

INDEX RESEARCH • MOTLEY FOOL INVESTMENT ANALYTICS

Inside the Motley Fool Capital Efficiency 100 Index

Quality investing with a Foolish twist

The Motley Fool Capital Efficiency 100 Index holds 100 United States companies drawn from the research of The Motley Fool, LLC and ranked on how well each turns the money it puts to work into profit: whether that profitability is strong, improving and consistent. This paper covers where the quality premium comes from, how the score is built, and how the index is constructed and has behaved.

Index Foolishly.

Quality you can measure: companies that make the most of every dollar they put to work, selected by a systematic, rules-based index held to a published methodology.

WHAT IS QUALITY INVESTING?

Quality investing is the strategy of owning companies with the characteristics that have historically come with higher stock returns: **profitability, growth and stability**. The core idea is simple: **a business that earns high returns on its capital, and keeps earning them, is worth more than the market tends to pay for it**. The research case arrived largely between 2010 and 2015 (Novy-Marx, 2013; Fama and French, 2015; Asness, Frazzini and Pedersen, 2019).

Quality tends to outperform when...	Growth slows, earnings disappoint broadly, or investors rotate toward durable franchises and balance-sheet strength.
Quality tends to underperform when...	Speculative, low-quality stocks lead, as in early recoveries and sharp rallies in the most beaten-down names.
Quality tends to have a volatility profile that is...	Often lower than the market, though quality can suffer long drawdowns of its own and is not a short-term hedge.

WHERE DOES QUALITY COME FROM?

The quality premium rests on persistence:

- **Protected returns.** High returns on capital should not survive competition. When they do, something protects them: switching costs, scale, a brand or a network.
- **Underpriced durability.** Investors have historically underpaid for how long those protections last, and quality strategies have collected the difference (Asness, Frazzini and Pedersen, 2019).
- **The other side of value.** Gross profitability predicts returns about as well as book-to-price does (Novy-Marx, 2013), and robust profitability is now a standard factor (Fama and French, 2015).

WHAT MAKES MOTLEY FOOL CAPITAL EFFICIENCY DIFFERENT?

The index pairs the research of analysts at The Motley Fool, LLC with a systematic tilt toward capital efficiency, measured by gross profits over assets (GPOA), the top-line view analysts at The Motley Fool, LLC take of a business, across three dimensions:

- **Gross Profitability.** How much gross profit a company earns on its assets.
- **Gross Profit Growth.** Whether that GPOA is rising year after year.
- **Gross Profit Stability.** Consistent gains rather than one-off spikes.

In a nutshell

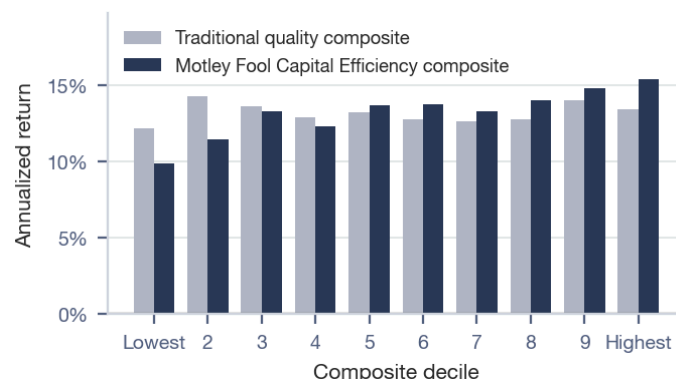
Motley Fool Capital Efficiency asks whether a company's ability to turn investment into profit is strong, improving and consistent, and combines the answers into one score. Across 373 month ends its highest decile returned 15.4% a year against 9.9% for its lowest, a spread of 5.5 points, where the traditional composite spread 1.3.

WHAT DO QUALITY INVESTORS OFTEN GET WRONG?

