# Portfolio Commentary

## Market Review

Challenges to the U.S. economy appear to be mounting, seeding investor angst. Rising interest rates exemplify these concerns with the 10-year Treasury yield rising to 4.5%, up from 3.8% in early July. The stock market re-trenched in September, largely reflecting higher interest rates and shorter-term concerns about student loan repayments, the potential government shut down, and implications of the auto workers' strike. Yet, the economy remains resilient with real-time GDP estimates forecasting growth of almost 5% in the third quarter.

Growth is likely to moderate as we approach year end, but in the aggregate, the concerns du jour do not present long term risks to the consumer or to the economy. The continued strength of the labor market, despite the Federal Reserve's actions, offsets many short-term challenges. While there have been signs of cooling recently, there is little evidence that employment has weakened as unemployment rates and layoffs remain near historic lows and job openings are elevated. Consumer spending has held up as a result and is tracking in-line with its positive, pre-pandemic trend.

The primary economic issue today is the level of interest rates. Inflation was the main concern in 2022. It drove the Federal Reserve's aggressive actions, caused market interest rates to jump with historic alacrity and weighed on financial markets. In fact, when the economic history of the pandemic is written, 2022 may be the final chapter with 2023 the start of a new era, one marked by secular higher interest rates. Short-term interest rates will continue to follow the Federal Reserve's direction, but longer-term rates are subject to the country's overall level of indebtedness. Thanks to the monetary and fiscal policies enacted during the pandemic period, our amount of outstanding debt stands at record highs.

## Performance Overview

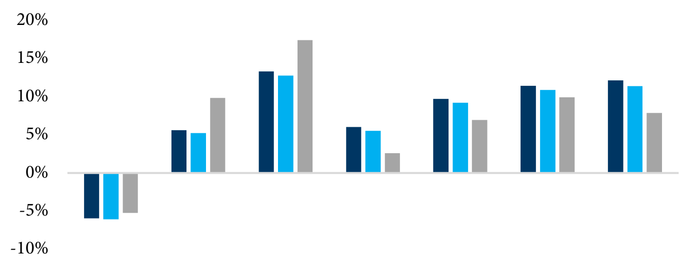
The Congress Mid Cap Growth Portfolio ("the Portfolio") returned -5.9% (gross of fees) and -6.1% (net of fees) during the quarter while the Russell Midcap Growth Index ("the Index") returned -5.2%.

Underperformance for the quarter was driven by security selection in Information Technology, with Perficient, Inc. (PRFT) the largest detractor. Perficient reported a disappointing quarter as the company slashed FY23 guidance due to a less robust IT spending environment. The shorter-term nature of their work is more susceptible to the types of project pullbacks reported. However, this reluctance to spend appears to be a temporary issue in our view. On its recent quarterly earnings call, management discussed that it has not had backlog or bookings cancelled and cited momentum in certain areas of its business and expressed "excitement around emerging technologies." We believe long run initiatives at enterprises such as cloud adoption and digital transformation remain secular growth drivers. Further, the company is taking actions that will help to protect its margins over the next two quarters.

This was partially offset by positive results from Qualys, Inc. (QLYS). Despite the challenging IT spending conditions, QLYS was able to reaccelerate billings and show impressive profitability. The company has also hired a new Chief Revenue Officer with experience in driving growth in channel sales, an area of focus. We believe QLYS's high retention rates and prudent investments will protect its EPS, and longer term we expect the company to continue to maintain its balance between industry best profitability and growth.

Aside from the challenges in Information Technology, security selection in Industrials, Consumer Staples, and Materials were the largest positive contributors. Selection in Consumer Discretionary hindered performance, although to a lesser degree than technology.

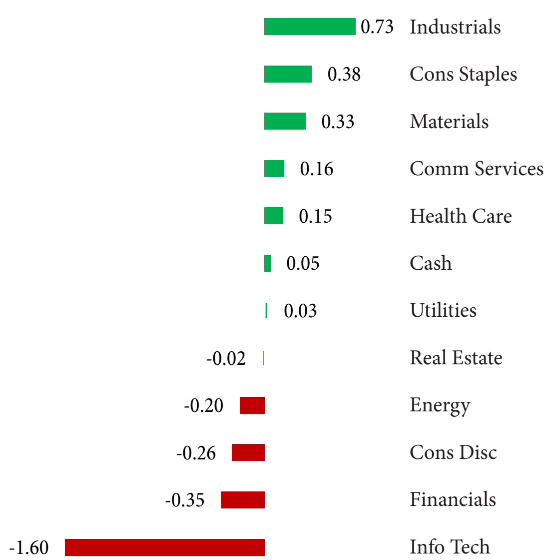
### Average Annualized Performance % as of 9/30/2023




