TORRAY LLC

Investment management since 1972

TorrayResolute Small/Mid Cap Growth

The Market

2021 proved to be another good year for financial assets, with the broad S&P 500 Index returning 11% in the fourth quarter and 29% for the year. This Index has delivered strong positive returns in four out of the past five calendar years, and in 17 of the past 20 quarters (85% of the observations). The obvious question is "why have returns been so strong for so long?" and a related, more subtle question comes to mind, "does risk still matter?"

Over much of this period, the market has struggled with risk from a variety of sources, including COVID19, geopolitics, interest rates and inflation. Seemingly, the correct decision in response to each disruption was to buy and hold, especially the stocks of the largest companies. Profits and associated growth have driven these generally positive returns. The supportive economy has enjoyed robust demand and, more importantly, innovative, highly productive supply to meet this demand. Many of these new supply solutions are products and services that are leverageable, meaning new units can be quickly and cheaply brought to market. Think software, social media platforms and medical therapies that address unmet needs. In this context, inflation has remained low (until recently) which in turn supports expansionary interest rates. The market believes these favorable conditions will remain in place into the future. So, if this narrative holds, risk likely remains a secondary concern for many investors.

Composite Portfolio

The Small/Mid Cap Growth Composite returned 6.22% (6.08% net) in the fourth quarter and 11.78% (11.11% net) in 2021, comparing well vs its primary benchmark, the Russell 2500 Growth Index, which returned 0.20% for the quarter and 5.04% for the year. Encouragingly, stocks in the portfolio's largest sector, technology, outperformed, up 11% as a group in the fourth quarter, against the benchmark's -1% sector return. Similar relative returns were observed in the 2nd largest sector, healthcare, although absolute returns were not as attractive. Top contributors for the quarter included Pool Corporation (POOL), Aspen Technology (AZPN) and Mettler-Toledo (MTD). Top detractors were all in healthcare: Myovant (MYOV), Rocket Pharmaceuticals (RCKT) and Teladoc (TDOC).

During the quarter, one stock was sold, IPG Photonics (IPGP), a fiber laser business, to reduce the portfolio's exposure to China, a geography we feel is increasingly hostile towards intellectual property and foreign profits. Two new stocks were added: Ryan Specialty Holdings (RYAN) and Vicor Corp. (VICR). Launched in 2010, RYAN is now the number two wholesale broker in insurance premiums and the only one publicly traded. Benefitting as more risks are pushed into excess & surplus (E&S) markets as well as the multi-year consolidation of retail brokerages, we believe RYAN is positioned to grow into these secular trends. They are also enjoying cyclical price improvement and organic growth opportunities in adjacent lines. With size and sophistication, including a national footprint and full product solutions, RYAN has established itself as a preferred partner in the wholesale insurance brokerage market. VICR, led by its founder and largest shareholder, specializes in electrical power management within digital systems. Power requirements are advancing at rapid rates, requiring more sophisticated solutions than in the past. This is especially true as digital processing architecture undergoes a revolution away from central processing units (CPUs) in favor of parallel processing units (so-called GPUs). We believe VICR products are at the center of this redesign and should benefit from increasing computing demands from sources like AI, machine learning, and electric/autonomous vehicles.

Behavioral Finance

Returning to the question on risk, behavioral economists believe financial activities are influenced by irrational emotions instead of the rational decisions assumed by traditional ‘efficient market’ theory. Evidence from the great financial crisis of 2007/08 supports the behavioralists’ conclusions, as efficient market models collapsed in a hard landing that destroyed trillions in paper wealth. This greed-and-fear dynamic suggests that markets follow emotional cycles, although the course is not readily predictable. If so, given where we currently are in the emotional cycle, after the extended period of positive returns, greed is a well-entrenched bias in today’s financial arena. Small changes in the market’s assessment of factors like growth, interest rates and justified valuations could have large implications for prices, as evident in market returns in the first few weeks of 2022. To us, this suggests risk should be a major consideration in portfolio construction.

Risk management has always been a hallmark of our strategies. The brutal math of recouping losses is what drives this emphasis. As we begin 2022, we remain focused on building portfolios of what we consider to be great businesses with favorable risk characteristics across the growth, value, and market capitalization spectrums.

As always, thank you for your business; please reach out any time with any issue.

James Bailey, CFA	Jeff Lent	Brian Zaczynski, CFA
Portfolio Manager	Portfolio Manager	Analyst

January 12, 2022

Q4 2021 Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
Pool Corporation	Cons Disc	4.9	+1.2
Aspen Technology, Inc.	Info Tech	3.9	+0.9
Mettler-Toledo International Inc.	Health Care	3.6	+0.8
Omnicell, Inc.	Health Care	3.9	+0.7
Qualys, Inc.	Info Tech	3.7	+0.7
Myovant Sciences Ltd.	Health Care	2.7	-1.0
Rocket Pharmaceuticals, Inc.	Health Care	2.2	-0.6
Teladoc Health, Inc.	Health Care	2.2	-0.6
Vicor Corporation	Industrials	1.0	-0.4
Hexcel Corporation	Industrials	2,9	-0.4

Q4 2021 Top 10 Holdings

Security	% of Holdings
Pool Corporation	5.2
SBA Communications Cl A	4.6
Zebra Technologies Corp. Cl A	4.1
Omnicell, Inc.	4.0
Mettler-Toledo International Inc.	4.0
AMN Healthcare Services, Inc.	3.8
Aspen Technology. Inc.	3.8
Qualys, Inc.	3.8
Ansys, Inc.	3.7
RBC Bearings Inc.	3.7
Percentage of total portfolio	40.7

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.

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. The S&P 500 measures the value of stocks of the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite. You cannot invest directly in an index.

Total returns include the reinvestment of dividends and other earnings. **Investing involves risk; principal loss is possible. Investments in smaller companies typically exhibit higher volatility. Past performance is not indicative of future results.** On October 1, 2021, the portfolio manager responsible for managing the composite left the firm. The composite has subsequently been managed by co-portfolio managers who have been members of the strategy's investment committee, and involved in all portfolio research and investment decisions, since the composite's inception 12/31/07.

Source: FactSet and Torray LLC.