Torray
INVESTMENT PARTNERS

Q2
2023

Large Value Equity Strategy (LVE)

Quarterly Commentary

Portfolio Update

We were more active than usual during the quarter, exiting four positions and adding two new ones. The sales included Bristol Myers, Bank of America, Disney, and Advance Auto Parts, while WR Berkely and Royalty Pharma were new purchases.

Royalty Pharma (RPRX) is a leading acquirer of market-leading pharmaceutical royalties and has amassed an impressive track record building a diversified and durable royalty revenue streams. We see the company as one of the fastest-growing diversified biopharma stories operating in a highly attractive and fragmented niche within the healthcare market. We acquired shares at an attractive discount to our conservative estimate of the future value of exiting royalty streams.

WR Berkely (WRB) is a unique property casualty insurance franchise specializing in underwriting Excess and Surplus (E&S) and regional risk policies, subject to less competition than traditional insurance lines. We believe WRB has set itself apart from its peers by building a culture that prioritizes underwriting profitably, regardless of the pricing environment. We think the flow of business to E&S and specialty carriers should continue longer than expected, which, along with the management's focus on creating shareholder value over the long term, should help the company deliver above-peer topline and earnings growth.

With banks facing heightened regulatory scrutiny, increased capital requirements, and the ills of an inverted yield curve, we sold **Bank of America (BAC)** in favor of WRB, a trade that reduced exposure to these risks. We sold **Bristol Myers (BMY)** to fund the purchase of RPRX. We believe **Disney (DIS)** is caught in multiple cross currents that are not likely to subside any time soon—so we decided it was prudent to move on. **Advanced Auto Parts (AAP)** announced a dramatic cut to its dividend. This change coincided with our conclusion that management is incapable of completing the turnaround we expected within our time horizon. As a result, we sold and redeployed proceeds into holdings with more favorable risk and reward profiles.

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 key 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.

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
Lennar	Advance Auto Parts
Eaton Corp.	Walt Disney
Marsh & McLennan	Royalty Pharma Plc
Berkshire Hathaway	Kraft Heinz
Applied Materials	General Dynamics

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 Value 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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Disclosures