



TORREY LLC

Investment management since 1972

TorrreyResolute Concentrated Large Growth

Market Overview

A strong fourth quarter rally brought broad market indices back into positive territory, masking a year that was characterized by narrow participation and volatility. The sharp sell-off that ushered in 2016 reflects increased uncertainty regarding global growth, persistent geopolitical risks and the impact of diverging monetary policies. The post-crisis complacency that many investors have become accustomed to appears to be behind us.

The U.S. equity market was dominated by two factors in 2015: the transition to lower commodity prices, principally the 30% decline in oil, and the effects of a stronger dollar, which rose 8% on a trade-weighted basis. S&P 500 earnings for the Energy sector are expected to finish the year down 60%-70%, detracting approximately five percentage points of growth from the index. With approximately 48% of the S&P 500's revenues being generated overseas, the strong dollar hurt U.S. exporters and manufacturers. While these factors caused earnings to stall, domestic consumer spending rose at a steady pace as confidence increased, job growth and real wages were strong, and inflation remained contained. Given an environment that is, on balance, positive, the Federal Reserve raised interest rates for the first time in a decade.

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Portfolio Commentary

During the fourth quarter, the TorrreyResolute Concentrated Large Growth Composite gained 3.1% (3.0% net of fees), trailing the benchmark Russell 1000 Growth Index, which gained an impressive 7.3% for the period. For the year, the Composite declined 0.9% (-1.2% net of fees) versus the benchmark's gain of 5.7%. While the annual loss, the first in seven years, was modest, it was unsatisfactory on a relative basis. The primary cause of the portfolio's underperformance for the year was its exposure to the Energy sector, which experienced sharp declines consistent with the underlying collapse of commodity prices. Partially offsetting losses in the Energy sector was strong performance from portfolio holdings such as Alphabet, formally known as Google (GOOGL), and Nike (NKE).

In light of the persistent supply-demand imbalances in the Energy sector, we sold our position in Cabot Oil & Gas (COG). Although Cabot's assets are among the most productive and lowest cost of the U.S. shale plays, we expect the macro environment to remain challenging for the foreseeable future. Our recent investment in Whole Foods Market (WFM) was also sold during the quarter. Upon the release of financial results in November, management guided to lower organic growth, slower store expansion plans, and significant debt issuance. The guidance differed significantly from prior plans and was no longer supportive of our initial thesis in which we expected the company to self-fund an attractive rate of growth.

With its exceptional secular growth and expanding market opportunities, we purchased shares of Facebook (FB) during the quarter. Reaching more than one billion daily users and with dominant market share, twice the size of its closest competitor, Facebook has created a network and scale that are difficult to replicate. The depth of user data that Facebook now possesses is increasingly valuable to advertisers. Despite returning 34% in 2015, Facebook's valuation has actually declined over the past year as the company has effectively leveraged operating expenses while maintaining growth. In making this investment we focused on several important milestones: one billion (daily average) users, a demonstrated ability to grow and monetize the mobile platform, and identifying new avenues of growth.

Outlook

Macroeconomic conditions and headlines continue to drive investor sentiment and market direction, overwhelming company-specific fundamentals. Primary risks include the slowdown in China, the continued rise of the U.S. dollar, additional commodity weakness and divergent monetary policies. With this as a backdrop, positive returns have narrowed to a handful of large companies generally characterized as being momentum-driven and sharing extremely high valuations. This investment environment has proven to be challenging due to the prevalence of herd mentality and complacency. There are two sides to complacency, one which ignores risk and one which ignores opportunity. We endeavor to avoid both. The narrow leadership of the past year and rapid decline in early 2016 have created opportunities for the patient, disciplined investor. In this period of low economic growth and high asset volatility, we remain focused on quality businesses, reasonable valuations and our discipline and patience to hold such investments through turbulent markets. As we have experienced in the past, uncertainty and volatility create opportunity.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

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A fully compliant GIPS® disclosure presentation is available upon request.

Torray LLC is an independent registered investment adviser. To receive a list of composite descriptions of Torray LLC and/or a compliant presentation, please contact Hugh Tawney at 855.753.8174 or email Tawney@Torray.com.

Torray LLC claims compliance with the Global Investment Performance Standards (GIPS®).