# Portfolio Commentary

# Large Cap Growth

## Market Review

We ended 2021 seemingly how it began, mired in another COVID wave. This one driven by the new Omicron variant. Pandemic fatigue is spreading as fast as the new variant itself. Is it different this time? Probably. Omicron appears to spread faster but with less severity. Still, after almost two years, it remains tempting to apply fantastic headlines designed to lure readers to an unfavorable economic view. This would be a mistake as economic momentum remains strong. Omicron tempered economic activity post-Thanksgiving, but this is likely a stumble, not a fall.

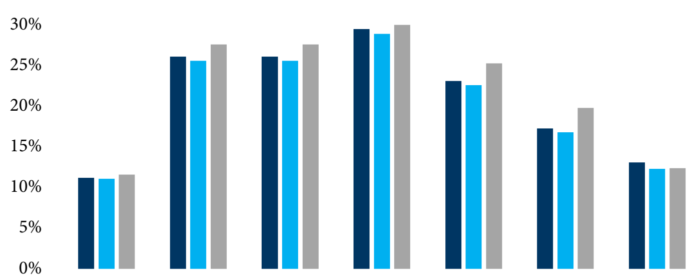
Financial asset returns for 2021 reflected both the strong recovery from the initial pandemic lockdowns and increased inflation. The S&P 500 returned over 28%, driven in large part by big technology companies. While not reflected in broader market returns, many other companies reported strong operating results bolstered by pricing power. In contrast to stocks, the bond market displayed more volatility. Yields on the bellwether 10-year U.S. Treasury Note rose as inflation expectations increased, then fell with the onset of Omicron and the Federal Reserve Bank's (Fed) plan to end bond purchases in March rather than June. The 10-year U.S. Treasury Note ended the year with a 1.5% yield.

## Performance Overview

The Congress Large Cap Growth Portfolio ("The Portfolio") returned 11.22% (gross of fees) during the fourth quarter, while the Russell 1000 Growth Index ("The Index") returned 11.64%.

The Portfolio benefited from security selection in Health Care, Consumer Staples, and Materials, as well as an underweight allocation to Communication Services. However, security selection in Information Technology and Consumer Discretionary detracted from performance, as did an underweight allocation to Information Technology and an overweight allocation to Health Care.

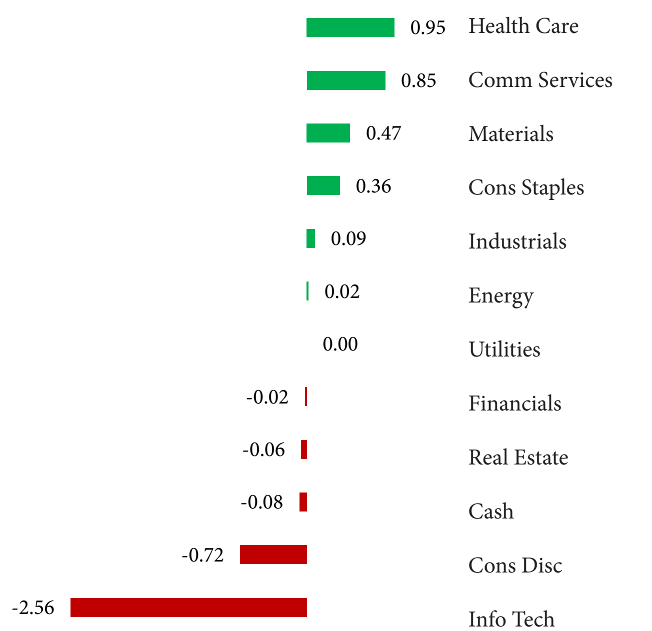
### Average Annualized Performance % as of 12/31/2021




| | QTD | YTD | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Inception 1/1/1985 |
|---|---|---|---|---|---|---|---|
| Large Cap Growth (Gross) | 11.2 | 26.1 | 26.1 | 29.5 | 23.1 | 17.3 | 13.1 |
| Large Cap Growth (Net) | 11.1 | 25.6 | 25.6 | 28.9 | 22.6 | 16.8 | 12.3 |
| Russell 1000 Growth© | 11.6 | 27.6 | 27.6 | 34.1 | 25.3 | 19.8 | 12.4 |

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

### % Total Effect Portfolio[1] vs. Index (9/30/2021 - 12/31/2021)



## 4Q 2021 Attribution Highlights

### Overall Contributors

- Security selection in Health Care, Consumer Staples, and Materials
- Underweight allocation to Communication Services

### Overall Detractors

- Security selection in Information Technology & Consumer Discretionary
- Underweight allocation to Information Technology
- Overweight allocation to Health Care

### Top 5 Contributors

| Stock | Avg. Weight% | Contribution% |
|---|---|---|
| Apple, Inc. | 3.75 | 0.89 |
| Ciena Corporation | 1.90 | 0.81 |
| Accenture Plc | 2.84 | 0.78 |
| Costco Wholesale Corporation | 2.97 | 0.71 |
| Zoetis, Inc. | 2.94 | 0.70 |

**Apple, Inc. (AAPL)** is the world's largest information technology company. Its core products are the iPhone, iMac, and the iPad. The company has also built a sizable software and service business through its App Store. Despite supply constraints and COVID headwinds negatively impacting the hardware business, the Services segment continues to generate solid double-digit revenue growth driven by positive results in the Music, Ads, Apple Care, and payments businesses.

