

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Investing For The Long Term



ROBERT E. TORRAY founded Torray, LLC in 1972. He manages the assets of The Torray Fund (TORYX), The Torray Institutional Fund (TORRX) and Torray LLC's separate institutional account business. He has consistently utilized a long-term value-oriented investment strategy. Prior to 1972, he was a Vice President and Manager of the Pension Fund Management Division of Eastman, Dillon, Union Securities & Co. He is a former Director of Sub Sea International Corporation, The Liberty Bank of Oklahoma, Charter Federal Savings Bank, The U.S. Satellite Broadcasting Company, CarrAmerica Realty Corporation and LaBranche & Co. Inc. He entered the investment management industry 48 years ago after graduating from Duke University with a BA degree in History.

SECTOR – GENERAL INVESTING

TWST: Would you start with an overview of your company and your investment philosophy there?

Mr. Torray: I founded the company in January 1973 just before the market crashed, so we celebrated our 36th anniversary at the end of last year. Our approach is to buy companies with long, successful track records, sound economic fundamentals and good management. They must also be priced reasonably — not cheap, just reasonably. We hold them as long as the businesses perform. Our conviction is that if the business prospers, the stock will take care of itself. We don't spend any time thinking about the market, where it's headed or whether our stocks are going up or down.

TWST: Do you have an investment style or do you just look at the businesses?

Mr. Torray: I don't believe in investment styles or any of that stuff. It's just strictly investing on a case-by-case basis in businesses we think are attractive.

TWST: What about the last few months with the market decline and economic downturn? How are these businesses coping with this environment on a fundamental basis?

Mr. Torray: I would say it varies quite a bit. Some have been hurt very badly and others have been relatively unscathed, but the environment is just so weak that it's hard to find anything

that really has not been adversely impacted. Of course, that's already reflected in the share prices.

TWST: The share prices are all very low. Are you finding any opportunities to get businesses that normally do well and that you expect to do well going forward?

Mr. Torray: We already own them. I get a kick out of people saying, "You must be finding a lot of values." There are always values in this type of situation. The fact is, there's a lot of cash around, collectively enough to buy 80% of the market, but on a case-by-case basis, the average person probably doesn't have that much. We have 10% or 15% in reserve, but we're basically not doing anything right now.

TWST: Have you shifted in emphasis in your portfolio construction or the type of companies you look for?

Mr. Torray: No. Our position in financial companies has really suffered, and we sold a few of them. The others — we're just going to wait it out.

TWST: Do you have a top-down perspective about your investment approach before you look at individual companies?

Mr. Torray: No.

TWST: Tell us about the companies that you do have in your portfolio and what type of business you show interest in.

Highlights

Robert E. Torray looks for growing companies with solid track records and capable management, and he holds on to them for as long as the companies' fundamentals remain intact. He manages a fairly concentrated portfolio, with stocks in several sectors. He is confident in his investment approach, which is traditional buy and hold for the long term. It has proven successful for the last 36 years, producing a compound return of nearly 300 basis points over the S&P 500. He feels that the current turmoil in the markets will pass and things will get better in time. In the meantime, his job is to focus on his work, give encouragement and provide perspective to his investors.

Mr. Torray: Most of them we've had for a long time. **Procter & Gamble** (PG), **Johnson & Johnson** (JNJ), **American Express** (AXP), **Kraft** (KFT) and **Cisco** (CSCO) — situations like that. I don't have the list in front of me, but they're basically large companies with long, successful track records.

TWST: Do you still have holdings in financials?

Mr. Torray: Yes, as I said, we do. It's just been shocking to see what's happened to some of them. We're also in **General Electric** (GE), which investors now seem to view as a financial, and I find it just unbelievable what's happened there.

TWST: Who are your typical clients? Are they mostly individuals?

Mr. Torray: No. They have been institutions mostly, and we have two mutual funds, which are largely individually owned, but we don't have any individual separate accounts.

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TWST: Have you been investing in commodities and more cyclical companies?

Mr. Torray: Some cyclical, no commodities. I've always been negative on them — it's an area that doesn't fit our investment criteria. Their long-term record has been absolutely dismal, but they do go through periods, as the experience a few years ago shows, when they make big moves to the upside. Had we known what was coming, I imagine we'd have taken a chance on them, but there was no way to know. I think it took everybody by surprise, and the higher the stocks went, the more ridiculous the whole thing looked. Our view is that commodities, gold and so on are assets that are bought by speculators to sell to somebody else. Having said that, being out of them — oils, metals, the US steel type situations — caused us to lag the market while the boom lasted. But, generally speaking, they've now all collapsed, and I think we're better off having avoided them. As I said, their long-term economics are terrible.

