

# SMid Growth Portfolio

Commentary | 3Q24 | Managed Accounts

## Highlights

- The Congress SMid Growth Portfolio (“the Portfolio”) returned 4.5% (gross) and 3.7% (net of Max Platform Fee\*) vs 7.0% for the Russell 2500 Growth Index (“the Index”) in 3Q24. Year-to-date the Portfolio returned 13.0% (gross) and 10.6% (net of Max Platform Fee\*) vs 11.2% for the Index.
- SMid cap indices outperformed on improving market breadth as growing expectations for rate cuts and generally positive economic data drove a rotation out of megacap Tech. The Index outperformed the Russell 1000 Growth Index for the first time in seven quarters and by the widest margin since 2020.
- Industrials, particularly our holdings with exposure to the growing demand for HVAC products and the strong aerospace and defense environment, benefited relative performance. Energy also contributed. This was offset by our holdings in Consumer Staples and Technology.
- Our Portfolio has shown an ability to participate in up markets and mitigate risk in down markets, relative to its Index. Since inception, the Portfolio has a 99% up capture and 77% down capture and has compounded capital 3x vs 2x for the Index (gross). Net of Max Platform Fee\*, the Portfolio has a 92% upside capture and 80% downside capture and has compounded capital 2.4x.

## Portfolio Review

- Index returns were strongly positive in July, particularly in the second half of the month as expectations for Fed rate cuts increased on softer labor market data while inflation continued to moderate. Returns were modestly negative in August as market turmoil early in the month was mostly offset by a stronger-than-expected earnings season. September was positive following the Fed rate cut.
  - We trailed in July and September but outperformed in August as our Portfolio had a better-than-expected earnings season.
- The Portfolio benefited from its Industrials holdings, particularly Comfort Systems and Curtiss-Wright. Comfort Systems continues to benefit from growing commercial HVAC demand for data centers while Curtiss-Wright saw strong quarterly earnings driven by its Defense segment. Within Energy, Cactus contributed on strong quarterly results and margin expansion.
- Consumer Staples detracted from relative performance, largely due to our exposure to e.l.f Beauty. The company continues to generate growth and gain market share but underperformed as sales growth has moderated from the dramatic levels it achieved in recent quarters. Technology also detracted, particularly Entegris which remains well positioned but was hurt by broad weakness in the semiconductor industry and some pullback in AI enthusiasm.

## Portfolio Review continued

- We continue to find opportunities to upgrade the Portfolio, and during the quarter we added an Industrial holding with exposure to datacenter and infrastructure buildout. Within Technology we added a cybersecurity holding and in Financials we added a regional banking position.

## Outlook

- While SMid caps outperformed large caps during the quarter, we continue to believe SMid caps offer an attractive value proposition.
  - The forward P/E of the Russell 2500 Growth Index relative to the Russell 1000 Growth Index is at a 27% discount to long term averages, almost 2 standard deviations cheap, with similar earnings growth projections for 2025 (+19.7% vs +20.0%).
- We are committed to staying high quality and remain focused on persistent growth, profitability, and strong balance sheets. We believe this is particularly important as rates are expected to stay elevated and -20% of the Index has negative trailing earnings.
- The Portfolio maintains exposure to several themes that are expected to drive growth, including AI, data center buildout, and reindustrialization.

## Average Annualized Performance (%) as of 9/30/2024

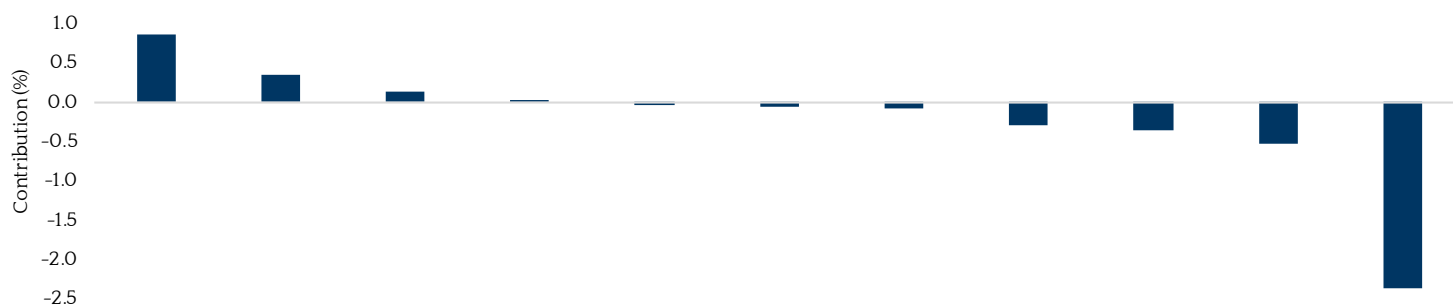
	QTD	YTD	1 Yr	3 Yrs	5Yrs	Since Inception (4/1/2017)
SMid Growth Composite (Gross)	4.5	13.0	24.6	3.5	16.9	15.7
SMid Growth Composite (Net of Max Platform Fee*)	3.7	10.6	21.0	0.4	13.5	12.4
Russell 2500 Growth®	7.0	11.2	25.2	-0.7	9.7	10.2

\*Net Performance includes a fee of 3.0%, applied monthly. Past performance does not guarantee future results.

Data is as of 9/30/2024. Sources throughout this presentation: Congress Asset Management, Bloomberg, Russell Investments, and Morningstar Direct. Performance is preliminary and subject to change at any time.