Quality is easy to mismeasure, which leaves approaches exposed to **quality traps**:

- **Anchoring to static ratios.** Return on equity can be flattered by leverage and buybacks, and earnings by accounting choices.
- **Ignoring trajectory.** A high return that is fading is not the same asset as one that is rising.
- **Mistaking spikes for strength.** One exceptional year says little about whether a business can repeat it.
- **Expecting a hedge.** Quality has not reliably cushioned every downturn, and treating it as a short-term anchor invites disappointment.

TRADITIONAL QUALITY AGAINST MOTLEY FOOL CAPITAL EFFICIENCY



Equal weighted decile portfolios of United States all-cap stocks, formed at every month end from 06/30/1995 to 06/30/2026 (373 formation dates, about 2,478 stocks each) and held three months, shown as the average three-month return annualized. Traditional quality is an equal weighted composite of return on equity, low book leverage and 1-year change in return on assets. Motley Fool Capital Efficiency is an equal weighted composite of the three metrics the index scores on. Both are ranked on the same stocks on the same dates. Hypothetical and gross of all costs, for illustration only.

MEET THE MOTLEY FOOL CAPITAL EFFICIENCY 100 INDEX



The Motley Fool Capital Efficiency 100 Index (total return) against the S&P 500 TR and MSCI USA Quality TR indexes, each rebased to 100 at the start of the published series in December 2014. Everything left of the marker is back-tested: the index began live calculation on 22 December 2021, and the 7 years of published history before that date apply the index rules retrospectively. Back-tested performance is hypothetical. Past performance does not predict future returns.

FROM RESEARCH UNIVERSE TO INDEX

Each quarter the index is rebuilt from the research of The Motley Fool, LLC in six published steps. None of them involves a discretionary judgment about a company on the day.

STEP 1

Start with the best ideas

The Motley Fool Index universe: open recommendations in flagship publications of The Motley Fool, LLC and the 150 companies with the highest analyst conviction, after liquidity screens.

STEP 2

Measure efficiency

Gross profits over assets are tracked across five years of filings, for their level, their growth and their stability.

STEP 3

Build the score

The three metrics are normalized across the index universe and averaged into a single Capital Efficiency Composite Score.

STEP 4

Pick the top 100

Companies are ranked on the composite and the top 100 are selected, with a 30% continuity buffer.

STEP 5

Weight by size and score

Each company is weighted by market capitalization, scaled up for a positive composite score and down for a negative one. No company may exceed 4.8% of the index at a reconstitution.

STEP 6

Rebalance quarterly

The index is reconstituted at each quarter end. Concentration limits are tested between reconstitutions and can trigger an interim rebalance.

WHY THE BUFFER EXISTS

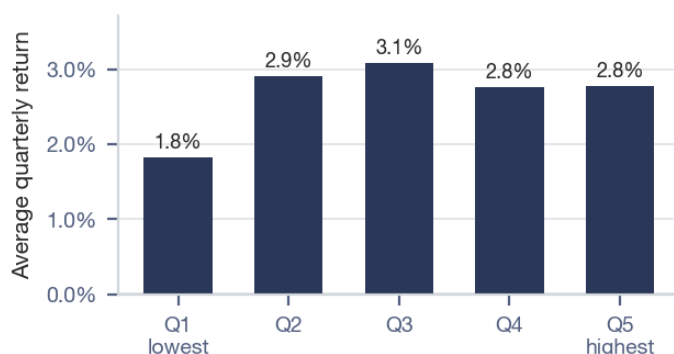
Index membership buffer ranked by Capital Efficiency Composite Score



A company near the cut can move a few places either side of it from one quarter to the next without anything about it having changed. The buffer stops that noise from turning into trades. At each reconstitution the 70 highest ranked companies enter on rank alone, current members ranked down to 130 keep their places, and the remaining places go to the highest ranked newcomers. The buffer has applied since December 2021.

Quarterly one-way turnover has averaged **16%** without the buffer and **9%** with it. Figures before December 2021 are back-tested.

