CONGRESS ASSET MANAGEMENT COMPANY

1Q 2023

# Portfolio Commentary

# DIVIDEND GROWTH PORTFOLIO

## Market Review

The first quarter of 2023 was a financial rollercoaster. A record January for stocks gradually eroded as inflation metrics refused to decline and the Federal Reserve maintained its hawkish rhetoric. The failure of Silicon Valley Bank and forced closure of Signature Bank caught markets off-guard and led to a sharp rise in risk sentiment. A broader bank crisis has been averted for now, but the upshot is likely higher borrowing costs and a mild recession later this year.

Imprudence by bankers and regulators was the proximate cause for the current banking crisis. However, the crisis has its roots in the aggressive fiscal and monetary moves undertaken during the pandemic. Starting about a year ago, the Federal Reserve (Fed) began raising the Federal Funds Rate to raise the cost of capital and nip inflation. This rate hiking cycle has dealt several blows to banks in the form of an inverted yield curve, bond losses, and lower bank deposits, a highly unusual occurrence. The combination will weigh on banks' willingness and ability to lend going forward.

Current measures of economic activity are mixed. The labor market, vital to economic stability and growth, remains strong. While there continues to be a mismatch between available jobs and willing workers, the gap is narrowing. Consumer balance sheets are beginning to show some weakness but broadly remain healthy. The nascent re-shoring of manufacturing, combined with aspirational goals of a sustainable economy, bode well for capital spending. On the other hand, leading economic indicators have broadly contracted over the last 12 months, and the inversion between the 2-year and 10-year Treasury yield persists, suggesting growth may be challenged later in the year.

Inflation appears to be on a downward trajectory, though it remains far above the Fed's 2% target. Getting there will take time, probably years, and progress will not be linear. Housing costs are a significant contributor to inflation. As a nation, we have underinvested in housing for decades. Increased demand during the pandemic, fueled by historically low mortgage rates, collided with a lack of housing to spike shelter inflation. The sharp increase in house values has stalled, but it will take at least a few more months for price stability to be reflected in the CPI. Housing stock needs to expand and will as there are more than 1.7 million housing units under construction, by far the most since 1973.

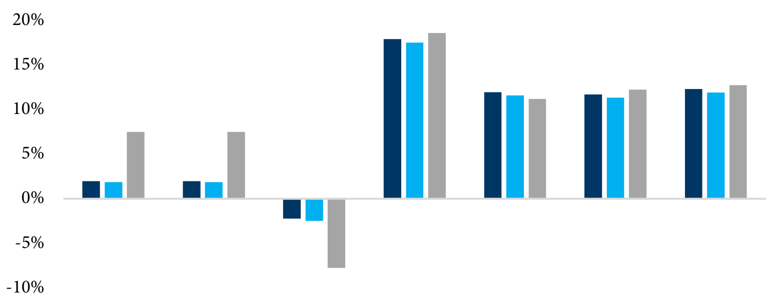
The global economic picture is equally murky. China's pandemic re-opening is gathering steam but is overshadowed in the U. S. by geopolitics and security concerns about Chinese owned social networker Tik Tok. While the continuing Russian invasion of Ukraine looms in the background, Europe has fared far better than feared. A mild winter helped contain fuel prices despite curtailed Russian supplies and continental Europe is investing to supplement its energy and power grids.

## Performance Overview

The Congress Dividend Growth Portfolio ("the Portfolio") returned 2.0% (gross of fees) and 1.9% (net of fees) during the quarter, while the S&P 500 returned 7.5%.

The holdings that contributed most to the Portfolio's quarterly return were Apple, Inc., Analog Devices, Inc., Microsoft Corporation, Stryker Corporation, and TE Connectivity Ltd. The holdings that detracted most were Allstate Corporation, Dollar General Corporation, UnitedHealth Group Incorporated, Johnson & Johnson, and RPM International, Inc.

### Average Annualized Performance % - as of 3/31/2023




| | | QTD | YTD | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Inception 10/31/2010 |
|---|---|---|---|---|---|---|---|---|
| Dividend Growth Composite (Gross) | ■ | 2.0 | 2.0 | -2.2 | 17.9 | 12.0 | 11.7 | 12.3 |
| Dividend Growth Composite (Net) | ■ | 1.9 | 1.9 | -2.5 | 17.5 | 11.6 | 11.3 | 11.9 |
| S&P 500 | ■ | 7.5 | 7.5 | -7.7 | 18.6 | 11.2 | 12.2 | 12.7 |

*Performance is Preliminary and subject to change at any time.*

*Data is as of 3/31/2023. Sources throughout this presentation: Congress Asset Management, FactSet, and Morningstar Direct. The information throughout this presentation is for illustrative purposes and is subject to change at any time. Holdings and sector weightings 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. This managed account strategy involves risk, may not be profitable, may not achieve its objective, and may not be suitable or appropriate for all investors. Investors should consider the investment objectives, risks, and fees of this strategy carefully with their financial professional before investing. [1]The information shown is for a representative account as of 3/31/2023. Actual client account holdings and sector allocations may vary.*