**Ciena Corporation (CIEN)** is a global supplier of telecommunications networking equipment, software, and services. The company followed up industry comments regarding an improving CapEx spending environment with solid 4th quarter results and encouraging guidance driven by monetization of previously delayed new business wins. The company also provided a favorable update for long-term revenue growth and margins

**Accenture Plc (ACN)** operates as an investment holding company providing management consulting, technology, and outsourcing services. ACN is the largest stand-alone IT services business in the world by sales. ACN reported very strong fourth quarter bookings, a trend that management expects to continue. Digital transformation is the core driver, as its clients' investments in cloud and digital infrastructure remain a top priority; ACN has also managed the labor and inflationary environment well.

**Costco Wholesale Corporation (COST)** operates membership warehouses that offer branded and private-label products in a range of merchandise categories. COST is unique among retailers in its ability to combine customer loyalty, value, and growth. The company continues its effective management of the current logistical and inflationary challenges resulting in share gains. It is also seeing increased memberships, especially at the executive membership tier.

**Zoetis, Inc. (ZTS)** sells anti-infectives, vaccines, diagnostics, and other health care products for animals. ZTS earns most of its revenue from production animals (cattle, pigs, poultry, etc.) but also sells companion animal products (i.e., dogs, horses, cats). The company continues to benefit from favorable trends in its companion animal segment. ZTS's parasiticide products continue to exceed expectations fueled by the global expansion of the flea, tick, and heartworm market.

### Bottom 5 Contributors/Detractors

| Stock | Avg. Weight% | Detraction% |
|---|---|---|
| PayPal Holdings, Inc. | 2.78 | -0.91 |
| Global Payments, Inc. | 0.84 | -0.34 |
| Paycom Software, Inc. | 1.98 | -0.31 |
| Repligen Corporation | 1.54 | -0.16 |
| Entegris, Inc. | 0.62 | -0.15 |

**PayPal Holdings Inc. (PYPL)** is an online payment platform that enables digital and mobile payments on behalf of consumers and merchants worldwide. The stock's underperformance was attributed to the eBay transition as well as supply chain headwinds at the merchant level and lower consumer confidence.

**Global Payments, Inc. (GPN)** is a pure-play payment technology company providing payment and software solutions to approximately 3.5 million merchant locations and over 1,300 financial institutions globally. Despite reporting better than expected quarterly revenue and earnings, guidance was raised by less than the beat. In addition, weakness in the Merchant acquiring segment could indicate possible market share loss.

**Paycom Software, Inc. (PAYC)** provides cloud-based human capital and payroll management solutions. The company reported good quarterly results highlighted by new product adoption, higher initial contract values, continued elevated bookings, and positive customer retention rates. The stock likely sold off on weakness in software stocks overall as well as continued sales and marketing spending that will impact margins in the near term.

**Repligen Corporation (RGEN)** is a global life sciences company that develops and commercializes highly innovative bioprocessing technologies and systems that increase efficiencies and flexibility in the process of manufacturing biological drugs. The company reported excellent results as it continues to benefit from a robust bioprocessing environment. However, the stock underperformed along with the broader market.

**Entegris, Inc. (ENTG)** is a leading developer, manufacturer, and supplier of micro-contamination control products, specialty chemicals, and advanced materials handling solutions used in semiconductor and other high-tech manufacturing processes. Supply chain constraints and manufacturing inefficiencies negatively impacted the company's quarterly results.

## 4Q 2021 Transaction Summary

| Sector Allocation Changes | Purchased | Sold |
|---|---|---|
| • none | • Entegris, Inc. (ENTG) - Information Technology<br>• Old Dominion Freight Line, Inc. (ODFL) - Industrials | • Global Payments, Inc. (GPN) - Information Technology<br>• L3Harris Technologies, Inc. (LHX) - Industrials |

## Purchased

**Entegris, Inc. (ENTG)** is a leading developer, manufacturer, and supplier of micro-contamination control products, specialty chemicals, and advanced materials handling solutions used in semiconductor and other high-tech manufacturing processes. As the semiconductor industry moves towards more advanced nodes, the manufacturing process becomes significantly more complex and resource intensive, a transition that is currently in the early stages. In addition, newly developed higher-margin solutions (i.e., Aramus bags) should accelerate revenue growth in the life science space.

