QUARTERLY COMMENTARY
December 31, 2020

TORRAY LLC

Investment management since 1972

Torray Large Value

Market Overview

Equity markets demonstrated extraordinary resilience in 2020 with the S&P 500 gaining 18.4% for the year despite a devastating global health care crisis, one of the sharpest economic downturns on record and a U.S. presidential election that leaves the country divided. Two words help explain the market's response to these events: innovation and liquidity. The medical community's development of effective vaccines for Covid-19 in less than one year is nothing short of miraculous. This innovation, accompanied by enormous fiscal and monetary stimulus provided the foundation for markets to stabilize and recover. While the shape and durability of the recovery remain unclear, markets and investors remain optimistic.

Portfolio Commentary

> The most immediate challenge to a sustainable recovery remains the timely distribution of vaccines.

The Large Value Equity Composite increased 17.13% (17.12% net of fees) for the period versus 16.25% for the Russell 1000 Value Index and 12.15% for the S&P 500. For the trailing twelve months, the Composite return was 1.33% (1.06% net of fees), compared to 2.80% for the Russell 1000 Value Index and 18.40% for the S&P 500. We commented last quarter on our belief that as the recovery broadened, the portfolio would benefit from exposure to economically sensitive companies. This began to occur in the fourth quarter as several vaccines were approved and the economy continued its steady, but bumpy, progress.

In the fourth quarter, Sysco (SYY) was sold, as its appreciation during the year reduced prospects for a satisfactory return in the years ahead. New positions in Comcast (CMCSA) and Genuine Parts (GPC) were initiated in the quarter. Comcast is the nation's leading cable provider, based on subscriptions, with additional interests in media and entertainment. It has been capably managed by the Roberts family for many years. We believe there are three key factors that will continue to drive robust growth in broadband service over the next several years as new (and existing) households demand: 1) faster and more capable residential Internet (to stream more content), 2) latency sensitive and uplink intensive applications (more secure connections to work), and 3) connection for more devices (the kids are home, too).

Genuine Parts, founded in 1928, is a large distributor of automotive replacement and industrial parts. With the divestment of SP Richards and Electrical Specialties, the company has reinvested in their international expansion and core automotive and industrial segments. GPC has streamlined the portfolio into stronger, growing market segments as well as higher margin businesses. Now, their focus is on having a global presence and leveraging the strength of the brand. The company has a long history of conservative financial management and has increased its dividend for the most recent 64 consecutive years.

The significant fiscal and monetary measures taken to support economic activity in the wake of Covid-19 are historic, and additional stimulus is coming in 2021. Combined with the vaccine rollout which is underway, we believe these actions could boost business conditions materially. This would likely result in better earnings for portfolio companies which have been hurt by the pandemic lockdowns, but we are skeptical that market valuations will expand. In our opinion, interest rates have more upside than downside, and this could restrain valuations as we move further into 2021.

Outlook

It is natural to begin a new year with a sense of optimism. Considering the events of the past twelve months, this year is certainly no exception. It's clear markets are forward-looking. While the economy, employment and corporate profits remain below pre-pandemic levels, we believe real progress is being made. GDP grew 2.3% in 2019, plummeted 31.4% in the second quarter of 2020, snapped back 33.4% in the third quarter, and is expected to decline 3-4% for the full year. Current consensus for 2021 is an increase of 4.2%, modestly above the long-term range of 2-3%. Unemployment began the year at 3.5%, spiked to 14.7% in April, and partially recovered to 6.7% by December. Current consensus for 2021 is 5.9%, at the high end of the long-term range of 4-6%, but remaining on a positive track. S&P 500 earnings per share were a record $160 in 2019, are expected to decline 15% to $136 in 2020, but regain new highs of $167 in 2021.

With respect to portfolio positioning, we continue to maintain what we consider to be a balance between pandemic and recovery plays. In the short term, we expect overwhelming fiscal and monetary stimulus will continue to support the recovery. The most immediate challenge to a sustainable recovery remains the timely distribution of vaccines. In the intermediate and long term, our focus is on the uncertainty associated with the policies of the incoming administration and effects of stimulus on interest rates and inflation.

As ever, we appreciate your interest and trust.

Shawn Hendon Jeffrey Lent

January 20, 2021

Q4 2020 Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
Royal Dutch Shell Plc Cl A	Energy	4.2	+1.7
Walt Disney	Comm Srvcs	3.8	+1.6
Chubb Limited	Financials	4.0	+1.3
DuPont de Nemours	Materials	4.7	+1.3
Loews Corporation	Financials	4.1	+1.2
Intel Corporation	Info Tech	3.8	-0.2
Marsh & McLennan	Financials	4.3	0.0
Genuine Parts Company	Cons Disc	0.3	+0.1
IBM Corporation	Info Tech	3.6	+0.1
Bristol-Meyers Squibb	Health Care	3.3	+0.2

Q4 2020 Top 10 Holdings

Security	% of Holdings
Berkshire Hathaway Cl B	5.2
American Express	5.2
DuPont de Nemours	4.9
Bank of America	4.8
Johnson & Johnson	4.6
Walt Disney	4.4
Loews Corporation	4.3
Honeywell International	4.1
Oracle Corporation	4.1
Marsh & McLennan	4.0
Percentage of total portfolio	45.7

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.

Source: FactSet and Torray LLC.

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