



Firm		Strategy		
Founded	1972	The objectives are to generate consistent excess returns and effectively manage risk.	Inception	12/31/07
Headquarters	Bethesda, Maryland		Benchmark	Russell 2500® Growth
Ownership	100% Employee Owned	The strategy employs a concentrated, low-turnover approach investing in predominantly small and mid-capitalization companies with proven records of increasing revenues, earnings, and cash flows on a consistent and sustainable basis.	Portfolio Managers	Jeffrey Lent James Bailey, CFA
Firm Assets ¹	\$859M		Investment Committee	James Bailey, CFA Shawn Hendon, CFA Jeffrey Lent Brian Zaczynski, CFA
Firm AUM	\$655M			
Employees	10			

¹Firm assets includes non-discretionary UMA assets under advisement.

Small/Mid Cap Growth Composite

The Small/ Mid Cap Growth Composite’s first quarter 2022 return was -12.01% (-12.15% net of fees), modestly outperforming the benchmark Russell 2500 Growth Index’s -12.30%. We are more encouraged with the relative returns over the past twelve months: -0.84% (-1.44% net of fees) for the Composite vs the benchmark’s -10.12%. The downside performance is worth commenting on, as an objective of the strategy is to offer attractive risk outcomes. The Index was (and still is) loaded with unprofitable companies with extremely expensive valuations (in many cases, over 20 times sales). In contrast, Torray’s portfolio is composed primarily of companies that are highly profitable with recurring revenue streams and whose stocks trade at what we consider to be more reasonable valuations.

During the quarter, two stocks were sold, Teladoc Health (TDOC) and Hexcel Corp. (HXL). TDOC was sold after an uninspiring investor day did little to address our concerns around lofty valuation (in an unfavorable interest rate environment), decelerating sales growth, and increasing competition. HXL was a casualty of the COVID pandemic, as demand for advanced aerospace materials collapsed. The name was held thru the nadir of the closures but was sold as reopening gained pace. Although no new stocks were purchased, we were busy adding to existing holdings offered by the market at what we hope are attractive prices.

Market

Often, the first quarter of a new calendar year is marked by volatility, as investors question old assumptions and rebalance portfolios. 2022 certainly started this way, with the COVID pandemic giving way to violence in Ukraine. Inflation, broadly impacting the entire global economy, threatens to force interest rates higher, slow demand and change public policy in unknown ways. As the quarter continued and war ground on, the market began to digest these factors, aided by a Federal Reserve road map that investors are seemingly able to live with. At the quarter’s conclusion, this relief produced upward pressure on stock prices, especially those of beaten down aggressive growth companies. The S&P 500’s quarterly return was -4.60%.

Looking ahead, our concern is that global central banks do not cooperatively act to reduce inflationary pressures. If the U.S. goes solo, it will likely leave the Dollar exposed and produce further unsatisfactory inflation. On the other hand, if central banks can coordinate policy, this will increase the probability of a “soft-landing” (reduced inflationary pressures without the associated recession) and the outlook for 2023 could be solid. The latter case is Torray’s operating forecast right now.

Correlation

We attempt to build concentrated portfolios diversified to many risks, but sometimes capital markets get run over by macro events. Our work utilizes correlation coefficients, a by-product of linear regression, and like most quantitative methods, relies on historical data as inputs. As such, it suffers from the possibility that future outcomes may differ from the past. The analysis can also fail during strong negative markets, exactly when the value of diversification is most beneficial. Examples include the oil crash of 2015 and the inflation worries impacting financial markets in the quarter just finished. Despite these more short-term limitations, we maintain the tool is valuable over time. It helps us to construct portfolios with far fewer stocks than peers and benchmarks while still addressing the need to manage risk. This means we invest only in our highest conviction ideas, owning more of each, and avoid dilution by what we consider lower quality prospects. Our job as active analysts is to balance the elements of judgment, prudence and aggressiveness, striving to optimize this process and your risk-adjusted return.

