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Instead of chasing Nvidia, investor buys these misunderstood, cheap growth stocks for big returns

By Pia Singh
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In a market bedazzled by flashy growth stocks, Torray Investment Partners instead runs a fund that's trying to redefine what value is.

Value stocks — oftentimes slower growing companies with lower price-to-earnings or price-to-book ratios and usually higher dividend yields, typically concentrated in sectors such as consumer staples, household goods and financials — have long been trounced by growth stocks.

So far this year, iShares Russell 1000 Growth ETF has added 9.1%, while rising 15.5% annually for the past decade, outrunning the iShares Russell Value ETF, which is up 3% year-to-date and 8.5% in each of the past 10 years.

While the flagship Torray Fund has a value tilt, drawing its holdings nearly entirely from the Russell 1000 Value index, it has reoriented itself around what might be thought of as a new variant on value.

The fund's main strategy? Invest in slightly under-the-radar growth stories that offer smoother and consistent fundamentals, and stick with them for the long run.

"Our view of value is that it is merely mispriced, misunderstood growth [disparities that only widen due to indexing]," Jeffrey Lent, partner and co-portfolio manager of the Torray Fund, said.

The Torray Fund, founded by the late Robert Torray in 1990, is ahead 7.4% so far this year, outpacing the 6.5% gain in the S&P 500. Its concentrated portfolio of some 25 stocks, including Berkshire Hathaway, Eaton and American Express that have been held for years, ranks in the second percentile among such funds year to date and the 14th percentile in the past three years, Morningstar says.

“There’s a lot of companies out there that are growing their business profitably that are under-owned ... and that’s the stuff that you’re gonna find,” among Torray’s holdings, Lent said. “To me, that’s the new sort of definition of value. That’s what we’re aimed at, those companies that are still growing in profits or returns to shareholders, but they’re not trading at these breakneck speeds and higher prices.”

The fund, with some $330 million in assets, carries an annual expense ratio of 0.93%, part of the reason Morningstar only rates Torray two stars.

Included in the fund are companies with “visible reinvestment opportunities” that allow them to grow their business, as well as companies that steadily generate strong free cash flow and return on capital, Lent said. The names are also screened for risk-adjusted growth. Half of the portfolio’s top ten names have been held for more than 12 years.

“We want to buy growing businesses where we can buy them at reasonable prices, and if they’re businesses that are slower-growing but have better valuations, but also grow and have very good capital histories, we want to invest in them as well,” said Shawn Hendon, president of Torray Investment Partners and co-portfolio manager of the fund.

Apart from the Torray Fund, the firm manages four other concentrated portfolios that also hold between 20 and 30 companies. These portfolios are separately managed accounts of either concentrated large growth companies, small- and mid-capitalization growth names, large value companies and equity income.

‘No real precision to valuation’

Berkshire Hathaway is the fund’s top holding at roughly 7%, followed by power management company Eaton at about 5.4% and insurer Marsh & McLennan at about 4.7%. Each of the fund’s top ten holdings have risen at least 10% over the past year.

Shares of Berkshire, for example, have jumped about 34% over the past year. One of Berkshire’s strengths, Hendon said, is that as a conglomerate it doesn’t have to reinvest its cash flow back into the original business that provided the cash. If Berkshire sees better opportunities elsewhere, the company can allocate its cash in those businesses instead, he said.

Berkshire shares hit an all-time high on Monday after pit posted fourth-quarter operating earnings of $8.481 billion, about 28% above the same period a year ago, driven by growth in its auto insurance business. Berkshire's overall earnings, including investment gains from its holdings of publicly-traded companies, more than doubled in the latest quarter.

Shares of Eaton, which Torray has owned for more than 12 years, have soared more than 63% over the past year. The company is considered a potential artificial intelligence beneficiary as it provides electrical infrastructure and industrial products for data centers, but it's also strong in areas such as aerospace that are thriving.

Financial services companies American Express and Fiserv are also among Torray's top ten holdings. The stocks have rallied more than 16% and 13% so far this year, respectively. Measured by sector, Torray Fund is most exposed to financial services, which make up nearly 31% of the portfolio, followed by technology and industrials, according to Morningstar data. Compared to other large value funds, Torray is overweight in all three.

Torray is exposed to demand for artificial intelligence in holdings such Eaton, Applied Materials and Qualcomm, but not Nvidia.

"It's over-owned...semiconductors are cyclical and the competition is coming," Lent said of Nvidia. It's not a stock that we would own, but the business has done phenomenally well."

