, growth, and enduring legacy.

Looking ahead, we see a world that's increasingly moving away from cash—a trend that plays right into Amex's strengths. The company is also catering to the growing ranks of affluent consumers, who are looking for premium products and services that match their lifestyle.

The numbers: American Express isn't just surviving in this turbulent economy; it's flourishing. While competitors that issue credit cards are battering down the hatches and bracing for greater default impact due to higher interest rates, Amex is posting the kind of numbers that make you wonder if the company has a crystal ball hidden somewhere in its corporate headquarters.

Nearly \$9.5 billion in net earnings. A 20% jump in earnings per share. A 16.5% dividend hike. A share buyback program that's putting billions back into the pockets of long-term investors. It's a performance that would make even the most jaded investor raise an eyebrow. But here's the thing that really sets Amex apart: It's not just riding a wave of good fortune; the company is building a business that's shock-proof—a company that not only withstands economic shocks but actually *benefits* from them. In a world of economic uncertainty, where inflation is squeezing consumers and businesses alike, Amex is catering to a customer base that is less sensitive to rising prices.

Amex is a company that's built to last—a testament to the power of brand, innovation, and a deep understanding of customer needs. For investors seeking a company that's both timeless and timely as consumers move to digital transactions, American Express is a compelling opportunity.

RETAIL GROUP

Our major retail holding—The Home Depot (followed by Lowe's)—had a tough 2024 as consumers continued to watch their spending in a higher-interest-rate environment. Fortunately, we are expecting an economic improvement in 2025, and we anticipate that home improvement retailers will moderately grow their revenue and earnings next year. We plan to remain owners in the home improvement space and remain confident about their growth in intrinsic value as these unique franchises continue to execute on the four essential elements of retail success:

1. **Excellent customer service:** If potential customers walk into your store and get a whiff of poor customer service, they will likely turn around and shop elsewhere. Customer service is paramount in the retail business and not something any retailer can compromise on.
2. **Product selection and superiority:** A retailer must constantly ensure that it is offering the right selection of products at the best possible price. You can provide a great service to your customer with attentive associates and a wonderful retail atmosphere, and then deliver a disservice by stocking the right products at the wrong price, the wrong products at the right price, or—worse yet—the wrong products at the wrong price.
3. **Value creation:** It is tough—perhaps very tough—to make money in retail. A robust understanding of product turnover, day-to-day revenue and expense management, and long-term capital allocation decisions all play into successful value creation.
4. **Blending one's “bricks and mortar” offerings with the new “online channel:”** Interconnected retail continues to be a growing dimension of this industry. Successfully integrating the in-store and online customer experience is essential to creating customer and company value.

We have stated in the past how retailing has many moving variables that require tending each and every day. Inattention to any of these details leads to self-destruction—Sears, JCPenney, and many other giants of retail have gone through bankruptcy. Investors should remind themselves that retail is a ruthless business and to be careful when swimming in these waters.

Home Depot

Home Depot, the familiar orange haven for do-it-yourselfers and contractors alike, faced a bit of a headwind this year. After a couple of years of booming growth during the pandemic, when everyone seemed to be tackling home improvement projects, things have cooled down. Rising interest rates and a slowing economy have made homeowners think twice about big-ticket renovations.

It is crucial to remember one thing about Home Depot: It's built for the long haul. Home Depot is not just a store—it's a partner, a resource, a place where you can find everything you need to keep your home in tip-top shape, from fixing a leaky faucet to undertaking a complete kitchen remodel.

Home Depot is not just selling products; it's building relationships. Its knowledgeable staff, wide selection, and commitment to customer service create a loyal following that's hard to match. It's the kind of place where you can walk in with a question and walk out with a solution—and maybe even a new friend in the process. Did you know that Home Depot employees undergo an average of 50 hours of training per year? It's that commitment to expertise and customer service that sets them apart.

And Home Depot is not standing still: It's investing in its online presence, expanding its Pro services for contractors, and constantly adapting to the changing needs of its customers. It's a company that's always looking ahead, anticipating the next trend, and building the foundation to support future growth.

Although the near-term outlook for general retail is still a bit cloudy, we believe that Home Depot is not an ordinary retailer. It's the dominant player in a massive market—the go-to for home improvement needs across the country.

