



TORRAY LLC

Investment management since 1972

## TorraysResolute Small/Mid Cap 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 Small/Mid Cap Composite generated strong returns for the quarter and year, keeping pace with its benchmark for both periods. For the fourth quarter, the Composite gained 6.34% (6.14% net of fees) versus the Russell 2500 Growth Index's return of 6.35%. Positive stock selection in two of the leading sectors, Industrials and Consumer Discretionary, made the most significant contribution during the quarter. This was somewhat offset by poor selection in the Health Care sector. At the security level, top contributors for the period included Copart (CPRT), Dycom (DY), and Dunkin' Brands (DNKN). Primary detractors included Criteo (CRTO), Genmab (GMXAY), and Cambrex (CBM). Portfolio activity for the period included the purchase of AMN Healthcare Services (AMN) and sale of Cambrex. The U.S. temporary healthcare staffing market has grown at a compound annual rate of 10%-15% over the last 5 years. Generating \$2 billion in revenues and placing approximately 10,000 temporary and permanent healthcare professionals on an annual basis, AMN Healthcare Services is the largest U.S. staffing company serving the healthcare industry's \$16 billion addressable market. Supply and demand fundamentals are expected to remain strong as the demographics of an aging population increase utilization, and a shortage of clinicians and physicians supports stable pricing. Given this constructive backdrop and AMN's industry leadership, we initiated a position in the company. Cambrex, a manufacturer of pharmaceutical ingredients, was sold based on declining sales of a key compound and the uncertainty posed by material customer concentration.

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For the calendar year 2017, the Composite gained 24.55% (23.69% net of fees) compared to the benchmark's return of 24.46%. Good security selection helped the portfolio keep up with strong market returns. Selection in Energy and Real Estate made the largest contribution to the portfolio's returns, while an overweight allocation to Energy and an average cash position of 4% caused the largest negative impact. At the security level, top contributors included IPG

Photonics (IPGP), Qualys (QLYS), and SBA Communications (SBAC). Primary detractors included Criteo (CRTO), Synchronoss Technologies (SNCR), and Tractor Supply (TSCO).

## 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
Copart	Industrials	+1.1
Dycom Industries	Industrials	+1.1
Dunkin' Brands	Cons Disc	+0.7
Pool Corporation	Cons Disc	+0.6
ANSYS	Info Tech	+0.6
Criteo	Info Tech	-1.0
Genmab	Health Care	-0.8
Cambrex	Health Care	-0.5
Enstar Group	Financials	-0.3
Cooper Co.	Health Care	-0.3

### 2017

Security	Sector	% Contribution
IPG Photonics	Info Tech	+3.1
Qualys	Info Tech	+2.6
SBA Comm.	Real Estate	+2.2
Copart	Industrials	+2.2
Mettler-Toledo	Health Care	+1.9
Criteo	Info Tech	-1.8
Synchronoss	Info Tech	-1.2
Tractor Supply	Cons Disc	-0.9
Manhattan Assc.	Info Tech	-0.6
Cambrex	Health Care	-0.5

### Top 10 Holdings

Security	% of Holdings
Copart	5.4
Dycom Industries	4.5
Affiliated Managers Grp	4.5
Jack Henry & Assoc.	4.4
LKQ Corp.	4.4
Hexel Corp.	4.3
Omicell	4.3
BioMarin	4.2
SBA Comm.	4.2
Qualys	4.1
<b>Percentage of total portfolio</b>	<b>44.4</b>

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](mailto:tawney@torray.com).

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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.**