# First Quarter 2023 Highlights

**Top 5 Contributors/Detractors**

| Stock | Avg. Weight% |
|---|---|
| Apple, Inc. | 2.89 |
| Analog Devices, Inc. | 3.35 |
| Microsoft Corporation | 2.89 |
| Stryker Corporation | 2.65 |
| TE Connectivity Ltd. | 2.28 |

**Bottom 5 Contributors/Detractors**

| Stock | Avg. Weight% |
|---|---|
| Allstate Corporation | 2.58 |
| Dollar General Corporation | 2.86 |
| UnitedHealth Group Incorporated | 2.62 |
| Johnson & Johnson | 2.38 |
| RPM International Inc. | 2.49 |

**Apple, Inc. (AAPL)** is the world's largest information technology company. The company reported a rare earnings estimate miss in the first quarter but provided positive commentary on Chinese demand returning and easing supply chain and production issues.

**Analog Devices, Inc. (ADI)** designs, manufactures, and markets analog, mixed signal, and digital signal processing integrated circuits used in virtually all types of electronic equipment. ADI posted better than expected results in the quarter as demand remained robust in its Industrial and Auto segments. The Auto segment is seeing 3-4x more content per vehicle as the auto industry transitions from traditional engines to electric engines. ADI expects these trends to continue and raised its earnings outlook as a result.

**Microsoft Corp. (MSFT)** is the world's largest software company with products ranging from PC operating systems and enterprise applications to cloud-based offerings. While the macroeconomic environment is a headwind to commercial spending overall and the company's Azure cloud growth, the company is positioned favorably given the secular shift to the cloud and increased cybersecurity threats. Additionally, MSFT has placed increased emphasis on maintaining profitability despite the current challenges.

**Stryker Corporation (SYK)** manufactures medical devices and equipment used in reconstructive hip and knee surgery, trauma, emergency medicine, and patient care. Results in the latest quarter were surprisingly strong as results from both its U.S. and International businesses exceeded expectations. Improved product supply availability drove upside in multiple areas. A healthy order book also enabled SYK to give initial guidance for 2023 that was ahead of estimates.

**TE Connectivity Ltd. (TEL)** is a leading global technology company that designs and manufactures connectivity and sensor solutions for harsh environments. TEL's Transportation and Communications businesses still face challenges, but there are positive signs for both. Pricing actions are expected to relieve inflationary pressures within the Transportation business, and improved inventory levels should lead to better results for the Communications segment.

**Allstate Corp. (ALL)** is one of the largest multiline insurance carriers. Quarterly earnings were favorable across most business lines but were overshadowed by disappointing results in its Auto division. Increasing costs from auto insurance claims outpaced the company's ability to raise prices as higher premiums will take to flow through the business.

**Dollar General Corporation (DG)** is one of the largest discount retailers in the U.S. offering a broad selection of merchandise, including consumable items, seasonal items, home products, and apparel. DG pre-announced quarterly results in February, lowering its 4th quarter and fiscal year guidance. Additionally, lower than expected sales and higher than expected inventory damage from winter storms impacted the company's December results.

**UnitedHealth Group Incorporated (UNH)** provides health care coverage, software, and data consultancy services through various business segments to the healthcare industry. UNH reported quarterly results that were in line with its prior guidance. However, the Centers for Medicare & Medicaid Services released its 2024 Medicare Advantage notice that included lower than expected reimbursement rates.

**Johnson & Johnson (JNJ)** is engaged in the research and development, manufacture, and sale of a broad range of products in the healthcare field. JNJ posted mixed results in its most recent quarter as better margins helped offset light revenues. Outside of quarterly results, a discontinuation of a vaccine program, litigation updates, and the process of spinning off its consumer business later this year added a level of uncertainty to the stock.

**RPM International, Inc. (RPM)** manufactures and sells coatings, sealants, and building materials for both industrial and consumer use. RPM reported results that were largely in-line with expectations but guidance fell well short of estimates, driven by higher interest rates and customers slowing orders to normalize inventory levels. Management also highlighted slowing demand from new residential construction markets in North America and Europe.

*Information is as of 3/31/2023. Sources: Congress Asset Management and FactSet Research Systems. The information throughout this presentation is for illustrative purposes and is subject to change at any time. Holdings, sector weightings and securities identified as top contributors and detractors 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. The securities identified do not represent all the securities purchased, sold or recommended to clients. For information regarding the methodology used to select these holdings or to obtain a list showing the contributions of every holding in the strategy's representative account, which we believe reflects the Congress Dividend Growth's Composite to both a current and/or prospective client, please contact us at 1-800-234-4516. Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce investment performance. Past performance does not guarantee future results. [1]The information shown is for a representative account.*

## 1Q 2023 Transaction Summary

| Purchased | Sold |
|---|---|
| • Linde Plc (LIN) - Materials | • Norfolk Southern Corp. (NSC) - Industrials |

## Purchased

**Linde Plc. (LIN)** is a leading global industrial gas and engineering company that serves a variety of end markets. As the top producer in a highly concentrated market, LIN enjoys strong barriers to entry. Additionally, diverse end markets and long-term contracts produce relatively stable earnings growth. The company's solid balance sheet and free cash flow generation should support its stated policy of annual dividend growth.

