

# Portfolio Commentary

## Market Environment

The U.S. is shaking off the COVID restraints. The domestic economy is roaring driven by pent up consumer demand, continued low interest rates, and government stimulus. Demand is outpacing supply stretching the economy at the seams and raising concerns that a supply shock could bring inflation. We are in the early stages of what is likely to be an extended economic expansion, one that is more robust and broader than recent expansions.

Financial and commodity markets largely reflected the heightened growth outlook. The S&P 500 returned approximately 8.5% in the second quarter and has increased more than 15% this year, driven more by industrial, financial, and materials companies than by technology companies. Many commodities prices continued this year's run, although they have come off the boil lately. Bonds rallied, relieving inflation concerns for now. The U.S. Treasury 10-year Note yield fell from 1.75% to near 1.50% at quarter end.

The end of pandemic induced restrictions is unleashing economic forces not seen since the end of World War II. Exuberance is palpable. People enjoy socializing without masks! Sporting events draw spectators and flights draw passengers. Rush hour and vacation traffic again snarl roadways.

There are at least three strong pillars supporting this expansion: a strong consumer, a long-delayed capex cycle, and government spending. The fiscal stimulus should not be discounted as it topped 15% of GDP in 2020 and should total over 10% in 2021. A further \$1.2 trillion is expected to

be approved this summer. Fiscal programs enacted during the pandemic largely worked to stabilize American workers and families. New programs will further enhance spending but seem to be motivated, at least in part, to meet political objectives.

## Performance Summary

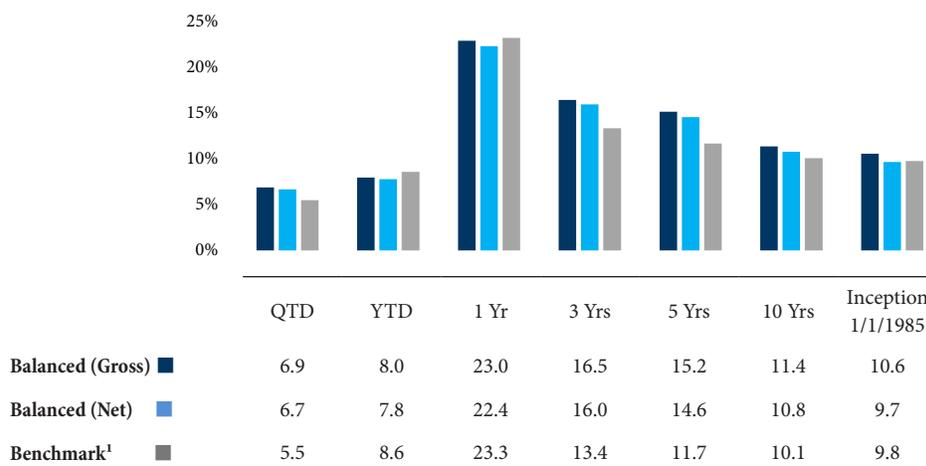
The Congress Balanced Portfolio ("The Portfolio") returned 6.86% (gross of fees) during the quarter, while the Portfolio's blended index, 60% S&P 500 / 40% Bloomberg Barclays Intermediate Government/Credit Index ("The Index") returned 5.49%.

## Portfolio Discussion

As we have now passed the first anniversary of the initial impact of COVID-induced lockdowns, the emergence of new strains has negatively impacted certain sectors of the global economy. Despite the delay in widespread re-openings, second quarter earnings will likely reflect pent-up consumer demand for goods and services, record levels of consumer net worth, and strong margins.

Given the dual goal of balanced accounts: growth and stability, we remain at 65% equity and 35% fixed income.

