CONGRESS ASSET MANAGEMENT COMPANY

Q4 2016
All-Cap Opportunity

Portfolio Commentary

Market Review

The November presidential election was the seminal event of the fourth quarter and may prove to be the most important single event since the financial crisis. The end of the campaign may have been a relief for the market. But relief does not explain the price swings between different asset classes or even between different stock market sectors. As December progressed, the S&P 500 closed most days near a record high and the Dow Jones Industrial Average marched inexorably towards the psychologically important 20,000 mark. Bond prices fell, leaving the ten year yield near 2.60%, a high for the year. The dollar, riding a wave of optimism and higher rates has risen to levels not seen in decades.

There were vast return differences within the stock market as well. Small company stocks, considered both a tax reform beneficiary and sheltered from a rising dollar have soared since the election. Bank stocks, weighed down by regulations and low interest rates for the past decade, sprung to life at the expense of utilities and other “bond proxy” stocks. The promise of robust government funded infrastructure projects helped support industrial and material stocks.

In the months leading up to the election and since, the election took on a life of its own. Lost in the election headlines were the more mundane measures of economic output that tell an interesting economic story.

The economy has grown at about a 2% pace since the recession ended in 2009, marking the slowest average rate of any expansion since at least 1949. Measures of economic activity, however improved notably as the year progressed. Gross domestic product (GDP), the broadest measure of our economy ended the 3rd quarter at 3.5% growth, the strongest level in two years and substantially better than the lackluster readings from earlier in the year. Another broad measure, the unemployment rate was similarly positive measuring 4.6% in December. There are jobs to be had and we have more employed than ever before.

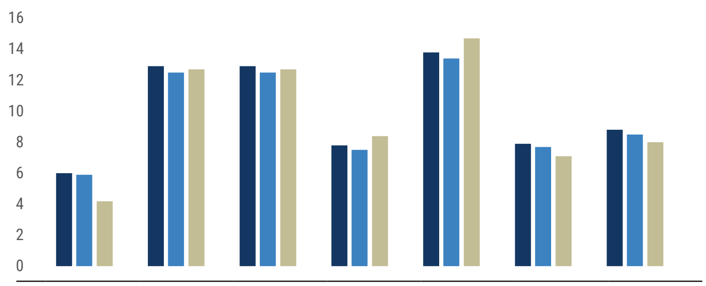
In spite of the recent run up in interest rates, we remain in a historically low interest rate environment. Low rates combined with new job creation have had a sustained positive impact on the housing and auto markets. Millennials, for whom jobs were scarce five years ago, are finding work and creating new households providing a solid foundation for home sales and prices. Consumers are more positive than they have been in years, the December confidence expectations index jumped to the highest level since December 2003.

The negative effects of a deflationary energy market are largely behind us. With oil hovering around $55 per barrel, business investment is likely to increase. Business investment has not recovered from its unprecedented collapse during the financial crisis and has been a drag on economic growth. OPEC’s recent production agreement, their first in 10 years combined with non-OPEC producers’ similar agreement should provide a conducive floor for investment spending.

Performance Overview

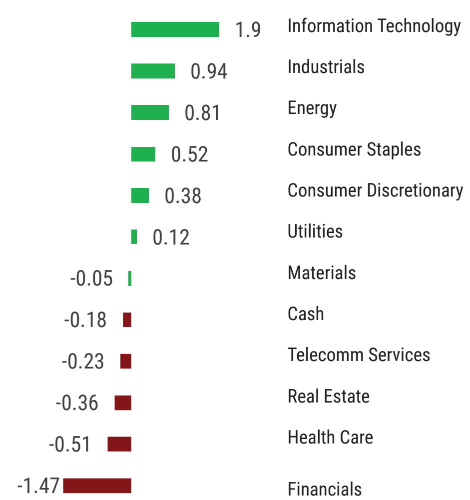
For the quarter ending December 31, 2016 the All Cap Opportunity Portfolio (the Portfolio) outperformed its benchmark, the Russell 3000 Index (the Index). The Portfolio returned +5.99% gross of fees while the Index returned +4.21% for the quarter. Relative performance was aided by security selection in the Information Technology, Energy, and Industrial sectors. However, relative performance was negatively impacted by an underweight to the Financials sector, security selection in the Telecommunication Services sector, and an overweight to the Real Estate sector.

