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TorraysResolute Concentrated Large Growth

Market Overview

The fourth quarter ended on a high note, adding to what was already a rewarding year for equity investors. The combination of synchronized global growth, strengthening corporate profits, modest inflation, low interest rates and the passage of tax reform in the U.S. lifted stocks to record highs. Eight years into the market's recovery, one has to give investors credit for remaining focused on economic fundamentals, largely ignoring divisive domestic politics and ever-present geopolitical risks. While skepticism is a natural, and perhaps defensible, response to the duration and magnitude of this bull market, it is increasingly hard to argue with the economic foundation on which it has been built. What became clear over the course of the year is that the economy has the potential to catch up to, and sustain the market's impressive advance.

Portfolio Commentary

The Large Growth Composite generated strong returns for the quarter and year, but trailed its benchmark for both periods as the strategy experienced style headwinds associated with the benchmark's narrow, momentum-based leadership. For the fourth quarter, the Composite gained 4.89% (4.80% net of fees) versus the Russell 1000 Growth Index's return of 7.86%. The primary source of underperformance for the period was the Composite's Health Care investments; the portfolio was overweight the sector, which performed poorly on a relative basis. In contrast, the Composite's performance benefitted from positive stock selection and an overweight position in Financials, a sector enjoying an increasingly benign regulatory environment and strong capital markets. At the security level, top contributors for the quarter included Charles Schwab (SCHW), Adobe Systems (ADBE), and NIKE (NKE). Primary detractors included Incyte (INCY), Hanesbrands (HBI), and Check Point Software Technologies (CHKP). There were no new positions established or existing positions eliminated during the quarter.

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For the calendar year 2017, the Composite gained 25.34% (24.90% net of fees) compared to the benchmark's return of 30.21%. The Composite's underperformance is largely explained by two factors; an overweight allocation to Energy and negative security selection within the dominant Information Technology sector. While the Composite's average allocation to the Energy sector was just 5.4% for the year, with a return of 2.1%, the sector represented less than 1% of the benchmark and was the only sector to generate a negative return (-6.7%) for the period. Given the Tech sector's phenomenal 41.5% return, there was little-to-no room for error with respect to allocation or selection. Here, the Composite was just 1.4% underweight (33.9% vs. 35.3%), but the portfolio's sector returns of 34.8% did not match the benchmark's 41.5%. At the security level, top contributors included Facebook (FB), Apple (AAPL), and Adobe (ADBE).

Primary detractors included Akamai Technologies (AKAM), Acuity Brands (AYI), and Gilead Sciences (GILD). These detractors were sold over the course of the year.

Outlook

Looking to 2018, we acknowledge valuations are generally extended, but note the economy's developing strength and subdued interest rates are supportive of continued market stability. Key areas of focus include interest rates, wage growth, corporate spending, particularly following the passage of tax reform, and regulatory risks impacting the Information Technology sector. We are encouraged by the recent breadth the market has demonstrated. While we don't believe economic or market cycles have been repealed, it's difficult to single out a primary or likely source of vulnerability. From this perspective, we continue to view the backdrop for equities as positive.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

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Top Contributors and Detractors

Fourth Quarter

Security	Sector	% Contribution
Charles Schwab	Financials	+0.7
Adobe Systems	Info Tech	+0.6
NIKE	Cons Disc	+0.5
Sherwin-Williams	Materials	+0.5
BlackRock	Financials	+0.5
Incyte	Health Care	-0.5
Hanesbrands	Cons Disc	-0.3
Check Point	Info Tech	-0.3
Cooper	Health Care	-0.3
Cerner	Health Care	-0.2

2017

Security	Sector	% Contribution
Facebook	Info Tech	+2.0
Apple	Info Tech	+2.0
Adobe Systems	Info Tech	+1.9
Visa	Info Tech	+1.8
Alphabet	Info Tech	+1.6
Akamai Tech	Info Tech	-0.7
Acuity Brands	Industrials	-0.3
Gilead	Health Care	-0.2
Check Point	Info Tech	-0.1
Enbridge	Energy	-0.1

Top 10 Holdings

Security	% of Holdings
Alphabet	5.3
Charles Schwab	4.6
Visa	4.1
Apple	4.0
American Tower	4.0
Facebook	4.0
Fiserv	4.0
BioMarin	3.7
Cerner	3.7
Lonza Group	3.5
Percentage of total portfolio	40.7

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.