POWERED BY THE CAPITAL EFFICIENCY COMPOSITE SCORE



United States all-cap stocks (about 2,348 a quarter) sorted into quintiles on the production Capital Efficiency Composite Score at each of 47 quarterly Weighting Dates from Dec 2014 to Jun 2026, equal weighted and held three months. Hypothetical and gross of all costs.

Across the all-cap universe the highest quintile of the score averaged **2.8%** a quarter against 1.8% for the lowest. The appendix repeats the test for each sub-score and in narrower universes, including the one the index actually selects from.

THE MOTLEY FOOL INDEX UNIVERSE

The power of dozens of analysts in every constituent

Before any score is applied, every company in The Motley Fool Capital Efficiency 100 Index has been chosen by the research of The Motley Fool, LLC: 25 years of published recommendations and the live conviction of its analysts, a research universe only Fool Indices can draw on.

Newsletter recommendations

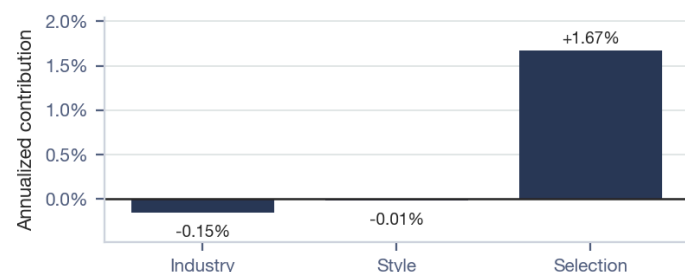
Open buy recommendations in **Stock Advisor** and **Rule Breakers**, flagship publications of The Motley Fool, LLC, dated and published to subscribers in real time for years before any index was calculated from them. The list is patient, so the universe changes slowly underneath the index.

Analyst conviction

The 150 companies with the highest conviction scores from analysts at The Motley Fool, LLC. Each analyst's view is weighted by their own five-year stock-picking record, measured on company-specific returns only, so a score reflects who has been right about individual businesses rather than who happened to cover a rising sector.

OPEN RECOMMENDATIONS	MEDIAN AGE	AVERAGE HOLDING PERIOD	SCORED ANALYSTS
296 across 257 distinct companies	6.5 yrs 31% open more than ten years	~10 yrs implied by turnover since 2006	90 1,687 ratings on 559 companies, Sep 2026

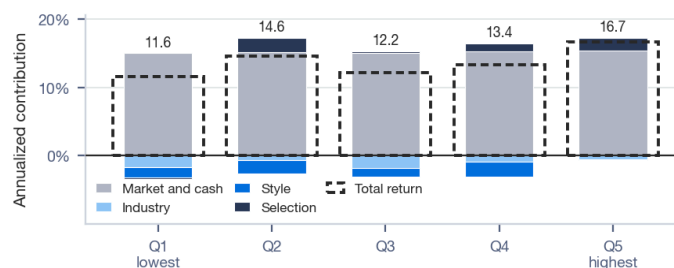
RECOMMENDATIONS ADD COMPANY SELECTION



Annualized contribution to the equal weighted basket of open recommendations by source, Dec 2006 to Sep 2026.

Held at equal weight and rebalanced monthly, the open recommendations returned **13.8%** a year against 12.4% for the S&P 500 Total Return index over 238 months, about 224 companies at a time. Through the factor model, industry tilts contributed -0.15% and style tilts -0.01% a year. Company selection contributed **+1.67%**, with an information ratio of 0.58.

