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TorrRayResolute Equity Income

Market Overview

U.S. equity markets posted strong gains in the second quarter as continued economic momentum overshadowed uncertainty regarding trade, monetary policy and other matters. In spite of these concerns, the economic backdrop remains positive; corporate earnings are increasing at an attractive rate and interest rates remain accommodative. What will define the economy and the market's performance in the next few years will be the nature of the handoff between monetary policy and the stimulative effects of fiscal policy, which include tax cuts, deregulation and capital investment. Given our focus on earnings quality and risk management, we believe the portfolios are well-positioned for this transition.

Portfolio Commentary

The Equity Income Composite enjoyed a solid second quarter gaining 3.21% (3.08% net of fees) versus the S&P 500's gain of 3.43% and outperforming the Morningstar Dividend gain of 2.27%.

Purchases and sales during the quarter included the addition of Baldwin & Lyons (BWINB) and the elimination of Microsoft (MSFT). Baldwin & Lyons is a specialty insurance company primarily writing coverage for fleet transportation companies (trucking) and commercial auto. In addition to recently streamlining their business lines, Baldwin has also stacked their board of directors with strong and diverse insurance pedigrees. Trading at a discount to book value and paying a 4.60% dividend at the time of purchase, we judged the valuation and yield to be appropriately defensive in this market environment. As Microsoft continues to transform itself and invest behind its growth initiatives we felt that this was a good opportunity to redeploy this capital into shares of Baldwin & Lyons and raise the income profile of the portfolio.

Unless and until trade or rate hikes cause a sustained disruption, we believe investors should stay the course in a disciplined manner.

Dividend changes during the quarter were as follows:

| Company | Dividend Δ |
|-----------------------|-------------------|
| IBM | Increased |
| Exxon Mobil | Increased |
| Phillips 66 | Increased |
| Phillip Morris | Increased |
| MGM Growth Properties | Increased |
| SLM Corp Pfd B | Increased |

Though the 10 Year U.S. Treasury yield continues to struggle to rise above 3%, we maintain our belief that the Federal Reserve will continue to normalize monetary policy. As such we remain defensive and positioned for higher interest rates.

Outlook

This is an uncertain time for investors with many mixed signals in the market. On the positive side, profits and earnings are robust, consumer confidence is high, inflation remains contained in spite of a strong labor market, and interest rates have remained stable. On the negative side, market leadership is incredibly narrow, valuations are high, trade policy is unclear and the yield curve is flat; the 2-10 spread is at an 11-year low, which if inverted, has historically been a reliable indicator of a looming recession. All in, the data paints a relatively balanced picture. We assume that President Trump, China and the Federal Reserve do not have an interest in slowing their respective economies. Unless and until trade or rate hikes cause a sustained disruption, we believe investors should stay the course in a disciplined manner. Our investment decisions will continue to be driven by long-term, company-specific fundamentals. As we review each holding and the structure of the portfolios, we remain positive with the view that narrow, volatile markets like the one we have today, present disciplined investors with compelling investment opportunities.

As ever, we appreciate your interest and trust.



Jeffrey Lent

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The S&P 500 measures the value of stocks of the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite.

The Morningstar Dividend Composite Index captures the performance of all stocks in the US Market Index that have a consistent record of dividend payment and have the ability to sustain their dividend payment.

Dividend changes represent past activity and there is no guarantee dividends will continue to be paid.

Investing involves risk; principal loss is possible. Past performance is not indicative of future results.