**Old Dominion Freight Line, Inc. (ODFL)** is a leading provider of less-than-truckload (LTL) freight transportation in North America. The company provides regional, inter-regional, and national LTL services. The North American LTL landscape is characterized by high barriers to entry and strong pricing power as the industry has become more concentrated over time. Given its robust terminal network, strong pricing discipline, and industry-leading operating ratio, ODFL is widely considered to be best-in-class. Its clean balance sheet allows the company to navigate downcycles more effectively as competitors struggle.

## Sold

**Global Payments, Inc. (GPN)** is a leading pure-play payment technology company providing payment and software solutions to approximately 3.5 million merchant locations and over 1,300 financial institutions globally. The concern surrounding the company is that it may not be as well-positioned for the future (i.e., e-commerce/online, API's) compared to some of its peers.

**L3Harris Technologies, Inc. (LHX)** is a global aerospace and defense company that was established in 2019 through a merger of L3 Technologies and the Harris Corporation. The company offers a leading portfolio of differentiated technologies, mission-critical solutions, and capabilities that are closely aligned with key customer priorities in support of the National Defense Strategy. With the synergies from the L3/Harris merger essentially realized, the company isn't showing meaningful margin expansion or EPS growth. In addition, despite the relative strength of LHX's positioning, a decelerating end market along with shorter-term headwinds will prove challenging for the company to generate mid-single-digit growth over the next couple of years.

## Positioning

Investments are predicated on a company's future prospects rather than economic or market cycles. We seek companies with strong fundamentals, emphasizing earnings growth consistency, free cash flow, and solid balance sheet metrics. There were two purchases and two sales in the Portfolio during the quarter, and they are reflective of this philosophy.

## Outlook

We expect the economy to maintain its current pace or strengthen as 2022 progresses. The outlook for the financial markets is more nuanced. Much depends on whether and how much inflation recedes from an elevated 7% November CPI report. Much also depends on growth outside the U.S. The growth/inflation paradigm is arguably more complex than at any time since the end of World War II.

The economic resurgence that started in the spring of 2020 has been remarkable. Domestic GDP registered $23.2 trillion at an annual rate in the third quarter, $1.7 trillion above the 2019 level, the pre-COVID high. Economic activity has slowed with the spread of Omicron, but this likely represents a blip, nothing more. The domestic economy has a solid foundation, led by the consumer but bolstered by both businesses spending to satiate demand and also augmented by government stimulus plans.

Borrowing from Newton's Three Laws of Motion, the economy will not change its expansionary trajectory without a force acting against it. The economy's velocity is supported by almost two years of embedded fiscal and monetary stimuli. Inflation and higher interest rates are forces that could hinder the trajectory but currently do not have enough mass to do so. Further, curtailment of some government transfer programs is unlikely to alter the expansionary trajectory.

The most important force supporting the economy is the combination of jobs, wages, and personal income. The U.S. has a scarcity of labor. Employment surveys indicate 11 million open jobs with far fewer available workers. The shortage will only be partially solved by workers returning post-COVID. Scarcity is forcing employers to pay more, pushing up wages. Personal income was up 7.4% on a year-over-year basis in November 2021. Consumer Net Worth, a broader indicator of financial health, was up 18% over last year.

Other forces continue to indicate continued growth into the New Year. Corporate profits were up 8.4% in the third quarter. Importantly, credit via the bond market and bank loans remains accessible, supporting investment in longer term, productive assets.

Rising wages may be reversing a decades-long secular decline in the labor share of economic output. Up to now, pricing power has mitigated increased labor costs, forestalling the deleterious effects on margins. The reversal of this trend may pose a challenge to profit margins in 2022 and beyond.

Finally, government stimulus should continue to support growth. The November passage of a $1 trillion infrastructure package should impact 2022/2023 with increased federal spending. Regardless as to whether President Biden's Build Back Better plan is passed or not, government and municipal spending will continue to increase.

The sanguine domestic economic outlook cannot be directly applied to the financial markets. As forward-looking instruments, both the stock

*Information is as of 12/31/2021*

and bond markets try to anticipate what is around the bend. Entering 2022, two risks appear more prominent now than at any time in the recent past: inflation and China's worrisome economic path.

On the domestic front, the Fed has acknowledged that the level of inflation experienced in 2021, if sustained, would be a detriment to the U.S. economy. Accordingly, it accelerated its plan to curb bond purchases and intimated it may raise short term interest rates as early as the spring. Whether that is enough to limit inflation to the Fed's preferred level of 2% or so remains to be seen. Sustained inflation above 2% would eventually crimp profit margins and would likely result in higher long term interest rates and would weigh on stock prices.

