

Firm		Objective	
Founded	1972	The objectives are to earn a high and growing dividend yield while balancing capital preservation with growth of capital.	Inception 4/1/05
Headquarters	Bethesda, Maryland		Benchmark Russell 1000® Value
Ownership	100% Employee Owned		Portfolio Manager Jeffrey Lent
Firm Assets ¹	\$746M	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.	Investment Committee James Bailey, CFA
Firm AUM	\$581M		Shawn Hendon, CFA
Employees	11		Jeffrey Lent
			Brian Zaczynski, CFA

¹ Firm assets includes non-discretionary UMA assets under advisement.

Equity Income (EI) Composite

The EI Composite finished the quarter up 13.0% gross (12.9% net of fees) vs. 12.4% for the Russell 1000 Value Index. For the year, the Composite declined -2.0% gross (-2.6% net of fees) vs. the Index's -7.5% drop. During the quarter, we eliminated two holdings, KLA Corp (KLAC) and Genuine Parts (GPC), and added three new positions, Pool Corp (POOL), Vail Resorts (MTN), and Union Pacific (UNP). Given our portfolio positioning in technology, and the announcement of strict technology export curbs in the semiconductor equipment space, we felt that our KLAC capital commitment was redundant and better utilized elsewhere. GPC was sold on the simple notion that the stock had appreciated and we chose to trade this for more income growth potential.

We used the weakness in the consumer discretionary sector caused by sharply higher interest rates to initiate positions in two leading businesses, POOL and MTN. POOL is the world's largest wholesale distributor of swimming pool supplies and related backyard products. The company operates 373 sales centers in North America, Europe, and Australia, through which it distributes more than 200,000 products to roughly 120,000 customers in the U.S. POOL has raised its dividend at a 20% annual pace over the last five years; although not necessarily indicative of future outcomes, the equity income investment process looks for a history of dividend increases when evaluating potential new portfolio candidates. Regarding MTN, the country reopened post-pandemic and 460 ski areas hosted a record 61 million skiers in the 2021/22 winter. Since 2000, U.S. annual ski visits have ranged between 50-60 million. MTN boasts what we consider to be an unrivaled portfolio—owning/operating the top five North American ski resorts (in terms of skier visits) and 41 resorts in 15 states and three countries. UNP, depressed by macroeconomic concerns and short-sighted fears of a railroad strike (since resolved), provided us the opportunity to add this industry-leading railroad to the portfolio. UNP has raised its dividend 13% annually over the last five years.

Market

Promising signs of economic healing helped the S&P 500 gain 7.6% in the fourth quarter. However, the S&P 500 closed the year in negative territory (-18.1%), making 2022 the worst stock market since 2008. This decline is not a disaster when viewed with a long-term orientation. Instead, it reflects necessary corrections in excess risk-taking across a few areas of financial markets. Part of the 'deal' of long-term equity ownership is that periods of success tend to stoke investor greed, which must be 'cleared' through periodic market correction to help prevent it from becoming a bigger problem (e.g., the 2008 Global Financial Crisis and the 2001/02 Internet Bust). Encouragingly, lots of greed was cleared in 2022 and so far, contagion into broader financial markets and the real economy has been limited. Cryptocurrencies and the FTX collapse have not locked up currency markets, nor has the dramatic pullback in demand for highly speculative stocks had much impact beyond the talking heads and internet pundits. Investors and capital users are still accessing the financial system to accomplish objectives, including earning a fair return and funding innovation and expansion.

As 2023 starts, global markets and economies still face significant challenges, including inflation, security threats and perhaps most significantly, an unclear free trade outlook, especially around China's long-term future. Despite these conditions, we are increasingly positive on equity markets. It's likely we are already in, or soon will be in, a recession, but we do not believe it will be deep. Central banks are seemingly close to moderating rate hikes. Regarding fiscal policy, it remains expansive with large deficits for the foreseeable future, but this is a factor against a deep recession. Most importantly, we continue to find many companies profitably innovating and increasing productivity. With the markdown in the prices of their stocks, we think select investments offer attractive return potential for long-term investors.

