Portfolio Commentary

Market Review

For almost six months investors, not to mention the general public and politicians, have been trying to discern what President Trump's election means for the markets and both US domestic and foreign policies. Rarely have we seen such an ambitious agenda without a clear path forward. The transition to the new administration has not been smooth. Transitions though are temporary and as the days pass, investors and others will adjust.

While our economy is driven by a combination of consumer, corporate, and government activities, our financial markets are more fickle and susceptible to headlines and emotions. With that in mind, the stock market continued its post Trump Election Day rally into 2017. The S&P 500 Index proved remarkably resilient throughout the quarter gaining more than 6%. At one point, the market experienced over 100 consecutive days without moving more than 1%, a feat last witnessed in the mid 1980's.

Bonds, normally more staid than stocks, have demonstrated more volatility since the election. Ten year bond yields rose from 1.8% to 2.6%, only to later fall to 2.4% after the failed health care reform vote. Some observers believe that the ten year bond yield changes telegraph President Trump's approval ratings.

All new administrations come with their own agendas. The Trump administration has proffered ambitious plans for fiscal stimulus, trade policy, tax reform, and healthcare. To the extent that the stock market rally represents only a Trump policy premium, the stock market could be ahead of itself. Fortunately, there is more that drives the market than just the expected passage of complex policy legislation.

Our economy is stronger than the winds that blow through Washington. The steady, albeit unspectacular growth since the nadir of the 2008 financial crisis continues apace. Strengthening growth prospects will determine the intermediate and longer term performance of both the stock and bond markets.

We are optimistic that the economy's momentum is picking up. Vagaries of monthly economic data fog a clear view, yet key underpinnings are strengthening. Job growth reaccelerated in February with over 235,000 jobs created. Importantly, participation in the key 25-54 year age group is close to 82% and is in a multi-year uptrend. College graduates are also finding jobs. Years of consistent job growth have lowered the unemployment rate below 5% while wages have steadily risen since 2014.

There are hints now that capital spending and manufacturing may finally be strengthening. The US oil and gas rig count has doubled over the past year. This has the dual effect of supporting capital spending while dampening oil prices even as demand for energy ticks higher. In addition, industrial production and durable good shipments are also improving. Could the long awaited awakening of our industrial base finally be taking root?

Housing remains a stalwart. In spite of higher mortgage rates since November, housing affordability remains at constructive levels. Household debt service as a percent of disposable income is down 25% from its peak just before the financial crisis. Years of underinvesting in new housing construction has contributed to pent up demand. While notoriously volatile, house prices were up 7% in February. That is unlikely to turn around abruptly.

Performance Overview

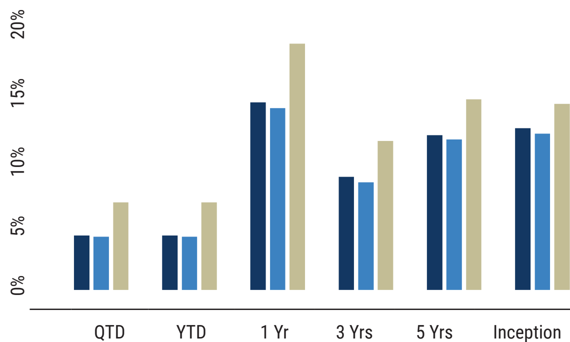
The Dividend Growth Portfolio underperformed the S&P500 Index during the first quarter. The Dividend Growth Portfolio returned 3.7% compared to the S&P500's performance of 6.1%.

The Portfolio benefited from its allocation to the Energy and Information Technology sectors and from security selection in the Health Care sector. On the negative side, the Portfolio's security selection in Information Technology, Consumer Discretionary, and Consumer Staples detracted from performance.

The holdings that contributed most to the Portfolio's quarterly performance on an absolute basis were Apple Inc. (AAPL), Analog Devices (ADI), and Cisco Systems (CSCO), which returned 24.5%, 13.5%, and 12.8%, respectively.

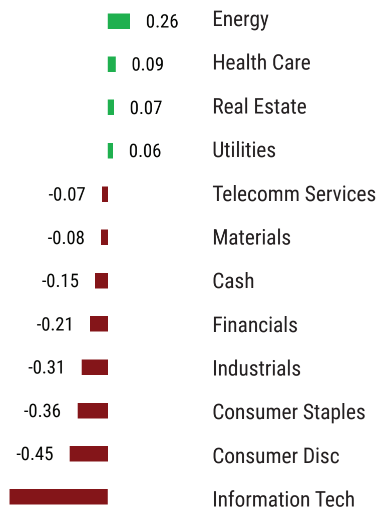
The holdings that detracted most from the Portfolio's quarterly performance were Qualcomm (QCOM) which declined more than 11%, Occidental Petroleum (OXY) which was down 10%, and T.Rowe Price (TROW), which was down 8.7%.