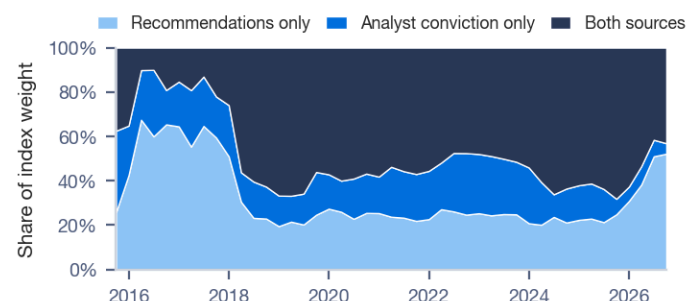
CONVICTION PAYS AT THE TOP



Annualized return by analyst conviction quintile with its sources, May 2018 to Jun 2026 month-end formation dates, about 112 companies each, equal weighted, three-month holding period.

The highest conviction quintile returned **16.66%** a year against 11.57% for the lowest. Market exposure is common to all five, so the gap is not leverage: company selection was worth +1.82% at the top and -0.29% at the bottom. The top-150 cut is built to take that top band.

WHERE MOTLEY FOOL CAPITAL EFFICIENCY'S CONSTITUENTS COME FROM



Share of index weight by the universe source that made each constituent eligible, at every reconstitution since September 2015, when the analyst conviction source joined the universe. Figures before December 2021 are back-tested.

UNIVERSE SOURCE	CONSTITUENTS	WEIGHT	WEIGHT CURRENT
Both sources	35%	49%	43%
Analyst conviction only	16%	19%	5%
Recommendations only	49%	33%	52%

Averages across 45 reconstitutions since September 2015.

Companies carried by both sources have cleared two independent bars before the score is applied. They have averaged 35% of the index's constituents and **49%** of its weight. The analyst conviction source alone has supplied another 19% of the weight, companies the recommendation list did not carry at the time.

The universe and the score do different jobs

The universe decides which companies are eligible, and the Capital Efficiency Composite Score decides which of them the index holds and at what weight. The universe's contribution has come from company selection rather than industry or style tilts, so it does not duplicate the quality tilt the score adds: it is what separates Motley Fool Capital Efficiency from a quality strategy run across the whole market.

Baskets are hypothetical, gross of costs and not published indices. Inclusion in an index is not a recommendation to buy, sell or hold any security. Past performance does not predict future returns.

PERFORMANCE

Figures cover the full published history of The Motley Fool Capital Efficiency 100 Index, from its inception in December 2014 to 30 September 2026. The index began live calculation on 22 December 2021; its published levels before that date are back-tested, calculated by applying the index rules retrospectively.

SUMMARY STATISTICS	ANNUALIZED RETURN	ANNUALIZED VOLATILITY	SHARPE RATIO	MAX DRAWDOWN	UP CAPTURE	DOWN CAPTURE
Motley Fool Capital Efficiency TR	16.0%	19.0%	0.77	-31.5%	122	99
S&P 500 TR	13.8%	17.6%	0.70	-33.8%	-	-
MSCI USA Quality TR	15.3%	18.3%	0.75	-30.7%	109	98

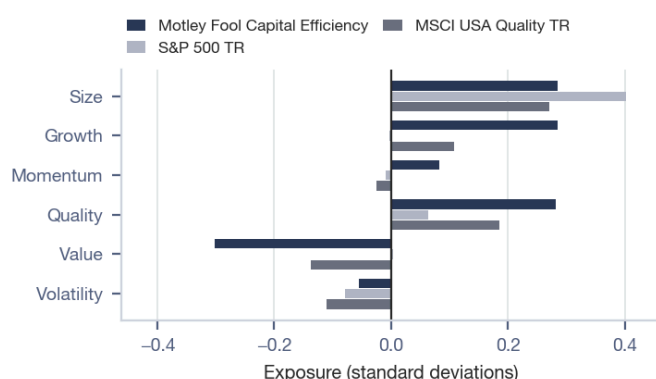
Total return, from the published index levels, December 2014 to 30 September 2026. Volatility and drawdown are measured on daily returns, and the Sharpe ratio is annualized excess return over the daily risk free rate divided by annualized volatility. Up and down capture are against the S&P 500 TR, compounding each series over the 96 months it rose and the 45 it fell. Performance before 22 December 2021 is back-tested and hypothetical. Past performance does not predict future returns.

