TORRAY LLC

Investment management since 1972

Torray Large Value

The Market

2021 proved to be another good year for financial assets, with the broad S&P 500 Index returning 11% in the fourth quarter and 29% for the year. This Index has delivered strong positive returns in four out of the past five calendar years, and in 17 of the past 20 quarters (85% of the observations). The obvious question is "why have returns been so strong for so long?" and a related, more subtle question comes to mind, "does risk still matter?"

Over much of this period, the market has struggled with risk from a variety of sources, including COVID19, geopolitics, interest rates and inflation. Seemingly, the correct decision in response to each disruption was to buy and hold, especially the stocks of the largest companies. Profits and associated growth have driven these generally positive returns. The supportive economy has enjoyed robust demand and, more importantly, innovative, highly productive supply to meet this demand. Many of these new supply solutions are products and services that are leverageable, meaning new units can be quickly and cheaply brought to market. Think software, social media platforms and medical therapies that address unmet needs. In this context, inflation has remained low (until recently) which in turn supports expansionary interest rates. The market believes these favorable conditions will remain in place into the future. So, if this narrative holds, risk likely remains a secondary concern for many investors.

Composite Portfolio

The Large Value Equity Composite fourth quarter return was 5.69% (5.68% net of fees) compared to 7.77% for the Russell 1000 Value Index and 11.03% for the S&P500. For full year 2021, the Composite return was 22.07% (22.00% net of fees) versus 25.16% for the Russell 1000 Value Index and 28.71% for the S&P500. Covid news continued to produce volatility in shares of economically sensitive companies, and this was a factor in fourth quarter Composite returns.

Positions in Loews Corporation (L) and Intel Corporation (INTC), both long term holdings, were sold as we judged better opportunities existed for improved capital allocation and growth in free cash flow. New investments were made in Applied Materials, Inc. (AMAT), General Motors Company (GM), T. Rowe Price Group (TROW) and Renaissance Re Holdings LTD (RNR).

> Applied Materials, Inc. is a large, broadly diversified supplier of equipment and services to the semiconductor industry, and we believe it should benefit from a digital transformation boosting demand for wafer fab equipment. This demand is accelerated by the global chip shortage and funded by companies and governments around the globe.
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> General Motors Company is the nation's largest auto manufacturer, bringing scale to electric vehicle production and autonomous driving. Software-enabled services provide opportunities for a new revenue stream over the life of the vehicle.

T. Rowe Price Group is a financial-services holding company with $1.6 trillion in assets under management. The company has strong brands, competitive proprietary mutual funds and a long history of conservative financial management. The dividend has been raised for 35 consecutive years.

Renaissance Re Holdings LTD provides property, casualty and specialty reinsurance predominantly to insurance companies globally. The company's risk modeling is considered a competitive advantage, and the company has a growing income base from its capital management business which provides diversification from traditional underwriting risk.

Behavioral Finance

Returning to the question on risk, behavioral economists believe financial activities are influenced by irrational emotions instead of the rational decisions assumed by traditional 'efficient market' theory. Evidence from the great financial crisis of 2007/08 supports the behavioralists' conclusions, as efficient market models collapsed in a hard landing that destroyed trillions in paper wealth. This greed-and-fear dynamic suggests that markets follow emotional cycles, although the course is not readily predictable. If so, given where we currently are in the emotional cycle, after the extended period of positive returns, greed is a well-entrenched bias in today's financial arena. Small changes in the market's assessment of factors like growth, interest rates and justified valuations could have large implications for prices, as evident in market returns in the first few weeks of 2022. To us, this suggests risk should be a major consideration in portfolio construction.

Risk management has always been a hallmark of our strategies. The brutal math of recouping losses is what drives this emphasis. As we begin 2022, we remain focused on building portfolios of what we consider to be great businesses with favorable risk characteristics across the growth, value, and market capitalization spectrums.

As always, thank you for your business; please reach out any time with any issue.

Shawn Hendon
Portfolio Manager

Jeff Lent
Portfolio Manager

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Q4 2021 Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
UnitedHealth Group Inc.	Health Care	4.2	+1.1
Eaton Corp. Plc	Industrials	4.2	+0.7
Marsh & McLennan Companies, Inc.	Financials	4.8	+0.7
DuPont de Nemours, Inc.	Materials	3.2	+0.6
Berkshire Hathaway Inc. Class B	Financials	5.9	+0.6
Comcast Corporation Class A	Comm Services	3.5	-0.4
Walt Disney Company	Comm Services	2.8	-0.2
VMWare, Inc. Class A	Info Tech	2.8	-0.2
Fiserv, Inc.	Info Tech	3.6	-0.1
Intel Corporation	Info Tech	0.8	-0.1

Q4 2021 Top 10 Holdings

Security	% Holdings
Berkshire Hathaway Inc. Cl B	6.1
Marsh & McLennan Cos., Inc.	4.9
UnitedHealth Group Inc.	4.5
General Dynamics Corp.	4.4
Johnson & Johnson	4.1
Chubb Limited	4.1
Eaton Corp. Plc	4.0
Altria Group Inc	3.8
American Express Company	3.7
JPMorgan Chase & Co	3.7
Percentage of total portfolio	43.3

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.

Disclosures: This commentary is for informational purposes only and should not be viewed as a recommendation to buy or sell any security. There is no guarantee that the views expressed will come to pass. Torray LLC is an independent registered investment adviser. Registration of an investment adviser does not imply any level of skill of training. For additional information about Torray LLC, including fees and services, please contact us or refer to the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov).

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.