The recent housing slowdown might have some investors worried, but U.S. housing starts are expected to increase from the current level of 1.35 million units to a projected 1.68 million by 2029. Connected to this increase will be a growth in home improvement spending in the U.S., which is expected to exceed \$600 billion by 2027—increasing 3% to 4% annually. We expect Home Depot to be a large recipient of any increase in home improvement spending.

We know that Home Depot is a resilient company with a strong track record and a bright future. For investors willing to take the long view, Home Depot remains a compelling business—a chance to own a piece of a company that's not just selling products but helping to build homes, communities, and a better future.

MEDIA & ENTERTAINMENT GROUP

You know that feeling of getting lost in a good movie, a captivating TV show, or a beloved book? That's the power of storytelling—the magic that media and entertainment companies create. Behind those captivating stories lies a complex and ever-changing industry, one that's facing a whirlwind of disruption and challenges.

A few years from now, we will likely find ourselves streaming movies on demand and consuming media and entertainment content on our tablets and phones more than ever before. The old rules no longer apply, and media companies are scrambling to adapt—it's a never-ending and intensifying battle for consumers' time and attention; a race to capture our hearts and minds in a world of endless entertainment options.

In this turbulent landscape, content remains king. The companies that can create compelling stories, connect with audiences on an emotional level, and build lasting franchises will be the ones that thrive. That's why we believe that Disney is uniquely positioned to remain the best long-term media business in the industry.

The Walt Disney Company

Disney—the masters of storytelling—is the creator of worlds that have enchanted generations. From Mickey Mouse to Marvel superheroes, from Pixar's heartwarming tales to the epic adventures of Star Wars, Disney has a unique ability to capture our imaginations and transport us through realms of wonder.

Disney is more than just a content factory, however. It's a company established in 1923 that continues more than a century later to understand and adapt to an evolving media landscape—keeping pace with new technologies and trends, pioneering new techniques and platforms, and staying true to its core strength throughout: The art of storytelling.

Think about the stories that shaped your childhood—the movies you watched over and over again, the characters you dreamed of becoming, the worlds that captured your imagination. Chances are, Disney played a big part in those memories. From Mickey Mouse and Snow White to The Lion King and Frozen, Disney's stories have a timeless quality—a magic that transcends generations.

Disney isn't just a media company; it's a memory maker, a dream weaver, a creator of worlds that take us on a journey and stay with us long after the credits roll. This is what makes Disney invaluable: Its stories are timeless, its characters are iconic, and their magic never fades.

Disney's enduring value reminds us of the goose that lays golden eggs, year after year. The company's classic films continue to generate revenue through re-releases, merchandise, and theme park attractions. It's a business model that's as enduring as the stories themselves.

The media landscape is changing rapidly, however. Streaming services are disrupting the old order, and the battle for eyeballs is fierce. But Disney is navigating these challenges with the same creativity and resilience that has defined its history.

Disney is investing heavily in its streaming platforms, bringing its vast content library to a new generation of viewers. The company is also creating new stories, new characters, and new worlds that will capture the imaginations of children and adults for years to come.

Disney is a company that understands the power of storytelling, the appeal of magic, and the human need for connection and escape. It's a company that's built to last; a testament to the enduring power of dreams.

Those dreams are translating into real-world results: In its fiscal year 2024, Disney's magic touch was evident in its financial performance. Revenues approached \$91.5 billion, and profits surged to nearly \$8 billion, demonstrating the company's ability to navigate a challenging media landscape and deliver strong returns. The company's renewed focus on profitability, coupled with continuing investments in its streaming platforms and content creation, reinforces our belief that Disney's magic will continue to enchant investors for years to come. Founders remains committed to an investment in Disney's one-of-a-kind franchise.

FIXED-INCOME INVESTMENTS

Bonds. Those seemingly safe and predictable investments that have lulled many investors into a false sense of security. But lately, the bond market has been anything but predictable—in fact, it's been downright treacherous, with losses piling up and yields struggling to keep pace with inflation.