Creativity: an underappreciated aspect of our process

Every investment is subject to many risks, some affecting all or most investments and others only impacting the specific company. How can a portfolio of investments be constructed to improve the probability of achieving a desired return with the least risk possible? We have built and use quantitative tools to assist our process, but, like all models based on historical inputs, the future is rarely a perfect copy of the past. A degree of 'art' is also required. We think these challenges require creative problem solving fueled by intellectual curiosity.

Creativity in investment management entails a willingness to think differently than peers and the confidence to express our views through a portfolio of differentiated holdings. We believe hard work is the starting point for this process. Analysis must go beyond the one or two companies competing for capital to include researching the industry's structure, competitors, suppliers, and customers. Thinking creatively can enhance this research, which, in our view, may lead to better outcomes. For example, a measure of creativity in our process has allowed us to: uncover underappreciated insight about a larger company's subsidiary and apply that knowledge by investing in a smaller company; mitigate potential negative outcomes by swapping a holding for a similar one with a more attractive business model; purposefully buy an investment to offset another's risk. However, we will pass on potential opportunities when we cannot find acceptable solutions to effectively diversify particular risks. While market volatility cannot be eliminated and unknown risks occasionally surface, we believe our ability to think creatively is essential to successfully managing long-term portfolios.

New Name: a reflection of our heritage and purpose

We have a new name! Torray LLC is now Torray Investment Partners (TIP). The new name reflects our heritage (50 years in the business of managing client assets), what we do (concentrated investing with a long-term perspective), and how we strive to conduct business (as partners to those who value integrity, consistency, and client service excellence). We look forward to sharing more about this exciting evolution in the future.

Annualized Total Returns (%)							
	MRQ ²	YTD	1-Year	3-Year	5-Year	10-Year	ITD
El Composite (gross)	13.0	-2.0	-2.0	9.8	9.6	10.8	10.7
El Composite (net)	12.9	-2.6	-2.6	9.2	9.0	10.1	9.9
Russell 1000 Value	12.4	-7.5	-7.5	6.0	6.7	10.3	7.5
S&P 500	7.6	-18.1	-18.1	7.7	9.4	12.6	9.0

² Most Recent Quarter (MRQ) not annualized.
As of 12/31/22. El Composite Inception: 4/1/05.

Calendar Year Returns (%)										
Year End	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
El Composite (gross)	-2.0	30.6	3.5	28.1	-6.6	21.2	24.5	-10.0	11.9	15.4
El Composite (net)	-2.6	29.9	2.9	27.4	-7.1	20.5	23.8	-10.5	11.2	14.5
Russell 1000 Value	-7.5	25.2	2.8	26.5	-8.3	13.7	17.3	-3.8	13.5	32.5
S&P 500	-18.1	28.7	18.4	31.5	-4.4	21.8	12.0	1.4	13.7	32.4

Portfolio Characteristics							
Portfolio Statistics	Portfolio	Index	Sector Allocation	% Portfolio	% Index	Top 10 Holdings	% Portfolio
Holdings	25	852	Financials	20	20	Lockheed Martin Corp.	4.6
Avg. Mkt. Cap. \$B (wtd)	116	151	Cons. Disc.	16	6	JPMorgan Chase & Co.	4.6
ROE (1 yr)	41%	18%	Info Tech	15	9	Broadcom Inc.	4.5
Turnover	44%	11%	Industrials	13	10	Phillips 66	4.3
EPS Growth (est.)	8%	9%	Health Care	12	17	Huntington Ingalls Industries, Inc.	4.2
EPS Variability	35%	43%	Energy	8	8	AbbVie, Inc.	4.2
Standard Deviation	18%	19%	Real Estate	7	5	Gilead Sciences, Inc.	4.2
Alpha	3.2%		Materials	4	4	Home Depot, Inc.	4.2
Beta	0.94		Cons. Stpls.	4	7	SLM Corp. Pfd Shrs Series B	4.1
Up Market Capture	102%		Comm. Svcs.	0	7	McDonald's Corporation	4.0
Down Market Capture	96%		Utilities	0	6	Total	43.0
			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 is not indicative of future results. See performance footnotes.** Source: FactSet and Torray Investment Partners.

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 Investment Partners 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 TorrayResolute Equity Income Composite.

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