### Average Annualized Performance % as of 6/30/2021



<sup>1</sup>Blended Benchmark: 60% S&P500/40% Bloomberg Barclays US Intermediate Govt/Credit Index

*Performance is preliminary and subject to change at any time.*

## Equity Sleeve

**IDEXX Laboratories, Inc.** engages in the development, manufacture, and distribution of products and services for the veterinary, livestock, poultry, dairy, and water testing markets. IDXX is benefiting from robust demand for companion animal healthcare which is reflected in the company's double digit same-store clinical visit rate in the U.S. **Intuit, Inc.** is the market leader in consumer and professional tax software as well as small business accounting software. Strong results from QuickBooks Online and TurboTax Live in addition to solid momentum from Credit Karma fueled the company's better than expected quarterly results. **Adobe, Inc.** offers a line of software and services that help its customers create and deliver compelling content and web applications. The company reported solid quarterly results with various metrics exceeding management and street estimates. **PayPal Holdings, Inc.** is an online payment platform. PYPL's suite of products are key contributors to the global economy's digital transformation. This shift, which is being hastened by the post-pandemic recovery, has highlighted the scalability of its business model with most metrics consistently exceeding expectations. **Alphabet, Inc.** is a global technology leader focused on the way people connect with information. GOOGL's impressive quarterly results were driven by continued strength in advertising and its Cloud businesses.

**Canadian National Railway Co.** operates Canada's largest railway. While its merger with Kansas City Southern could offer sizable opportunities for CNI, the company did pay a considerable premium (about 20% more than Canadian Pacific's offer). In addition, the deal may not be approved by the Surface Transportation Board. As a result, the stock was sold from the Portfolio. **Caterpillar, Inc.** is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines, and diesel-electric locomotives. The stock's underperformance can be attributed to the overall weakness within the machinery industry. However, the company continues to generate solid results and recently raised its quarterly dividend by 8%. **Global Payments, Inc.** is a leading pure play payment technology company providing payment and software solutions. Despite reporting better than expected quarterly results, management did not raise full-year guidance, which they have done historically. **Vertex Pharmaceuticals, Inc.** focuses on developing and commercializing therapies for the treatment of cystic fibrosis. The stock's underperformance was primarily due to management's announcement that they will not be advancing the Alpha-1 Antitrypsin (AATD) drug VX-864 into late-stage development. Despite the setback, VRTX continues to be the dominant player in cystic fibrosis with very little competition. **Bank of America Corp.** is one of the largest financial institutions in the U.S. The stock was added to the Portfolio during the quarter, and slightly underperformed during that time. However, the company's balance sheet strength, credit metrics, return metrics, share count, and efficiency ratio have all been consistently improving over the past several years. BAC is also the leader in online/mobile banking, a vital attribute for success in the current banking environment.

### Top Equity Contributors<sup>2</sup>

STOCK	AVG. WEIGHT%	CONTRIBUTION%
IDEXX Laboratories, Inc.	3.18	0.85
Intuit, Inc.	3.12	0.83
Adobe, Inc.	2.72	0.61
PayPal Holdings, Inc.	2.73	0.54
Alphabet, Inc. Class A	2.81	0.49

### Top Equity Detractors/Contributors<sup>2</sup>

STOCK	AVG. WEIGHT%	DETRACTION%
Canadian National Railway Co.	1.12	-0.24
Caterpillar, Inc.	3.35	-0.19
Global Payments, Inc.	1.89	-0.12
Vertex Pharmaceuticals, Inc.	1.62	-0.11
Bank of America Corp.	0.92	-0.07

## Fixed Income Sleeve

Security selection within U.S. Treasuries benefited relative performance as shorter dated issues outperformed. An overweight to high-quality, Industrial sector corporate issues also improved relative performance. However, a slight duration mismatch with the benchmark weakened relative performance.

