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TorraysResolute Small/Mid Cap Growth

Market Overview

Equities generally managed to return modest gains during the third quarter despite a challenging backdrop characterized by slowing economic growth and rising geopolitical risks. Consistent with the environment, investors favored defensive plays; the yield on the 10-Year Treasury declined 33 basis points to 1.68% and large cap equities outperformed small caps. Utilities, REITs and Consumer Staples were the best performing sectors; economically sensitive sectors such as Energy and Materials lagged the broader market. Given the persistent flow of negative headlines during the quarter - the escalating trade dispute with China, an inversion of the yield curve, increasing fear of recession, monetary policy uncertainty, Brexit, the bombing of oil refineries in Saudi Arabia and the threatened impeachment of the president, the market displayed remarkable resilience.

Portfolio Commentary

During the third quarter, the TorraysResolute Small/Mid Cap Growth composite returned -1.24% (-1.39% net of fees) compared to the Russell 2500 Growth Index's return of -3.18%. Security selection was positive, and allocation was a modest detractor. Real Estate and Financials were the composite's best performing sectors; Health Care and Industrials were the laggards. Relative to the benchmark, the composite's selection in Financials and Information Technology made the largest contributions to returns, while selection and allocation in Industrials were the primary detractors from relative returns. At the security level, top contributors included ICF International (ICFI), PRA Group (PRAA) and Monolithic Power Group (MPWR). Primary detractors were Dycom Industries (DY), CyberArk Software (CYBR) and BioMarin Pharmaceutical (BMRN). For the trailing twelve months, the composite returned 3.06% (2.43% net of fees) compared to the benchmark's return of -4.11%.

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There were two purchases and two sales during the quarter. These included the purchase of Teladoc Health (TDOC) and Verra Mobility (VRRM), and the sale of Dycom Industries (DY) and Healthcare Services Group (HCSG). Teladoc operates the largest telehealth platform based on participants and revenues. Its state-licensed, board-certified clinicians diagnose a broad array of medical conditions telephonically. Teladoc has built a member population exceeding 27 million by delivering a convenient, cost-effective service, offering consumers and payors an alternative to higher cost, in-person options. At ten times the size of its closest competitor, we appreciate its first mover advantage, subscription-based business model and high recurring revenues. While the company is not yet profitable, we believe it is near an inflection point where increasing utilization should achieve the operating leverage required to generate profits in a reasonable timeframe. Verra Mobility provides transportation solutions to state and local governments and commercial organization throughout the U.S., Canada and Europe. With a market capitalization of \$2.3 billion and annualized revenues of approximately \$450 million, Verra operates in two segments - Government Solutions, which delivers automated traffic enforcement services (red light and speed cameras), and the Commercial Services segment,

which delivers tolling and violation management services to rental car companies and commercial vehicle fleets. Primary investment attributes include high barriers to entry, high recurring revenues, low capital intensity, and what we consider to be generous cash flow characteristics and a reasonable valuation.

Dycom Industries is a specialty contractor that provides engineering and construction services to telecommunications providers. The company seeks to capture long-term contracts with major carriers investing in faster and more reliable internet and wireless services known as the 5G expansion. While opportunities associated with the 5G buildout are large, timing and execution has been challenging. The negative operating leverage associated with the engineering and construction industry led us to reevaluate the company's position in the portfolio, which typically seeks to invest in companies with stable earnings growth. Healthcare Services Group provides housekeeping and dining services to over 3,500 health care facilities, predominately nursing homes. Our investment thesis was based on positive demographics and a record of growth and profitability. While we were aware of the reimbursement challenges health care operators face, we believed Healthcare Services Group's dominant market position and high recurring revenues would translate to consistent, stable growth in sales and earnings. However, industry headwinds have persisted, impacting HCSG and other service providers.

At the close of the quarter, the composite held 28 positions, the top 10 constituting 44.8% of the portfolio with a cash position of 1.6%. The average cash position over the period was 1.4%. Information Technology and Health Care were the two largest sector weights at 31.1% and 27.3%, respectively. Compared to the benchmark, the largest sector overweighted were Information Technology and Health Care; the largest underweights were Consumer Discretionary and Materials.

Outlook

With the Federal Reserve and other key central banks committed to accommodative monetary policies, we view the dominant swing factor in the market as trade and its impact on an extended and somewhat fragile business cycle. While economic fundamentals in the U.S. remain sound with strong consumer spending and unemployment at a 50-year low of 3.5%, it is clear the ongoing trade dispute between the U.S. and China is negatively impacting business confidence and capital investment. Given the broad fundamental nature of the trade negotiations, we believe it is unreasonable to expect a quick resolution, and very likely that the dispute remains a source of market volatility for some time. However, we also note markets always face uncertainties and that negative headlines frequently have a disproportionate effect on stock prices. Over the long term, it is core economic and corporate fundamentals that drive stock returns, not headlines. Given this view, we remain disciplined, not complacent, focused on managing risk and differentiating short-term concerns from long-term opportunities.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

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Top Contributors & Detractors

Security	Sector	% Weight	% Contribution
ICF International	Industrials	3.7	+0.5
PRA Group Inc	Financials	2.6	+0.4
Monolithic Power Systems, Inc.	Info Tech	3.2	+0.4
Jack Henry & Associates, Inc.	Info Tech	4.1	+0.4
MKS Instruments, Inc.	Info Tech	2.0	+0.3
Dycom Industries, Inc.	Industrials	2.3	-0.8
CyberArk Software Ltd.	Info Tech	2.8	-0.7
BioMarin Pharmaceutical Inc.	Health Care	2.8	-0.7
Mettler-Toledo International Inc.	Health Care	3.5	-0.6
Omniceil, Inc.	Health Care	3.0	-0.6

Top 10 Holdings

Security	% of Holdings
Hexcel Corporation	5.8
Aspen Technology, Inc.	5.0
Copart, Inc.	5.0
Pool Corporation	4.6
Jack Henry & Associates, Inc.	4.2
SBA Communications Corp Cl A	4.2
ANSYS, Inc.	4.1
Webster Financial Corporation	4.0
ICF International, Inc.	3.9
Dunkin' Brands Group, Inc.	3.9
Percentage of total portfolio	44.8

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.

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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.

Total returns include the reinvestment of dividends and other earnings. **Investing involves risk; principal loss is possible. Past performance is not indicative of future results.**

Source: Factset and Torray LLC.