Torray's portfolio managers emphasized that they don't look to make an investment in a particular technology or new business.

"We think of valuation in terms of reasonable ranges for the business — given the quality of the business, the management, the history. So we pay attention to the business first, and the valuation last. There's no real precision to valuation," Hendon said about the portfolio. "We don't like to project too far out in the future ... so that leads us away from a lot of names with higher valuations with prospects to come."

Disclosures

This interview is provided for informational purposes only and should not be considered investment advice. Please consult your financial advisor for additional information concerning your investment objectives.

Fund Holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Returns as of 12.31.23 (%)	**MRQ**	**YTD**	**1-Year**	**3-Years**	**5-Years**	**10-Years**	**ITD**
Torray Fund (TORYX)	9.10	12.58	12.58	10.61	9.60	7.19	9.38
Morningstar US LM Brd Val	9.74	14.34	14.34	10.41	12.72	9.89	N/A
S&P 500®	11.69	26.29	26.29	10.00	15.69	12.03	10.64

Periods greater than one year are annualized.

Inception: 12.31.1990. Gross Expense Ratio: 0.97% Net Expense Ratio: 0.96% as of December 31, 2023.

Performance data is based upon past performance, which is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please call 855.753.8174 to obtain performance data as of the most recent month end. The Fee Waiver and Expense Reimbursement will contractually remain in effect through December 31, 2025.

Mutual fund investing involves risk, including the possible loss of principal value. At times, the Fund's portfolio may be more concentrated than that of a more diversified fund, subjecting it to greater fluctuation and risk. The Fund's value investments are subject to risk that their intrinsic values may not be recognized by the broad market or that their prices may decline.

Top 10 Holdings (%)	**TORYX**
Berkshire Hathaway	6.8
Eaton Corp.	5.1
Marsh & McLennan	5.0
Phillips 66	4.6
Lennar Corp.	4.5
General Dynamics	4.4
Alphabet	4.3
JPMorgan Chase	4.3
UnitedHealth Group	4.2
American Express	4.2
Total	47.4

As of 12.31.23. Source: US Bancorp Fund Services

You should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the Fund. For more information about The Torray Fund or to receive a prospectus, call us at 855.753.8174. Please read the prospectus carefully before investing.

The Morningstar percentile rankings for the Torray Fund is as of 12.31.2023. The Fund ranked against the following numbers of U.S. Large Value funds over the following time periods: 1,217 funds in the last year where the Fund received a percentile rank of 42%; 1,131 funds over the last three years where the Fund received a percentile rank of 35%; 1,075 funds over the last five years with a percentile rank of 82%; and over the last 10 years the fund received a percentile rank of 83% out of 821 funds. Morningstar Rankings represent a fund's total return percentile rank relative to all funds in the same Morningstar Category for the same time period. The highest (or most favorable) percentile rank is 1%, and the lowest (or least favorable) percentile rank is 100%. It is based on Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees.

As of 12.31.2023, the Fund was rated 2 Stars Overall by Morningstar out of 1153 Large Value Funds based on Morningstar Risk-Adjusted Return. The fund received 3 Stars out of 1153 Funds for the 3-Year time period; 2- Stars out of 1125 funds for the 5-Year period, and 2 Stars out of 1003 funds for the 10-Year period. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustments for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for managed products is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

The Morningstar U.S. Large-Mid Cap Broad Value Index is designed to provide comprehensive, consistent representation of the large-mid cap value segment of the U.S. equity market. The Index returns do not reflect the deduction of expenses, which have been deducted from the Fund's returns. The Index return assumes reinvestment of all distributions and does not reflect the deduction of taxes and fees.

The S&P 500® Index measures the value of stocks of the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

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.

Indexes are unmanaged and it is not possible to invest directly in an index.

Price-to-Earnings (P/E) Ratio is the price of a share divided by its annual earnings per share; P/E helps determine a security's fair value in a perfect market and is a measure of expected growth. Companies expected to announce higher earnings typically have a higher P/E.

Price-to-Book ratio is the company's current stock price per share divided by its book value per share. This shows the market valuation of a company compared to its book value.

Dividend Yield is the financial ratio that shows how much a company pays out in dividends each year relative to its stock price.

Free Cash Flow is the amount by which a business's operating cash flow exceeds its working capital needs and expenditures on fixed assets.

Return on Capital measures a company's net income relative to the sum of its debt and equity value.

Shares of the Torray mutual fund are distributed by Quasar Distributors LLC, not affiliated with Torray Investment Partners LLC.