

# Portfolio Commentary

# Small Cap Value

## Market Review

The United States approaches Independence Day caught in a whirlwind of emotions as investors grapple with conflicting economic readings like soaring inflation and softening demand for economically sensitive commodities. The Federal Reserve Governors have turned to restrictive monetary policies while the federal government offers fiscal plans unlikely to blunt rising prices or boost sentiment. Financial markets reflect this uncertainty as both stock and bond volatility remains elevated. Stocks experienced a bear market decline in the first half of the year while the bond market experienced its worst six-month period since the early 1970's. The economic outlook is nebulous, but likely not as dire as sentiment or headlines suggest.

Contrasting economic reports have their genesis in the strong labor market that followed the Great Financial Crisis in 2008 and the overwhelming federal government response through both fiscal and monetary policy to the pandemic. The decade prior to COVID-19 bore the best labor market since World War II. There was little slack, but wages and benefits rose along with productivity helping to keep inflation in check. After the pandemic, the labor force shrank, partly from lifestyle choices and partly from government incentives intended to offset lost wages. With fewer people returning to the labor force, compensation is now rising greater than productivity, stoking price spikes. Fiscal stimulus half worked. It enabled consumers to spend and maintain their lifestyles yet failed to help producers increase supply resulting in shortages in goods of all types.

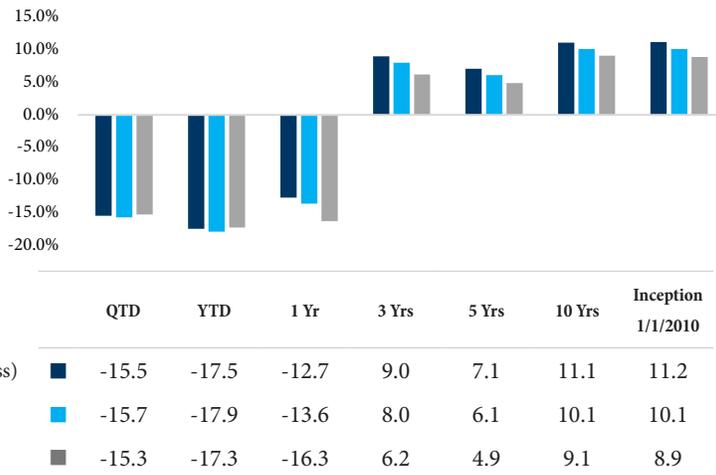
The Federal Reserve (Fed) repeatedly acknowledged the threat sustained inflation presents and has reiterated its commitment to achieving price stability. The Fed accelerated its inflation fight by raising interest rates two times during the quarter and by allowing its balance sheet to shrink, thereby decreasing the supply of money embedded in the banking system. The federal funds interest rate has been hiked by 1.5% this year, making borrowing more expensive. Higher rates have and will continue to effect capital allocation decisions for companies and consumers, but a recession is not a foregone conclusion despite the Fed's newfound hawkishness.

## Performance Overview

The Small Cap Value Portfolio ("the Portfolio") returned -15.52% (gross of fees) and -15.72% (net of fees) during the quarter, while the Russell 2000 Value Index ("The Index") returned -15.28%.

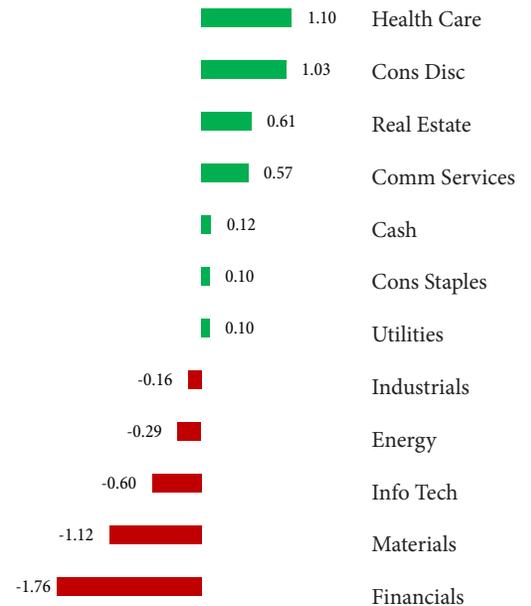
The Portfolio benefited from security selection in Consumer Discretionary, Health Care, Real Estate, and Communication Services. However, security selection in Financials, Materials, Information Technology, and Energy detracted from performance.

Average Annualized Performance % as of 6/30/2022



Performance is preliminary and subject to change at any time.