The Bloomberg U.S. Aggregate Bond Index, which represents the broad debt market, experienced a 1.25% gain in 2024, though it is nowhere near recovering from a 12.7% loss in 2022. Many will be surprised to learn that an investment in the aggregate fixed-income market over the past five years suffered an annual loss of .05%, while a similar investment in the S&P 500 stock market index achieved an annual gain that exceeded 14%.

We've always believed that investing in bonds should be no different than investing in a business: You need to look beyond the yield, beyond the perceived safety, and ask yourself: “Am I getting my money's worth?”

Think of it like this: If you purchased a business at book value that consistently earned 10% on an initial equity investment, you'd be pretty happy, right? Assuming that your 10% earnings were continually reinvested, your money would double in about seven years, and you'd sleep soundly knowing that your investment was growing steadily.

But what if that same business was only earning 4.75%? Would you still be enthusiastic? Probably not. You'd likely look for better opportunities—investments that offered a higher return on your hard-earned capital.

That's the situation we find ourselves in with bonds today. Long-term government bonds are offering yields that may barely keep pace with long-term inflation. It's like buying a business that's barely treading water, with little prospect for meaningful growth.

We're certainly not saying that bonds are all bad—they have a place in portfolios, especially for those who desire a steady stream of income or a “safe haven” for a portion of their assets. But safe is relative—investing in a 30-year government bond on December 31st, 2024, at a price that provides a low 4.75% annual return over the next three decades could lead to a hefty loss of principal (for quite a while) if long-term yields suddenly rose to 6%, or greater.

In this realm, we're not afraid to go against the grain—we want to play it absolutely safe. We're willing to challenge conventional wisdom, seeking opportunities that offer a true margin of safety and a reasonable expectation of return.

This is why we are being selective with our bond investments. We're focusing on shorter-term U.S. Treasury bills with yields similar to those offered on long-term bonds. We're also keeping a close eye on the creditworthiness of various issuers as we seek opportunities that may arise in the fixed-income market.

Investing is about making informed decisions, not following the herd. And when it comes to bonds, we're applying the same business-minded approach that has guided our investments for years.

WHAT'S NEW AT FOUNDERS?

At Founders, we believe that investing is about more than just numbers.: It's about people, relationships, and a shared commitment to building something meaningful. We're actively focused on creating a culture in which everyone feels valued, supported, and empowered to grow.

This year, our team continued to embody those values, working together with a spirit of collaboration and genuine care for one another. We believe that this "others-centered" approach is not just good for morale; it's good for business. When people feel valued, they do their best work. And when they work together, they achieve more than they ever could alone.

We're also committed to transparency—to open and honest communication with our clients and with each other. We believe that trust is the foundation of any successful partnership, and we strive to earn that trust every day.

This year, we continued to expand our capabilities, adding new services and expertise to better serve our clients. We're not just managing money; we're helping families navigate the complexities of wealth, from estate planning and multi-generational asset management to private investments and philanthropic endeavors.

Our team is growing stronger, with each member playing a vital role in our success. Anna has been instrumental in helping families manage their estates, ensuring that their legacies are preserved for generations to come. Lisa continues to be the backbone of our operations, keeping everything running smoothly and efficiently. Ted has been invaluable in managing our investments, researching new opportunities, and keeping us on the cutting edge of the financial world.

We're incredibly grateful for the trust our clients place in us. It's a privilege to partner with them on their financial journey, helping them to achieve their goals and build a brighter future for themselves and their families.

At Founders, we're not just managing money—we're building relationships, cultivating growth, and creating a legacy that will endure for generations to come.

The examples and descriptions of investments in this client letter do not represent all the investments purchased, sold, or recommended by Founders and instead represent:

- (1) the 10 largest equity positions held by Founders' clients;*
- (2) the largest equity position in each industry group to which Founders has allocated capital; and*
- (3) all equity positions that account for 3% or more of the total funds allocated by Founders to equity holdings.*

The performance of these investments was not a criterion in determining the representative list. It should not be assumed that the investments identified and discussed were or will be profitable.

The views expressed in this report represent the opinion and analysis of Founders Capital Management based on data available from public sources at the time of writing. This report is not intended to provide any recommendations with respect to the purchase and/or sale of any specific security. It is recommended that individuals conduct their own research or consult with an investment advisor prior to making any investment decisions.

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APPENDIX

Founders Company and Investment Culture

What Do We Focus On?