Annualized Total Returns (%)							
Rolling Returns	MRQ ²	YTD ²	1-Year	3-Year	5-Year	10-Year	ITD
TSMID Comp. (gross)	-12.0	-12.0	-0.8	17.0	14.4	12.8	11.2
TSMID Comp. (net)	-12.2	-12.2	-1.4	16.3	13.7	11.9	10.4
Russell 2500 Growth	-12.3	-12.3	-10.1	13.0	13.2	12.7	10.2
Russell 2500	-5.8	-5.8	0.3	13.8	11.6	12.1	9.6

² Most Recent Quarter (MRQ) and Year-to-Date (not annualized).
As of 03/31/22. Torray Small/Mid Cap Growth Inception: 12/31/07.

Calendar Year Returns (%)										
Year End	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
TSMID Comp. (gross)	11.8	41.4	30.4	-7.2	24.6	9.2	-4.1	5.0	42.1	14.2
TSMID Comp. (net)	11.1	40.5	29.7	-7.8	23.7	8.4	-4.8	4.0	40.9	13.2
Russell 2500 Growth	5.0	40.5	32.7	-7.5	24.5	9.7	-0.2	7.1	40.7	16.1
Russell 2500	18.2	20.0	27.8	-10.0	16.8	17.6	-2.9	7.1	36.8	17.9

Portfolio Characteristics							
Portfolio Statistics	Portfolio	Russell 2500 Growth	Sector Allocation	% Portfolio	% Russell 2500 Growth	Top 10 Holdings	% of Portfolio
Holdings	28	1468	Info. Tech.	36	31	Aspen Technology	4.8
Avg. Mkt. Cap. \$B (wtd)	14	7	Health Care	32	20	SBA Communications Cl A	4.6
ROE (1 yr)	21%	9%	Industrials	12	15	Pool Corporation	4.4
Turnover	28%	18%	Real Estate	5	3	Jack Henry & Associates	4.4
EPS Growth	26%	20%	Cons. Disc.	4	14	Ryan Specialty Group Cl A	4.3
EPS Variability	45%	55%	Financials	4	6	Catalent Inc	4.2
Standard Deviation	17%	21%	Cons. Stpls.	3	3	Halozyme Therapeutics	4.1
Alpha	3.6%		Comm. Svcs	0	1	Verra Mobility Corp Cl A	4.0
Beta	0.78		Energy	0	2	RBC Bearings	4.0
Up Market Capture	78%		Materials	0	5	Cooper Companies	3.9
Down Market Capture	84%		Utilities	0	1	Total	42.8
			Cash	3	0		

Figures are dollar-weighted averages, unless noted. Shaded Portfolio Statistics are 5-yr averages. Strategy holdings and sector allocations are subject to change and should not be considered a recommendation to buy or to sell any security. Investments in smaller companies typically exhibit higher volatility. **Past performance is not indicative of future results. See performance**

The Torray Small/Mid Cap Growth Composite includes all discretionary fee paying portfolios over \$100 thousand managed under the Torray Small/Mid Cap strategy. For comparison purposes, the Composite is measured against the Russell 2500 Growth and the Russell 2500 indices. The Russell 2500 Index is the Composite's secondary benchmark. The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. 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 as defined by Russell's leading style methodology. You cannot invest directly in an index.

Performance presented between December 1, 2014 and October 31, 2016 was achieved while the portfolio management team was affiliated with TorrayResolute, LLC. Performance presented prior to July 1, 2010 was achieved while the portfolio management team was affiliated with Resolute Capital Management LLC.

Torray LLC is an independent registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The firm maintains a complete list and description of composites and broad distribution pooled funds, which is available upon request. To obtain a GIPS Report for the strategy presented, please contact the firm using the phone number listed below.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented gross or net of foreign withholding taxes on dividends, interest income, and capital gains depending on the custodian. Withholding taxes may vary according to the investor's domicile. Past performance is not indicative of future results. GIPS® is a registered trademark of the CFA Institute. The CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. The management fee schedule is as follows: 1.00% on assets up to \$5 million, 0.75% on next \$20 million, 0.50% on next \$175 million; 0.375% on next \$100 million, and 0.25% on balance. Actual investment advisory fees incurred by clients may vary. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

The Composite was created December 31, 2007 and has an inception date of January 1, 2008. Prior to January 1, 2022, the composite was known as the TorrayResolute Small/Mid Cap Growth Composite.

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 2007.

Contact

Client Relations & Marketing

Breck Scalise, *Director*

bscalise@torray.com

Investment Operations

Janet Gallagher, *Director*

operations@torray.com

301.493.4600

855.753.8174 (toll free)

www.torray.com