% Total Effect Portfolio vs. Index<sup>1</sup>  
(3/31/2022 - 6/30/2022)



Information is as of 6/30/2022. Sources: Congress Asset Management, FactSet, Russell Investments and Morningstar Direct. The information throughout this presentation is for illustrative purposes and is subject to change at any time. Holdings and sector weightings 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. Past performance does not guarantee future results. Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce investment performance. **This information is supplemental to the GIPS Report.** Performance returns of less than one year are not annualized. Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and/or underlying data contained in this communication. No further distribution of Russell data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication. <sup>1</sup>The information shown is for a representative account as of 6/30/2022. Actual client account holdings and sector allocations may vary.

## 2Q 2022 Attribution Highlights

### Overall Contributors

- Security selection in Consumer Discretionary, Health Care, Real Estate, and Communication Services

### Overall Detractors

- Security selection in Financials, Materials, Information Technology, and Energy

### Top 5 Contributors/Detractors

STOCK	AVG. WEIGHT%	CONTRIBUTION%
Turning Point Therapeutics, Inc.	0.90	0.87
FTI Consulting, Inc.	3.12	0.45
American Campus Communities, Inc.	1.67	0.21
LCI Industries	1.60	0.14
CVR Energy, Inc.	0.66	0.12

### Top 5 Contributors/Detractors

STOCK	AVG. WEIGHT%	DETRACTION%
Shyft Group, Inc.	1.56	-0.99
Century Aluminum Company	0.83	-0.92
Virtu Financial, Inc. Class A	1.88	-0.77
JetBlue Airways Corporation	1.15	-0.62
Ebix, Inc.	1.04	-0.58

**Turning Point Therapeutics, Inc. (TPTX)** is a clinical-stage precision oncology company. Shares benefited from a take over offer from Bristol Myers.

**FTI Consulting, Inc. (FCN)** is a consulting company specializing in restructuring, forensic & litigation, and communications. Shares benefited from the company's diversified business mix that is producing consistent mid-single-digit organic revenue growth with strong visibility in the pipeline and backlog conversion for the remainder of the year. FCN's Strategic Communications and Corporate Finance and Restructuring segments are performing well, while market concerns over a global recession would suggest future tailwinds for restructuring activity.

**American Campus Communities, Inc. (ACC)** is the largest developer, owner and manager of student housing communities in the U.S. Shares benefited from a take over offer from Blackstone.

**Shyft Group, Inc. (SHYF)** is an automobile design company that designs, engineers, and manufactures specialty chassis, specialty vehicles, truck bodies, and aftermarket parts for the recreational vehicle, government services, and delivery and service markets. Shares came under pressure as supply chain issues led to uncertainty surrounding the rate at which the company would be able to deliver its products.

**Century Aluminum Company (CENX)** is a US-based producer of primary aluminum. Shares came under pressure as supply chain issues led to uncertainty in many industrial end markets. This uncertainty resulted in aluminum prices dropping from the lofty levels that they had achieved in 2021.

**Virtu Financial, Inc. Class A ((VIRT)** provides financial services, trading products, and market making services. Shares came under pressure despite an increase in financial market volatility. Virtu's trading business generally performs better when the market is more volatile but concerns about potential regulatory changes that could impact the company's market-making business dampened returns.

### Purchased

- Arthrocare Corp. (ATRC) - Health Care

### Sold

- Kennametal, Inc. (KMT) - Industrials

## Economic Outlook

Our view is that in the current environment the most important determinant for continued economic expansion is the state of the consumer and their willingness to spend. After two years of cash accumulation with constrained spending opportunities households now have \$116 trillion in cash, up 33% from two years ago. In addition, thanks to a decade of low interest rates, debt service is low. Inflation is biting, but not yet crushing the consumer.

Unlike 2008, we do not have a systemic leverage problem for either individuals or corporations. Debt accumulated over the past few years is at low rates and the related interest obligations are not draconian. As such a “credit contagion” similar to 2008 is unlikely. Proper use of leverage would help temper any downturn.

Many business leaders have issued cautionary economic commentary. This is prudent given the unusual economic state of affairs. However, even with higher inflation, profit margins have held up. Given the difficulty in identifying, hiring, and training workers, employers may be reluctant to cut payroll for what may be a cyclical inflationary period. More acute margin pressures later in the year may indeed push businesses into cost cutting mode. Corporate earnings would be challenged in 2023 should that transpire.

Commodity prices have come off the boil due to lower anticipated growth, some demand destruction, and China’s shutdown of Shanghai and Beijing. In the U.S., active oil and gas rigs are up 50% over last year, though still significantly below records achieved last decade in a more supportive scenario for carbon-based product. Delivering supplies of oil and natural gas to needed geographies in time for winter may prove challenging and limit better prices for consumers.

Outside the U. S., most if not all, of the developed economies are battling both inflation and higher interest rates. Many economies are teetering on the edge of recession and are facing even higher energy prices than the United States. Russia’s war on Ukraine is also likely to create more challenges for Europe as the year progresses.

