



Firm		Strategy		
Founded	1972	The objectives are to earn a high and growing dividend yield while balancing capital preservation with growth of capital.	Inception	4/01/05
Headquarters	Bethesda, Maryland		Benchmark	Russell 1000® Value
Ownership	100% Employee Owned	The strategy employs a concentrated portfolio and invests across the capital structure in predominately large capitalization companies with records of stable and growing revenues, earnings, cash flows and dividends.	Portfolio Manager	Jeffrey Lent
Firm Assets ¹	\$697M		Investment Committee	James Bailey, CFA
Firm AUM	\$528M			Shawn Hendon, CFA
Employees	11			Jeffrey Lent
¹ Firm assets includes non-discretionary UMA assets under advisement.			Brian Zaczynski, CFA	

Equity Income Composite

For the quarter, the Equity Income Composite outperformed its benchmark, the Russell 1000 Value Index, -4.93% gross (-5.07% net of fees) vs. -5.62% for the Index. Over the past 12 months, Composite returns also outperformed, -3.11% gross (-3.65% net of fees) vs. the benchmark's -11.36%. As interest rates rise globally, the benefits of a growing dividend stream have become more evident.

During the quarter, we added one new position to the portfolio. Digital Realty (DLR) owns and operates nearly 300 data centers worldwide. Several secular growth trends, including Internet of Things and artificial intelligence, are driving global demand for data and connectivity. Taken together, these trends signify to us that global enterprises want more hardware, connections, and closer proximity to data centers. DLR offers customers of all sizes the full spectrum of space, power, and connection needs. With more than 35 million rentable square feet across five continents, DLR can accommodate the needs of global enterprises that want a fluid and scalable solution across their data footprint. Also, as expected, our Broadcom Convertible Preferred (AVGOP) completed its full conversion and we now own Broadcom common shares (AVGO). No portfolio positions were eliminated during the quarter.

Market

The third quarter of 2022 was challenging. Although stock indices in general declined modestly – the S&P 500 was only down 4.88% – macroeconomic indicators sharply deteriorated. The core of the problem is the conflicting direction of expansionary fiscal policy and tightening monetary policy. The Federal government is working against itself, using massive programs measured in trillions of dollars with long time lags to implement. The dangers, of course, are the potential outcomes on either side of these policies: tight monetary policy risks a recession, and easy fiscal policy continues to fuel inflation. These negatives reduce the positive impacts of improving supply and labor market durability, factors we were hoping would produce a ‘soft landing’ (reduced inflation without a recession). We are pushing out our forecast for a better economy in 2023, although we expect financial markets to recover before the economy.

In this volatile environment, the investment team is attempting to upgrade the portfolio by buying stocks of companies we believe are well positioned, funded by capital from selling companies in which we have lower conviction. Historically, bear markets increase the correlation of equity returns as fear displaces rational decision making, causing investors to react negatively and often without regard to fundamentals. We think this anomaly is exploitable by long-term investors with the discipline to act, like in 2001/02 and again in 2008. With this objective, we are reviewing the entire portfolio and prospects, asking the questions “to what degree has our investment thesis been impaired?” and “is the investment attractive relative to the available opportunity set?” As we answer these questions, portfolio activity has modestly increased compared to past levels. Our emphasis on attractive business models and risk management is unchanged.

Concentration

We purposefully construct portfolios that generally range between 20 to 30 companies, fewer positions than many of our peers. Our decades of experience have taught us the value of only investing in our highest conviction ideas while remaining focused on effectively managing risk by diversifying across themes and economic factors. A core part of our process is the use of correlation analysis of portfolio holdings to each other and to broader factors (we highlighted this process in the 1st quarter 2022 letter). This quantitative analysis supplements our bottom-up research, allowing us to construct concentrated, yet diversified portfolios more confidently. This also means we avoid investments we judge to be low-quality and high-risk. If we are doing our jobs correctly, we attempt to reduce the probability of incurring negative outcomes over time. As such and somewhat contrary to accepted theory, concentration – in our view – is an important risk management tool.

Firm News

Torrays appointed Bryan Leibrand, CIMA® to the newly created role of Director of Business Development in September 2022. Mr. Leibrand has over 23-years of experience in the investment management industry. You can reach Bryan at bleibrand@torray.com or (301) 493-4600, ext. 225.

Annualized Total Returns (%)							
	MRQ ²	YTD ²	1-Year	3-Year	5-Year	10-Year	ITD
TEI Comp. (gross)	-4.9	-13.3	-3.1	8.1	8.0	9.4	10.1
TEI Comp. (net)	-5.1	-13.7	-3.7	7.5	7.5	8.8	9.3
Russell 1000 Value	-5.6	-17.8	-11.4	4.4	5.3	9.2	6.8
S&P 500	-4.9	-23.9	-15.5	8.2	9.2	11.7	8.7

² Most Recent Quarter (MRQ) and Year-to-date (YTD) not annualized.
As of 09/30/22. Torray Equity Income Inception: 4/1/05.

