TORRAY LLC
Investment management since 1972

TorrayResolute Concentrated Large Growth

Market Overview

U.S. equity markets posted strong gains in the second quarter as continued economic momentum overshadowed uncertainty regarding trade, monetary policy and other matters. In spite of these concerns, the economic backdrop remains positive; corporate earnings are increasing at an attractive rate and interest rates remain accommodative. What will define the economy and the market's performance in the next few years will be the nature of the handoff between monetary policy and the stimulative effects of fiscal policy, which include tax cuts, deregulation and capital investment. Given the strategy's focus on earnings quality and risk management, we believe the portfolio is well-positioned for this transition.

Portfolio Commentary

The Large Growth Composite gained 5.19% (5.09% net of fees) for the quarter versus the benchmark Russell 1000 Growth Index's advance of 5.76%. Energy and Information Technology were the portfolio's best performing sectors, reflecting a sharp rise in oil prices and robust demand for technology-based goods and services. Financials underperformed as interest rates remained largely unchanged and the yield curve flattened. At the security level, top contributors included Facebook (FB), BioMarin (BMRN), and Nike (NKE). Primary detractors included LKQ (LKQ), Incyte (INCY), and BlackRock (BLK).

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Purchases and sales during the quarter were limited to the Health Care sector. In May, we purchased Centene Corporation (CNC). Founded in 1984, Centene is the largest provider of managed Medicaid in the U.S., insuring 12.8 million individuals in 31 states. The rising costs associated with the expansion of government-sponsored health care has increasingly led to outsourcing to private sector companies like Centene that have built the necessary resources to effectively compete for and deliver these services. Centene's core business is contracting with states to manage the care of Medicaid recipients, individuals with low incomes who qualify for subsidized health care. Medicaid covers approximately 72 million lives with annual expenses in excess of $600 billion. With just half of total Medicaid spending covered by managed care organizations today, the addressable market opportunity is significant. Key competitive advantages demonstrated by Centene include scale, execution and incumbency. Recently, Centene completed the $3.8 billion acquisition of Fidelis Care, adding the country's second largest managed care state, New York, to its portfolio. With this acquisition, Centene has established a major footprint in the four largest states by enrollment - California, Florida, Texas and now, New York. While the expansion of government-sponsored health care is a political point of contention, we believe Centene is well-positioned to expand its market share as these services transition to the private sector.

Our investment in Incyte Corporation (INCY), a biopharmaceutical company with annual sales of approximately $1.5 billion, was eliminated during the quarter. Initially purchased in March of 2016, our thesis was based on two primary factors: first, the steady growth delivered by Jakafi, an approved therapy for myelofibrosis, a rare blood cancer, and second, the blockbuster potential of a novel cancer treatment for metastatic melanoma. Given the stable revenues generated by Jakafi, we viewed the risks associated with the potential failure of the melanoma treatment as acceptable. When clinical trials for the melanoma treatment failed in April, the position was sold.

Outlook

We recognize it is an uncertain time for investors with many mixed signals in the market. On the positive side, profits and earnings are robust, consumer confidence is high, inflation remains contained in spite of a strong labor market, and interest rates have remained stable. On the negative side, market leadership is incredibly narrow, valuations are high, trade policy is unclear and the yield curve is flat; the 2-10 spread is at an 11-year low, which if inverted, has historically been a reliable indicator of a looming recession. All in, the data paints a relatively balanced picture. We assume Trump, China and the Fed do not have an interest in slowing the economy. Until trade or rate hikes cause a sustained disruption, we believe investors should stay the course in a disciplined manner. Our investment decisions will continue to be driven by long-term, company-specific fundamentals. As we review each holding and the structure of the portfolio, we remain positive with the view that narrow, volatile markets like the one we have today, present disciplined investors with compelling investment opportunities.

As ever, we appreciate your interest and trust.

Nicholas Haffenreffer

Nicholas C. Haffenreffer
July 13, 2018

Top Contributors & Detractors

Security	Sector	% Contribution
Facebook, Inc. Class A	Info Tech	+0.7
BioMarin Pharmaceutical Inc.	Health Care	+0.5
NIKE, Inc. Class B	Cons Disc	+0.5
Lonza Group AG Unspons. ADR	Health Care	+0.5
EOG Resources, Inc.	Energy	+0.5
LKQ Corporation	Cons Disc	-0.6
Incyte Corporation	Health Care	-0.4
BlackRock, Inc.	Financials	-0.2
Roche Holding Ltd Spons. ADR	Health Care	-0.1
Check Point Software Tech	Info Tech	-0.0

Top 10 Holdings

Security	% of Holdings
Apple Inc.	4.2
Visa Inc. Class A	4.2
Cooper Companies, Inc.	4.2
Fiserv, Inc.	4.1
Charles Schwab Corporation	4.1
O'Reilly Automotive, Inc.	4.0
American Tower Corporation	4.0
BioMarin Pharmaceutical Inc.	3.9
Verisk Analytics Inc	3.8
Adobe Systems Incorporated	3.7
Percentage of total portfolio	40.3

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.