CONGRESS ASSET MANAGEMENT COMPANY

Q4 2017

Portfolio Commentary

All-Cap Opportunity

Market Review

The year 2017 should be remembered as the year we left the financial crisis behind. A strengthening domestic economy is now supported by a synchronized global expansion – the newest investment phrase meant to capture a mood and secular trend, much as *global financial crisis* did a decade ago. We ended the year with nearly idyllic investment conditions: negligible inflation, low interest rates, record employment and strong corporate earnings. Hopes for the recently enacted tax reform bill suggest the good times could last.

The stock market captured the optimism of the investment community. For the first time ever the S&P 500 increased every month of the year. This gentle market witnessed few meaningful downturns and was accompanied by positive returns in foreign markets as well. The long anticipated rise in market interest rates remained in abeyance, keeping financing costs low and supporting riskier investments. While the absence of significant down trading days is unusual, it is not alarming and does not portend a market collapse.

If exuberance is evident, it may well be in the burgeoning market for crypto-currencies. These digital currencies act more like trading vehicles, not currencies in the traditional meaning of the word. The Wall Street Journal recently reported that there are 31 digital currencies with values over $1 billion. Some forms of digital currencies are likely to survive but their purpose and format as a means of exchange or store of value are unclear. A shakeout is coming and those over-exposed will feel the pain.

Much has been made about the length of the current economic expansion, one of the longest on record, as if time should dictate when it should end. The magnitude of the expansion does not match its longevity, however. A robust expansion typically puts inordinate demands on productive resources, causing inflation or excess speculation. There is little evidence that either is occurring. Employment, an important ingredient for production, has been strong. Unemployment is hovering around 4%. It appears that people are being drawn back into the workforce, alleviating wage pressures that could arise in this strong employment environment.

The new tax package supports growth as well. By lowering the corporate tax rate and allowing for immediate expensing of big ticket items, companies should be incentivized to return profits earned elsewhere and invest in productive capacity, meeting anticipated demand in a more cost efficient manner. Many consumers and employees should benefit from tax reform as well. The new tax package will increase the use of the standard deduction, easing the tax burden on 70% of all filers, a number which is anticipated to rise. In addition, many companies, from AT&T to Wells Fargo, have announced bonuses or wage increases as they share the benefits of lower tax rates with employees.

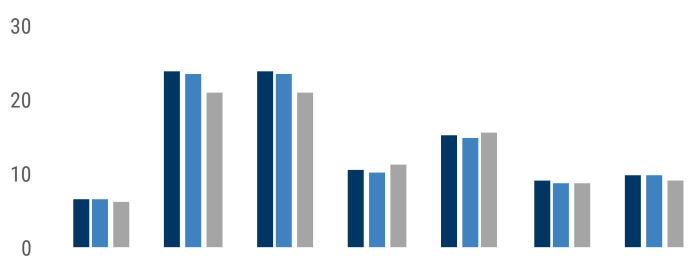
In short, the economy should continue along its growth path. Some secondary measures of future growth indicate that caution is warranted but these readings are inconsistent and probably reflect normal pockets of weaker growth.

Performance Overview

For the quarter ending December 31, 2017 the All Cap Opportunity portfolio outperformed its benchmark, the Russell 3000 Index© ("the Index"). The portfolio returned +6.63% gross of fees while the Index returned +6.34% for the quarter.

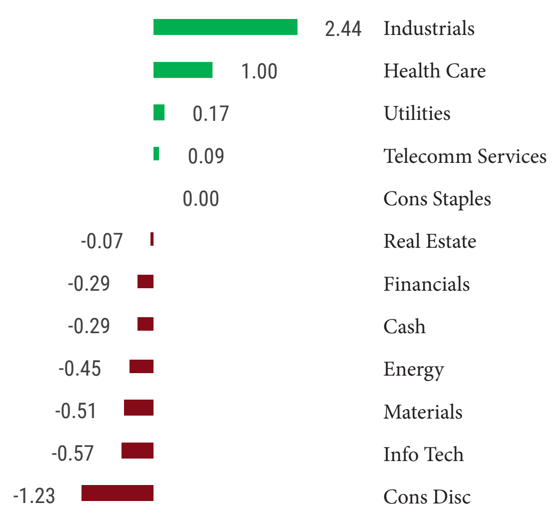
Relative performance was aided by security selection in the Industrials, Health Care, and asset allocation in the Utilities sector. However, relative performance was negatively impacted by security selection in the Consumer Discretionary, Information Technology, and Materials sectors.