Annualized Returns % as of 12/31/2016



	QTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Congress ACO (Gross)	6.0	12.9	12.9	7.8	13.8	7.9	8.8
Congress ACO (Net)	5.9	12.5	12.5	7.5	13.4	7.7	8.5
Russell 3000®	4.2	12.7	12.7	8.4	14.7	7.1	8.0

% Total Effect Portfolio vs. Index (9/30/2016 - 12/31/2016) (bps)



Q4 2016 Attribution Highlights

Overall Contributors

- Security selection in Information Technology
- Security selection in Energy
- Security selection in Industrials

Overall Detractors

- Allocation in Financials
- Security selection in Telecommunication Services
- Allocation in Real Estate

Top Stock Contributors and Detractors

Contributors

Stock	Ticker	Contribution
NVIDIA Co.	NVDA	3.11%
United Rentals, Inc.	URI	1.75%
Baker Hughes Co.	BHI	1.25%

Detractors

Stock	Ticker	Detraction
Palo Alto Networks, Inc.	PANW	-1.09%
ABIOMED, Inc.	ABMD	-0.66%
J.C. Penney Co.	JCP	-0.35%

NVIDIA Corporation (NVDA) designs and manufactures computer graphics chips for use in personal computers. NVDA was up approximately 56% for the fourth quarter on continued positive operating results. The gaming segment continues to show strength despite a lack of new console launches or blockbuster game introductions. Other segments also performed well, buttressing the superlative gaming segment results.

United Rentals (URI) is the largest equipment rental company in the world, operating solely in the United States and Canada. URI stock gained 34.5% last quarter as oil and natural gas prices firmed, resulting in an improved outlook for increased construction and maintenance in this segment. Management expressed improved expectations for future quarters when discussing the firm's overall results which, when combined with increased infrastructure spending presumed under a new presidency, buoyed the stock.

Baker Hughes, Inc. (BHI) supplies oilfield services, products, technology, and systems to the worldwide oil and natural gas industry. BHI agreed to be acquired by General Electric Company (GE) in October, pushing the company's stock up approximately 29% for the quarter. Per terms of the deal, BHI will be combined with GE's oil and gas operations in a new company that will be majority owned by GE. In the transaction BHI shareholders will receive a cash outlay and shares in the new company.

Palo Alto Networks, Inc. (PANW) is a provider of network security software, primarily network firewall functions. PANW stock fell 21.5% last quarter after posting excellent results that failed to reach lofty market expectations. Management cited longer deal cycles for the miss on expectations and warned sell side analysts to adjust future expectations accordingly. The good operating results mixed with poor stock performance frustrated stockholders and may loom over next quarter's results.

ABIOMED, Inc. (ABMD) engages in the research, development, manufacture, and sale of cardiac support, recovery, and replacement devices. ABMD stock lost 12.4% in the fourth quarter as its earnings results missed street expectations. The Company has shifted its focus to future growth and accordingly began investing in its sales organization to take advantage of both an upcoming entry into the Japanese market as well as domestic potential thanks to a newly authorized indication for one of its devices. Long term expectations remain intact, supporting our thesis of growth in the usage of smaller medical devices such as those produced by ABMD.

J. C. Penney Company, Inc. (JCP) operates department stores, which consist of selling merchandise and services to consumers through its physical and online locations. JCP stock fell 9.9% over the last three months as weaker same store sales figures weighed down the stock. The Company is trying to move from a survival stage to a growth stage in its evolution out of a period of near bankruptcy. Plans made by the new management team reflect new directions for the retailer, including online purchases, large appliance sales, and branded product relationships, which continue to point towards improved long term results.

Sources: Congress Asset Management (CAM) and Factset. The views expressed in this document are as of publication date and are subject to change at any time due to changes in market or economic conditions.

Q4 2016 Transaction Summary

Purchased

- Broadcom Ltd. (AVGO)
- ZAYO Group Hldgs. (ZAYO)
- Regal Entertainment Group (RGC)

Sold

- Starz Class A (STRZA)
- Twenty-First Century Fox, Inc. (FOXA)

Purchased

Broadcom Limited (AVGO) is a leading supplier of analog and digital semiconductor chips serving wired and wireless communications, enterprise, and industrial end markets. These premium technology chips are destined for LTE (4G, 5G, and up) enabled phones as well as a diversified customer base away from phones (i.e., data centers and industrial markets). The Company's products are widely used in phones produced by Apple and Samsung. The Company today stands as the result of Avago Technologies Limited purchasing Broadcom Corporation in an acquisition that closed in February of 2016.