Annualized Returns % - as of 3/31/2017 - Preliminary



	QTD	YTD	1 Yr	3 Yrs	5 Yrs	Inception
Dividend Growth (Gross)	3.8	3.8	13.1	7.9	10.8	11.3
Dividend Growth (Net)	3.7	3.7	12.7	7.5	10.5	10.9
S&P 500	6.1	6.1	17.2	10.4	13.3	13.0

% Total Effect Portfolio vs. Index (12/31/2016 - 3/31/2017) (bps)



Information is as of 3/31/2017. Sources: Congress Asset Management, FactSet, Russell Investments and Informa Investment Solutions. This information is for illustrative purposes and are subject to change at any time. Holdings and performance information is subject to change and should not be considered investment advice or a recommendation to buy or sell a particular security. Actual holdings and performance may vary by client. Past performance does not guarantee future results. This information is supplemental to the GIPS® Composite on page 4 of this report. Performance returns of less than one year are not annualized

Q1 2017 Attribution Highlights

Overall Contributors

- Allocation to Energy
- Allocation to Information Technology
- Security selection in Health Care

Overall Detractors

- Security selection in Information Technology
- Security selection in Consumer Discretionary
- Security selection in Consumer Staples

Top 3 Stock Contributors and Detractors

Contributors

Stock	Ticker	Contribution
Apple Inc.	AAPL	0.64%
Analog Devices, Inc.	ADI	0.38%
Cisco Systems, Inc.	CSCO	0.32%

Detractors

Stock	Ticker	Detraction
Qualcomm	QCOM	-0.27%
Occidental Petroleum Corp.	OXY	-0.21%
T. Rowe Price Group	TROW	-0.20%

Apple Inc. (AAPL) designs, manufactures, and markets mobile communication, media devices, personal computers, and portable digital music players. In January, Apple announced first quarter results that included better than expected revenue and earnings per share, largely driven by much stronger than anticipated iPhone shipments (78.29 million units versus consensus estimates of 77.42 million units). Both Mac and Services revenues were better than expected, while iPad revenue missed expectations. Apple management cited a supplier shortage issue as the reason for poor iPad results. Services continues to deliver solid margins, highlighted by the App Store's significant and continued revenue growth.

Analog Devices (ADI) designs, manufactures, and markets analog, mixed-signal processing integrated circuits used in almost all types of electronic equipment. ADI reported very strong results with top line revenue and bottom line earnings per share beating consensus estimates and management's guidance. We continue to believe that ADI is well positioned to benefit from the shift to lower margin PC power management and wireless DSP products and to higher margin industrial and automotive analog products. The company also completed the Linear Technology acquisition in March 2017, which will make ADI a significant player in all the major analog product categories.

Cisco Systems (CSCO) is a worldwide leader in IT and networking. Shares of Cisco returned almost 13% during the quarter as the Information Technology sector was the best performing sector during the first quarter. The company's most recent quarterly results were slightly better than expected due to strength witnessed in the security, collaboration, and wireless segments. The stronger performance in security offset the weakness in switching and routing. The company continued to generate solid free cash flow of $3.5 billion during the quarter and recently increased the dividend by 11%.

Qualcomm (QCOM) is a semiconductor and telecom equipment company that designs and markets wireless telecommunications products and services. QCOM shares declined more than 14% in January following the news that Apple issued a $1 billion lawsuit against Qualcomm citing the company's practices of unfairly charging royalties. Although Qualcomm is often challenged in the courts, the fight with Apple continues to weigh on the stock. More recently, the CEO expressed optimism that the ongoing lawsuit will be settled out of court.

Occidental Petroleum (OXY) engages in oil and gas exploration and production in the US and the Middle East. The Energy sector was the worst performing sector of the S&P500 Index during the first quarter and shares of Occidental declined almost 10%. During the quarter, the company announced lower than expected results due to lower cost recovery and maintenance downtime in the Middle East. These results were partially offset by stronger domestic production. Going forward, the company will continue to focus on increasing its Permian assets where it is one of the largest producers. The company continues to benefit from a solid balance sheet.

T. Rowe Price (TROW) Shares of T. Rowe Price declined during the quarter following the release of the company's quarterly results which highlighted concerns of continued outflows hurting profitability. More specifically, T. Rowe announced during the quarter that total assets under management were $810 billion after market gains, but were offset by $5 billion of net client outflows.

Information is as of 3/31/2017

Q1 2017 Transaction Summary

Sector Allocation Changes

- None

Purchased

- None

Sold

- None

Purchased

There were no purchases during the quarter.

Sold

There were no sales during the quarter.

Positioning

Dividend Growth Portfolio 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 no significant adjustments, purchases, or sales during the first quarter.

