TORRAY LLC

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Market Overview

The ultimate human and economic toll of the coronavirus pandemic remains unknown, but the market's message is clear; the crisis is manageable. Despite more than half a million fatalities across the globe, one hundred and thirty thousand in the United States alone, and twenty million Americans unemployed, equities staged a powerful rally in the second quarter with the S&P 500 gaining 20.54%, the best quarter in more than two decades. Coming on the heels of the first quarter's loss of 19.60%, the recovery was met with a great deal of relief, if not some skepticism. The speed and magnitude of the government's monetary and fiscal actions, approximately six trillion dollars to date, go a long way toward explaining the market's response, as does a better understanding of the virus's transmission, treatment and improving economic data. While Covid-19 continues to be a devastating and historic challenge on many fronts, a path forward is becoming increasingly clear. For the time being, less bad is good enough.

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Outlook

The global economic lockdown has been characterized as the pause that accelerated the future due to the way in which it magnified the advantages of the digital economy compared to the physical. Categories such as e-commerce, telecommuting, mobile banking, and telehealth graduated from conveniences to necessities almost overnight. This dynamic is clearly illustrated by the composition and return characteristics of the Russell 1000 Growth Index, where the top three companies by market capitalization, Microsoft (MSFT), Apple (AAPL) and Amazon.com (AMZN), accounted for 23% of the Index and generated 76% of the return for the first half of the year. What is not fully reflected in these healthy returns are the economic dislocations that have occurred, not least of which is a devastating June unemployment rate of 11%. With the consumer representing two-thirds of gross domestic product, the rate at which these jobs are reabsorbed into the economy is key to a continuing recovery. For the balance of the year, we expect three issues to dominate the markets: the pandemic, the presidential election, and the economy. Despite the stubborn nature of the coronavirus, we are optimistic about the medical community's increasing ability to treat the disease over time. The election is a wildcard that promises to be hard-fought and divisive. To date, the economic recovery has surprised to the upside, but we suspect the pace of improvement will be difficult to maintain and a full recovery may take longer than expected. With this in mind, we continue to position portfolios in a balanced manner with investments representing both secular growth and a cyclical recovery.

As ever, we appreciate your interest and trust.

Nicholas C. Haffenreffer
Chief Investment Officer

Shawn M. Hendon
President

Jeffrey D. Lent
Principal

July 13, 2020

Torray Large Value Portfolio

Shawn Hendon and Jeffrey Lent, Portfolio Managers

The Large Value Equity Composite gained 13.25% (13.16% net of fees) for the period versus 14.29% for the Russell 1000 Value Index and 20.54% for the S&P 500. For the trailing twelve months, the Composite gained -9.76 % (-10.09% net of fees) versus -8.84% for the Russell 1000 Value Index and 7.51% for the S&P 500. The ongoing pandemic dramatically altered the business outlook, and market weakness was most felt in industries vulnerable to recessionary conditions, especially financials, industrials and energy. The portfolio has exposure to these areas, and while the near-term outlook is uncertain, we believe prospects for portfolio holdings are favorable and that current valuations reflect low expectations.

In response to heightened economic challenges associated with the virus, we took steps we believe enhance the quality and financial strength of the portfolio. Specifically, we sold General Electric (GE) and purchased shares in Honeywell International (HON) and Walt Disney Company (DIS). Honeywell is a diversified industrial with competitive positions in aviation, building systems and performance materials. Walt Disney is a diversified media and entertainment business with internationally recognized theme parks, studios and a valuable content library. Both of these were purchased at modest valuations and significant discounts from highs earlier in the year.

The pandemic has reinforced interest in shares of growth companies, which has persisted in an environment of evolving technologies, moderate economic growth and low interest rates. One measure of this is the performance of a portfolio invested in the largest US growth companies – the Vanguard Mega Cap Growth ETF (MGK) – which advanced 12.72% year-to-date through June, and has a price to earnings ratio of 32. Over the past three years, this ETF has compound annualized returns of 19.00%, compared to 1.82% for the Russell 1000 Value Index, an exceptionally wide disparity. Rather than pay high prices for above-average growth, we prefer to invest in sound businesses when we believe they are modestly valued relative to earnings, cash flow or assets. Over the long term this approach, in our view, has resulted in satisfactory total returns, and while this approach will not likely keep pace with growth oriented markets such as witnessed in recent years, we believe it is the right course.

Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
DuPont de Nemours, Inc.	Materials	3.9	+1.8
Apple Inc.	Info Tech	3.7	+1.4
Marsh & McLennan Companies, Inc.	Financials	5.1	+1.2
Kraft Heinz Company	Cons Stpls	3.9	+1.0
UnitedHealth Group Incorporated	Health Care	5.4	+1.0
General Electric Company	Industrials	0.7	-0.4
Royal Dutch Shell Plc Spns. ADR Class A	Energy	3.2	-0.1
Berkshire Hathaway Inc. Class B	Financials	5.0	-0.1
Loews Corporation	Financials	3.5	-0.1
BP p.l.c. Sponsored ADR	Energy	3.4	0.0

Top 10 Holdings

Security	% of Holdings
UnitedHealth Group Inc.	5.4
Marsh & McLennan Cos., Inc.	5.2
Cisco Systems, Inc.	5.0
Berkshire Hathaway Inc. Cl B	4.7
Johnson & Johnson	4.7
Eaton Corp. Plc	4.6
DuPont de Nemours, Inc.	4.3
Apple Inc.	4.3
Intel Corporation	4.2
Kraft Heinz Company	4.0
Percentage of total portfolio	46.4

Holdings are subject to change and are not recommendations to buy or sell a security. To obtain information about the calculation methodology used to select the largest contributors to and detractors from performance or to obtain a list showing every holding's contribution to performance during the measurement period, contact bscalise@torray.com.