



## TorraysResolute Small/Mid Cap Growth

### Market Overview

The U.S. equity market was dominated by two factors in 2015: the transition to lower commodity prices, principally the 30% decline in oil, and the effects of a stronger dollar, which rose 8% on a trade-weighted basis. S&P 500 earnings for the Energy sector are expected to finish the year down 60%-70%, detracting approximately five percentage points of growth from the index. With approximately 48% of the S&P 500's revenues being generated overseas, the strong dollar hurt U.S. exporters and manufacturers. While these factors caused earnings to stall, domestic consumer spending rose at a steady pace as confidence increased, job growth and real wages were strong, and inflation remained contained. Given an environment that is, on balance, positive, the Federal Reserve raised interest rates for the first time in a decade.

There are two sides of complacency, one which ignores risk and one which ignores opportunity.

### Portfolio Commentary

During the fourth quarter, the TorrayResolute Small/Mid Cap Growth Composite gained 2.9% (2.7% net of fees), trailing the benchmark Russell 2500 Growth Index, which gained 3.8% for the period. For the year, the Composite declined 4.1% (-4.8% net of fees) versus the benchmark's loss of 0.2%. While the annual loss, the first in seven years, was modest, it was unsatisfactory on a relative basis. The primary cause of the portfolio's underperformance for the year was its exposure to the Energy sector, which experienced sharp declines consistent with the underlying collapse of commodity prices. Partially offsetting losses in the Energy sector was strong performance from automotive aftermarket retailer O'Reilly Automotive (ORLY) and mergers and acquisitions in the Health Care sector relating to portfolio holdings Foundation Medicine (FMI) and Catamaran (CTRX).

### Outlook

Macroeconomic conditions and headlines continue to drive investor sentiment and market direction, overwhelming company-specific fundamentals. Primary risks include the slowdown in China, the continued rise of the U.S. dollar, additional commodity weakness and divergent monetary policies. With this as a backdrop, positive returns have narrowed to a handful of large companies generally characterized as being momentum-driven and sharing extremely high valuations. This investment environment has proven to be challenging due to the prevalence of herd mentality and complacency. There are two sides to complacency, one which ignores risk and one which ignores opportunity. We endeavor to avoid both. The narrow leadership of the past year and rapid decline in early 2016 have created opportunities for the patient, disciplined investor. In this period of low economic growth and high asset volatility, we remain focused on quality businesses, reasonable

valuations and our discipline and patience to hold such investments through turbulent markets. As we have experienced in the past, uncertainty and volatility create opportunity.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

January 20<sup>th</sup>, 2016

**Top Contributors & Detractors**

Security	Sector	Contribution
SolarWinds	Info Tech	1.3%
ITC Holdings	Utility	0.7%
Mettler-Toledo	Health Care	0.6%
Medivation	Health Care	0.6%
Jack Henry & Associates	Info Tech	0.6%
Quanta	Industrials	-0.7%
Computer Modelling Group	Info Tech	-0.6%
Polaris Industries	Cons Disc	-0.6%
Stericycle	Industrials	-0.4%
Cooper	Health Care	-0.3%

**Top 10 Holdings**

Security	% of Holdings
Jack Henry	5.1
Affiliated Managers Group	4.4
LKQ Corporation	4.4
ITC Holdings	4.3
Church & Dwight	4.1
FEI Company	4.1
Hexcel Corporation	4.1
SBA Communications	3.9
Medivation	3.8
Middleby	3.7
<b>Percentage of total portfolio</b>	<b>41.9</b>

Holdings are subject to change and are not recommendations to buy or sell a security.

**Activity Summary****Buys:**

**HD Supply Holding (HDS)** A former division of Home Depot (HD) brought public in 2013, HD Supply is the fourth largest industrial distributor in North America and number one in each of its three market segments; Facilities Maintenance, Waterworks and Construction & Industrial. Building on 8% market share in a highly fragmented \$80 billion market, HDS has outpaced its competitors by effectively managing the logistics and services associated with delivering a broad array of complex products to its customers. Additionally, HDS is in the process of improving its capital structure by selling underperforming divisions and using the proceeds to reduce debt. Given the stable outlook for its end markets, we believe HDS is well-positioned to generate superior growth in the coming years.

**Polaris Industries (PII)** Established in 1954 and currently generating sales of \$4.7 billion, Polaris Industries designs and manufactures all-terrain vehicles (ATVs), snowmobiles, motorcycles and other small engine products. The company is a clear industry leader based on product innovation, dominant market share, high returns on invested capital and strong cash flows. While increased competition and unfavorable weather has reduced near-term growth expectations, management has an exceptional record of sustaining profitable growth over time. Given the recent success of product launches such as Indian Motorcycle in 2013 and international opportunities in small vehicle manufacturing, we expect the company will effectively manage current industry challenges and return to attractive rates of growth as it has done in prior cycles.

**Halozyme Therapeutics (HALO)** Halozyme Therapeutics is a biotech company that has developed an enzyme which allows for faster and cheaper delivery of many intravenous drugs targeting cancerous tumors. Partnering with a number of large biopharma companies, including Roche (RHHBY), Baxalta (BXLT), Pfizer (PFE), AbbVie (ABBV), Eli Lilly (LLY) and Johnson & Johnson (JNJ) on multiple formulations, the company has tremendous potential to realize milestone payments and collect royalties as therapies utilizing Halozyme's proprietary platform move through clinical trials and into commercial sales. This broadly diversified partnership structure offers a uniquely defensive means of participating in significant opportunities in cancer treatment.

**Sales:**

**Foundation Medicine (FMI)** Foundation Medicine is a next generation cancer diagnostic company which provides genomic information about individual patients, enabling physicians to optimize treatments and biopharmaceutical companies to develop targeted therapies. We sold half the position following Roche's (RHHBY) acquisition of a majority share of FMI in January 2015. The remaining shares were sold in the 4th quarter as FMI experienced challenges with respect to reimbursement. Although we think FMI's diagnostics offer an important advance in cancer care, we underestimated the complexity associated with the reimbursement system.

**Rice Energy (RICE)** Rice Energy engages in the acquisition, exploration and development of natural gas and oil properties in the Appalachian Basin. In light of the persistent supply demand imbalances in the Energy sector, we sold our position in Rice Energy. Although RICE's assets are among the most productive and lowest cost of the U.S. shale plays, we expect the macro environment to remain challenging for the foreseeable future.

**Disclosures:** This commentary is for informational purposes only and should not be viewed as a recommendation to buy or sell any security. There is no guarantee that the views expressed will come to pass. TorrayResolute, LLC is an independent registered investment adviser and is a majority owned subsidiary of Montage Investments, LLC. Registration of an investment adviser does not imply any level of skill of training. TorrayResolute, LLC claims compliance with the Global Investment Performance Standards (GIPS®). To receive a list of composite descriptions of TorrayResolute, LLC and/or a GIPS® compliant presentation, please contact Hugh Tawney or Breck Scalise at 855.753.8174 or email [info@torrayresolute.com](mailto:info@torrayresolute.com). For additional information about TorrayResolute, including fees and services, please contact us or refer to the Investment Adviser Public Disclosure website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)).

The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500™ Growth Index measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher growth earning potential. You cannot invest directly in an index.

**Investing involves risk; principal loss is possible. Past performance is not indicative of future results.**