

Large Value Equity Strategy (LVE)

Quarterly Review and Commentary

2024 got off to a strong start as the LVE strategy gained 12.3% (net of fees). These results follow a very strong year of compounding in 2023. There were similar themes to market leadership that fueled returns, including investor optimism that the Federal Reserve has inflationary pressures under control and exuberance for companies that have the potential to benefit from Artificial Intelligence (AI).

AI promises a similar (and likely broader, steeper, and longer-lived) impact as other ground-breaking technological innovations such as PCs, the internet, and smartphones. Chip maker Nvidia (NVDA) has become synonymous with AI. The company's market capitalization increased a historic \$1 trillion—due to a 93% appreciation of its stock price during the quarter—as investors clamored for a piece of the action. We discuss our risk-managed approach to investing in AI below.

Based on contributions to return, our overweight and stock selection in Financials had the largest positive impact on absolute and relative performance. Interestingly, our active decisions to position shareholder capital in ten of the twelve industry sectors positively contributed to performance. Individual stock selection in Health Care (Royalty Pharma and Johnson & Johnson) were the largest detractors.

A Risk-Managed Approach to AI Exposure

AI presents a wide variety of direct and indirect investment opportunities. However, not all companies with exposure to AI will be meaningful beneficiaries over our investment horizon, while others may emerge and do better than expected. Regardless, we apply the same disciplined, risk-managed approach to investing in AI that we do with all our investments. We do not compromise the investment criteria we use to identify TIP-Quality Businesses (1. Business Quality, 2. Risk/Reward Profile, and 3. Management Team) simply because of the excitement around AI.

We focus on business quality, seeking evidence that future profits will be competitively protected and grow sustainably. We analyze each company's products to ensure they create lasting value for their customers—such as improving productivity. Given the threat of disintermediation from technological change, this is essential when investing in AI. We compare company fundamentals to market expectations to pay a reasonable price for the stock and use our correlation analysis to increase portfolio diversification. Finally, the management team must have a record of value-creating capital allocation.

Encouragingly, we are finding many ways to responsibly invest in AI when viewed through our risk-managed lens. Although we have chosen not to invest in NVDA, many portfolio companies are using their semiconductors to build AI platforms and enhance existing services, creating durable recurring revenues and cost savings. We also own semiconductor manufacturing and design businesses that play crucial roles in creating the chips and intellectual property that make AI work. Finally, we have invested in several of NVDA's competitors because innovation and price pressures inevitably spark change, which will likely create attractive opportunities for them.

Portfolio Activity

PURCHASES

Keysight Technologies (KEYS) provides mission-critical testing and measurement equipment used in attractive and growing end markets like communications, aerospace, defense, and semiconductors. The company enjoys multiple layers of competitive advantages, such as high switching costs due to the entrenchment of its hardware, software, and services into customer design cycles and ecosystems. Additionally, Keysight's portfolio of solutions is often integrated into the physical design and software of its customers' products, allowing them to include services in contracts increasing overall customer stickiness. We believe Keysight is in the early stages of growing the mix of recurring software and services sales, which will improve the quality of the business.

SALES

Altria Group (MO) is a leading manufacturer of tobacco and nicotine products. The company predominantly operates in the U.S., where the burned tobacco market has been in secular decline. Altria has been relying on consistent price increases to offset the impact of accelerating volume declines on revenue. Additionally, we are uncertain about the long-term profitability of the company's push into emerging cigarette substitute products. As a result, we sold the stock during the quarter and redeployed the capital into a business with more attractive growth characteristics.

Best and Worst Performers in the Quarter

| Top Five | Return | Contribution | Bottom Five | Return | Contribution |
|--------------------|--------|--------------|-------------------------|--------|--------------|
| Eaton Corp | 30.2 | 1.4 | UnitedHealth Group | -5.7 | -0.3 |
| Applied Materials | 27.5 | 1.0 | Honeywell International | -1.6 | -0.1 |
| Berkshire Hathaway | 17.9 | 1.0 | Keysight Technologies | 0.3 | 0.0 |
| Fiserv | 20.3 | 0.8 | Altria Group | -0.3 | 0.0 |
| Phillips 66 | 23.6 | 0.8 | Kraft Heinz | 0.9 | 0.0 |

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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