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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.

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.

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As ever, we appreciate your interest and trust.

Handwritten signature of Nicholas C. Haffenreffer.

Nicholas C. Haffenreffer
Chief Investment Officer

Handwritten signature of Shawn M. Hendon.

Shawn M. Hendon
President

Handwritten signature of Jeffrey D. Lent.

Jeffrey D. Lent
Principal

July 13, 2020

TorrayResolute Equity Income Portfolio

Jeffrey Lent, Portfolio Manager

For the second quarter of 2020, the Equity Income composite gained 16.60% (16.46% net of fees) which outperformed the Russell 1000 Value index gain of 14.29% but trailed the S&P 500 which added 20.54%. For the trailing twelve months, the Composite lost 1.89% (-2.43% net of fees) versus -8.84% for the Russell 1000 Value Index and 7.51% for the S&P 500.

The result of the global monetary easing manifested itself in a seemingly one-way stock market where everyone makes money every day. Managing a portfolio in a straight up market is nearly as challenging as managing one in a panic sell-off. Nearly. When this speculative mania passes, it will likely bring large losses for many investors, the collapse of companies due to fraud or unfinanceable debts (e.g. Hertz), and it will reveal chronically loss-making business models. We expect this generation of fresh-baked “day traders” who consider the stock market to be a risk-free money machine will be no different than the last and will lose most of their money in the end.

This is not a portfolio of companies in which investors euphorically trump each other, who goes further, higher, faster. We seek companies to own for the long-term – ones that most investors underestimate, whose prices are defensible on the basis of fundamental analysis and whose businesses can produce high and growing dividend payments.

Dividend changes during the quarter were as follows:

Company	Ticker	Dividend Δ
Las Vegas Sands	LVS	Suspended

After a busy first quarter, we are quite pleased with the portfolio realignment and made no new additions during the quarter. Las Vegas Sands (LVS), which suspended dividend payments, was sold.

Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
LyondellBasell Industries NC	Materials	3.9	+1.4
Home Depot, Inc.	Cons Disc	4.3	+1.4
QUALCOMM Incorporated	Info Tech	4.1	+1.3
Phillips 66	Energy	4.1	+1.2
Cummins Inc.	Industrials	4.2	+1.2
Altria Group Inc.	Cons Stpls	3.8	+0.1
Merck & Co., Inc.	Health Care	3.8	+0.1
Gilead Sciences, Inc.	Health Care	3.2	+0.1
SLM Corp Pfd Shs Series B	Financials	3.5	+0.1
JPMorgan Chase & Co.	Financials	4.0	+0.2

Top 10 Holdings

Security	% of Holdings
QUALCOMM Incorporated	4.5
Home Depot, Inc.	4.5
Cummins Inc.	4.4
AbbVie, Inc.	4.4
Broadcom Inc Pfd Shs Series A	4.2
Crown Castle Int'l Corp	4.2
Prudential Financial, Inc.	4.1
Phillips 66	4.1
Blackstone Group Inc. Class A	4.0
Cisco Systems, Inc.	4.0
Percentage of total portfolio	42.4

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.

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The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values. 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.

Dividend changes represent past activity and there is no guarantee dividends will continue to be paid. Total returns include the reinvestment of dividends and other earnings.

Investing involves risk; principal loss is possible. **Past performance is not indicative of future results.** Source: Factset and Torray LLC.