- **Act as business owners for the long haul**, as opposed to looking at investments as “paper to be flipped”
- **Act with “Rs”**: in mind: **Reputation** (never lose it), **Responsibility** (always take it), **Reliability & Results** (focus on execution)
- **Act with character**—it’s hard to describe, but we know it when we see it (when in doubt, always place others’ interests before one’s own)
- **Practice “mindful investing,”** fully understanding where our money is invested, as deep down as we can observe. Take complete responsibility for allocating capital, and do not abdicate money management and research to others
- **Understand the value of our held assets**, both those that are directly held and any investment with underlying assets
- **Care for clients and for each other**—collectively, we are Founders’ greatest assets
- **Invest our own money as we invest for clients**, ensuring that we “eat our own cooking”
- **Maintain a human growth orientation** for individuals and clients over revenues and profits (size does not matter, but growing knowledge and embracing quality does; enrich the lives of those we interact with)
- **Seek and generate ideas, and learn from mistakes**: Mistakes are bound to happen—face them, and don’t sweep them under the rug
- **Learn to learn**: Think “different” and “unmatchable,” and become an organizational “learning machine”
- **Share knowledge**: Hoarding knowledge is like hoarding love—the more you keep it for yourself, the less you have
- **Think in questions vs. answers**: Insightful questions lead to greater intelligence and create options for decisions
- **Remember that the will to prepare is more important than the will to win**

How Do We View Risk?

- **Seek spread, safety, and certainty in our investments**—when practiced, speculation is eliminated
- **Always remember security**: Purchase what is dependable / defensible and predictable / protected. Analyze the potential loss before gain and focus on scenarios that can go wrong with an investment
- **Observable risks**: “See what others see”
- **Identify developing risks**: Aspire to see what others may not see, including risk creep, aggregation risk, and potential events that can cause financial fragility
- **Allow for unavoidable uncertainty**: Expect the unexpected, as the unexpected is certain to happen
- **Remember to be humble, aware, and careful**—acknowledging what we don’t know is the dawning of wisdom
- **Risk sensitivity = “Margin-of-Safety”**: Be mindful of valuation and interest rates, capital structure and liquidity, franchise, business model, and management risk
- **Remember that the greatest risk is not fluctuation in the stock and bond markets**—the largest risk lies in purchasing lower-quality issues that look good today but face erosion in real value in the long run
- **Always avoid dealing with people of questionable character**: We will be associated with the company we keep. Remember that reputation and integrity are our most valuable assets—and can be lost in a heartbeat

How Do We Invest?

- **Focus on absolute over relative returns:** The investment world is full of illusory short-term comparisons that ultimately lead to permanent loss. Be risk-averse, and abhor losing money under any circumstance
- **Seek industry and business ecosystem insight** vs. making macro predictions on the economy or market, which are certain to be wrong
- **Don't develop a master plan when investing**—be situation-dependent and opportunity-driven
- **Avoid unnecessary transactional taxes and frictional costs**—never take action for its own sake
- **Enjoy the investment process**, because studying and researching businesses is “where we live”
- **Recognize and adapt to the nature of the investment world;** don't expect it to adapt to us
- **Continually challenge and willingly amend the “best-loved investment ideas”**
- **Recognize investment reality even when we don't like it**—perhaps especially when we don't like it
- **When investing, think multidimensionally and look at investment from all angles**—this is captured by the quote “Invert, always invert”
- **Develop disciplined thinking around investment spreads**—seek to maximize cash yield spreads and practice short-term and long-term arbitrage
- **Practice 2nd- and 3rd- level thinking when investing**—always ask, “And then what happens?”
- **Develop “deep insight” and focus on value**—discern the truly valuable from the illusory
- **Remember the key elements to company evaluation:** Understand the “industry ecosystem;” describe the “investment insight”—including the company's competitive advantage, its strategic position within the industry ecosystem, and potential disruption that could erode the company's sustainability
- **Decipher the difference between certainty and uncertainty:** Understand the difference between what is knowable and important, unknowable and important, and unknowable and unimportant. Place a high value on a probable certainty of outcomes
- **NEVER SPECULATE IN ANY INSTANCE**—THIS IS A RECIPE FOR EVENTUAL FAILURE



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