TRAILING PERFORMANCE	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (2014)
Motley Fool Capital Efficiency TR	4.2%	4.9%	19.7%	12.0%	17.1%	16.0%
S&P 500 TR	12.7%	15.8%	22.9%	13.8%	15.3%	13.8%
MSCI USA Quality TR	13.0%	17.7%	22.2%	13.8%	16.7%	15.3%

Periods of a year or more are annualized; the year to date is cumulative. Data through 30 September 2026. Performance before 22 December 2021 is back-tested and hypothetical.

Over 11.7 years the index returned **16.0%** a year, against 13.8% for the S&P 500 TR and 15.3% for the MSCI USA Quality TR, with annualized volatility of 19.0% against 17.6% and 18.3%. It captured 122% of the S&P 500 TR's gains in rising months and 99% of its losses in falling ones.

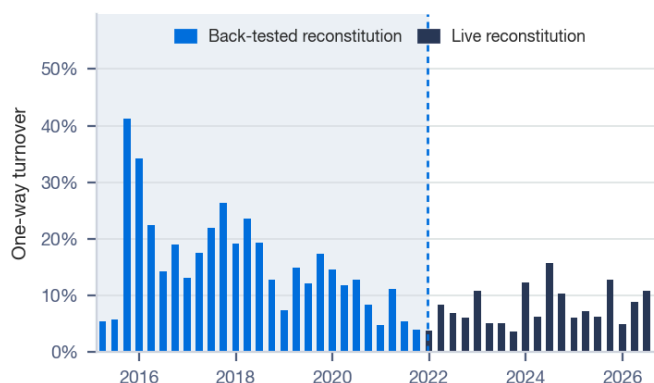
STYLE TILTS



Exposure from the in-house factor model. Bars average all 48 reconstitutions from Dec 2014 to Sep 2026, back-tested before December 2021. Benchmarks are read from the holdings of IVV and QUAL.

Across the history, the index's quality exposure averaged +0.28, against +0.06 and +0.18 for the S&P 500 TR and MSCI USA Quality TR.

TURNOVER



One-way turnover at each reconstitution from Mar 2015 to Sep 2026: half the summed change between the new target weights and the old basket as it had drifted by the trade. The shaded span is back-tested; from December 2021 the baskets are those the calculating agent published.

Quarterly one-way turnover has averaged 13% across the history, ranging from 4% to 41% (in September 2015). The index has held between 100 and 101 companies across the history.

WHAT THE INDEX IS DESIGNED TO REPRESENT

The index is built to represent a particular view of markets:

- that businesses able to turn investment into profit, and keep doing so, are worth more than the market tends to pay for them;
- that quality is best measured across several dimensions rather than by a single accounting ratio;
- that a rules-based quality core can sit alongside growth, value and momentum strategies as a steady complement.

Where a company earns strong, rising and consistent returns on the capital it puts to work, the index is designed to hold it, weighted by size and by the strength of its capital efficiency score.