TWST: You invest in companies that achieve above average growth over a sustained period?

Mr. Torray: That's what we hope, yes.

TWST: What happens now when you have this situation where they've all gone down? Do you have to adjust your process somewhat?

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Mr. Torray: No. The shares have gone down and the earnings outlook has dimmed, but that's not a permanent situation. When the economy recovers, the operating advantages these types of businesses have will become obvious once again. The bottom line is, earnings have flattened out or declined, but under the circumstances, that's no surprise, and, as I said before, it's already reflected in the share prices.

TWST: And the fundamentals of the businesses are still sound?

Mr. Torray: Yes. I would say they are.

TWST: What about your risk management? How do you attempt to control risk in your portfolio and in individual stock?

Mr. Torray: I don't believe in any of that stuff. We always say risk is in the business, not the stock. If you buy businesses with weak underlying fundamentals, you're going to pay the price and vice versa. So I don't believe in technical approaches — balancing, rebalancing and all that. It's just a waste of time.

TWST: Have you been selling any of your holdings over the last year?

Mr. Torray: Yes, we have, mainly those that have been severely impacted by the financial crisis and appear unlikely to meaningfully recover. The market's full of them, and it seems likely some won't survive. It's a real tragedy — many stocks that traded at \$30, \$50, \$90 a share are now in single digits or pennies. It's unbelievable. I've never seen anything like it.

TWST: There are also industries that are looking like they won't survive, and probably shouldn't survive.

Mr. Torray: Yes, I'm afraid so. The newspaper industry has been one of my favorites for a long time, but we've lost a lot of money in the business and it seems unlikely we'll get it back.

TWST: What about areas like autos and airlines? Are you invested in those areas?

Mr. Torray: No, we have never been in them. They're, unfortunately, examples of very bad businesses. It's no one's fault, they just consume more money than they make. Even when conditions were better and they were making money, it all had to be plowed back, and then some, just to stay in the game. Shareholders have never gotten anything out of these situations except dividends, which now appears are gone forever, and those were mostly paid with borrowed money. These are important components of our economy, but it is sad to say that has not translated into shareholder value. Again, it's no one's fault, but it's a fact.

TWST: How important are dividends? Do you look for yield?

Mr. Torray: No, not particularly. If you can invest in a good company that grows and it pays a dividend too, that's a good combination, but we don't approach things from the perspective of trying to

generate yield.

TWST: Do you have any views on the outlook for the rest of this year? Do you see any light at the end of the tunnel?

Mr. Torray: I never think about it. If you ask 100 people, you get 100 different opinions, but the fact is that no one knows. It's certainly the most complicated situation I've ever seen. There are so many moving parts, I don't have a clue how things will turn out in the near term. But over time, I am very confident history will repeat, the economy will recover and so will the market. It may take a few years, but it will happen.

TWST: What about management factors? How important is the management of the companies you have in your portfolio?

Mr. Torray: It's important. I must say, though, that assessing management is a tricky business. For instance, when companies prosper over a fairly long period of time, it's natural to assume managements are one of the main reasons. But in some cases, the underlying fundamentals are so favorable, if management doesn't totally mess up, things continue to work out regardless. And then there are cases like the telecom-dot-com boom, where everything went up and investors lionized manage-

TWST: You hold your businesses for a long time. Do you think one of the problems with the market in recent years has been its short-term outlook?

Mr. Torray: Yes. Stock markets around the world have deteriorated into gambling parlors. It's a shame that so many people devote their time to thinking up esoteric financial products that serve no purpose, or simply shuffling paper. Volatility is high, and it seems like the majority of players spend their days just trying to figure out what's going up or down next, hedging things, trading derivatives and so on. I think

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ments, when in fact, they had nothing to do with it. There are also situations where mergers, acquisitions, the piling on of leverage and so on leave the impression that value is being created when it's really being destroyed. This happened during the last decade. In these cases, as long as the ball keeps rolling, a groupthink develops that managements are farsighted and skillful, when in fact, they're just driving a train heading for a wreck. The best managements are the ones that leave a winning combination alone, and there are plenty of them.

