

Small/Mid Growth Strategy (SMID Growth)

Quarterly Review and Commentary

The fourth quarter marked a solid end to the year with double-digit gains across all major equity market indices—a much-needed comeback in performance after a painful 2022. The SMID Growth strategy returned 14.3%, net of fees, for the fourth quarter compared to 12.6% for the Russell 2500® Growth Index. Overall, in 2023, SMID Growth advanced 26.8%, net of fees, outpacing the index by 790 basis points. The strategy's hefty overweight in Health Care and Information Technology, combined with strong stock selection were the largest drivers of out performance in the quarter. On the downside, the strategy's underweight in Industrials, and overweight in Financials were the largest detractors from performance.

Heading into 2024, there is plenty of uncertainty. Investors are focused on the Federal Reserve's ability to engineer a soft landing, determining if inflation stays on its moderating path and if the economy will avoid a recession. Not to mention a host of other risks, including global security, geopolitical unrest, and the U.S. Presidential election. Aiming for accurate predictions around risk is a futile exercise. The perception of risk can greatly affect market sentiment, often creating opportunities. We believe our focus on discerning this noise from fact and understanding both sides of the risk/reward coin puts us in a position to lean into uncertainty and uncover attractive long-term opportunities.

Evaluating Management Teams - Stewards of Our Investments

Financial performance and shareholder value creation are heavily influenced by the decisions and execution of a company's management team. Therefore, the judgment and integrity of the management teams with whom we entrust client capital are as important as the quality of the business and its ability to sustain profitable growth. Because we seek companies that generate abundant cash internally, understanding how and why management deploys excess capital through reinvestment, debt repayment, share buybacks, M&A, or dividends is a key criterion when performing our diligence on a potential investment.

Our assessment of management, the superiority of the business model, and its risk/reward profile determine if a company is considered a strong fit with our "TIP-Quality" criterion. We go beyond the traditional indicators of management alignment, such as incentives, share ownership, and track record, and dig deep to uncover evidence of a thought-out long-term strategic plan for the business. Historical capital allocation results and judging the aggressiveness of past forecasts are important. However, we believe it is equally important to assess the talent base, and the uniqueness of the culture management is promoting. We seek to generate insights that reveal management teams with differentiated and adaptable mindsets anchored in long-term value creation—on a per-share basis. These insights combined with our bottom-up, fundamental research further increase conviction and can reduce perceived risks associated with the future direction of execution. We would rather pass on an otherwise good opportunity than invest with a management team we don't believe would be a good steward of shareholder capital.

Portfolio Activity

PURCHASES

BWX Technologies (BWXT) provides safe and effective nuclear solutions for global security, clean energy, environmental restoration, and nuclear medicine. Today, BWX is the sole supplier of nuclear reactors that power the U.S. Navy's submarine and aircraft carrier fleet—a durable and growing competitive advantage. A robust order backlog and the long-term visibility on future orders based on the Navy's comprehensive 30-year shipbuilding plan give us the conviction that BWX can consistently grow its core business at an attractive rate for many years. Additionally, the company is reinvesting its cash flows into non-defense projects with much faster risk-adjusted growth profiles, such as medical isotopes and small nuclear reactors. We believe we added this industry leader that brings diversification benefits and an attractive asymmetric risk/reward profile to the portfolio at a modest valuation.

SALES

Vicor (VICR) provides power management solutions for integrated circuits (semiconductors) in most major industries, including Automotive, Aerospace, Computing, Defense, Industrial, and Robotics. The company is building an expensive new factory to meet the growing demand for next-generation digital applications like AI. After the most recent earnings release, our research

Portfolio Activity cont...

led us to conclude that the company's advantages in its more mature business lines are being eroded by competition. Unfortunately, this fundamental change is occurring at a time when order flows for its next-generation products have not gained sufficient traction. Given the limited visibility on the profit outlook and the increasing risk of volatility in future business results, we sold the stock and reallocated funds into other portfolio holdings.

Best and Worst Performers in the Quarter

Top Contributors

Blueprint Medicines
Rocket Pharmaceuticals
Monolithic Power
Natera
Qualys

Top Detractors

Vicor Corporation
Ryan Specialty Holdings
Lantheus Holdings
Sapiens International
BWX Technologies

Reflects the top five holdings that contributed to and detracted from composite performance listed in descending order. Specific securities identified do not represent all the securities purchased, sold, or recommended for the strategy. A contribution analysis list of all holdings and calculation methodology information are available upon request. Do not assume any securities identified were or will be profitable. Past performance is not indicative of future results.

Why Consider Torrar Investment Partners as Your Small/Mid-Cap Growth Solution?

A Singularly Focused Investment Firm

OUR CULTURE



Independent, Stable and
Client Centric

Broad-based active equity ownership bound by a partnership mentality drive tight alignment with our client's long-term interests.

OUR APPROACH



Risk-Managed,
Concentrated Investing

For more than 50 years, we've built active portfolios based on our research-driven conviction in the relatively few businesses able to create economic value for shareholders.

OUR STRUCTURE



Institutional-Quality
Boutique

Unburdened by bureaucracy, we are more creative and agile in efforts to deliver exceptional client service and consistent long-term risk-adjusted performance.

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