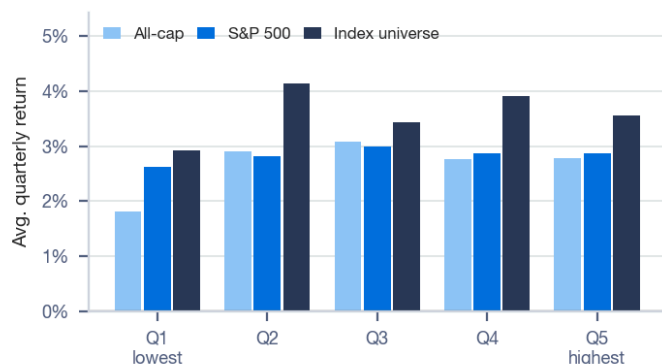
HOW EACH SCORE SORTS RETURNS

Each score below is the production score the index uses, normalized within each universe at every quarterly Weighting Date from Dec 2014 to Jun 2026. The left chart sorts the universe into quintiles and shows the average equal weighted return over the following three months, the index's own holding period. The right chart holds the top third and shorts the bottom third each quarter. All-cap is the factor model's United States estimation universe (about 2,348 companies); S&P 500 is the constituents of the S&P 500 (about 498 companies); Index universe is the research universe the index selects from (about 290 companies).

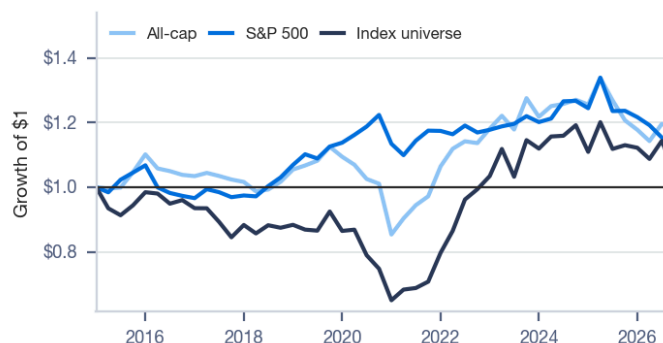
Capital Efficiency Composite Score

The Capital Efficiency Composite Score drives both membership and weight. It is an equal weighted blend of three sub-scores, each built on gross profits over assets (GPOA): **Gross Profitability**, **Gross Profit Growth** and **Gross Profit Stability**, a tiered approach designed for comparability with popular quality factors. Each is normalized within its universe before the three are averaged.

QUARTERLY QUINTILE RETURNS, BY UNIVERSE



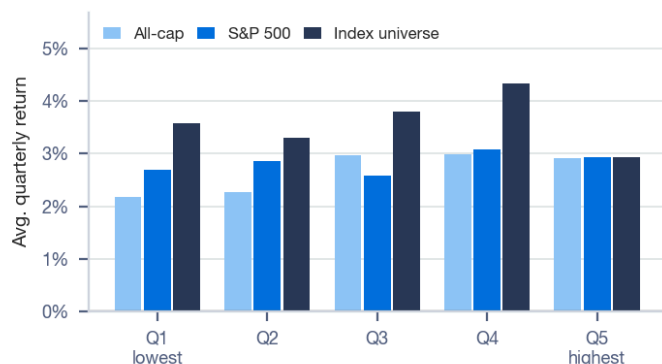
TOP-MINUS-BOTTOM TERCILE, GROWTH OF \$1, BY UNIVERSE



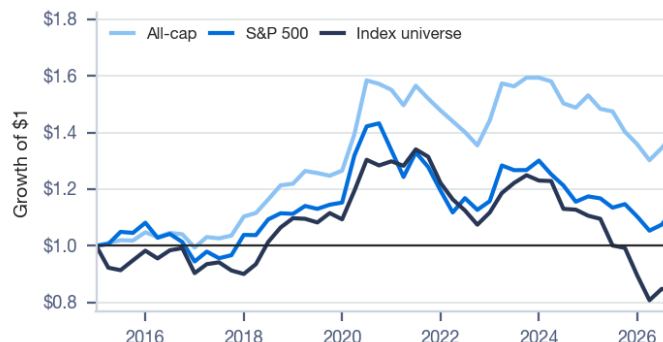
Gross Profitability

Gross Profitability is GPOA: gross profit (revenue less cost of goods sold) over total assets, averaged across five years of trailing-twelve-month filings. Measuring profitability at the top line aligns the score with the way analysts at The Motley Fool, LLC examine a company, with a heavy focus on top-line efficiency, and with the most recent research on profitability (Novy-Marx, 2013; Asness, Frazzini and Pedersen, 2019). Gross profit sits above the expensed investment in research, brand and people that depresses earnings at many of the most efficient businesses, and scaling by assets compares companies across industries. At least eight quarters of data are required.

