Torray
INVESTMENT PARTNERS

Q1
2024

Small/Mid Growth Strategy (SMID Growth)

Quarterly Review and Commentary

Small- and medium-sized stocks got off to a respectable start and the SMID Growth strategy, which returned 4.7% (net of fees) for the first 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. Super Micro Computer's (SMCI) market capitalization more than tripled to $56 billion in the first quarter as investors clambered for a piece of the AI-driven hype among mid-cap companies. This created a challenging backdrop for our style of owning high-quality small- and mid-cap companies. We discuss our risk-managed approach to investing in AI below.

Based on contributions to return, Financials—led by Ryan Specialty Holdings and Tradeweb—had the largest positive impact on performance during the quarter. Individual stock selection in Information Technology (Dynatrace and Qualys) was the biggest detractor. SMID Growth has zero exposure to four (Communication Services, Materials, Utilities, and Energy) of the eleven industry sectors represented by the benchmark, which was a mild tailwind to 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

Axsome Therapeutics (AXSM), a biopharmaceutical company, has developed and sells two novel therapies for diseases of the central nervous system (CNS). Both drugs have unique mechanisms of action that are potentially useful in additional indications, including ADHD and mental agitation caused by Alzheimer's. The company's founder, Dr. Herriot Tabuteau, remains at the helm and is the largest shareholder. He has assembled a passionate and patient-focused management team that has amassed an excellent track record of developing and commercializing products that meaningfully improve the lives of those living with CNS conditions. Axsome's financial strength, deep late-stage neuroscience pipeline, and management team anchor our conviction for purchasing the company in the quarter.

SALES

Zebra Technologies (ZBRA) is the dominant player in the automatic identification and data capture market across multiple industries. Only 25% of the company's revenue is recurring, so its topline growth is still dependent on capital expenditures. While we expect Zebra to benefit from the secular trend towards digitization and automation, and eventually its efforts to pivot into software, we sold the stock during the quarter to attach our client's capital to companies with base revenue streams that are highly recurring and more visible over our five-year investment horizon.

Best and Worst Performers in the Quarter

Top Five	Return	Contribution
Natera	46.0	1.5
Ryan Special Holdings	29.8	1.3
Entegris	17.4	0.7
Copart	18.2	0.6
Tradeweb Markets	14.7	0.6

Bottom Five	Return	Contribution
Dynatrace	-15.1	-0.7
Qualys	-15.0	-0.7
SBA Communications	-14.2	-0.6
Rocket Pharmaceuticals	-10.1	-0.5
BioMarin	-9.4	-0.3

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 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.

Contact

Business Development
Bryan Leibrand, CIMA®, *Director*
bleibrand@torray.com

Client Relations & Marketing
Breck Scalise, *Director*
bscalise@torray.com

General
301.493.4600
855.753.8174 (toll free)

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