Torray
INVESTMENT PARTNERS

Concentrated Large Growth Strategy (CLG)

Quarterly Commentary

Q2 2023

CELEBRATING 25 YEARS 1998-2023

Portfolio Update

During the quarter, the Magnificent Seven, which represents nearly 50 percent of the index—and just 26 percent of CLG's assets—dominated returns. We have not seen the indexes this top heavy in several decades. This narrowing of leadership increases concentration risk and heightens the potential for greater volatility as correlations among these seven mega-cap tech stocks continue to rise. We believe the risks associated with this level of concentration is unhealthy. As a result, we are maintaining a more a diversified posture to dampen the strategy's exposure to the growing risks embedded in the index.

We purchased **Broadcom (AVGO)**, one of the world's largest semiconductor design firms, in the quarter. AVGO is a business we have followed since our Equity Income strategy purchased it last year. The CLG strategy invested following our increased conviction resulting from recent developments. First, the company re-signed its most prominent client (Apple). Second, AVGO is making progress toward closing an important acquisition. Finally, AVGO is experiencing growing sales of AI-related products. Demand for these chips could drive attractive growth for many years. We believe AVGO has favorable risk-return characteristics compared to peers.

Risk Focus: Trade, Taiwan, China, and Global Security

Trade is essential for the global economy. When conducted in a fair manner, it facilitates win-win outcomes characterized by prosperity and low inflation. No product illustrates this dynamic better than semiconductors. For decades, Western developers have seamlessly partnered with Asian manufacturers to produce more powerful and cheaper chips. Efficiency gains seem endless. Semiconductors are therefore among the world's most essential products. Unfortunately, Taiwan single-handedly produces 90 percent of the most advanced semiconductors. Any problems in this country will have dramatic consequences that will reverberate across the globe.

The rising tensions between China and Taiwan are a red flag in this context. China believes they have sovereignty over Taiwan, while the Taiwanese staunchly desire independence. Relatedly, U.S. and Chinese relations have soured over a host of issues. Trade restrictions imposed by both governments are reducing growth and increasing costs for everyone. The potential for a cold war between the world's two largest economies is a significant long-term risk that financial markets have not discounted.

While we are bottom-up, fundamental investors, we believe understanding how global macro forces might impact our portfolio is a crucial element of risk management. As such, we have reviewed every holding's supply and demand exposure to China and are reducing this risk when geographic concentration is unfavorable. Our analysis suggests the balance of power in the Indo-Pacific will likely secure the status quo in Taiwan, but the Sino-American rivalry will escalate. As such, we have reviewed every holding's supply and demand exposure to China and Taiwan. We are reducing investment in companies with unfavorable concentration in China, while remaining comfortable with businesses relying on Taiwanese semiconductor manufacturing, including the recent addition of AVGO to the portfolio.

Market Commentary and Outlook

Stocks experienced a strong rally in the second quarter, building on momentum from the first quarter. Signs of reduced inflation and excitement over artificial intelligence (AI) fueled these returns. However, market leadership was narrow—just seven large technology companies accounted for nearly three-quarters of the S&P 500's year-to-date return. Known collectively as the "Magnificent Seven," Apple, Microsoft, Alphabet, Amazon, Nvidia, Telsa and Meta were up an average 90 percent in the first half of 2023. Most other stocks underperformed, and 40 percent of the stocks in the Index delivered negative returns. The environment has created headwinds for active managers who do not believe it is prudent to subject clients to this level of concentration.

While the list of issues for investors to worry about is long, we are optimistic about the U.S. economy and equity markets. We base our optimistic view on our forecast for continued gains in productivity. Businesses are investing in innovation and finding efficiencies to deliver sustainable, profitable growth. Consumers should benefit from more valuable products and services. Areas like AI, cloud computing, and 5G communications provide the platforms that power this potential. We are attempting to position portfolios responsibly in companies leading this innovation while keeping an eye on future risks.

[1] The S&P 500® Index measures the value of stocks off the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite. Past performance is not indicative of future results.

Best and Worst Performers in the Quarter

Top Contributors	Top Detractors
Microsoft	Royalty Pharma Plc
Amazon.com	Danaher
Apple	American Tower
Adobe	IDEXX Laboratories
Alphabet	Lonza Group ADR

Reflects the top five holdings that contributed to and detracted from composite performance listed in descending order. Specific securities identified do not represent all the securities purchased, sold, or recommended for the strategy. A contribution analysis list of all holdings and calculation methodology information are available upon request. Do not assume any securities identified were or will be profitable. Past performance is not indicative of future results.

Why Consider Torray Investment Partners as Your Large-Cap Growth Solution?

A Singularly Focused Investment Firm

OUR CULTURE

Independent, Stable and Client Centric

Broad-based active equity ownership bound by a partnership mentality drive tight alignment with our client's long-term interests.

OUR APPROACH

Risk-Managed, Concentrated Investing

For more than 50 years, we've built active portfolios based on our research-driven conviction in the relatively few businesses able to create economic value for shareholders.

OUR STRUCTURE

Institutional-Quality Boutique

Unburdened by bureaucracy, we are more creative and agile in efforts to deliver exceptional client service and consistent long-term risk-adjusted performance.

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