| | | QTD | YTD | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Inception 10/1/1999 |
|---|---|---|---|---|---|---|---|---|
| Mid Cap Growth Composite (Gross) | ■ | -5.9 | 5.6 | 13.3 | 6.1 | 9.7 | 11.4 | 12.2 |
| Mid Cap Growth Composite (Net) | ■ | -6.1 | 5.2 | 12.8 | 5.5 | 9.2 | 10.9 | 11.4 |
| Russell Midcap Growth® | ■ | -5.2 | 9.9 | 17.5 | 2.6 | 7.0 | 9.9 | 7.9 |

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

### % Total Effect Portfolio vs. Index[1]
(6/30/2023 - 9/30/2023)




*Data is as of 9/30/2023. Sources throughout this presentation: Congress Asset Management, FactSet, Russell Investments, 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. Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Netiher Russell nor its licensors accept any liablity for any errors or omissions in the Russell Indexes and/or underlying data contained in this communication. No further distribution of Russell data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication. [1]The information shown is for a representative account as of 9/30/2023. Actual client account holdings and sector allocations may vary.*

## 3Q 2023 Attribution Highlights

### Overall Contributors

- Security selection in Industrials, Consumer Staples & Materials
- Underweight allocation to Health Care

### Overall Detractors

- Security selection in Information Technology & Consumer Discretionary
- Underweight allocations to Financials & Energy

### Top 5 Contributors/Detractors

| Stock | Avg. Weight% |
|---|---|
| Qualys, Inc. | 3.05 |
| EMCOR Group, Inc. | 3.05 |
| ChampionX Corporation | 3.16 |
| Saia, Inc. | 3.03 |
| BJ's Wholesale Club Holdings, Inc. | 2.04 |

**Qualys, Inc. (QLYS)** is a leader in the fragmented cyber vulnerability management market. It offers a cloud-oriented platform of integrated solutions that automate the lifecycle of asset discovery, security assessments, and compliance management for an organization's IT infrastructure. Despite a challenging macroeconomic environment, QLYS is performing well thanks to the critical nature of its security software. It is experiencing robust billing growth and increased profitability. Moreover, the company has recently appointed a new Chief Revenue Officer with expertise in channel sales, which aligns with their strategic focus.

**EMCOR Group, Inc. (EME)** is a mechanical and electrical construction and facilities services firm that provides services to a broad range of commercial, industrial, utility, and institutional customers. The return of manufacturing to the United States has effectively counterbalanced any potential demand challenges stemming from rising interest rates in construction projects. Consequently, EME has experienced a significant increase in its backlog of new projects, reaching record levels. This increased backlog offers investors greater insight into the company's potential for earnings growth.

**ChampionX Corp. (CHX)** is a global leader in chemistry solutions and advanced equipment and technologies designed to support safe, efficient, and sustainable oil and gas drilling and production operations. The company's stock responded positively to the growth in international oil rigs, North American service and injection wells, and the upward trend in energy commodity prices.

**Saia, Inc. (SAIA)** is a freight transportation company with a top ten position in the fragmented market of less-than-truckload (LTL) shipping. The exit of a major competitor from the LTL market has sparked optimism that remaining carriers will benefit from increased volume and stronger pricing power. SAIA's strategic, long-term efforts to expand capacity have the company prepared to capitalize on this opportunity.

**BJ's Wholesale Club Holdings, Inc. (BJ)** is a membership-only warehouse club chain. The company has benefited from consumers seeking lower prices for essential goods in a more challenging economic environment. As a result, BJ has seen increasing store traffic and growth in its membership base. The company has also capitalized on the surge in fuel costs as many of its stores have gas stations.

