Torray
INVESTMENT PARTNERS

Q1
2024

Concentrated Large Growth Strategy (CLG)

Quarterly Review and Commentary

2024 got off to a strong start. The CLG strategy returned 9.1% (net of fees) for the quarter. There were similar themes to market leadership that fueled returns, including investor optimism that the Federal Reserve has inflationary pressures under control and exuberance for companies that have the potential to benefit from Artificial Intelligence (AI).

AI promises a similar (and likely broader, steeper, and longer-lived) impact as other ground-breaking technological innovations such as PCs, the internet, and smartphones. Chip maker Nvidia (NVDA) has become synonymous with AI. The company's market capitalization increased a historic $1 trillion—due to a 93% appreciation of its stock price during the quarter—as investors clambered for a piece of the action. We discuss our risk-managed approach to investing in AI below.

During the quarter, our underweight and stock selection in Consumer Discretionary (Amazon and O'Reilly) were the largest positive contributors to performance. CLG currently has zero exposure to the Consumer Staples, Energy, and Utilities sectors, which was a mild tailwind. The biggest detractor was our long-standing underweight to Information Technology—and the Mag-7—which continued to weigh on relative performance.

A Risk-Managed Approach to AI Exposure

AI presents a wide variety of direct and indirect investment opportunities. However, not all companies with exposure to AI will be meaningful beneficiaries over our investment horizon, while others may emerge and do better than expected. Regardless, we apply the same disciplined, risk-managed approach to investing in AI that we do with all our investments. We do not compromise the investment criteria we use to identify TIP-Quality Businesses (1. Business Quality, 2. Risk/Reward Profile, and 3. Management Team) simply because of the excitement around AI.

We focus on business quality, seeking evidence that future profits will be competitively protected and grow sustainably. We analyze each company's products to ensure they create lasting value for their customers—such as improving productivity. Given the threat of disintermediation from technological change, this is essential when investing in AI. We compare company fundamentals to market expectations to pay a reasonable price for the stock and use our correlation analysis to increase portfolio diversification. Finally, the management team must have a record of value-creating capital allocation.

Encouragingly, we are finding many ways to responsibly invest in AI when viewed through our risk-managed lens. Although we have chosen not to invest in NVDA, many portfolio companies are using their semiconductors to build AI platforms and enhance existing services, creating durable recurring revenues and cost savings. We also own semiconductor manufacturing and design businesses that play crucial roles in creating the chips and intellectual property that make AI work. Finally, we have invested in several of NVDA's competitors because innovation and price pressures inevitably spark change, which will likely create attractive opportunities for them.

Portfolio Activity

PURCHASES

Ansys (ANSS) is a leading provider of engineering simulation software across a wide range of disciplines that helps close the gap between design and reality faster and at a lower cost. We have owned ANSS in our SMID Growth strategy since 2012 and purchased the company in CLG during the quarter because it received a buy-out offer from Synopsys (SNPS)—the world's leading semiconductor design technology company—late in 2023. In an era of insatiable demand for high performance compute that is pushing the boundaries of semiconductor design, we believe the acquisition strengthens SNPS' industry-leading capabilities, while accelerating its expansion into adjacent growth verticals. However, we will be happy to continue owning ANSS if the deal does not achieve regulatory approval.

SALES

Accenture (ACN) is a global provider of consulting, operational, strategy, and technology services that help its clients navigate the constantly changing challenges and opportunities in their respective end markets. We first purchased Accenture over a decade ago to gain diversified exposure to digital transformation trends occurring across the globe. While we still like the business, we sold the stock during the quarter to add Ansys to the portfolio. If the Ansys deal closes, we believe we will be able to start a position in Synopsys (SNPS)—a business we have long admired—at a mid-teens discount to its current valuation, while gaining more targeted exposure to the digital revolution.

Best and Worst Performers in the Quarter

Top Five	Return	Contribution	Bottom Five	Return	Contribution
Amazon	18.7	1.2	Adobe	-15.4	-0.6
Lonza Group	42.7	1.1	Apple	-10.8	-0.6
Microsoft	12.1	1.0	American Tower	-8.5	-0.3
Fiserv	20.3	0.8	Genmab	-6.1	-0.1
O'Reilly Automotive	18.8	0.8	Verisk	-1.1	0.0

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 Torray Investment Partners as Your Large-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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