Average Annualized Performance % as of 12/31/2017



	QTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Congress ACO (Gross)	6.6	24.0	24.0	10.5	15.3	9.1	9.9
Congress ACO (Net)	6.5	23.6	23.6	10.2	14.9	8.8	9.7
Russell 3000®	6.3	21.1	21.1	11.1	15.6	8.6	9.0

% Total Effect Portfolio vs. Index (9/30/2017 - 12/31/2017) (bps)



Q4 2017 Attribution Highlights

Overall Contributors

- Security selection in Industrials & Health Care
- Asset Allocation to Utilities

Overall Detractors

- Security selection in Consumer Discretionary, Information Technology & Materials

Top Stock Contributors and Detractors

Contributors

Stock	Ticker	Contribution
XPO Logistics, Inc.	XPO	1.36%
United Rentals, Inc.	URI	1.05%
Builders FirstSource, Inc.	BLDR	0.90%

Detractors

Stock	Ticker	Detraction
*Newell Brands Inc.	NWL	-1.09%
*NCR Corporation	NCR	-0.46%
*Baker Hughes	BHGE	-0.42%

*sold during the quarter

XPO Logistics, Inc. (XPO) is a logistics and transportation company serving North America, Europe, and Russia. The company saw its stock rise 35% over the quarter as it reported excellent results, including both volume growth and pricing improvements. Strength in e-commerce propelled the company's last mile business and logistics segment. XPO continues to invest in technology to fuel future growth.

United Rentals (URI) is the largest equipment rental company in the world. URI was able to sidestep major disruptions from the late season hurricanes in Texas and Florida and increase its rental volumes and rates. Demand from construction sector projects, primarily non-residential and infrastructure work, remains broad based. Supply and demand remains balanced for URI and its peers, supporting expectations of continued excellent results. URI's shares increased 24% over the fourth quarter.

Builders FirstSource, Inc. (BLDR) engages in the supply and manufacture of building materials, manufactured components, and construction services to professional contractors, sub-contractors, and consumers. BLDR was only mildly impacted by the late summer hurricanes in the South, yet still managed to report growing revenues, albeit with some compression of operating margins. This, coupled with concrete plans for future growth, helped to push the company's stock up 21% for the quarter.

Newell Brands, Inc. (NWL) engages in the marketing of consumer and commercial products, some of its well-known brands include Rubbermaid, Graco, Aprica, Levolor, Calphalon, Goody, Sharpie, Paper Mate, Dymo, Parker, Waterman, Irwin, and Lenox. NWL stock fell 27% over the quarter, propelled downward by a disastrous back-to-school season where sales underwhelmed and left the company with huge amounts of excess inventory.

NCR Corporation (NCR) offers software, hardware, and a portfolio of services across the financial, retail, hospitality, travel, telecommunications, and technology industries. NCR saw it stock fall over 9% as poor results in its hardware business led to weaker results in its higher margin software business. Hardware sales are a key component for driving results within other areas for the firm. On the news, the stock slumped as investors questioned the efficacy of the company's strategy

Baker Hughes, a GE Company (BHGE) supplies oilfield services, products, technology, and systems to the worldwide oil and natural gas industry. BHGE stock remained challenged over the quarter, falling 13%. Oil and gas markets continued to be soft, offering few drivers for improved results. Subsea drilling end markets were particularly weak, which is somewhat unsurprising given their inherently high operating costs.

