



Investment management since 1972

Torrays Resolute Small/Mid Cap Growth

Market Overview

Equity markets demonstrated extraordinary resilience in 2020 with the S&P 500 gaining 18.4% for the year despite a devastating global health care crisis, one of the sharpest economic downturns on record and a U.S. presidential election that leaves the country divided. Two words help explain the market's response to these events: innovation and liquidity. The medical community's development of effective vaccines for Covid-19 in less than one year is nothing short of miraculous. This innovation, accompanied by enormous fiscal and monetary stimulus provided the foundation for markets to stabilize and recover. While the shape and durability of the recovery remain unclear, markets and investors remain optimistic.

Portfolio Commentary

It was a remarkable year for small and mid-cap stocks where the optimism about a rapid economic recovery and broad stimulus spending was reflected in stock prices. The Small/Mid Cap Growth Composite returned 24.78% (24.60% net) for the quarter and 41.39% (40.51% net) for the year. The benchmark Russell 2500 Growth Index gained 25.89% for the quarter and 40.47% for the year. On an absolute basis, the Composite's top sector contributors for the quarter were Information Technology and Health Care. Real Estate and Consumer Staples were the only sector detractors. At the security level, top contributors included Rocket Pharmaceuticals (RCKT), Halozyme Therapeutics (HALO) and Myovant Sciences (MYOV). The largest detractors were SBA Communications (SBAC), Teladoc Health (TDOC) and Church & Dwight (CHD). The Composite ended the quarter with 29 holdings and 3.9% cash.

The most immediate challenge to a sustainable recovery remains the timely distribution of vaccines.

Portfolio activity for the quarter included two new purchases and one sale. Our recent purchase of **Sapiens International (SPNS)** represents an investment in the growth opportunities associated with the digitization of business processes. Sapiens provides policy, billing and claims software to the insurance industry. We believe this business is attractive because the insurance industry is in the early stages of modernizing its legacy software programs. This Israeli-based company differentiates itself from competitors by serving both the Property and Casualty markets as well as Life and Annuity markets. It also offers the convenience of complete end-to-end solutions, performing all the required implementation and service work to best configure its products to each customer's unique needs. We believe Sapiens' growth will continue to benefit from its customers' upgrade of legacy systems and a growing appetite for data analytics and cloud-based solutions. Leveraging its dominant position in Europe, the Middle East and Africa (EMEA), as well as its recent entry into North America and high client retention, we expect Sapiens can sustain attractive organic growth of 10% or more over the long term.

RBC Bearings (ROLL) is a disciplined and innovative industrial company we believe is successfully navigating the challenges of the current economic environment and will build on its competitive strengths as business conditions improve. Founded in 1919, RBC is a global manufacturer of highly engineered precision bearings and other products essential to the operation of most machines, aircraft, and mechanical systems. A focus on highly technical and regulated products provides the opportunity for long-term contracts, pricing power and high barriers to entry. These characteristics have delivered attractive financial results over the past decade with revenues increasing at an average annual rate of 7-9%, gross margins expanding more than 50 basis points per year, and earnings increasing at an average rate of 10-15%. While demand in key end markets such as commercial aerospace remains uncertain, RBC has maintained a strong financial position to act opportunistically and position the company to continue its record of growth in the future.

And finally, **Dunkin' Brands (DNKN)** was sold following the \$8.8 billion all cash offer from private equity firm Inspire Brands in late October.

Outlook

It is natural to begin a new year with a sense of optimism. Considering the events of the past twelve months, this year is certainly no exception. It's clear markets are forward-looking. While the economy, employment and corporate profits remain below pre-pandemic levels, we believe real progress is being made. GDP grew 2.3% in 2019, plummeted 31.4% in the second quarter of 2020, snapped back 33.4% in the third quarter, and is expected to decline 3-4% for the full year. Current consensus for 2021 is an increase of 4.2%, modestly above the long-term range of 2-3%. Unemployment began the year at 3.5%, spiked to 14.7% in April, and partially recovered to 6.7% by December. Current consensus for 2021 is 5.9%, at the high end of the long-term range of 4-6%, but remaining on a positive track. S&P 500 earnings per share were a record \$160 in 2019, are expected to decline 15% to \$136 in 2020, but regain new highs of \$167 in 2021. The pandemic-induced recession was devastating and continues to pose unique challenges, but the path to recovery has grown increasingly clear with the passage of time, providing investors with a strong sense of optimism.

With respect to portfolio positioning, we continue to maintain what we consider to be a balance between pandemic and recovery plays. In the short term, we expect overwhelming fiscal and monetary stimulus will continue to support the recovery. The most immediate challenge to a sustainable recovery remains the timely distribution of vaccines. In the intermediate and long term, our focus is on the uncertainty associated with the policies of the incoming administration and effects of stimulus on interest rates and inflation.

As ever, we appreciate your interest and trust.



Nicholas C. Haffenreffer
January 20, 2021

Q4 2020 Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
Rocket Pharmaceuticals	Health Care	3.4	+4.0
Halozyme Therapeutics	Health Care	4.0	+2.2
Myovant Sciences	Health Care	2.8	+2.1
Omnicell	Health Care	3.8	+2.0
Zebra Technologies	Info Tech	3.1	+1.5
SBA Communications	Real Estate	4.1	-0.6
Teladoc Health	Health Care	3.9	-0.5
Church & Dwight	Cons Stpls	2.6	-0.2
RBC Bearings	Industrials	0.6	-0.0
PRA Group	Financials	3.3	0.0

Q4 2020 Top 10 Holdings

Security	% of Holdings
Qualys	4.8
Pool Corporation	4.3
Aspen Technology	4.3
Halozyme Therapeutics	4.2
Omnicell	4.0
ANSYS	4.0
SBA Communications	3.8
Copart	3.6
Sapiens International	3.6
Myovant Sciences	3.6
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 bscalise@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. 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™ 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.