QUARTERLY COMMENTARY
December 31, 2018

TORRAY LLC

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# TorrayResolute Equity Income Commentary

## Market Overview

As the fourth quarter's sharp correction demonstrated, it's hard for stocks to go up when economic growth is moderating, liquidity is contracting and geopolitical uncertainty is high. It's tempting to assign proximate cause to a single source of the market's decline, but in this case, it was more the aggregate force and persistence of these headwinds that caused investors to reprice risk and sell stocks. While late cycle forecasts and associated caution are the consensus view, there are few signs of a looming recession. As we begin the New Year, the disconnect between sound economic fundamentals and negative investor sentiment remains a primary source of uncertainty.

## Portfolio Commentary

During the fourth quarter of 2018, the Equity Income Composite was not immune to the market's weakness though managed to outperform the S&P 500 index which fell 13.52% with a return of -12.80% (-12.92% net of fees). For the full year, the Equity Income Composite returned -6.63% (-7.10% net of fees), underperforming the benchmark which declined 4.38%.

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The quarter began with concerns of rising interest rates, and ended with concerns of slowing global growth and falling interest rates. Curiously, income-oriented investments fell in price through both scenarios. Viewing opportunity amidst the volatility, we were active during the quarter to both upgrade positions and realize losses where available. We purchased Blackstone Group, LP (BX), Enterprise Products Partners LP (EPD), Altria Group (MO) andAspen Insurance preferred C (AHL.prC). These were funded with the sales of Protective Insurance (PTVCB), Exxon Mobil (XOM), Enbridge Inc. (ENB), Prudential Financial (PRU) and Philip Morris (PM).

(Note: EPD and BX generate K1's and are thus not suitable for tax-qualified accounts (IRA's). In those instances we have held ENB and purchased ACGLO in their stead.)

Dividend changes during the quarter were as follows:

| Company | Ticker | Dividend Δ |
|---|---|---|
| Boeing | BA | Increased |
| Merck | MRK | Increased |
| Amgen | AMGN | Increased |
| MGM Growth Properties | MGP | Increased |
| Abbvie | ABBV | Increased |
| SLM Corp Pfd B | SLMBP | Decreased |

What began as a liquidity injection during the financial crisis, and was then called QE or “Quantitative Easing,” has morphed into “Quantitative Engineering.” The U.S. Federal Reserve is attempting to exit the liquidity program by normalizing (raising) interest rates and shrinking its balance sheet (selling bonds), all while “engineering” a soft landing for the economy. As these cross-currents play out, we remain defensively minded and positioned for higher interest rates.

## Outlook

We expect the current transition from a liquidity-driven market to a fundamentally-driven market will continue to be a source of volatility as investors adapt to evolving risk and pricing paradigms. We also believe our focus on stable growth businesses, effective diversification and valuation discipline will continue to position the portfolio appropriately for this environment where risk management is an increasingly important part of generating satisfactory returns.

As ever, we appreciate your interest and trust.

Jeff Lent

Jeffrey Lent
January 15, 2019