## Sold

**Norfolk Southern Corp. (NSC)** is primarily engaged in rail transportation. NSC was the operator of the highly publicized train derailment in Ohio in early February, which resulted in the release of chemicals into the environment. Remediation costs, healthcare liabilities, increased regulatory costs and oversight, and potential changes in operating procedures create significant uncertainty for the company moving forward.

## Outlook

The outlook for corporate earnings in 2024 and the 10-year Treasury yield will likely determine the course for stocks this year. Earnings in 2023 are expected to be largely uninspiring. Many retail and consumer companies have suggested they cannot raise prices, and protecting profit margins has taken on increased importance. Inventory investments have reversed as supply chains recover - double ordering has given way to destocking. Technology companies have laid off workers in anticipation of a slowdown this year. Others have delayed projects or re-instituted fiscal discipline in their daily operations. These steps set the stage for a revenue and earnings recovery in 2024. In the interim, the stock market's valuation of approximately 16x earnings is reasonable, as investors de-emphasize current year earnings and focus on the potential for a robust rebound next year.

While bond yields dropped commensurate with the bank crisis, the long period of declining interest rates from the late 1970's – 2021 is over. Rates are likely range bound even with heightened volatility as strong demand for income persists after a period of unusually low rates. We believe the short- to intermediate-term offers the most attractive risk/reward, and we continue to find opportunities to increase yield while maintaining quality.

Largely under the radar, the U.S. has hit its legislated $34.1 trillion debt ceiling. History suggests that the limit will be raised, allowing the U.S. to avoid default on existing debt and to issue new debt. We expect Congress to raise the limit in late summer but only after acrimonious negotiations and risk of default. Stocks and bonds are likely to react negatively should Congress fail to act before September.

The range of potential intermediate-term economic outcomes remains wide, but recession odds have increased with recent events. As should be clear by now, neither the Fed nor the economic establishment understand the full implications of the aggressive fiscal and monetary moves undertaken during the pandemic. While uncertainty abounds, we remain confident that a focus on high-quality companies will allow investors to weather any coming storms and benefit from continued market strength.

## Congress Asset Management Co. Dividend Growth Composite 1/1/2013 - 12/31/2022

| Year | Total Return Gross of Fees % | Total Return Net of Fees % | S&P 500 Return % (dividends reinvested) | Composite Gross 3-Yr annualized ex-post St Dev (%) | S&P 500 3-Yr annualized ex-post St Dev (%) | Number of Portfolios | Gross Dispersion % | Total Composite Assets End of Period ($ millions) | Total Firm Discretionary Assets End of Period ($ millions) | Total Firm Advisory-Only Assets End of Period ($ millions) | Total Firm Assets End of Period # ($ millions) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2022 | -9.3 | -9.5 | -18.11 | 19.4 | 20.9 | 558 | 1.18 | 287 | 10,083 | 6,799 | 16,882 |
| 2021 | 26.2 | 25.7 | 28.7 | 16.2 | 17.2 | 493 | 0.56 | 300 | 12,778 | 8,018 | 20,796 |
| 2020 | 13.9 | 13.5 | 18.4 | 16.8 | 18.5 | 495 | 0.97 | 326 | 10,746 | 5,523 | 16,269 |
| 2019 | 33.7 | 33.2 | 31.5 | 11.1 | 11.9 | 394 | 0.86 | 205 | 8,445 | 4,083 | 12,528 |
| 2018 | -0.9 | -1.2 | -4.4 | 10.3 | 10.8 | 359 | 0.36 | 161 | 7,102 | 3,132 | 10,234 |
| 2017 | 19.7 | 19.3 | 21.8 | 9.7 | 9.9 | 321 | 0.64 | 157 | 7,272 | 3,274 | 10,546 |
| 2016 | 13.6 | 13.2 | 12.0 | 10.1 | 10.6 | 254 | 0.46 | 119 | 5,693 | 2,445 | 8,139 |
| 2015 | -2.8 | -3.2 | 1.4 | 10.3 | 10.5 | 174 | 0.38 | 81 | 5,941 | 1,153 | 7,094 |
| 2014 | 11.6 | 11.2 | 13.7 | 8.6 | 9.0 | 111 | 0.29 | 65 | 6,328 | 1,121 | 7,449 |
| 2013 | 29.3 | 28.8 | 32.4 | 10.7 | 11.9 | 60 | 0.39 | 44 | 6,489 | 978 | 7,467 |

#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 – 12/31/22. 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 creation and inception date of the Dividend Growth Composite is November 1, 2010, which reflects the first full month 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 dividend growth style for a minimum of one full 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 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, a list of broad distribution pooled funds, and a list of limited distribution pooled fund descriptions 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 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. 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 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.