Outlook

The Federal Reserve seems to have recognized the budding momentum with two interest rate increases in the past few months. Inflation is closing in on the Fed's target inflation rate of 2%. Yet market interest rates have not risen as some anticipated. Europe and Japan are still mired in low to negative rate policies, creating demand for US fixed income in spite of increases in short term rates.

Federal Reserve monetary policy requires further mention. The Fed has now raised short term rates three times in slightly over a year. In all likelihood, this is the start of a longer "normalization" process in which the Fed begins to shrink its own balance sheet by not reinvesting its maturing bonds. The end of so called quantitative easing will be gradual and likely well telegraphed. The Fed's aggressiveness throughout the financial crisis provided liquidity for the bond market, and in that vein can probably be viewed as a success. It also likely contributed to distorted valuations for both bonds and stocks earlier in the expansion. We view the Fed pull back, when it happens, as distinctly positive for both stocks and bonds.

There is always noise surrounding the markets. In the past few years investors have experienced numerous events that would not have been on their radar a decade prior: a government sequester, quantitative easing, and the Affordable Care Act to name a few. Companies adapted to these challenges. And while not all have flourished, the resiliency of our system has shown through. Cash flows and balance sheets remain strong. The stock market has persevered with remarkably low volatility while interest rates remain conducive for investment.

The noise surrounding the markets now is more political than economic. President Trump's sweeping agenda, which includes taxes, trade, fiscal policy, and regulatory easing, is far more ambitious than most new administrations. Investors have factored in some level of pro-growth legislation. Policy overhauls however are complex and usually result in some unanticipated consequences. In addition, consumers and businesses need clarity in order to evaluate capital and spending decisions. So far, investors have been patient reflecting expectations of some success in establishing pro-growth policies.

We are confident that the economy's foundation is strong enough to withstand the uncertainty derived from political changes. Over the intermediate and longer term, stocks will respond to earnings growth in conjunction with interest rates and inflation levels. We expect the momentum experienced over the last eight years will accelerate as this year progresses and that under-utilized capacity will keep inflation in check. Stocks remain the preferred asset class although ten year Treasury bond yields in the 2.5% range are also attractive.

Sources: Congress Asset Management (CAM) PSN 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.

Information is as of 3/31/2017

Congress Asset Management Co.
Dividend Growth composite
10/31/2010 - 12/31/2016

Year	Total Return Gross of Fees %	Total Return Net of Fees %	S&P 500 Return % (dividends reinvested)	Composite Gross 3-Yr St Dev (%)	S&P 500 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 Assets End of Period # ($ millions)
2016	13.6	13.2	12.0	10.1	10.6	254	0.46	119	5,693	8,139
2015	-2.8	-3.2	1.4	10.3	10.5	174	0.38	81	5,941	7,094
2014	11.6	11.2	13.7	8.6	9.0	111	0.29	65	6,328	7,449
2013	29.3	28.8	32.4	10.7	11.9	60	0.39	44	6,489	7,467
2012	8.9	8.6	16.0	n/a	n/a	24	0.8	12	6,755	7,498
2011	8.3	7.9	2.1	n/a	n/a	6	n/a	2	6,329	7,014
10/31/10 – 12/31/10	6.7	6.7	6.7	n/a	n/a	≤5	n/a	0.1	6,416	6,678

#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. The verification report is available upon request. 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. Verification does not ensure the accuracy of any specific composite presentation.

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 Dividend Growth Composite was created on November 1, 2010. This inception date reflects the first full month an account was fully invested in the strategy and met the inclusion criteria. The composite includes all fully discretionary accounts with a value over $100 thousand (US dollars) managed in the dividend growth style for a minimum of one consecutive month. The dividend growth strategy invests in the equity of high quality companies with market capitalizations greater than $1 billion exhibiting consistent dividend growth. Accounts with wrap commissions are excluded from the composite. Prior to January 1, 2016 the composite minimum was $50 thousand (US dollars). The primary composite benchmark is the S&P 500. Effective January 1, 2012 the Dividend Growth benchmark was changed retroactively from the S&P 500 Dividend Aristocrats and the Dow Jones U.S. Select Dividend indices to the S&P 500 index in order to better reflect the portfolio’s broad equity strategy tailored to generate income for clients. Prior to January 1, 2012 the S&P 500 Dividend Aristocrats was the stated primary benchmark and the Dow Jones U.S. Select Dividend was the stated secondary benchmark. The performance of the S&P 500 Dividend Aristocrats and the Dow Jones U.S. Select Dividend indices is available upon request. 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 equity securities are included in calculations. A maximum of 15% 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. Presenting the three-year annualized standard deviation is not required for periods prior to 2011. The standard deviation is not presented prior to 2013 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 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 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.