### Bottom 5 Contributors/Detractors

| Stock | Avg. Weight% |
|---|---|
| Perficient, Inc. | 1.88 |
| ResMed, Inc. | 2.04 |
| Cooper Companies, Inc. | 2.64 |
| Keysight Technologies, Inc. | 1.95 |
| Paycom Software, Inc. | 2.29 |

**Perficient, Inc. (PRFT)** is an IT services firm that specializes in digitally transforming business operations and processes. Recent results have been affected by a less robust spending environment, with PRFT's customers either initiating smaller-scale projects or delaying them. Nevertheless, the broader and enduring trend of digital transformation continues, and PRFT is well-positioned to benefit from it over the long term.

**ResMed, Inc. (RMD)** develops medical solutions and products used to treat and manage obstructive sleep apnea and central sleep apnea, offering continuous positive airway pressure (CPAP) devices and related solutions. There is concern that weight loss drugs may reduce the use of CPAP among sleep apnea patients. Additionally, the re-entry of a strong competitor into the market raises questions about RMD's market share and the pricing landscape. Despite these factors, the sleep apnea market remains large and underserved.

**Cooper Companies, Inc. (COO)** is a manufacturer of contact lenses and women's health products. While COO posted strong 2Q 2023 growth, investors remain concerned about a lack of improvement in profit margins and the impact of a potential economic slowdown on the contact lens market. However, the company's investments in manufacturing and distribution infrastructure demonstrate its confidence in the structural shift to daily wear contact lenses.

**Keysight Technologies, Inc. (KEYS)** is a leader in the electronic and communication test and measurement sector, serving various markets including commercial communications, aerospace, defense, government, and electronic industrial. In their Q3 earnings report, management mentioned a return to normal backlog levels and a slowdown in order trends, leading to reduced guidance expectations. Recent tax law changes related to research and development will also likely have an impact on earnings in the upcoming year. On a positive note, KEYS remains well-positioned to benefit from ongoing spending in test and measurement and experienced continued order growth in the auto, aerospace, and defense markets.

**Paycom Software, Inc. (PAYC)** is a leader in payroll and human capital management (HCM) applications focused on enabling small and mid-market businesses to better manage the employment life cycle. PAYC is dealing with self-inflicted bookings headwinds as its sales team is having difficulty selling its new payroll platform. The company's subscription revenue has also been artificially boosted by income generated from funds held for its clients, which is masking a slowdown in subscription growth. Nevertheless, PAYC is optimistic about the strong underlying demand for its products and its expansion in higher-end and international markets.

## 3Q 2023 Transaction Summary

**Sector Allocation Changes**

- Increase in Industrials
- Decrease in Consumer Discretionary

**Purchased**

- nVent Electric Plc. (NVT) - Industrials

**Sold**

- Floor & Decor Holdings, Inc. (FND) - Consumer Discretionary

## Purchased

**nVent Electric Plc. (NVT)** is a leading global manufacturer of electrical connection and protection solutions. Its products are designed to safeguard vital equipment from hazardous conditions, improve utilization, minimize downtime, and reduce customer costs. The ongoing shift towards electrifying power generation, grid connection, and energy consumption is driving increased demand for electrical components. This trend is expected to be further reinforced by upcoming fiscal infrastructure spending in the US and Europe, positioning nVent to achieve steady and durable growth in the future.

## Sold

**Floor & Decor Holdings, Inc. (FND)** is a specialty retailer of hard surface flooring and related accessories. The company is experiencing declining sales, primarily due to the significant increase in interest rates, which has led to a slowdown in existing home sales. In response to these challenges, FND adjusted its full-year sales and EBITDA guidance as reflected in its second-quarter report. The stock also maintains a premium valuation level despite these challenges.

## 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 was one purchase and one sale during the quarter, and this is reflective of this philosophy. These combined transactions essentially increased the Portfolio's Industrials weighting, while reducing its Consumer Discretionary weighting.

## Outlook

Corporations are facing higher funding costs. Debt costs were nominal in the period following the Great Financial Crisis until the end of 2021, with the yield on the Bloomberg U.S. Corporate Bond Index averaging 3%. Companies took advantage of this cheap financing and the market value of the index ballooned from $2 trillion in 2008 to over $7 trillion at the end of 2021. While corporate debt maturities over the next 2 years are near historically low levels, they are projected to exceed $1 trillion per year starting in 2025. With yields currently over 6%, companies that have been reliant on the debt markets to fund operations are destined to see significant increases in interest expense.

