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## Torrays Resolute Small/Mid Cap Growth

### Market Overview

First quarter equity returns were among the best in a decade, delivering a welcome recovery from the prior quarter's sharp correction. A key source of the market's rebound was an unusual policy reversal from the Federal Reserve in which the Board indicated it would return to a data dependent stance rather than continue to raise rates in a programmatic manner. While economic growth remained moderate and geopolitical uncertainty high, investors celebrated the policy reversal, recovering most of the prior quarter's losses. Late cycle forecasts and caution remain the consensus view, but there are few signs a recession is imminent.

### Portfolio Commentary

During the first quarter the Small/Mid Growth Composite posted strong returns, but underperformed its benchmark, returning 13.23% (13.08% net of fees) compared to the Russell 2500 Growth Index's increase of 18.99%. Real Estate and Information Technology were the portfolio's best performing sectors; Financials and Industrials were the laggards. Relative to the benchmark, the portfolio's selections in the Consumer Discretionary and Real Estate sectors made the largest contributions to returns, while selection in the Health Care and Industrials sectors were the primary detractors. At the security level, top contributors included Aspen Technology (AZPN), Omnicell (OMCL), and Hexcel (HXL). Primary detractors were Healthcare Services Group (HCSG), AMN Healthcare Services (AMN) and Dycom (DY).

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During the quarter we purchased shares of Catalent (CTLT) and CyberArk Software (CYBR), and sold LKQ Corporation (LKQ). Catalent is a \$5 billion Contract Manufacturing Organization (CMO) specializing in the production of drugs on behalf of pharmaceutical and biopharmaceutical clients. The company benefits from the growing demand for complex biological medicines, while avoiding most of the binary outcomes that plague drug developers. With \$2.5 billion in sales and an extensive manufacturing footprint across five continents, Catalent enjoys a broadly diversified client base. Following share price weakness resulting from a temporary supply shortage, we initiated a position at what we considered to be an attractive price.

CyberArk Software is an \$4.5 billion Israel-based cybersecurity company specializing in Privileged Account Management (PAM) security, an area that focuses on protecting a network's most important users. Beginning in 1999, CYBR and its CEO Founder were pioneers of the PAM market and remain an important source of industry innovation. Having acquired more than 50% of the Fortune 100 as customers, revenue and profits have increased at an impressive rate of over 30% annually. New pricing models and positive business mix should improve the stability of the company's profits over time. While valuations in the industry are at a premium, we believe strong secular demand can support current levels. Finally, LKQ Corporation, a leading supplier of replacement and aftermarket auto parts, was sold based

on operational challenges overseas and diminishing economic returns associated with domestic consolidation opportunities.

At the close of the quarter, the portfolio held 28 positions, the top 10 constituting 44% of the portfolio with a cash position of 2.4%. Health Care and Information Technology were the two largest sector weights at 27% and 27%, respectively. Compared to the benchmark, the largest sector overweights were Health Care and Industrials; the largest underweights were Consumer Discretionary and Materials.

## Outlook

The Federal Reserve's first quarter policy reversal represented something of a pause in the market's transition from a liquidity-driven market to a fundamentally-driven market. We continue to believe this inevitable transition will be associated with elevated volatility as full valuations, moderate economic growth, and geopolitical uncertainty provide a low margin of safety. Given this backdrop, we believe the portfolio's focus on stable, secular growth businesses, effective diversification and valuation discipline position it well for such an environment where risk management is key to absolute and relative returns.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

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## Top Contributors & Detractors

Security	Sector	% Weight	% Contribution
Aspen Technology, Inc.	Info Tech	4.9	+1.2
Omniceil, Inc.	Health Care	4.1	+1.2
Hexcel Corporation	Industrials	5.9	+1.2
Copart, Inc.	Industrials	4.1	+1.0
ANSYS, Inc.	Info Tech	3.5	+0.9
Healthcare Services Group, Inc.	Industrials	3.3	-0.5
AMN Healthcare Services, Inc.	Health Care	3.3	-0.5
Dycom Industries, Inc.	Industrials	2.5	-0.3
CyberArk Software Ltd.	Info Tech	0.0	+0.1
Enstar Group Limited	Financials	2.7	+0.1

## Top 10 Holdings

Security	% of Holdings
Hexcel Corporation	5.9
Appen Technology, Inc.	5.1
Copart, Inc.	4.4
Qualys, Inc.	4.3
Omniceil, Inc.	4.2
Pool Corporation	4.0
BioMarin Pharmaceutical Inc.	4.0
Dunkin' Brands Group, Inc.	4.0
Webster Financial Corporation	3.9
SBA Communications Corp Cl A	3.8
<b>Percentage of total portfolio</b>	<b>43.7</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 [bscalise@torray.com](mailto:bscalise@torray.com).

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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.