TORRAY LLC

Investment management since 1972

TorrayResolute Concentrated Large Growth

Market Overview

It would be an understatement to say that markets confounded most investors in the first half of the year. What worked for equity investors last year, namely momentum and growth, is out of favor. Investors have rotated into value, chased yield and the perceived security of Consumer Staples, Telecom and Utilities. Risk premiums are on the rise, driving U.S. Treasury yields to historic lows and 35%-40% of sovereign debt (Ex-U.S.) to negative yields. What has not changed is the persistent concern regarding global growth and the associated vulnerability of markets to unanticipated shocks such as the U.K.'s decision to leave the EU. Whether "Brexit" is a false alarm or a watershed moment remains to be seen.

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Portfolio Commentary

During the second quarter, the TorrayResolute Concentrated Large Growth Composite gained a modest 0.64% (0.57% net of fees), performing in line with the benchmark Russell 1000 Growth Index's gain of 0.61%. Year to date, the Composite increased 2.56% (2.40% net of fees), outperforming the benchmark's gain of 1.35%. An overweight allocation to the recovering Energy sector and positive stock selection in the Health Care sector made the largest contributions to returns during the quarter. Primary detractors for the period included selection in the Consumer Discretionary and Industrial sectors. At the security level, top contributors included Medivation (MDVN), American Tower (AMT) and EOG Resources (EOG). Primary detractors included Apple (AAPL), Stericycle (SRCL) and Alphabet (GOOGL). Given the tremendous volatility experienced in the first half of the year, and an average decline of 1.94% for the Composite's Morningstar category (Large Growth), we are pleased with the Composite's absolute and relative progress.

We purchased shares of Hanesbrands (HBI) during the quarter. With $5.7 billion in revenue, HBI is the world's largest basic apparel manufacturer with leading market share and a strong portfolio of brands, including Hanes, Champion, Maidenform and others. While the Consumer Discretionary sector has been challenging for investors of late, underperforming the broad market over the past quarter and year, HBI's business demonstrates many attractive, durable characteristics. Among these, scale and supply chain integration support margin stability through various scenarios. Eighty percent of the 2 billion units produced by the company on an annual basis are manufactured in 50 company-owned facilities around the world. Despite the fact that revenue growth has averaged just 6% over the past five years, operating income has increased 16% and earnings per share 25%. As a leading manufacturer of modestly-priced, replenishment products that demonstrate a high degree of brand loyalty and stable consumption patterns, we view HBI as a Consumer Discretionary company with the financial characteristics of a Consumer Staples company, minus the high valuation.

Shares of Express Scripts (ESRX) were sold on concerns that competition within the pharmacy benefit management (PBM) industry is increasing. This is being driven by the consolidation of the industry's largest clients and the evolution of new, integrated PBM models that exert increasing pricing pressure. As these dynamics play out over the next several years, we are concerned that ESRX is over-earning and its profits are at risk.

Outlook

While the U.S. economy remains stable, albeit unimpressive, market volatility is elevated. The economic consequences of the U.K.'s vote to leave the EU are unclear at this point, but a likely source of uncertainty for the balance of the year and beyond. Accounting for just 3.9% of global GDP, the U.K. poses little immediate economic risk. However, the broader EU's contribution to global GDP is roughly equivalent in size to that of the U.S. The share of S&P 500 revenues generated in the U.K. is small, approximately 3%, but exposure to the Continent as a whole, approximately 12%, is higher. The risks are isolated and manageable at the moment, but not to be ignored if additional referendums and dislocations follow.

During periods of high volatility and market pullbacks, we remind ourselves and our investors of what has worked in the past and is likely to do so in the future; to be patient, disciplined, and assume a long-term perspective while remaining opportunistic. Achieving this balance is at the core of our process and key to investment success.

As ever, we appreciate your interest and trust.

Nicholas C. Haffenreffer
July 18, 2016

Top Contributors & Detractors

Security	Sector	Contribution
Medivation	Health Care	+0.86
American Tower	Financials	+0.43
Cooper	Health Care	+0.35
EOG Resources	Energy	+0.34
Danaher	Industrials	+0.30
Apple	Info Tech	-0.59
Stericycle	Health Care	-0.56
Alphabet	Info Tech	-0.37
Nike	Cons Disc	-0.30
Charles Schwab	Financials	-0.27

Top 10 Holdings

Security	% of Holdings
Alphabet	4.8
Danaher	4.6
Fiserv	4.5
Roche	4.1
Apple	4.0
American Tower	3.9
Facebook	3.8
Visa	3.8
Colgate-Palmolive	3.6
Accenture	3.4
Percentage of total portfolio	**40.4**

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