### Top Fixed Income Contributors<sup>2</sup>

ISSUE	AVG. DURATION%	CONTRIBUTION%
Target Corporation	6.85	0.15
Intel Corporation	7.54	0.15
Oracle Corporation	7.69	0.11
US Treasury Feb-2028	6.16	0.07
Pfizer, Inc.	5.13	0.07

### Top Fixed Income Detractors/Contributors<sup>2</sup>

ISSUE	AVG. DURATION%	DETRACTION%
US Treasury Feb-2022	0.75	0.00
US Treasury Jan-2023	1.65	0.00
US Treasury Mar-2023	1.85	0.00
US Treasury Oct-2023	2.41	0.00
US Treasury Aug-2023	2.19	0.00

Information is as of 6/30/2021. Sources: Congress Asset Management, Bloomberg Finance L.P., Barclays Investments, and FactSet Research Systems. The information throughout this presentation is for illustrative purposes and is subject to change at any time. Holdings, sector weightings and securities identified as top contributors and detractors throughout this presentation are subject to change and should not be considered investment advice or a recommendation to buy or sell a particular security. Actual holdings may vary by client. The securities identified do not represent all the securities purchased, sold or recommended to clients. For information regarding the methodology used to select these holdings or to obtain a list showing the contributions of every holding in the strategy's representative account, which we believe reflects the Congress Balanced's Composite to both a current and/or prospective client, please contact us at 1-800-234-4516. Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce investment performance. Past performance does not guarantee future results.<sup>2</sup>The information shown is for a representative account as of 6/30/2021. Actual client account holdings and sector allocations may vary.

## Transactions

### 2Q 2021 Transaction Summary - Equity Sleeve

Sector Allocation Changes	Purchased	Sold
<ul style="list-style-type: none"> <li>Increase in Information Technology</li> <li>Decrease in Industrials</li> </ul>	<ul style="list-style-type: none"> <li>Bank of America Corp. (BAC) - Financials</li> <li>Synopsys, Inc. (SNPS) - Information Technology</li> </ul>	<ul style="list-style-type: none"> <li>Canadian National Railway Co. (CNI) - Industrials</li> <li>Progressive Corp. (PGR) - Financials</li> </ul>

### 2Q 2021 Sector Allocation Changes - Fixed Income Sleeve

Purchased	Sold
<ul style="list-style-type: none"> <li>Walmart, Inc. of 7/08/2026 to extend in the name and add duration</li> <li>Bank of America Corp. of 12/20/2028 to adjust duration and improve yield</li> <li>UnitedHealth Group, Inc. of 5/15/2031 to adjust duration and improve yield</li> </ul>	<ul style="list-style-type: none"> <li>Walmart, Inc. of 4/22/2024 due to spread and make whole concerns</li> <li>Apple, Inc. of 5/06/2024 due to spread and make whole concerns</li> <li>Oracle Corporation of 4/01/2030 due to an S&amp;P downgrade to BBB+</li> </ul>

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## Manager Outlook

### Equity Sleeve

Consumers remain the primary economic force spending about 19% more in May than a year ago. Consumers' willingness to spend is matched by ability and confidence. Compensation was up close to 10% from last year and consumer net worth is at a record high.

Sales are likely held back by supply constraints. Manufacturers are struggling to produce enough product to satiate demand. The entire supply chain is challenged, exhibited by the well-publicized semi-conductor shortage. Goldman Sachs estimates that the semi-conductor shortage affects 169 industries ranging from automobiles to kitchen appliances and electronic devices, but the problem is far larger than one component. The U.S. does not have enough willing workers. From truck drivers to waitstaff, capacity is limited by worker availability.

In this regard, some readings of the work force are misleading. The unemployment rate remains elevated and employment stands about 7 million below pre-pandemic levels. However, the Bureau of Economic Activity's April report was full of positive readings including a record 9 million jobs available. Close to 4 million people voluntarily quit their jobs in April, a record high that reflects a bullish outlook for wages and job advancement. Similarly, involuntary separations were 1%, a record low. The reluctance of some to work should wane as pandemic inspired payments expire and child-care capacity returns.

Corporate America is responding to the dearth of workers. After a year of retrenchment, companies are investing to meet demand. Enticed by ultra-low interest rates, companies have re-capitalized their balance sheets, are awash in cash, and have reduced interest obligations. The Institute of Supply Management's and the Philadelphia Federal Reserve Bank's May surveys indicate that much of these funds will be spent on capital equipment and supply chain infrastructure to alleviate current backlogs and meet future demand. This "capex" cycle appears to have legs and should help realign productive resources for today's economy. A similar story is likely to play out in Europe and Japan.

