



TORRAY LLC

Investment management since 1972

## TorrRayResolute Concentrated Large Growth

### Market Overview

Equities delivered exceptional gains in the third quarter, steadily building on the late June Brexit recovery. Volatility returned in early September as investors continued to search for leadership beyond central bank stimulus and struggled to calculate risks associated with the unusual course of the U.S. presidential election. While these events contributed to a period of elevated uncertainty, economic conditions gradually improved, creating a positive backdrop for stocks, particularly in cyclical businesses.

### Portfolio Commentary

During the third quarter, the TorrRayResolute Concentrated Large Growth Composite gained 6.73% (6.64% net of fees), significantly outperforming the Russell 1000 Growth's gain of 4.58%. Security selection and allocation were positive, with the largest contributions made by selection in Healthcare and an underweight allocation to Consumer Staples, the worst performing sector for the period. Principal detractors included selection in Information Technology and Industrials. At the security level, top contributors included Medivation (MDVN), Apple (AAPL) and Alphabet (GOOGL); primary detractors included Fiserv (FISV), Stericycle (SRCL) and Roche (RHHBY). It was an active period for the portfolio with the addition of Cerner (CERN) and Albemarle (ALB), the sale of VF Corp (VFC) and Stericycle (SRCL), the acquisition of Medivation (MDVN) by Pfizer (PFE), and the sale of Danaher (DHR) spinoff Fortive (FTV).

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Few market segments are as innovative, complex and demanding from an investment perspective as the Healthcare sector. The size and relative growth of healthcare spending strains the economic resources of patients, providers and payers alike. Nowhere is this more true than in the U.S., where spending exceeds \$3 trillion annually, accounts for approximately 17% of GDP, and according to the Centers for Medicare & Medicaid Services (CMS), is expected to increase at an annual rate of 5.8% over the next decade, well above projected GDP growth. One means of addressing this challenge is through the use of technology to reduce costs and improve outcomes, particularly as reimbursement standards evolve from "fee-for-service" to "value-based" medicine. Recognizing the significance of this dynamic and the opportunity it presents, we purchased shares of Cerner (CERN), a leading supplier of healthcare information technology (HCIT) to 18,000 hospitals, health systems and physicians worldwide.

Transportation technology is another part of the economy undergoing significant change. Driven primarily by environmental concerns, electric vehicles have become one of the fastest growing segments in the automobile industry, increasing unit sales by approximately 40% annually. Attracted by this secular growth opportunity, we purchased shares of Albemarle (ALB), a diversified chemical manufacturer producing Bromine, Refining Solutions and Lithium, the primary component of lithium-ion batteries that power electric vehicles, consumer electronics and emerging energy storage solutions. Current global lithium production is approximately 185,000 metric tons per year and is expected to increase 8-10% a year. Albemarle

enjoys a leading market share of approximately 35-40% and expects to double production over the next 4-6 years. Albemarle's lithium is produced from the highest quality sources in the world, including the Atacama Desert in Chile, and the Talison mines in Australia. Albemarle enjoys an oligopolistic position in the lithium market and expects to capture roughly 50% of the growth in this market going forward.

## Outlook

Looking out to the fourth quarter and beyond, the primary challenge we see for gains in the equity markets is a bridging of the gap between central bank policies, fiscal policies and sustainable economic growth. In effect, earnings need to resume and sustain a positive trajectory in order to support current valuations. From this perspective, our expectations have improved over the past few months as economic building blocks such as employment, wage growth, commodity prices and housing demand have increased. It is, as it has been since the beginning of the year, an environment where fundamentals are becoming relevant again.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

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### Top Contributors & Detractors

Security	Sector	Contribution
Medivation	Health Care	+1.03
Apple	Info Tech	+0.8
Alphabet	Info Tech	+0.7
Charles Schwab	Financials	+0.7
BioMarin	Health Care	+0.5
Fiserv	Info Tech	-0.4
Stericycle	Health Care	-0.4
Roche	Health Care	-0.2
Akamai	Info Tech	-0.1
Gilead	Health Care	-0.1

### Top 10 Holdings

Security	% of Holdings
Alphabet	5.3
Apple	4.2
Facebook	4.1
Fiserv	4.0
Visa	3.9
Roche	3.8
American Tower	3.7
LKQ Corporation	3.7
Accenture	3.6
Colgate-Palmolive	3.6
<b>Percentage of total portfolio</b>	<b>39.8</b>

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

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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.**