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## TorraysResolute Small/Mid Cap 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

The Small/Mid Cap Growth Composite generated strong returns of 6.95% (6.73% net of fees) for the quarter, modestly outperforming the benchmark Russell 2500 Growth Index gains of 6.25%. On an absolute basis, these were the Composite's highest quarterly returns in two years. Broad-based positive stock selection largely explain the portfolio's performance for the period. Health Care was the benchmark's best performing sector for the quarter, Energy the weakest. At the security level, top portfolio contributors included Advisory Board (ABCO), Omnicell (OMCL) and IPG Photonics (IPG). Principal detractors included Synchronoss Technologies (SNCR), ICF International (ICFI) and Tractor Supply (TSCO).

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uncertainty, what then explains  
its resilience?

The first of two new investments was Criteo (CRTO), a \$3.3 billion technology-based performance marketing company benefiting from the secular shift to online advertising. Through the use of its proprietary technology, Criteo addresses a fundamental challenge of e-commerce; identifying and converting prospective customers by retargeting display ads. Criteo operates in something of a "virtuous cycle" collecting data from its clients to create user-specific, targeted display ads. Each new client contributes additional market data, making the service more effective. Advertisers are able to measure the efficacy of their campaigns in real time, make adjustments accordingly, and increase the return on their investment. Founded in 2005 and brought public in 2013, Paris-based Criteo has produced industry-leading revenue and earnings growth in excess of 50% over the past five years.

The second new investment was Enstar Group (ESGR), a \$3.7 billion specialty insurer focused on run-off lines of insurance, as well as direct underwriting of specialty property and casualty risks. Shares were purchased based on a strong history of profitable operations in a differentiated segment within financial services. Founded in 2001 and headquartered in Bermuda, Enstar's management team has a proven record of pricing, acquiring, and managing assets profitably. We expect increased profitability in the near term based on size and timing of recent acquisitions as well as increased contribution from the legacy portfolio due to rising interest rates. Enstar represents a differentiated approach to the insurance business, a proven track record of risk-adjusted performance with consistent book value growth, and positive exposure to rising rates.

Shares of consumer power sports manufacturer Polaris Industries (PII) were sold following repeated product recalls that resulted in market share losses and a consequential deterioration of the company's growth and earnings outlook. Our

investment discipline requires companies demonstrate and maintain stable operating returns. Polaris failed to meet this test despite an exceptional record of success in the past. Synchronoss Technologies (SNCR), a software and cloud-based mobile service provider, was also sold during the period following a complicated series of corporate actions and management changes. Given the fact that the business was fundamentally changed and management untested, we stepped to the sidelines.

## 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 C. Haffenreffer

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### Top Contributors & Detractors

Security	Sector	% Contribution
Advisory Board	Industrials	+1.0
Omniceil, Inc.	Health Care	+0.8
IPG Photonics	Info Tech	+0.7
Qualys, Inc.	Info Tech	+0.6
SBA Communications	Real Estate	+0.6
Synchronoss Technologies	Info Tech	-1.1
ICF International	Industrials	-0.6
Tractor Supply	Cons Disc	-0.2
LKQ Corporation	Cons Disc	-0.2
O'Reilly Automotive	Cons Disc	-0.1

### Top 10 Holdings

Security	% of Holdings
Hexcel Corporation	4.6
Copart, Inc.	4.5
Omniceil, Inc.	4.5
Affiliated Managers Group, Inc.	4.1
SBA Communications Corp.	4.1
Mettler-Toledo Int'l Inc.	4.0
Jock Henry & Assoc., Inc.	4.0
Cooper Companies, Inc.	4.0
LKQ Corporation	3.8
Qualys, Inc.	3.7
<b>Percentage of total portfolio</b>	<b>41.2</b>

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

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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.**