There is little chance, in our view, that the economy falters here. Corporate earnings should grow double digits and even state and local governments are flush with cash. The major economic risk is inflation. Long dormant, measures of inflation are rising. The Federal Reserve Board's (Fed) preferred measure of inflation, the core PCE deflator, measured 3.4% in May. The Fed targets an "average" inflation rate of 2%. While the latest reading is significantly higher than the 2% target, the Fed suggests that conditions driving the elevated rate are transitory and will dissipate as supply constraints recede. Investors should hope that the Fed's words speak louder than their actions.

In the past, notably the late 1970's-1980's, the Fed raised short term interest rates to break inflation's back. Now the Fed is trying to manage inflation by professing their vigilance while maintaining policies intended to push inflation higher – targeting a federal funds interest rate of 0% to 0.25% and purchasing \$120 billion of treasuries and mortgage securities per month. Recently, the Fed's purchasing of Treasuries has equaled issuance, helping keep long interest rates depressed. Interest rates will likely rise before the Fed begins tapering its asset purchases, perhaps early next year.

As we move past the pandemic and the associated lockdowns, important social and economic questions remain. We used our strong economic position to finance the myriad of programs to support our country. In doing so, we increased our debt to levels not seen since World War II. The upward trajectory is unsustainable and pushes pandemic costs to future generations. How we assess these costs is becoming increasingly important to the markets. Debt remediation is likely to include higher taxes. The structure and form of any tax increases will affect economic growth and inflation. There is no simple fix and so far Congress has largely avoided the issue.

The immediate risk is that our economy is growing faster than its potential which may cause systemic inflationary pressures. Stocks will likely outperform bonds in this environment, however volatility is likely to increase for most asset classes as investors digest the growth/inflation paradigm.

### Fixed Income Sleeve

Performance for the quarter was predictable given a lack of material movement in the yield curve and a narrowing of spreads. Returns for the quarter were positive but not quite of the magnitude to lift the year-to-date return to a positive number. Corporate bonds were the leader, easily outperforming U.S. Treasury and Agency issues. Lower quality issues within the Credit sector outperformed higher quality issues.

Looking forward, we expect the Fed to maintain its current loose monetary policy, despite the recent uptick in inflation. We acknowledge that the last few readings were high, but we concur with the thought that these impacts appear transitory. Assuredly, we will continue to monitor the economic data for any worsening trends. As for the Fed's next move it will likely begin to have discussions about when they will raise rates well before they actually change their policy stance. It would be unlikely to see any rate hikes before 2023 given the current economic variables.

## Congress Asset Management Co. Balanced Composite 1/1/2011 - 12/31/2020

Year	Total Return Gross of Fees%	Total Return Net of Fees%	60% S&P 500 40% BBUIGCI Blend Return % (dividends reinvested)	CAM Recomm. Allocation %	Composite Gross 3-Yr St Dev (%)	60% S&P 500 40% BBUIGCI Blend Return 3-Yr St Dev (%)	Number of Portfolios	Gross Dispersion %	Total Composite Assets End of Period (\$ millions)	Total Firm Discretionary Assets End of Period (\$ millions)	Total Firm Advisory- Only Assets End of Period (\$ millions)	Total Firm Assets End of Period # (\$ millions)
2020	20.3	19.8	14.3	65/35	11.4	11.2	27	1.44	47	10,746	5,523	16,269
2019	24.5	23.9	21.3	65/35	7.6	7.1	26	1.66	44	8,445	4,083	12,528
2018	2.5	2.0	-2.0	65/35	7.0	6.3	21	0.67	32	7,102	3,132	10,234
2017	19.2	18.5	13.6	70/30	6.7	5.8	10	n/a	15	7,272	3,274	10,546
2016	4.7	4.0	8.1	70/30	7.3	6.3	6	n/a	7	5,693	2,445	8,139
2015	2.4	1.7	1.5	65/35	7.6	6.3	11	0.61	13	5,941	1,153	7,094
2014	8.0	7.3	9.4	65/35	7.1	5.5	15	0.77	20	6,328	1,121	7,449
2013	19.7	19.0	18.1	65/35	8.6	7.2	13	2.33	14	6,489	978	7,467
2012	9.2	8.6	11.1	65/35	9.9	8.8	18	0.42	23	6,755	743	7,498
2011	4.3	3.7	3.9	65/35	11.0	11.3	14	0.51	15	6,329	685	7,014

