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## TorrRayResolute Equity Income

### 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

For the first quarter of 2021 the Equity Income Composite gained 11.03% (10.89% net of fees), which trailed the Russell 1000 Value Index gain of 11.26% and outperformed the S&P 500 which added 6.17%. For the trailing twelve months the Equity Income composite underperformed the Russell 1000 Value Index gaining 50.20% (49.41% net of fees) vs. the Index which added 56.09%. The composite trailed the S&P 500 which was up 56.35% for the trailing twelve months.

There were eight dividend increases and two decreases announced during the period.

It was an active period as we repositioned the portfolio for the recovery and to take advantage of market volatility with three purchases and three sales. Purchases included Genuine Parts (GPC), KLA Tencor (KLAC) and Paychex (PAYX). Genuine Parts is a supplier of replacement auto parts and industrial components to commercial and retail customers worldwide. They recently divested office products to focus the business on higher growth auto parts distribution. Genuine Parts has increased its dividend for 64 consecutive years. KLA is a semiconductor capital equipment manufacturer and service provider. Worldwide chip supply is currently constrained and this fact combined with the reshoring of critical supply chains has provided several years of expected strong equipment and service demand. Paychex is the second largest payroll provider servicing approximately 600,000 businesses. The work-from-home necessitated by the pandemic shutdown has employers seeking additional capability and expertise (geographic dispersion of workforce) to manage payrolls, taxation and benefits.

Our sales made to fund the new purchases were in healthcare and legacy, slow growth technology holdings. CVS Health (CVS) is among the largest integrated healthcare services providers in the U.S. and faces increasing competition from telehealth, large health insurance providers and Amazon (AMZN). Merck (MRK) is a leading pharmaceutical company with a focus on cancer, infections and cardiometabolic disease. We felt the new political algebra would bring increasing regulation and pricing pressure. IBM (IBM) is a broadly diversified information technology hardware, software and services company. They have struggled recently with poor operational execution and have announced plans to split

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the company into two. We view the dividend growth potential as far more compelling at KLA Tencor and decided to move on from IBM.

## 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.



Jeffrey Lent

April 26, 2021

### Q1 2021 Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
JP Morgan Chase	Financials	4.6	+1.0
Altria Group	Cons Staples	3.3	+0.9
Phillips 66	Energy	4.1	+0.9
Prudential Financial	Financials	4.4	+0.8
LyondellBasell Industries	Materials	4.4	+0.7
Qualcomm	Info Tech	3.8	-0.5
IBM Corporation	Info Tech	0.8	-0.2
Merck	Health Care	0.9	-0.2
CoreSite Realty	Real Estate	3.6	-0.1
AbbVie	Health Care	4.0	+0.1

### Q1 2021 Top 10 Holdings

Security	% of Holdings
SLM Corp Pfd B	4.5
Blackstone Group	4.4
Broadcom Pfd A	4.3
Lockheed Martin	4.2
Home Depot	4.2
CoreSite Realty	4.1
Paychex	4.1
Cummins	4.1
Genuine Parts	4.1
KLA Corporation	3.9
<b>Percentage of total portfolio</b>	<b>42.0</b>

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 bscaise@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. You cannot invest directly in an index.

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.