



TORRAY LLC

Investment management since 1972

TorrRayResolute Concentrated Large Growth

Market Overview

During the final quarter of 2019, equity markets applauded improving fundamentals and closed out the year and decade on a decisively high note. In stark contrast to a year earlier, global growth metrics broadly stabilized and improved, the Federal Reserve and other central banks around the world were uniformly accommodative and incremental progress was made on the trade dispute between the U.S. and China. It was a period where market bulls declared victory and skeptics capitulated.

Portfolio Commentary

For the fourth quarter, the composite gained 10.73% (10.54% net of fees) versus 10.62% for the Russell 1000 Growth Index and 9.07% for the S&P 500. For the year, the composite gained 33.93 (33.35% net of fees) versus 36.39% for the Russell 1000 Growth Index and 31.49% for the S&P 500. Sector allocation and security selection for the portfolio essentially balanced each other out for the quarter; selection was modestly positive, allocation slightly negative. The portfolio's overweight position in Health Care had the greatest positive impact on performance. Relief on the political front and a series of drug approvals at the FDA drove the sector higher, making it the portfolio's and benchmark's best performing sector, each gaining more than 15% for the period. Top portfolio contributors were Centene (CNC), Apple (AAPL) and Adobe (ADBE). Selection in the Industrial sector had the largest negative effect. Verisk (VRSK) and Roper (ROP), both Industrials, were among the top three portfolio detractors along with EOG Resources (EOG).

Here, we remind ourselves that successful investing is not about timing markets, but what is done with volatility when it arrives.

There were two changes made to the portfolio during the quarter: EOG was sold and Motorola Solutions (MSI) was purchased. After owning oil and gas producer EOG for more than a decade, the position was sold due to the fundamental changes that have occurred in the industry over the past few years. In many respects, EOG and other U.S. based exploration and production companies have become victims of their own success. Technological advances in shale exploration have helped increase U.S. production from 5 million barrels per day in 2010 to 12 million in 2019, materially changing the global supply demand balance. While this has helped the country move toward energy independence and become a net oil exporter for the first time, it has also put downward pressure on oil prices and the industry's profitability. While EOG continues to be an industry leader in innovation, reserve growth and profitability, we expect commodity prices will remain under pressure for the foreseeable future and continue to hamper profit growth for EOG and the rest of the industry.

In an effort to reallocate assets to less volatile industries and reduce the portfolio's risk profile, we initiated a position in Motorola Solutions. MSI is a leading vendor of wireless communications hardware and software, serving emergency first responders around the world. Spun off from Motorola Mobility in 2011, MSI is headquartered in Chicago, Illinois and generates approximately \$8 billion in annual sales. Our investment thesis is primarily based on the positive evolution of the business as the Services and Software division, which accounts for one-third of sales and is growing 2-3 times faster than the more mature Products and Systems division, accelerates the company's topline growth and expands profit margins. Additionally, MSI's dominant market share in government-based, non-discretionary markets establishes high barriers to entry and low economic sensitivity. In summary, we view MSI as a high quality, defensive technology play in what can be fairly characterized as an increasingly expensive and volatile market.

At the close of the quarter, the composite held 26 positions, the top 10 constituting 45.9% of the portfolio with a cash position of 2.7%. The average cash position over the period was 3.7%. Information Technology and Health Care were the two largest sector weights at 35.4% and 23.9%, respectively. Compared to the benchmark, the largest sector overweight was Health Care, the largest sector underweights were Communication Services and Consumer Staples. Turnover for the year was 12%, below the 3-and 5-year averages of 16%.

Outlook

While we don't make market predictions, we do gain useful perspective from our fundamental work. Progress on the U.S.-China trade front, the resolution of Brexit, strong domestic employment, a healthy consumer, reaccelerating earnings growth, low interest rates and accommodative central banks all point to a constructive environment for equity investors. At the same time, we recognize much of this good news is reflected in current prices, leaving little margin for error, and it's certainly reasonable to expect the current political cycle and continuing trade negotiations to be sources of market volatility. Here, we remind ourselves that successful investing is not about timing markets, but what is done with volatility when it arrives. As we have in the past, we remain disciplined and opportunistic, looking to manage risk by differentiating short-term uncertainties from long-term opportunities.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer

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Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
Centene Corporation	Health Care	3.7	+1.6
Apple Inc.	Info Tech	5.2	+1.5
Adobe Inc.	Info Tech	3.8	+0.7
BioMarin Pharmaceutical Inc.	Health Care	2.8	+0.7
Microsoft Corporation	Info Tech	4.6	+0.6
Verisk Analytics Inc.	Industrials	3.9	-0.3
Roper Technologies, Inc.	Industrials	3.7	-0.1
EOG Resources, Inc.	Energy	1.0	0.0
Motorola Solutions, Inc.	Info Tech	0.4	0.0
Check Point Software Tech. Ltd.	Info Tech	2.8	+0.1

Top 10 Holdings

Security	% of Holdings
Apple Inc.	5.5
Fiserv, Inc.	4.9
Amazon.com, Inc.	4.8
Microsoft Corporation	4.7
American Tower Corporation	4.6
Visa Inc. Class A	4.5
Alphabet Inc. Class A	4.3
Lonza Group AG Unsp. ADR	4.3
Danaher Corporation	4.3
O'Reilly Automotive, Inc.	4.1
Percentage of total portfolio	45.9

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 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

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.