#The "Total Firm Assets" column includes unified managed account (UMA) assets

Congress Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Congress Asset Management has been independently verified for the periods 1/1/96 – 12/31/20. The verification reports(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedure for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Firm Information: Congress Asset Management Co. (CAM) is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Registration does not imply a certain level of skill or training. CAM manages a variety of public equity, private equity, fixed income and ETF managed portfolios for private and institutional clients. CAM acquired Prelude Asset Management, LLC on March 15, 2010. CAM merged with Congress Capital Partners, LLP on June 30, 2015. CAM acquired certain strategies of Century Capital Management, LLC on September 15, 2017.

Composite Characteristics: The Balanced Composite was created on January 1, 1993 and the inception date of the composite is January 1, 1985, which reflects the first full month an account was fully invested in the strategy and met the inclusion criteria. The composite includes all fully discretionary portfolios with a value over \$500 thousand (US dollars) managed with the recommended asset allocation between large cap equities and fixed income set by the Investment Policy Committee for a minimum of one full month. The current recommendation is a 65/35 allocation and accounts with allocations falling within 15% of the recommendation are eligible for composite inclusion. Accounts with wrap commissions are excluded from the composite. Prior to September 1, 2005 the composite did not include taxable accounts, private client accounts, or accounts with less than \$1 million. For the Balanced Composite we present a custom benchmark, which is a 60/40 blend of the S&P 500 Index and Bloomberg Barclays US Intermediate Government / Credit Index. The benchmark is calculated in Advent Portfolio Exchange by weighting the respective index returns on a daily basis. The benchmark returns are not covered by the report of independent verifiers. Closed account data is included in the composite as mandated by the standards in order to eliminate a survivorship bias. A list of composite descriptions and a list of broad distribution pooled funds are available upon request. Prior to January 1, 1993 the composite is not in compliance with GIPS.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars. Gross of fees returns are calculated gross of management and custodial fees and net of transaction costs. Prior to 2007 net of fees returns were calculated by reducing gross returns by 1/4th of the highest management fee in the Balanced Composite, which was 1.00%, applied quarterly. Effective January 1, 2007 net of fees returns are calculated using actual management fees. The composite results portrayed reflect the reinvestment of dividends, capital gains, and other earnings when appropriate. Accruals for fixed income and equity securities are included in calculations. Internal dispersion is calculated using the asset-weighted standard deviation of annual gross-of-fees returns of those portfolios that were included in the composite for the entire year. For those years when less than six portfolios were included in the composite for the full year, no dispersion measure is presented. The three-year annualized ex-post standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.

Fee Schedule: The firms' individual account fee schedule is as follows: 1.00% for first \$1 million, 0.80% for next \$4 million, 0.60% for next \$5 million. Management fees for individual accounts with assets under management exceeding \$10 million, and for institutional accounts are negotiated. The individual account fee schedule may be subject to negotiation where circumstances warrant. As fees are deducted quarterly, the compounding effect will increase the impact of the fees by an amount directly related to the gross account performance. For example, an account earning a 10% annual gross return with a 1% annual fee deducted quarterly would earn an 8.9% annual net return due to compounding.

Other Disclosures: Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. Market conditions can vary widely over time and can result in a loss of portfolio value. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.