China’s economic engine has stalled as its “zero covid” policy resulted in the lockdown of its most important regions for trade and commerce. It is slowly re-opening but combined with a burgeoning real estate crisis, China is unlikely to grow substantially until next year.

The current macro-economic environment is without precedent. Investors will continue to monitor the Federal Reserve as it walks a tightrope trying to control inflation while maintaining a strong employment market and a growing economy. As important is the adaptability of the U.S. economic system and its constituents. The challenges are real but domestic businesses and organizations have proven time and again that they can respond to new stimuli and new scenarios. That is often lost in the cacophony of daily headlines.

The financial markets have, and will likely continue to, react viscerally to unanticipated economic readings. In our view, long term investors will be rewarded by staying the course – investing in the stocks and bonds of high-quality U.S. companies. Extreme market volatility is often unsettling but should not alter longer term investment programs.

## Congress Asset Management Co. Small Cap Value Composite 1/1/2011 - 12/31/2020

Year	Total Return Gross of Fees %	Total Return Net of Fees %	Russell 2000 Value Return % (dividends reinvested)	Composite Gross 3-Yr an- nualized ex-post St Dev (%)	Russell 2000 Value 3-Yr an- nualized ex-post St Dev (%)	Number of Portfolios	Gross Disper- sion %	Total Composite Assets End of Period (\$ millions)	Total Firm Discretionary Assets End of Period (\$ millions)	Total Firm Advisory-On- ly Assets End of Period (\$ millions)	Total Firm Assets End of Period # (\$ millions)
2020	8.8	7.8	4.6	27.1	26.1	≤5	n/a	197	10,746	5,523	16,269
2019	26.2	25.1	22.4	16.5	15.7	≤5	n/a	185	8,445	4,083	12,528
2018	-15.5	-16.3	-12.9	15.7	15.8	≤5	n/a	235	7,102	3,132	10,234
2017	16.9	15.8	7.8	13.9	14.0	≤5	n/a	244	7,272	3,274	10,546
2016	18.4	17.2	31.7	15.4	15.7	≤5	n/a	283	n/a	n/a	n/a
2015	-7.6	-8.4	-7.5	13.6	13.7	≤5	n/a	266	n/a	n/a	n/a
2014	6.2	5.2	4.2	12.5	13.0	≤5	n/a	0.4	n/a	n/a	n/a
2013	45.5	44.1	34.5	15.9	16.1	≤5	n/a	0.1	n/a	n/a	n/a
2012	27.4	26.2	18.1	n/a	n/a	≤5	n/a	17	n/a	n/a	n/a
2011	-4.1	-5.0	-5.5	n/a	n/a	≤5	n/a	14	n/a	n/a	n/a

#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 report(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 Advisers 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 Small Cap Value Composite was created on March 31, 2014 and the inception date is November 1, 2010. Performance prior to September 15, 2017 was generated by Century Capital Management, LLC. Performance prior to March 1, 2014 was generated before the Portfolio Manager became affiliated with Century Capital Management, LLC. The Portfolio Manager was the only individual responsible for selecting securities to buy and sell and the investment decision-making process remained intact. Accordingly, composite performance is linked to performance generated prior to March 1, 2014. Because CAM acquired certain strategies of Century Capital Management, LLC on September 15, 2017 Total Firm Assets are shown as n/a for periods prior to the acquisition date. All portability requirements with respect to GIPS have been met. The composite includes all fully discretionary portfolios with a value over \$100 thousand (US dollars) managed in the small cap value style for a minimum of one full month. The small cap value strategy generally invests in the equity of companies with market capitalizations between \$50 million and \$5 billion or that are within the range of the Russell 2000 Value Index (at the time of purchase) that trade at a discount to intrinsic value or whose earnings growth is under appreciated by the street. Prior to October 1, 2017 there was no minimum value for inclusion. The composite contained proprietary non-fee paying assets which represented 100% of total composite assets as of December 31, 2014 and 0.14% of composite assets as of December 31, 2015 and 0.17% as of December 31, 2016. The benchmark is the Russell 2000 Value Index. 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.

**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. Net of fees returns are calculated by reducing monthly gross returns by 1/12th of the maximum applicable annual management fee, which is 0.95%. For periods ended on or before March 31, 2011, the maximum applicable management fee was 1% on the first \$50 million. For periods beginning after March 31, 2011, the maximum applicable management fee is 0.95% on the first \$50 million of assets. The composite results portrayed reflect the reinvestment of dividends, capital gains, and other earnings when appropriate. Accruals for 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. It is not presented for 2011 and 2012 because 36-month returns were not available.

**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 typically 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.