TWST: A lot of your companies have international operations and multi-national operations. Are they being adversely affected by the economic decline globally?

Mr. Torray: Absolutely, and also by the strength of the dollar.

TWST: Do you see international operations picking up?

Mr. Torray: I don't think about it. I just assume things will turn around eventually because they always do. There's no predicting the timing.

we'd all be a lot better off if this stuff went away and the country got back to business fundamentals, making things and employing people to perform meaningful work. On a more minor note, I'm in favor of reinstating the uptick rule on short selling.

TWST: Didn't Franklin Roosevelt impose an uptick during the depression?

Mr. Torray: It was instituted in 1938.

TWST: So you think that would help?

Mr. Torray: Yes. Short sellers in recent years have ganged up on the market's weakest sectors — financials for instance — and driven them into the ground. Many would have gone down anyway, but others not nearly as much. Once short sellers pile on, a downward spiral sets in, stockholders run for cover, shorts up the ante, more stockholders sell, and you just get a self-reinforcing collapse. I think the whole financial scene is an absolute disgrace. There are very few real investors in this market, very few.

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TWST: Do you look for businesses that actively create shareholder value? How important is that?

Mr. Torray: It's the only thing that counts. The value of sound, well-run businesses will always be reflected in higher stock prices over long periods, and by that I mean 10, 20, 30 years. In the short run, there's just no telling — anything can happen. And, unfortunately, the short run is what the vast majority of market participants — I won't call them investors — are focused on. They're wasting their time, and over time they are bound to be disappointed.

TWST: Do you ever invest in turnaround situations or special situations?

Mr. Torray: Yes, sometimes. They are very tricky though. Honestly, I really don't think we've done that well with them — particularly in recent years. Very few special situations, turnarounds and so on have been successful in recent years. The economic climate has just been too brutal.

TWST: What advice would you give to investors at this particular time?

Mr. Torray: I actually don't give advice.

TWST: But with your professional long-term record and experience, people look for some advice, and if not advice at least your reflections.

Mr. Torray: You're right. I really try to focus on putting things in perspective for people. When investors ask for advice, what they're really looking for is someone to tell them what's going to happen next. As I've said many times, no one knows, even though the pundits on TV and in the press pretend they do. Having said that, I do have an opinion on the situation today. It's basically that the market's huge selloff takes into account current problems and, hopefully, others that may surface in the future. Since its peak in October 2007, the S&P 500 has dropped 52%. The Value Line 1600 Stock Index, which is equal weighted — each

stock, regardless of capitalization size, counts the same as all others — has plunged 61%, which seems more likely to reflect the average investor's experience than the S&P. Confidence was high at the top, and is non-existent now. There are many sound companies today selling at low prices and high yields. Five years from now they should be making substantially more money and paying higher dividends, which, in turn, should boost their share prices. The bottom line is, it's late to be selling. On the other hand, I tell people that if they just can't take it anymore, sell out, forget it, and don't kick yourself if it turns out to be a mistake. If you can't sleep and feel depressed, it's time to move on. One of the age-old problems people have with investing is they can't resist a rising price, and they inevitably run after a collapse. When a bubble develops and

TWST: Is there anything that you wish to add?

Mr. Torray: The whole country is stressed out and it's easy to see why. The average person has probably lost more than half of his or her money invested in stocks, house prices have dropped and may well go lower. People I talk to are basically beside themselves, and they've changed their behavior. You can see it in retail sales, restaurants, resort bookings and just about everything else. On top of that, shopping malls have emptied out and commercial real estate is under a lot of pressure. It's by far the most troubling period I've experienced in my lifetime. And the stock market confirms it. The average person probably doesn't realize that the market over the last 10 years actually performed worse than the market of the 1930s. It lost 26% on a price basis and 13% or 1.4%

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shares are insanely inflated, few will listen to caution. When you get a situation like we have today, investors find it equally hard to take advice to stay the course. This is the main reason the average person fares so poorly over time. But you can't blame them. It's human nature — the way most of us are wired up.

TWST: Although you don't give advice, clearly you think that investing in the types of businesses that you do have in your portfolio is the way to keep your money from just shrinking altogether.