Zayo Group Holdings, Inc. (ZAYO) provides bandwidth infrastructure services in the U.S., Canada, and Europe. The Company's growth is predicated on the proliferation and transfer of data across wired and wireless networks from device to device. ZAYO is positioned in all facets of network connectivity, but specializes in fiber networks, so-called "Dark Fiber" or private networks in North America as well in the UK, Ireland, and France. The Company has grown organically as well as via acquisition in the past and is expected to follow a similar pattern going forward.

Regal Entertainment Group (RGC) develops, acquires, and operates multi-screen theatres primarily in mid-sized metropolitan markets and suburban growth areas of larger metropolitan markets. Regal is upgrading their standard seats to reclining seats, but has yet to update more than 20% of their screens. Recliners, combined with reserved seating, lead to better concession sales, improved viewer experiences, and increased pricing power. The Company expects a stable pace of adding to the total number of reseated screens from 2017 through year end 2019.

Sold

Starz Class A (STRZA) provides subscription video programming to multiple distribution platforms, including Starz Networks, Starz Distribution, and Starz Animation. The Company also produces and distributes films and programs to cable operators, satellite television and online video providers, and telecommunications firms. On June 30th, 2016, Lions Gate Entertainment Corp. (LGF) announced it would acquire STRZA for a combination of cash and LGF stock. In the months following the announcement STRZA stock ceased to trade on operating results, indicating that there was little value left in retaining the investment for the Portfolio.

Twenty-First Century Fox, Inc. (FOXA) operates as a global media company, including television broadcasting and film production. FOXA suffered throughout the second half of the year, largely due to the news of the resignation of troubled executive Roger Ailes amid sexual harassment allegations. Business results over the same period were slightly better than expected, but at the same time the company reduced its share repurchase program. The positive results were insufficient to overcome the negative media coverage, resulting in a stock that ultimately underperformed and led to disappointing future expectations.

Outlook

In our opinion, economic prospects are strengthening, not-withstanding the proposals proffered by President-elect Trump to jump start the economy. Trump's proposals, if made policy, could bolster growth but probably not as fast or to the degree many envision. The proposals are far reaching impacting fiscal, tax, and trade policies. For that reason, forecasting the impacts on our economy or the markets is inexact at best.

One thing is almost certain, there will be less regulation emanating from Washington. In the wake of the financial crisis, the regulatory burden on business increased considerably effecting small businesses disproportionately. Less regulation would allow small businesses to hire more freely, positively impacting job growth, increasing competitiveness and fostering innovation. Financial firms, and banks in particular, would also benefit from an easing regulatory environment.

Trump's fiscal spending plans are less clear. The last big infrastructure plan was initiated in the early stages of the Obama administration and included "shovel ready" projects. Trump's fiscal spending plan appears similar to the Obama plan and promises improved roadways, airports, and rail services. These type of initiatives usually take longer to implement and take root. Furthermore, repairing existing infrastructure has a more muted economic benefit than new greenfield projects. In this regard, new plans agreed to in 2017 would benefit 2018 and beyond.

A proactive fiscal spending plan may reduce dependency on the Federal Reserve Bank's (Fed) monetary programs, a welcome outcome in our view. After eight years of monetary expansion and quantitative easing, the Fed's ability to kick start growth has waned. A more aggressive fiscal policy may help limit any negative effect of Fed's latest increase in the federal funds rate.

Trump's tax proposals are ambitious and encompass broad corporate tax reform and lower tax rates for individuals. Broad tax reform is often discussed but has eluded the previous four administrations. With party support in both houses of Congress, we should experience, at a minimum, lower personal and corporate tax rates. Lower rates would bolster spending and provide some growth at the possible expense of lower federal tax revenues.

Source: Congress Asset Management (CAM). The views expressed in this document are as of publication date and are subject to change at any time due to changes in market or economic conditions.