QUARTERLY QUINTILE RETURNS, BY UNIVERSE



TOP-MINUS-BOTTOM TERCILE, GROWTH OF \$1, BY UNIVERSE

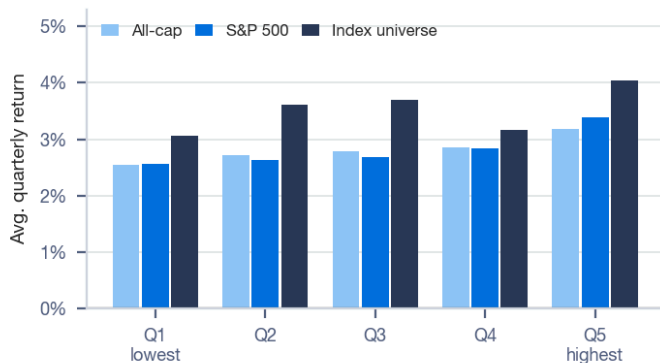


Hypothetical quintile and tercile portfolios, equal weighted, gross of all costs, taxes and fees, from Dec 2014 to Jun 2026, United States listed stocks only. They are analytical constructions used to show how each score behaves, not indices, and cannot be invested in. Returns outside -100% to +1,000% in a quarter are treated as pricing artifacts and excluded.

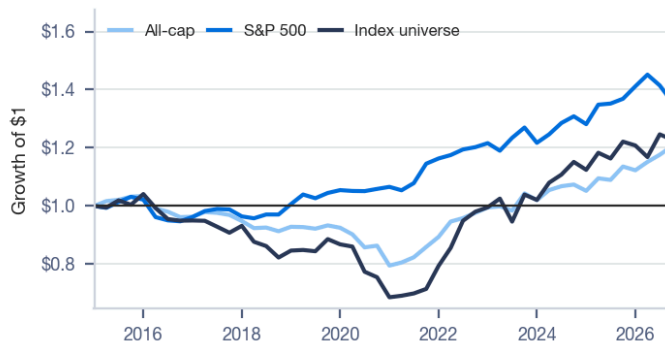
Gross Profit Growth

Gross Profit Growth asks whether GPOA is improving. It is the average change in quarterly gross profits over assets against the same quarter a year earlier, taken across five years, so that a company earning more on its asset base each year ranks above one whose returns are flat or fading.

QUARTERLY QUINTILE RETURNS, BY UNIVERSE



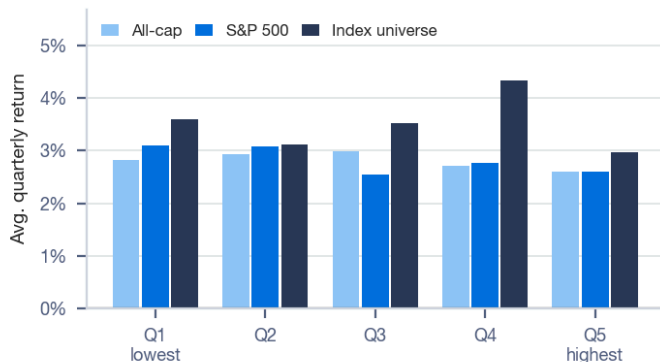
TOP-MINUS-BOTTOM TERCILE, GROWTH OF \$1, BY UNIVERSE



Gross Profit Stability

Gross Profit Stability separates consistent profitability from one-off spikes. It is the volatility of trailing-twelve-month GPOA across five years, with the sign reversed so that the steadiest companies score highest.

