



TORRAY LLC

Investment management since 1972

TorrRayResolute Small/Mid Cap Growth

Market Overview

The third quarter delivered another fantastic period for equity investors. A compelling combination of economic progress in the U.S. and around the world, modest inflation and low interest rates lifted markets to record highs. In spite of acts of terrorism in Europe, threats of nuclear attacks from North Korea, gridlock in Washington, and a series of devastating hurricanes that struck the U.S. and several Caribbean nations, markets remained firmly rooted in positive fundamentals. Eight years into the market's impressive recovery, there were few signs of it wavering.

Portfolio Commentary

For the third quarter, the Small/Mid Cap Growth Composite gained 5.87% (5.70% net of fees) versus the Russell 2500 Growth Index's return of 5.78%. Year-to-date, the Composite gained 17.12% (16.53% net of fees) compared to the benchmark's return of 17.03%. Sectors were broadly positive for the period, reflecting investor's positive economic outlook and expectation that the Federal Reserve will continue to proceed cautiously down the path of rate normalization. Top portfolio contributors included Qualys (QLYS), IPG Photonics (IPGP) and Omnicell (OMCL). The largest detractors included PRA Group (PRAA), Criteo (CRTO) and Manhattan Associates (MANH). It was an active period for the portfolio, with three purchases and two sales. Purchases included Pool Corp (POOL), Cambrex (CBM) and PRA Group (PRAA). Sales included Manhattan Associates (MANH) and The Advisory Board Company (ABCO).

It would, however, be a mistake to confuse our optimism with complacency.

Purchases

Pool Corp (POOL) holds the dominant position in the \$8.5 billion U.S. pool supplies distribution industry, with \$2.7 billion in revenues and 345 sales centers. The attractive combination of a fragmented market, effective management and structural barriers to entry are reflected in the company's exceptional financial results; over the past five years, revenues have increased at a compound annual rate of 8%, earnings and free cash flow at 19%. Shares have recently come under pressure due to concerns regarding the competitive threat posed by the e-commerce channel. Given the fact that the industry's online sales have remained stable at approximately 5% and e-commerce giant Amazon (AMZN) has been in the pool supply business for the past ten years, we believe this threat will continue to be manageable and expect the company will continue to generate attractive returns.

Cambrex (CBM) is a manufacturer of active pharmaceutical ingredients (API), producing over 100 branded, generic and controlled substance drugs for a diversified client base. Demand for outsourced API is strong and forecasted to continue to remain so; we estimate this market is growing annually in the high single digit rate with low year-to-year variability. This is driven by several durable factors: desire for cost containment, more potent and complex molecules

that require increased manufacturing skills, and the overall growth in drug innovation. In this context, Cambrex is well-positioned with high quality manufacturing capacity and established regulatory relations.

PRA Group (PRAA) acquires and collects portfolios of delinquent credit card receivables. Managed by its two co-founders, the company uses its proprietary data analytics built over the last 21 years to successfully realize collections. The stock has been under pressure the past two years as the Consumer Financial Protection Bureau (CFPB) increasingly regulated the industry and levied penalties, causing the supply of delinquent portfolios to dry up and PRA's growth to stall. Ironically, PRA's competitive position was strengthened over this period as the regulatory environment transformed a fragmented industry into a rational duopoly with Encore Capital (ECPG). Going forward, we believe a rise in credit delinquencies and a more benign regulatory environment will allow PRA to resume rates of growth consistent with its past.

Sales

Manhattan Associates (MANH) was sold due to the deterioration of business fundamentals. Despite the impressive growth of this supply chain solutions provider over the prior five years, the company's growth and profitability has stalled as some of its major end markets, especially U.S. retailers, have experienced substantial disintermediation from online alternatives such as Amazon (AMZN). Given the scale and nature of this competitive threat, we decided to exit the investment.

The **Advisory Board Company (ABCO)** announced on August 29th it had agreed to be acquired by UnitedHealth Group (UNH) and Vista Equity Partners. The position was sold immediately following this announcement due to the complexity and risks associated with the proposed transaction.

Outlook

As we enter the fourth quarter, the backdrop remains positive. We are encouraged by the recent breadth the market has demonstrated across sectors, geographies, investment styles and capitalization ranges; there is more to this bull market than large cap tech. While we don't believe economic or market cycles are a thing of the past, it's difficult to single out a primary or likely source of vulnerability. It would, however, be a mistake to confuse our optimism with complacency. Risk management is at the core of our process. The primary risks we are focused on include valuation, trade policies and protectionism, the lack of wage inflation, the potential of a strengthening dollar, and increased correlation among market leaders. With this framework in mind, we continue to monitor markets in the normal course of our investment process and look for opportunities as they present themselves.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

October 16, 2017

Top Contributors & Detractors

Security	Sector	% Contribution
Qualys, Inc.	Info Tech	+1.0
IPG Photonics	Info Tech	+0.9
Omniceil	Health Care	+0.8
Halozyme	Health Care	+0.8
Affiliated Managers Group	Financials	+0.6
PRA Group	Financials	-0.7
Criteo SA	Info Tech	-0.5
Manhattan Associates	Info Tech	-0.2
Church & Dwight	Cons Stpls	-0.2
Dycom Industries	Industrials	-0.1

Top 10 Holdings

Security	% of Holdings
Hexcel Corporation	5.0
Copart, Inc.	4.8
Omniceil, Inc.	4.7
Affiliated Managers Group	4.6
Jack Henry & Associates	4.3
LKQ Corporation	4.3
SBA Communications	4.1
Cooper	4.0
Qualys, Inc.	3.9
Dycom Industries, Inc.	3.9
Percentage of total portfolio	43.6

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.

Disclosures: This commentary is for informational purposes only and should not be viewed as a recommendation to buy or sell any security. There is no guarantee that the views expressed will come to pass. Torray LLC is an independent registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Torray LLC claims compliance with the Global Investment Performance Standards (GIPS®). To receive a list of composite descriptions of Torray LLC and/or a GIPS® compliant presentation, please contact Hugh Tawney or Breck Scalise at 855.753.8174 or email tawney@torray.com. For additional information about Torray LLC, including fees and services, please contact us or refer to the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov).

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.