



TORRAY LLC

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TorraysResolute Small/Mid Cap Growth

Market Overview

As the fourth quarter's sharp correction demonstrated, it's hard for stocks to go up when economic growth is moderating, liquidity is contracting and geopolitical uncertainty is high. It's tempting to assign proximate cause to a single source of the market's decline, but in this case, it was more the aggregate force and persistence of these headwinds that caused investors to reprice risk and sell stocks. While late cycle forecasts and associated caution are the consensus view, there are few signs of a looming recession. As we begin the New Year, the disconnect between sound economic fundamentals and negative investor sentiment remain a primary source of uncertainty.

Portfolio Commentary

During the fourth quarter, the Composite fared much better than its benchmark, but was not immune to the market's weakness; the portfolio declined 14.66% (14.81% net of fees) for the period compared to the Russell 2500 Growth Index's decline of 20.08%. Security selection was the main source of outperformance and allocation was also positive. On an absolute basis, Consumer Staples was the portfolio's best performing sector, Energy the worst. At the security level, top contributors included Church & Dwight (CHD), Genmab (GMXAY), and AMN Healthcare Services (AMN). Primary detractors were Core Laboratories (CLB), Dycom Industries (DY), and Aspen Technology (AZPN). For the full year, the Composite declined 7.15% (7.79% net of fees) compared to the benchmark's decline of 7.46%.

As we begin the New Year, the disconnect between sound economic fundamentals and the market's decline remain a source of uncertainty.

Looking to capitalize on market volatility and manage risk, we sold two holdings and purchased one new position during the quarter. Oil services company Core Laboratories (CLB) was sold primarily due to its economic sensitivity and leverage to the energy industry's capital investment cycle. Additionally, asset manager Affiliated Managers Group (AMG) was sold due to persistent margin pressure and capital market sensitivity. We purchased shares of Monolithic Power Systems (MPWR), a semiconductor manufacturer headquartered in San Jose, CA, with annual sales of approximately \$600 million. Benefitting from a diverse customer base and strong secular demand for the company's power saving solutions, MPWR has produced an impressive record of consistent growth over the past decade, increasing revenues and earnings at a compound average rate of 14% and 19%, respectively. We believe recent industry pressure and market volatility created an attractive opportunity to purchase shares at a reasonable price.

At the close of the quarter, the portfolio held 27 positions, the top ten constituting 46% of the portfolio with a cash position of 4%. Health Care and Information Technology were the two largest sector weights at 27% and 23%, respectively. Relative to the benchmark, the largest sector overweights were Health Care and Industrials, the largest underweights were Materials and Consumer Discretionary.

Outlook

We expect the current transition from a liquidity-driven market to a fundamentally-driven market will continue to be a source of volatility as investors adapt to evolving risk and pricing paradigms. We also believe our focus on stable growth businesses, effective diversification and valuation discipline will continue to position the portfolio appropriately for this environment where risk management is an increasingly important part of generating satisfactory returns.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

January 22, 2019

Top Contributors & Detractors

Security	Sector	% Weight	% Contribution
Church & Dwight Co., Inc.	Cons Stpls	3.1	+0.3
Genmab A/S Spons. ADR	Health Care	3.1	+0.2
AMN Healthcare Services, Inc.	Health Care	3.4	+0.1
Monolithic Power Systems, Inc.	Info Tech	1.4	0.0
SBA Communications Corp. Cl-A	Real Estate	3.2	0.0
Core Laboratories NV	Energy	2.4	-1.5
Dycom Industries, Inc.	Industrials	3.2	-1.3
Aspen Technology, Inc.	Info Tech	3.8	-1.2
PRA Group Inc	Financials	2.6	-0.9
Jack Henry & Associates, Inc.	Info Tech	4.0	-0.9

Top 10 Holdings

Security	% of Holdings
Hexcel Corporation	5.7
Cooper Companies, Inc.	5.2
Aspen Technology, Inc.	4.7
Qualys, Inc.	4.6
Webster Financial Corp.	4.5
BioMarin Pharmaceutical Inc.	4.5
Pool Corporation	4.3
Copart, Inc.	4.1
Omniceil, Inc.	4.0
Jack Henry & Associates, Inc.	4.0
Percentage of total portfolio	45.6

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.

Source: Factset and Torray LLC.