QUARTERLY QUINTILE RETURNS, BY UNIVERSE



TOP-MINUS-BOTTOM TERCILE, GROWTH OF \$1, BY UNIVERSE



Hypothetical quintile and tercile portfolios, equal weighted, gross of all costs, taxes and fees, from Dec 2014 to Jun 2026, United States listed stocks only. They are analytical constructions used to show how each score behaves, not indices, and cannot be invested in. Returns outside -100% to +1,000% in a quarter are treated as pricing artifacts and excluded.

METHODOLOGY NOTES

Measurement dates

Every figure in this paper is pinned to Q3 2026 (data through 30 September 2026). The paper is refreshed each quarter on the same basis.

Index history

The Motley Fool Capital Efficiency 100 Index began live calculation on 22 December 2021. Performance in this paper covers the index's full published level series from its inception in December 2014. Published levels before the live date are back-tested: they apply the index rules retrospectively and are hypothetical.

Holdings

From December 2021, constituents and weights are those published by the index's independent calculating agent. Before that date, the back-tested baskets are the index rules applied retrospectively by MFIA's production system. Rebuilt month by month from those baskets across 84 back-tested months, the index compounds to within 55 basis points a year of its published series, with a monthly correlation of 0.998, so the turnover and style figures describe the same portfolio the published history does.

Factor model

Style exposures come from an in-house fundamental factor model estimated on a broad United States investable universe. Each theme averages the style factors within it that point the same way.

Hypothetical portfolios

Decile, quintile and tercile portfolios are analytical constructions used to show how the scores behave. They are hypothetical, gross of all costs, taxes and fees, cannot be invested in, and are not published indices.

Hypothetical results have inherent limitations and do not reflect trading, liquidity constraints or the timing of actual capital flows.

Benchmarks

The S&P 500 TR and MSCI USA Quality TR are shown for reference. Their levels are the published total return series, and their style exposures are read from the holdings of an exchange traded fund tracking each.

IMPORTANT INFORMATION

Motley Fool Investment Analytics (MFIA) constructs, publishes, and licenses indices based on rule-based, quantitative methodologies. MFIA is not an SEC-registered investment adviser and does not provide investment advice, offer securities, or make representations regarding the advisability of investing in any instrument. Nothing in this document should be taken as constituting financial or investment advice. MFIA is not permitted to provide investment advice, and any decision to invest in a security should not be made in reliance on the information contained in this document. Inclusion of a security within a MFIA index is not a recommendation to buy, sell, or hold such security.

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The Motley Fool Capital Efficiency 100 Index (the "Index") was established by Motley Fool Investment Analytics, LLC in 2021 and is a proprietary, rules-based index designed to track the performance of the highest scoring liquid stocks of United States companies, measured by capital efficiency, from the research universe of The Motley Fool, LLC.

Past performance is not a guide to, and does not predict, future returns. Index performance does not reflect any management fees, transaction costs, taxes or expenses that would be incurred by a portfolio seeking to track the index, and an investor cannot invest directly in an index. Index returns quoted in this document are total return, meaning dividends are treated as reinvested. The published index level series extends before the commencement of live calculation on 22 December 2021 on a back-tested basis, and performance for that period is included in this document. Back-tested performance is hypothetical: it is prepared with the benefit of hindsight by applying the index rules to historical data, does not reflect actual trading or the financial risk of actual investing, and is not indicative of any actual investment result.

Company fundamental, pricing and classification data is sourced from S&P Global Market Intelligence. Published index levels are produced by MFIA's independent third-party calculation agent. The S&P 500 Index is a product of S&P Dow Jones Indices LLC, and the MSCI USA Quality Index is a product of MSCI Inc. Both are shown for reference only, and neither their inclusion nor any comparison in this document implies any sponsorship, endorsement or affiliation.

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Licensing and methodology enquiries

Full methodologies for The Motley Fool Capital Efficiency 100 Index and every index in the index family of The Motley Fool, LLC are published in full, including membership criteria, weighting rules, reconstitution schedule and corporate action treatment.

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