TORRAY LLC
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TorrayResolute Concentrated Large Growth

Market Overview

As the post-election honeymoon fades and the Trump administration gets down to the difficult business of governing, investors have turned their focus to the fundamentals of the real economy. Current economic conditions are good, but accompanied by high expectations. The Federal Reserve's plan to increase interest rates at an orderly pace appears to be on track, but policy is likely to remain expansionary. In spite of extended valuations and heightened geopolitical uncertainty, equity investors cheered these "goldilocks" conditions, producing some of the best returns in the past few years.

Portfolio Commentary

> If the market "hates" uncertainty, what then explains its resilience?

The Large Growth Composite posted excellent returns of 8.80% (8.71% net of fees) for the quarter, keeping pace with the benchmark Russell 1000 Growth Index's impressive advance of 8.91%, the highest quarterly returns for both entities in three years. For the trailing twelve months, the Composite also generated attractive returns of 14.54% (14.14% net of fees), falling just shy of the benchmark's 15.75% return. Positive stock selection in the Health Care sector was the primary source of the Composite's quarterly returns and an overweight position in the Energy sector was the primary detractor. At the security level, top contributors included Incyte (INCY), Apple (AAPL) and Facebook (FB). Top detractors included Akamai Technologies (AKAM), Acuity Brands (AYI) and LKQ (LKQ). Information Technology was the benchmark's best performing sector, gaining 13.05%. Energy was the laggard, declining 9.17%.

Proposed policy changes by the new administration were a central consideration in our investment decisions over the course of the quarter. We purchased shares of Sherwin-Williams (SHW), and sold Acuity Brands (AYI) and Praxair (PX). Sherwin-Williams is the largest vertically integrated paint company with a nationwide network of more than 4,100 stores catering to professional contractors. The competitive advantages associated with this extensive store network and a constructive view on the housing market are the basis of our investment thesis. Sherwin-Williams enjoys a dominant market share of approximately 60% among industry professionals and stable pricing of its products. Additionally, we believe the pending $9.4 billion acquisition of Valspar (VAL), scheduled to close in June 2017, will reduce operating volatility through the addition of a modestly uncorrelated industrial coatings business. Finally, with approximately 85% of sales in the U.S., Sherwin-Williams is well-positioned for the new administration's proposed tax reforms and fiscal stimulus plans.

While aspects of the new administration's agenda may benefit some companies, they pose risks to others. Acuity Brands is a manufacturer of commercial and residential lighting fixtures. With approximately 89% of its revenues generated in the U.S., it would theoretically benefit from increased infrastructure spending. However, the majority of its manufacturing is conducted in Mexico. Businesses such as Acuity with proportionally high international operating expenses and high domestic sales, are precisely the type of businesses that would be most affected by the proposed border-adjustment tax, which if passed, would result in a significant decrease in Acuity's profitability. With an eye toward managing this risk, the position was sold.

Finally, North American industrial gas supplier Praxair was sold following the announcement of its intention to merge with German-based Linde (LIN.GR), another supplier of industrial gases, for $35 billion. There are numerous reasons why we view the proposed deal as unattractive; principal among them are the prospect of lower growth, increased operating variability and valuation. From our perspective, the sale of Praxair and addition of Sherwin-Williams represented an opportunity to upgrade the portfolio within the Materials sector, and the sale of Acuity a prudent step to reduce risk.

Outlook

Despite the market's persistent advance over the course of the last eight years, it deserves to be said that the past two years have been particularly challenging for investors as market leadership has rotated with increasing frequency and magnitude. This dynamic appeared to have peaked with the conclusion of the U.S. presidential election cycle, causing most investors to reconsider long-held assumptions with respect to policy and trade. If the market "hates" uncertainty, what then explains its resilience? In short, a synchronized global expansion. Economic fundamentals appear to be breaking out of the doldrums. It is difficult to argue that the market is cheap by any measure and that it doesn't already reflect this positive dynamic, but as long as the economic backdrop remains constructive, we expect the market to remain resilient.

As ever, we appreciate your interest and trust.

Nicholas Haffenreffer

Nicholas C. Haffenreffer
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Top Contributors & Detractors

Security	Sector	% Contribution
Incyte Corporation	Health Care	+1.1
Apple Inc.	Info Tech	+1.0
Facebook, Inc.	Info Tech	+0.9
Adobe Systems	Info Tech	+0.8
Cerner Corporation	Health Care	+0.7
Akamai Technologies	Info Tech	-0.3
Acuity Brands	Industrials	-0.3
LKQ Corporation	Cons Disc	-0.1
EOG Resources	Energy	-0.1
Gilead Sciences	Health Care	-0.1

Top 10 Holdings

Security	% of Holdings
Alphabet	4.8
Apple	4.5
Facebook	4.3
Charles Schwab Corp.	4.1
Accenture Plc	4.0
Visa	4.0
Fiserv	3.9
Cerner Corp.	3.8
American Tower Corp.	3.8
Roche Holding Ltd	3.7
Percentage of total portfolio	**40.8**

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