As the world's second largest economy, China has large coattails. China's third quarter GDP grew by only 4.9%, well below its historical average. A slew of Chinese real-estate developers declared bankruptcy. Real estate represents about 30% of China's economy, a far greater level than seen in the U.S. As such, it has outsized importance. With real-estate demand waning, China could be dragged into a recession while facing international sanctions on human rights abuses. China's lack of transparency is especially troubling when its economy is in flux, as it is now.

The New Year holds much promise, including the potential for COVID to be downgraded to endemic status. The U.S. economy and by extension the consumer should continue to do well. Stock investors are likely to experience more volatility with a focus on profit margins and a heightened interest in price-earnings multiples. Investment grade bonds should continue to be a modest source of current income and offer stability relative to other assets should interest rates rise.

## Congress Asset Management Co. Large Cap Growth Composite 1/1/2011 - 12/31/2020

| Year | Total Return Gross of Fees % | Total Return Net of Fees % | S&P 500 Return % (dividends reinvested) | Russell 1000 Growth Return % (dividends reinvested) | Composite Gross 3-Yr annualized ex-post St Dev (%) | S&P 500 3-Yr annualized ex-post St Dev (%) | Russell 1000 Growth 3-Yr St Dev (%) | Number of Portfolios | Gross Dispersion % | Total Composite Assets End of Period ($ millions) | Total Firm Discretionary Assets End of Period ($ milions) | Total Firm Advisory-Only Assets End of Period ($ millions) | Total Firm Assets End of Period # ($ millions) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | 28.0 | 27.5 | 18.4 | 38.5 | 17.3 | 18.5 | 19.6 | 150 | 1.27 | 258 | 10,746 | 5,523 | 16,269 |
| 2019 | 34.4 | 33.9 | 31.5 | 36.4 | 11.5 | 11.9 | 13.1 | 114 | 0.82 | 207 | 8,445 | 4,083 | 12,528 |
| 2018 | 2.5 | 2.1 | -4.4 | -1.5 | 10.5 | 10.8 | 12.1 | 80 | 0.30 | 136 | 7,102 | 3,132 | 10,234 |
| 2017 | 27.2 | 26.6 | 21.8 | 30.2 | 9.9 | 9.9 | 10.5 | 78 | 0.58 | 111 | 7,272 | 3,274 | 10,546 |
| 2016 | 5.6 | 5.1 | 12.0 | 7.1 | 10.7 | 10.6 | 11.2 | 81 | 0.43 | 98 | 5,693 | 2,445 | 8,139 |
| 2015 | 2.8 | 2.2 | 1.4 | 5.7 | 11.1 | 10.5 | 10.7 | 28 | 0.49 | 65 | 5,941 | 1,153 | 7,094 |
| 2014 | 10.1 | 9.5 | 13.7 | 13.1 | 10.1 | 9.0 | 9.6 | 30 | 0.47 | 89 | 6,328 | 1,121 | 7,449 |
| 2013 | 30.5 | 30.0 | 32.4 | 33.5 | 12.5 | 11.9 | 12.2 | 35 | 0.50 | 233 | 6,489 | 978 | 7,467 |
| 2012 | 11.9 | 11.5 | 16.0 | 15.3 | 15.2 | 15.1 | 15.7 | 39 | 0.40 | 302 | 6,755 | 743 | 7,498 |
| 2011 | 3.5 | 3.1 | 2.1 | 2.6 | 17.0 | 18.7 | 17.8 | 45 | 0.66 | 463 | 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. 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. The Large Cap Growth Composite has had a performance examination for the periods 1/1/96 – 12/31/20. The verification and performance examination reports are available upon request.

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 Large Cap Growth Composite was created on January 1, 1993 and the inception date of the composite is January 1, 1985, which reflects the first full month in which an account was fully invested in the strategy and met the inclusion criteria. The composite includes all fully discretionary portfolios with a value over $100 thousand (US dollars) managed in the large cap growth style for a minimum of one full month. The large cap growth strategy invests in the equity of high quality companies with market capitalizations greater than $5 billion exhibiting consistent earnings growth. The strategy may also invest from time to time in equity securities with capitalizations between $1 billion and $5 billion. Accounts with wrap commissions are excluded from the composite. Prior to January 1, 2016 the composite minimum was $500 thousand (US dollars). Prior to September 1, 2005 the composite did not include taxable accounts, private client accounts, or accounts with less than $1 million. The primary composite benchmark is the S&P 500 Index. The secondary benchmark is the Russell 1000 Growth 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. Prior to 2007 net of fees returns were calculated by reducing gross returns by 1/4th of the highest management fee in the Large Cap Growth 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 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. Prior to January 1, 1993 the composite is not in compliance with GIPS.

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, not does it warrant the accuracy or quality of the content contained herein.