

Equity Income (EI)

Quarterly Review and Commentary

The fourth quarter marked a solid end to the year with double-digit gains across all major equity market indices—a much-needed comeback in performance after a painful 2022. The EI strategy returned 10.7%, net of fees, for the fourth quarter compared to 9.5% for the Russell 1000® Value Index. Overall, in 2023, EI advanced 13.8%, net of fees, outpacing the Index by 230 basis points. The strategy's overweight and stock selection in Information Technology and Energy sectors were the largest contributors to performance in the quarter. The largest drags on performance were the strategy's material underweight to Financials and stock selection in the Consumer Discretionary sector. As a reminder, EI strives to own a concentrated, yet diversified, portfolio of companies with strong business models generating excess cash that management can use to grow their business and deliver dividends to shareholders.

Heading into 2024, there is plenty of uncertainty. Investors are focused on the Federal Reserve's ability to engineer a soft landing, determining if inflation stays on its moderating path and if the economy will avoid a recession. Not to mention a host of other risks, including global security, geopolitical unrest, and the U.S. Presidential election. Aiming for accurate predictions around risk is a futile exercise. The perception of risk can greatly affect market sentiment, often creating opportunities. We believe our focus on discerning this noise from fact and understanding both sides of the risk/reward coin puts us in a position to lean into uncertainty and uncover attractive long-term opportunities.

Evaluating Management Teams - Stewards of Our Investments

Financial performance and shareholder value creation are heavily influenced by the decisions and execution of a company's management team. Therefore, the judgment and integrity of the management teams with whom we entrust client capital are as important as the quality of the business and its ability to sustain profitable growth. Because we seek companies that generate abundant cash internally, understanding how and why management deploys excess capital through reinvestment, debt repayment, share buybacks, M&A, or dividends is a key criterion when performing our diligence on a potential investment.

Our assessment of management, the superiority of the business model, and its risk/reward profile determine if a company is considered a strong fit with our "TIP-Quality" criterion. We go beyond the traditional indicators of management alignment, such as incentives, share ownership, and track record, and dig deep to uncover evidence of a thought-out long-term strategic plan for the business. Historical capital allocation results and judging the aggressiveness of past forecasts are important. However, we believe it is equally important to assess the talent base, and the uniqueness of the culture management is promoting. We seek to generate insights that reveal management teams with differentiated and adaptable mindsets anchored in long-term value creation—on a per-share basis. These insights combined with our bottom-up, fundamental research further increase conviction and can reduce perceived risks associated with the future direction of execution. We would rather pass on an otherwise good opportunity than invest with a management team we don't believe would be a good steward of shareholder capital.

Portfolio Activity

PURCHASES

American Tower (AMT) is one of the largest independent owners, operators, and wireless and broadcast infrastructure developers globally. Zoning restrictions, high switching costs, long durations leases with built-in price escalators, enormous incremental margins, and products/services at the chokepoint of connectivity between wireless networks and their customers make AMT one of the most attractive business models in the public markets. Over 2023, AMT's shares slid more than 30 percent as investors worried about a slowdown in carrier spending and the impact of higher interest rates, allowing us to add this world-class business to the portfolio at valuation levels not seen since 2017.

SALES

Crown Castle (CCI) We sold Crown Castle to fund the purchase of American Tower, a larger competitor with a more diverse geographic footprint (220,000 cell towers globally vs. 40,000 domestic towers at Crown Castle). Both companies suffered declining sales and profits during 2023 as interest rates rose and leasing activity slowed. As demand for mobile data traffic on cell towers compounds at roughly 20 percent over the next five years and carriers invest in improving the coverage and capacity of their wireless networks, we believe American Tower can deliver more dividend growth for the portfolio than Crown Castle. Importantly, we realized a loss when we sold Crown Castle, which we used to offset gains generated elsewhere in the portfolio.

Portfolio Activity cont...

T. Rowe Price (TROW) offers a broad range of asset management services, including funds, separate account management, and retirement plan services to institutions, financial advisors, and individuals. We were initially attracted to T. Rowe because it exposed us to the long-term growth potential of U.S. equities and a stock with an attractive and consistently growing dividend yield. T. Rowe has been a great business; however, the rise of low-cost ETFs is creating a significant and ongoing challenge that is forcing traditional asset managers to compete on price and reduce management fees. Against these strong secular growth headwinds, we sold the stock during the fourth quarter to realize a valuable capital loss.

Best and Worst Performers in the Quarter

Top Contributors

Broadcom
 Qualcomm
 Blackstone
 American Tower
 Union Pacific

Top Detractors

T. Rowe Price
 Cisco Systems
 EOG Resources
 Vail Resorts
 Altria Group

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 Equity Income 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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