Mr. Torray: Yes, that's my thinking, and it's paid off over almost four decades, but I guess there is always that chance that it won't this time around. We have never lost anywhere near what the markets lost in a big downturn. But in this case there's been no place to hide — everything has been decimated. Virtually the only safe haven has been cash, T-bills and government bonds, but who would have foreseen that?

TWST: It now looks as if T-bills are in a bubble and people are getting into that.

Mr. Torray: I think so. I mean, not T-bills, but the 10 and the 30-year bonds. In our recently released annual report to mutual fund shareholders, we briefly discussed the government market, characterizing it in so many words as the bond version of the dot-com and housing bubbles. The 30-year 4.5s of 2038 were trading at their high of \$1,410 in January to yield 2.9% to maturity (they've since dropped to about \$1,122). We pointed out at the time that if their current yield matched the average of 5.7% since 1926, the bond would drop nearly 45% from its January high to \$790. It makes you wonder who's buying these things. Another factor to consider is that the money being created to bail out the current situation is bound to make itself felt when things stabilize somewhere down the road. This seems likely to ignite inflation, the extent of which will depend upon how things are handled by policymakers at the time.

TWST: So you are not feeling any pressure to change, even in this environment? You're going to hold fast?

Mr. Torray: The answers are no and yes. Looking back, there are a lot of things we would have done differently had we known what was going to happen. But unfortunately, you can't see into the future and mistakes are inevitable. We do have confidence in our approach, which has proven successful over the last 36 years, producing a compound return nearly 300 basis points over the S&P 500.

annually including dividends. Making matters worse, inflation reduced the purchasing power of the dollar by 23%. By contrast, between 1929 and 1938, stocks, including dividends, lost 0.89% annually, and from 1930 to 1939 they basically broke even. On top of that, bonds during these years yielded 6% and the dollar's value rose 18.3%. I doubt one person in a thousand knows this.

So it's a very, very tough situation and you just have to sympathize with anybody who's been caught in it, which probably means everyone. We worry all the time about the people who invest with us — most of them we don't even know. The sad thing is, we can't do anything about it. On the other hand, as I mentioned earlier, this will pass and things will get better. In the meantime our job is to focus on our work, lend encouragement and provide perspective. Unfortunately, there are no ready answers for the millions of people at retirement age who are being forced to downsize and live a life they never contemplated. It's a real tragedy. And that's not to mention the unemployed. It's one thing to have less money, but far worse to have none. So we should all hope that the government's programs pay off. At the very least, they can't produce a result worse than doing nothing.

TWST: The President said last week that he never followed the markets and yesterday he was saying that we should all go out and buy stocks.

Mr. Torray: I think that makes sense if you have the constitution and can afford it. The President is a good person and very smart, but at the same time, he admits investing is not his specialty. But maybe that's a good thing. This is definitely a game you can know too much about.

TWST: Thank you. (PS)

Note: Opinions and recommendations are as of 3/17/09.

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The TORRAY FUND

Total Returns (as of June 30, 2010)	<u>1 Year</u>	<u>5 Years</u>	<u>10 Years</u>	<u>Since Inception (12/31/90)</u>
The Torray Fund	18.5%	-2.2%	0.4%	9.1%
S&P 500 Index	14.4%	-0.8%	-1.6%	8.2%

Top Ten Holdings (as of June 30, 2010)			
1. Loews Corporation	3.8%	6. Johnson & Johnson	3.4%
2. IBM Corporation	3.8%	7. Western Union Co.	3.4%
3. Procter & Gamble Co.	3.7%	8. Cintas Corporation	3.3%
4. Kraft Foods Inc.	3.6%	9. EMC Corporation	3.2%
5. Marsh & McLennan Cos., Inc.	3.5%	10. Cisco Systems, Inc.	3.2%

The returns quoted represent past performance and do not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher. Returns current to the most recent month-end are available by calling 800.443.3036. The returns shown do not reflect the deduction of taxes a shareholder would pay on the redemption of fund shares and distributions. The Fund's gross annual operating expense ratio, as stated in the current prospectus, is 1.21%. Returns on both The Torray Fund and the S&P 500 Index assume reinvestment of all dividends and distributions. The S&P 500 Index is an unmanaged index consisting of 500 U.S. large-cap stocks.

You should consider the investment objectives, risks, charges and expenses of The Torray Funds carefully before investing. A prospectus with this and other information may be obtained at 800.443.3036 or by downloading one from www.torray.com. The prospectus should be read carefully before investing.

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