Information is as of 12/31/2016

Congress Asset Management Co. All-Cap Opportunity Composite 6/1/2005 - 12/31/2016

Year	Total Return Gross of Fees %	Total Return Net of Fees %	Russell 3000 Return % (dividends reinvested)	Composite Gross 3-Yr St Dev (%)	Russell 3000 3-Yr St Dev (%)	Number of Portfolios	Gross Dispersion %	Total Composite Assets End of Period ($ millions)	% of composite represented by non fee paying account	Total Firm Discretionary Assets End of Period ($ millions)	Total Firm Assets End of Period # ($ millions)
2016	12.9	12.5	12.7	14.4	10.9	256	1.67	123	n/a	5,693	8,139
2015	-3.5	-3.8	0.5	12.0	10.6	76	1.40	70	n/a	5,941	7,094
2014	15.1	14.7	12.6	10.7	9.3	71	0.96	82	n/a	6,328	7,449
2013	30.9	30.4	33.6	14.8	12.5	69	0.73	75	n/a	6,489	7,467
2012	16.2	15.8	16.4	17.5	15.7	52	0.46	46	n/a	6,755	7,498
2011	4.8	4.5	1.0	21.4	19.3	36	n/a	30	n/a	6,329	7,014
2010	19.9	19.5	16.9			≤5	n/a	3	n/a	6,416	6,678
2009	25.5	25.4	28.3			≤5	n/a	1	n/a	5,263	5,463
2008	-35.7	-35.7	-37.3			≤5	n/a	1	100%	4,292	4,371
2007	11.2	11.2	5.1			≤5	n/a	1	100%	5,812	5,846
2006	15.1	15.1	15.7			≤5	n/a	1	100%	5,464	5,469
5/31/05 – 12/31/05	7.0	7.0	6.4			≤5	n/a	1	100%	4,750	4,751

#The "Total Firm Assets" column is provided as supplemental information and also 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 12/31/95 – 6/30/16. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The All Cap Opportunity Composite has been examined for the periods 3/31/13 – 12/31/15. 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.

Composite Characteristics: The All Cap Opportunity Composite was created on December 31, 2005 and has an inception date of May 31, 2005. This inception date reflects the first full month an account was fully invested in the strategy and met the inclusion criteria. As of March 31, 2011 the Corporate Recovery Composite was renamed the All Cap Opportunity Composite. The composite includes all fully discretionary accounts with a value over $100 thousand (US dollars) managed in the all cap opportunity style for a minimum of one consecutive month. The all cap opportunity strategy's investment premise is that market efficiencies exist between fixed income and equity valuation techniques. We seek to uncover these efficiencies, and identify equity investment opportunities in order to pursue long term capital appreciation. We employ a combination of formal quantitative screening followed by bottom up fundamental analysis, unconstrained by market cap and style that results in a high conviction, go anywhere strategy. The strategy is opportunistic and unconstrained, providing management flexibility to focus on securities and industries that are often under researched and believed poised to experience earning growth. Accounts with wrap commissions are excluded from the composite. Prior to January 1, 2016 the composite minimum was $500 thousand (US dollars). The composite benchmark is the Russell 3000 Index. Effective January 1, 2009 the All Cap Opportunity benchmark was changed retroactively from the S&P 500 Index to the Russell 3000 Index due to closer correlation of returns and market cap allocation. 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 complete list and description of all firm composites is available upon request.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars. The firm uses the Modified Dietz formula to calculate monthly returns and links these returns geometrically to produce an accurate time-weighted rate of return. The composite is also revalued intra-month in cases where cash flows in excess of 10% of the composite's value occur. Composite returns are asset-weighted. Gross of fees returns are calculated gross of management and custodial fees and net of transaction costs. 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. A maximum of 20% of the portfolio may be invested in the ADR's of foreign companies. 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 standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented for 2005 through 2010 as it is not required for periods prior to 2011. Beginning June 1, 2011 carve-outs were introduced to the All Cap Opportunity composite. The all cap opportunity data is carved out of each eligible balanced account and managed as a separate account with a separate cash balance.

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: From inception until mid-2009 the All Cap Opportunity Composite included one non-fee paying account (which was the only account in the composite). The annual percentage of the composite comprised of non-fee paying assets is listed in the table above. Policies for valuing portfolios, calculating performance, and preparing compliant presentations 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.