Quarterly Commentary

TorrayResolute

March 31, 2016

IN PARTNERSHIP WITH Montage

TorrayResolute Small/Mid Cap Growth

Market Overview

Investors were whipsawed in the first quarter of 2016 as the first six weeks produced a loss of 10.5% for the S&P 500, only to recover and close the quarter with a modest gain of 1.4%. It was an unpleasant reminder of how volatile markets can be when simple narratives dominate a complex system. In this case, the culprit was primarily the price of oil, which declined 30% through mid-February, but recovered by the end of March. As the price of oil declined, investors became more risk-averse, assuming that lower oil prices were the result of deteriorating global growth rather than continued excess supply. The logic reversed, as did the markets, when Saudi Arabia announced an effort to freeze production levels among major producers on February 11th and evidence of slowing global growth didn't materialize. It was a curious period which begs the question of how investors should manage short-term headlines and long-term fundamentals.

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Portfolio Commentary

During the first quarter, the TorrayResolute Small/Mid Cap Growth Composite gained 1.90% (1.73% net of fees), significantly outperforming the benchmark Russell 2500 Growth Index's decline of 2.66%. Positive stock selection in Information Technology and Health Care outweighed a modest drag from allocation, principally underweight positions in Consumer Discretion and Materials. Top performance contributors included FEI (FEIC), Computer Modelling Group (CMDXF) and Cooper Companies (COO). Primary detractors included Halozyme (HALO), comScore (SCOR) and BioMarin (BMRN). For the trailing twelve months, the Composite declined 11.00% (-11.63% net of fees), underperforming the benchmark's loss of 9.57%. In this case, the principal source of underperformance was selection in the Health Care sector and the portfolio's overweight position in Energy, which averaged 3.8% for the period versus the benchmark's 1.4%. While the difference in the Energy allocation was modest on an absolute basis, sharp declines in the sector (-36.8% for the portfolio, -48.5% for the benchmark) had a disproportionate impact on the portfolio's performance.

Volatility during the quarter was particularly pronounced in the Health Care sector as the issue of drug pricing became a heated point of debate. While we recognize the merits of this discussion, we believe the systematic selling across the sector created an opportunity to invest in exceptionally innovative companies at attractive prices. In January, we purchased Halozyme Therapeutics (HALO), a niche drug delivery company that partners with many of the world's leading pharmaceutical firms focusing on cancer therapies. As the application of HALO's unique technology expands, we expect partnerships, sales and royalties to increase at an attractive rate.

As a manager of a concentrated strategy, a frequent topic of discussion within our Investment Committee is how we can upgrade the portfolio to insure we are invested in our highest conviction ideas. With a strict limit of 30 holdings, this typically means something has to be sold in order to make room for a new investment. This was the case with our sale of Varian Medical Systems (VAR) and purchase of Omnicell (OMCL), both of which are medical device companies. Omnicell designs, manufactures, and markets medication dispensing systems for hospitals and pharmacies. Its products and services help hospitals and other health care providers improve medication adherence and operate more efficiently. As a direct beneficiary of the industry's increasing focus on cost containment, OMCL has delivered impressive results over the past five years, increasing revenues and earnings at a compound average rate of 17% and 25%, respectively. In contrast, Varian, a manufacturer of radiotherapy equipment, continues to face negative reimbursement trends and a reliance on international markets for the majority of its growth. Given these factors and others, we viewed the exchange positively from a risk/reward basis.

Outlook

Markets recovered in the second half of the quarter, largely because concerns that reached a fever pitch in February moderated, the price of oil recovered, the Fed lowered its rate guidance, the dollar weakened, and China's economic expansion continued at a reasonable pace. Global growth remains slow and as such, vulnerable. On the domestic front, positive economic data continue to outweigh negative. The lesson to take away from the first quarter is to avoid simple narratives and follow fundamentals. Long-term investors maintain a disciplined philosophy and process, resisting the urge to rely on simple explanations. Volatility is a risk, but also provides investors with opportunities. As the saying goes "It's time in, not timing." If anyone needed a reminder that timing the market is a fool's game, the first quarter provided it.

As ever, we appreciate your interest and trust.

Nicholas Haffenreffer

Nicholas C. Haffenreffer
April 18, 2016

Top Contributors & Detractors

Security	Sector	Contribution
FEI Company	Info Tech	+0.6%
Computer Modelling Group	Info Tech	+0.5%
Cooper	Health Care	+0.5%
Quanta	Industrials	+0.5%
Jack Henry	Info Tech	+0.5%
Halozyme	Health Care	-1.3%
comScore	Info Tech	-0.9%
BioMarin	Health Care	-0.6%
Qualys	Info Tech	-0.2%
Hexcel	Industrials	-0.2%

Top 10 Holdings

Security	% of Holdings
Jack Henry	4.9
LKQ Corporation	4.7
Affiliated Managers Group	4.3
FEI Company	4.3
Church & Dwight	4.2
Copart, Inc.	3.9
Hexcel Corporation	3.8
Quanta Services	3.8
SBA Communications	3.8
Mettler-Toledo	3.6
Percentage of total portfolio	**41.3**

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

Disclosures

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The Standard & Poor's 500 (S&P 500) is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. 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.