Calendar Year Returns (%)										
Year End	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
TEI Comp. (gross)	30.6	3.5	28.1	-6.6	21.2	24.5	-10.0	11.9	15.4	13.1
TEI Comp. (net)	29.9	2.9	27.4	-7.1	20.5	23.8	-10.5	11.2	14.5	12.2
Russell 1000 Value	25.2	2.8	26.5	-8.3	13.7	17.3	-3.8	13.5	32.5	17.5
S&P 500	28.7	18.4	31.5	-4.4	21.8	12.0	1.4	13.7	32.4	16.0

Portfolio Characteristics							
Portfolio Statistics	Portfolio	Russell 1000 Value	Sector Allocation	% Portfolio	Russell 1000 Value	Top 10 Holdings	% Portfolio
Holdings	25	855	Financials	20	20	Gilead Sciences, Inc.	4.9
Avg. Mkt. Cap. \$B (wtd)	92	135	Info Tech	19	9	Huntington Ingalls Industries	4.7
ROE (1 yr)	36%	18%	Health Care	13	17	SLM Corp Pfd Shs Series B	4.6
Dividend Yield	4.1%	2.4%	Cons. Disc.	12	6	Phillips 66	4.4
Turnover	27%	11%	Industrials	9	10	Genuine Parts Company	4.4
EPS Growth (est.)	8%	9%	Energy	8	8	Lockheed Martin Corp.	4.2
EPS Variability	49%	53%	Real Estate	7	5	Amgen Inc.	4.1
Standard Deviation	17%	18%	Materials	4	4	KLA Corporation	4.1
Alpha	3.0%		Cons. Staples	3	7	Home Depot, Inc.	4.1
Beta	0.93		Comm. Services	0	8	JPMorgan Chase & Co.	4.1
Up Market Capture	100%		Utilities	0	6	Total	43.5
Down Market Capture	93%		Cash	3	0		

Figures are dollar-weighted averages, unless noted. Shaded Portfolio Statistics are 5-yr averages. Strategy holdings and sector allocations are subject to change and should not be considered a recommendation to buy or to sell any security. **Past performance and dividend yield are no guarantee of future results. See performance footnotes.** Source: FactSet and Torray, LLC.

Torray Equity Income Composite includes all discretionary fee-paying portfolios over \$150 thousand managed under the Torray equity income strategy. The strategy focuses on companies that pay stable and rising cash distributions to shareholders and investments may vary across the capital structure, including common and preferred stock, and convertible debt. For comparison purposes, the composite is measured against the Russell 1000® Value and the S&P 500 indices. The primary benchmark is the Russell 1000® Value. 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. Prior to 1/1/2020, the S&P 500 Index was the Composite's primary benchmark and was replaced with the Russell 1000® Value because it is more relevant. This decision was made based on an analysis and comparison of characteristics data and review of other similar products. Effective 1/1/2020, the S&P 500 Index is the Composite's secondary benchmark. The S&P 500 measures the value of stocks off the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite. In 2018, the Morningstar® Dividend Composite Index was removed as the Composite's secondary benchmark due to the difficulty in obtaining and consistently updating the benchmark's performance statistics and risk characteristics. Prior to July 1, 2010, this composite was managed by Resolute Capital Management LLC (Resolute). Resolute joined Torray when Torray purchased a majority share of Resolute on July 1, 2010.

Torray LLC is an independent registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The firm maintains a complete list and description of composites and broad distribution pooled funds, which is available upon request. To obtain a GIPS Report for the strategy presented, please contact the firm using the phone number listed below.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented gross or net of foreign withholding taxes on dividends, interest income, and capital gains depending on the custodian. Withholding taxes may vary according to the investor's domicile. Past performance is not indicative of future results. GIPS® is a registered trademark of the CFA Institute. The CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. The management fee schedule is as follows: 1.00% on assets up to \$5 million, 0.75% on next \$20 million, 0.50% on next \$175 million, 0.375% on next \$100 million, and 0.25% on balance. Actual investment advisory fees incurred by clients may vary. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

Composite was created July 1, 2010 and has an inception date of April 1, 2005. Prior to January 1, 2022, the composite was known as the Torray/Resolute Equity Income Composite.

Contact

Business Development
Bryan Leibbrand, CIMA® Director
bleibrand@torray.com

Client Relations & Marketing
Breck Scalise, Director
bscalise@torray.com

301.493.4600
855.753.8174 (toll free)
www.torray.com