



TORRAY LLC

Investment management since 1972

TorrRayResolute Concentrated Large Growth

Market Overview

The phrase, “Never judge a book by its cover” is an appropriate metaphor to use when describing the deceptively benign equity returns for the first quarter of 2018; the Russell 1000 Growth Index’s modest gain of 1.42% masks the severe volatility experienced by investors over the course of the period. Following the late December passage of the U.S. Tax Reform Act, enthusiastic investors drove the index up 7.08% in January, but subsequent concerns regarding inflation, rising interest rates, trade policy and the prospect of increasing regulation of the market-leading Information Technology sector knocked the index down 5.29% over the course of the following two months. From the January 26th high to the February 8th low, just ten trading days, the Russell 1000 Growth Index declined 9.95%, the first correction in two years. The surprising return of volatility raises the question, are we in a new phase of the market’s cycle or simply pausing in advance of higher levels?

Portfolio Commentary

The Large Growth Composite declined -1.87% (-1.95% net of fees) for the quarter versus the benchmark’s gain of 1.42%. The portfolio’s Industrials and Consumer Staples holdings were a source of relative strength, while Health Care and Materials were the primary source of relative weakness. Top contributors included Adobe Systems (ADBE), Fiserv (FISV), and Verisk Analytics (VRSK). Primary detractors included Albemarle (ALB), Enbridge (ENB), and Cerner (CERN).

During the quarter, we purchased shares of Microsoft (MSFT) and sold Colgate (CL) and Hanesbrands (HBI). Under the leadership of CEO Satya Nadella, Microsoft has reclaimed its status as a growth company. Transitioning to subscription-based delivery of its products and services, the company is capitalizing on its entrenched enterprise and consumer relationships, reigniting organic top line growth and margin expansion. In the context of recent market volatility, we purchased shares at what we believe to be a reasonable price. Colgate and Hanesbrands were sold due to the persistent deflationary impact of e-commerce and margin pressure brought on by the necessity of higher marketing expenses and cost inputs. While these issues are not unique to these two companies, the duration and magnitude of industry headwinds remain a source of uncertainty and challenge to earnings growth. Given these conditions, we believe capital is best deployed in other areas of the market. At quarter-end, the portfolio held 29 stocks, the top 10 comprised 39.7% of the portfolio’s value, and cash accounted for 2.7% of its value.

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Outlook

Over time, we believe earnings growth and interest rates are two of the most important factors driving equity markets. On this front, the backdrop remains positive; earnings growth is accelerating and interest rates have remained accommodative. Recent developments around trade, regulation and Federal Reserve policy largely explain the return of volatility. Only time will tell whether this marks a new phase of the market cycle. Given the strategy's focus on earnings quality, risk management and effective diversification, we believe the portfolio is well-positioned for both the short and long run.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

April 17, 2018

Top Contributors & Detractors

Security	Sector	% Contribution
Adobe Systems Inc.	Info Tech	+0.7
Fiserv, Inc.	Info Tech	+0.3
Verisk Analytics Inc.	Industrials	+0.2
Visa, Inc.	Info Tech	+0.2
BlackRock, Inc.	Financials	+0.2
Albemarle Corporation	Materials	-0.7
Enbridge Inc.	Energy	-0.5
Cerner Corporation	Health Care	-0.5
Lonza Group AG	Health Care	-0.5
BioMarin Pharmaceuticals	Health Care	-0.3

Top 10 Holdings

Security	% of Holdings
Charles Schwab Corporation	4.6
American Tower Corporation	4.2
Fiserv, Inc.	4.2
Visa Inc. Class A	4.2
Apple Inc.	4.1
Danaher Corporation	3.8
LKQ Corporation	3.8
Verisk Analytics Inc.	3.7
Adobe Systems Inc.	3.6
O'Reilly Automotive, Inc.	3.6
Percentage of total portfolio	39.7

Holdings are subject to change and are not recommendations to buy or sell a security. To obtain information about the calculation methodology used to select the largest contributors to and detractors from performance or to obtain a list showing every holding's contribution to performance during the measurement period, contact tawney@torray.com.

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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.

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