Our new era is also characterized by more aggressive government industrial policy. One area of focus, climate change, is having immediate impacts. Oil prices have risen over 30% in the past few months after OPEC and Russia declined to increase production. U.S. producers, including the major oil companies, have been incentivized to invest in more environmentally friendly activities such as carbon capture and alternative energy sources. As a result, the U.S. has ceded energy independence to foreign actors giving up pricing power and allowing less environmentally sound drilling techniques to prosper.

The global growth picture remains challenged. China continues to face secular headwinds including aging demographics, a growing property crisis, and a decoupling with the U.S. These issues are unlikely to be remedied quickly and the current solution of reducing economic transparency won't help. China has accounted for roughly a third of global economic growth over the last decade, and any slowing will weigh on broad longer-term growth prospects.

Despite the recent and current challenges, the U.S. economy has not cracked and remains well-positioned relative to peers. While a slowdown is probably inevitable, a recession is not, and opportunities exist for equities and fixed income. Corporate earnings are poised to grow next year, which should broadly benefit stocks. The new era of higher rates makes fixed income investments more attractive and offers the prospect of positive returns. A sustained period of higher interest rates introduces new risks that will require companies to adapt. Companies reliant on credit markets for capital will face higher costs relative to better heeled peers. We continue to believe a diversified portfolio of high-quality companies with a history of established growth provides investors with the best ability to navigate these markets.

*Information is as of 9/30/2023*

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

| Year | Total Return Gross of Fees% | Total Return Net of Fees% | Russell Mid Cap Growth Return % (dividends reinvested) | Composite Gross 3-Yr annualized ex-post St Dev (%) | Russell Mid Cap Growth 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 | -26.7 | -27.0 | -26.7 | 23.0 | 24.5 | 758 | 0.81 | 2,307 | 10,083 | 6,799 | 16,882 |
| 2021 | 30.6 | 30.0 | 12.7 | 18.3 | 20.2 | 719 | 0.41 | 3,243 | 12,778 | 8,018 | 20,796 |
| 2020 | 32.0 | 31.4 | 35.6 | 19.8 | 21.5 | 629 | 1.14 | 2,729 | 10,746 | 5,523 | 16,269 |
| 2019 | 35.8 | 35.2 | 35.5 | 12.8 | 13.9 | 558 | 0.49 | 954 | 8,445 | 4,083 | 12,528 |
| 2018 | -3.5 | -3.9 | -4.8 | 12.2 | 12.8 | 506 | 0.45 | 850 | 7,102 | 3,132 | 10,234 |
| 2017 | 17.7 | 17.2 | 25.3 | 10.8 | 10.9 | 447 | 0.65 | 763 | 7,272 | 3,274 | 10,546 |
| 2016 | 13.9 | 13.3 | 7.3 | 12.0 | 12.2 | 105 | 0.54 | 431 | 5,693 | 2,445 | 8,139 |
| 2015 | 1.9 | 1.4 | -0.2 | 11.4 | 11.3 | 50 | 0.42 | 221 | 5,941 | 1,153 | 7,094 |
| 2014 | 13.0 | 12.4 | 11.9 | 10.8 | 10.9 | 41 | 0.51 | 145 | 6,328 | 1,121 | 7,449 |
| 2013 | 37.9 | 37.3 | 35.7 | 13.2 | 14.6 | 35 | 0.38 | 84 | 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. 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 Mid Cap Growth Composite has had a performance examination for the periods 10/1/99 – 12/31/22. 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 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 Mid Cap Growth Composite is October 1, 1999, 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 mid cap growth style for a minimum of one full month. The mid cap growth strategy invests in the equity of high-quality companies with market capitalizations between $800 million and $15 billion (at the time of purchase) exhibiting consistent earnings growth. 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 private client accounts or accounts with less than $1 million. The primary composite benchmark is the Russell Midcap 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. The % of the composite represented by non-fee paying accounts at annual period end was 100% 1999-2001, 36% in 2002, 20% in 2003, 15% in 2004, 13% in 2005, 22% in 2006 and 18% in 2007. 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. Prior to 2007 net of fees returns were calculated by reducing gross returns by 1/4th of the highest management fee in the Mid 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.

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. The management fee schedule and expense ratio for the Mid Cap Growth Fund Institutional Shares is 0.60% and 0.79%, respectively. The management fee schedule and expense ratio for the Mid Cap Growth Fund Retail Shares is 0.60% and 1.04%, respectively. The management fee schedule for the Mid Cap Growth Collective Investment Trust is 0.68%.

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.