TORRAY LLC

Investment management since 1972

Torray Large Value

Market Overview

The first anniversary of the pandemic ushered in the second phase of the Covid economic cycle. Widespread vaccine availability, additional fiscal stimulus, a persistently dovish Fed, and a rapidly improving economic backdrop produced a distinct change in market leadership. The yield curve steepened, market breadth improved, and value outperformed growth by a wide margin. Closing the first quarter 17% above the 2020 pre-pandemic high and 78% above the pandemic-low, the S&P 500, and equities in general, have demonstrated remarkable resilience and continue to reflect optimism as we emerge from one of the worst health crises and sharpest economic contractions in the last century.

Portfolio Commentary

The Large Value Equity Composite increased 11.28% (11.26% net of fees) for the period versus 11.26% for the Russell 1000 Value Index and 6.17% for the S&P500. Largely reflective of the market bottom in March 2020, the trailing twelve month return for the Composite was 52.27% (52.01% net of fees), compared to 56.09% for the Russell 1000 Value Index and 56.35% for the S&P500.

> The tug of war we are witnessing between higher interest rates, inflation, and a brighter, post-covid economic outlook is likely to produce additional volatility.

IBM Corporation (IBM) and Becton, Dickinson and Company (BDX) were sold during the first quarter, reflecting our concerns over capital allocation and competitive positioning. New investments were made in Schlumberger NV (SLB) and Altria Group Inc. (MO).

Schlumberger is the world's leading oil services company with operations in 120 countries. We believe fixed cost reductions undertaken during the oil industry downturn will leverage earnings as the industry conditions improve. Recognizing a changing landscape, the company should also benefit from its growing capabilities in carbon capture, clean hydrogen, geothermal and lithium brining.

Altria is primarily a manufacturer of tobacco products, with a 50% market share in the US. The company's tobacco business has high returns on capital, persistent pricing power and a well-covered dividend of 7%. In our view, future opportunities include a growing market for non-combustible products and potential capital return from monetization of its 10% equity interest in Anheuser-Busch InBev (BUD).

Estimates of economic growth this year continue to be upgraded as additional federal stimulus is injected into an economy that is recovering. Additionally, the Federal Reserve has indicated it will remain accommodative until higher inflation and lower unemployment are sustained. The Fed is insistent that underlying inflation dynamics are slow moving and global in nature. If the Fed is going to miss on policy, we think they will be too easy vs. too tight. These factors appear to be driving current equity prices, and we believe future gains will depend on continuation of favorable trends for interest rates and inflation.

Outlook

The second phase of this cycle is sure to present investors with new challenges as the recovery is unlikely to follow a typical post-recession path. The tug of war we are witnessing between higher interest rates, inflation, and a brighter, post-covid economic outlook is likely to produce additional volatility. We marvel at the scientific achievements that brought effective vaccines to market in such a timely manner, but we are realistic about the persistent nature of the virus, its variants, and its dampening effect on the world economy. The breathtaking amount of fiscal and monetary stimulus flooding global economies is clearly supporting a recovery, but we are mindful of the limitations of these programs and the challenges they pose to long-term growth. In this context, we remain balanced in our strategy and continue to emphasize quality, pricing power, positive economic leverage, and rate correlation.

As ever, we appreciate your interest and trust.

Shawn Hendon Jeffrey Lent
April 26, 2021

Q1 2021 Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
Bank of America	Financials	4.6	+1.2
Intel	Info Tech	3.1	+1.0
American Express	Financials	4.9	+0.9
JP Morgan Chase	Financials	4.1	+0.9
General Dynamics	Industrials	3.6	+0.8
IBM	Info Tech	0.9	-0.2
Becton, Dickinson	Health Care	1.6	-0.0
Honeywell	Industrials	3.8	+0.1
Bristol-Meyers Squibb	Health Care	3.2	+0.1
Walt Disney	Comm Services	4.0	+0.1

Q1 2021 Top 10 Holdings

Security	% of Holdings
Berkshire Hathaway Cl B	5.7
Altria Group	4.4
Johnson & Johnson	4.4
Eaton Corp. Plc	4.2
Kraft Heinz	4.2
General Dynamics	4.1
Bank of America	4.1
Loews	4.0
Oracle	4.0
American Express	3.9
Percentage of total portfolio	43.0

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.

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. You cannot invest directly in an index.

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.