Q4 2017 Transaction Summary

Purchased

- Bank of the Ozarks (OZRK) - Financials

Sold

- Newell Brands, Inc. (NWL) - Consumer Disc
- Baker Hughes, a GE Company (BHGE) - Energy
- NCR Corporation (NCR) - Info Tech

Purchased

Bank of the Ozarks (OZRK) is an insured depository institution with offices located in Arkansas, Texas, Georgia, Florida, North Carolina, South Carolina, and Alabama. The company's primary business is commercial banking with a heavy focus on Commercial Real Estate lending. OZRK is a regional bank that has excellent underwriting standards, operating metrics, and credit quality. Despite its smaller size the bank should be poised to perform well regardless of the interest rate environment thanks to its focus shorter term loans to real estate developers.

Sold

Newell Brands, Inc. (NWL) engages in the marketing of consumer and commercial products, some of its well-known brands include Rubbermaid, Graco, Aprica, Levolor, Calphalon, Goody, Sharpie, Paper Mate, Dymo, Parker, Waterman, Irwin, and Lenox. NWL surprised investors with poor results when it released its earnings announcement. Compounding the surprise was the depth of the inventory overhang, one that would take months, perhaps quarters to overcome. NWL was sold on the basis of its poor results, poor relationship with investors, and an uncertain timetable for correcting its operating issues.

Baker Hughes, a GE Company (BHGE) supplies oilfield services, products, technology, and systems to the worldwide oil and natural gas industry. The combination of GE's oil and gas business with the legacy Baker Hughes business showed little improvement in building synergies since the two businesses combined. With most of the upside already captured through the merger, BHGE was sold after future prospects looked weak.

NCR Corporation (NCR) offers software, hardware, and a portfolio of services across the financial, retail, hospitality, travel, telecommunications, and technology industries. Our thesis for owning the stock was put into jeopardy by weaker ATM sales, which were the basis for future growth within its software business. Without hardware sales the completion of the customer migration to software would not be met, and as such, the committee sold the stock.

Outlook

The stock market has risen for the better part of the expansion supported by the aforementioned economic growth and low interest rates. As corporate earnings continue to grow, the market should respond in kind. Yet the market is more forward-looking and we see some risks that heretofore the stock market has not registered, largely confined to central bank actions and fiscal policy.

The Federal Reserve has been in a tightening mode for two years. Its adjustments to monetary policy have been gradual and communicated in advance, easing financial markets through the transition. A new chair will take the helm in February and, while he is likely to continue communicating the Fed's intentions, the cumulative effect of changes since 2015 could result in investors adjusting their risk preferences.

Other central banks, notably the European Central Bank and Japanese Central Bank, followed the Fed's aggressive easing steps after the financial crises. Neither of these two important players have begun to tighten, however. When other major central banks do begin tapering investment dollars may be deflected elsewhere, causing the liquidity pool available for stocks to suffer. This tapering may begin as early as 2018, depending on economic circumstances.

The U.S. at some point needs to address its fiscal deficits which will likely be exacerbated by the tax cuts. Deficit predictions are imprecise at best but we are running an unusually high deficit for an economy expanding at a 3% clip. This could represent a longer term economic health issue, one to which stocks typically pay little attention until a more acute response is required.

These concerns are notable, but unlikely to weigh materially on stocks in 2018. We expect the upward trending market to continue, albeit with more normal volatility as investors begin to discount growth and inflation levels into 2019 and beyond. Stocks are preferred to bonds as interest rates remain historically low and liquidity high.

Information is as of 12/31/2017

Congress Asset Management Co. All-Cap Opportunity Composite 6/1/2005 - 12/31/2017

Year	Total Return Gross of Fees%	Total Return Net of Fees%	Russell 3000 Return % (dividends reinvested)	Composite Gross 3-Yr annualized ex-post St Dev (%)	Russell 3000 3-Yr annualized ex-post 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)
2017	24.0	23.6	21.1	13.9	10.1	254	1.50	135	n/a	7,272	10,546
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 1/1/96 – 6/30/17. 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 4/1/13 – 12/31/16. 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 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 full 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. Monthly composite performance is calculated as an asset-weighted return using the aggregate method. This method aggregates market values and cash flows for all accounts and treats the composite as if it were one account. Monthly composite returns are geometrically linked to produce a time-weighted annual return. Beginning June 1, 2015 the composite is valued daily. Prior to that date, the composite was re-valued on each date that a cash flow exceeded 10% of the total market value of the composite. 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 ex-post 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.