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## % Total Effect Portfolio vs. Index 6/30/2024 - 9/30/2024



	Industrials	Energy	Health Care	Comm Svcs	Utilities	Cons Disc	Real Estate	Materials	Financials	Info Tech	Cons Staples
<b>Allocation Effect</b>	0.07	-0.05	0.01	0.02	-0.04	-0.06	0.08	0.03	-0.34	0.00	-0.79
<b>Selection Effect</b>	0.80	0.40	0.12	0.00	0.00	0.00	-0.15	-0.32	-0.02	-0.53	-1.57
<b>Total Effect</b>	0.87	0.35	0.13	0.02	-0.04	-0.06	-0.07	-0.30	-0.36	-0.53	-2.36

### Top 5 Contributors/Detractors

Stock	Avg. Weight%
Comfort Systems USA, Inc.	5.02
Curtiss-Wright Corp.	3.06
UFP Technologies, Inc.	3.58
The Cooper Companies, Inc.	2.19
Pool Corp.	1.81

### Bottom 5 Contributors/Detractors

Stock	Avg. Weight%
e.l.f. Beauty, Inc.	3.15
Medpace Holdings, Inc.	3.29
Entegris, Inc.	2.57
Lattice Semiconductor Corp.	0.79
nVent Electric Plc.	2.12

**Comfort Systems USA, Inc. (FIX)** provides mechanical and electrical contracting services in non-residential markets, supporting new construction, existing buildings, and building services. Demand for data center and advanced manufacturing facilities in the Southeastern U.S. remains elevated with minimal signs of abatement. Comfort Systems is capitalizing on this trend by driving productivity gains, resulting in record earnings and cash flow.

**Curtiss-Wright Corp. (CW)** is a diversified manufacturer of highly engineered products and critical technologies for markets including aerospace & defense, commercial nuclear power, process industries, and general industrial. Strong NATO ally demand for Curtiss-Wright's tactical communication equipment drove earnings upside in the second quarter. Additionally, growing enthusiasm for nuclear energy as a power source has pushed Curtis Wright's equity valuation higher.

**UFP Technologies, Inc. (UFPT)** designs and custom manufactures components, subassemblies, products, and packaging, primarily for the medical market. UFP Technologies reported good quarterly results and completed a large capacity expansion at a key manufacturing site. The continued strength in the robotic surgery end market is driving optimism for upside in revenue growth expectations for fiscal year 2025.

**e.l.f. Beauty, Inc. (ELF)** is a leading beauty products company offering high-quality cosmetics at value prices. ELF continues to drive sales through product innovation, effective marketing, and expanded distribution. Although sales growth has continued to outpace the overall beauty category, the rate of growth has decelerated as the company has matured and the stock has traded down as a result.

**Medpace Holdings, Inc. (MEDP)** is a contract research outsourcing provider that conducts clinical trials for biotechnology and pharmaceutical companies. The company reported a weak quarter and lowered its fiscal year 2024 guidance, citing elevated cancellations and a shrinking new business pipeline as key factors affecting bookings. Disruptions in funding for new therapeutic research are also slowing the development pipeline. We view this as a temporary issue and believe Medpace's strong market position will drive a robust recovery as the funding environment improves.

**Entegris, Inc. (ENTG)** is a leader in products, chemicals, and materials used in semiconductor manufacturing to improve filtration, purification, and production yields while limiting contamination. The company, which relies primarily on volume growth, is facing weaker growth and margins due to the prolonged market downcycle and the impact of recent acquisitions. However, Entegris remains well-positioned to benefit from a recovery in the semiconductor market.

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## Portfolio Activity

Purchases	Sector	Sales	Sector
Sterling Infrastructure, Inc.	Industrials	WNS (Holdings) Ltd.	Information Technology
CommVault Systems, Inc.	Information Technology	Lattice Semiconductors Corp.	Information Technology
Western Alliance Bancorp.	Financials		

**Sterling Infrastructure, Inc. (STRL)** is a leader in construction solutions specializing in large scale site development services for industrial, public infrastructure, and residential end markets. We believe the company's earnings power has increased with the buildout of data centers across the country where Sterling's scale and track record provide a competitive advantage to win new business. Further, management has worked to structurally enhance the margin profile of the company by de-risking the type of project work in its portfolio.

**CommVault Systems, Inc. (CVLT)** provides a scalable platform of solutions to help customers protect their data and enhance cyber resilience in complex hybrid multi-cloud environments. CommVault's value proposition is evolving from pure data management to the unification of data across multiple environments, with an increased focus on the cyber resilience market. Revenue growth is expected to accelerate as the company completes major platform transitions.

**Western Alliance Bancorporation (WAL)** is a regional bank headquartered in Phoenix, AZ. Western Alliance generates attractive balance sheet and earnings growth due to its diversified loan verticals, low credit loss history, and advantaged deposit base. We believe Western Alliance is also well positioned to benefit from a potentially normalizing yield curve.

**WNS Holdings Ltd. (WNS)** is a leading Business Process Management (BPM) company that provides outsourcing services for finance, accounting, and customer relationship management. WNS Holdings is experiencing slowing growth due to pressure on project-based work and client-specific challenges. There are also concerns that generative AI could disrupt the business process management (BPM) industry in the future.

**Lattice Semiconductor Corp. (LSCC)** designs, develops, and markets field-programmable gate arrays and related software. Current results reflect a sluggish cyclical backdrop, uncertainty around a new product launch, and shifting competitive dynamics. To compound these challenges, the CEO recently departed.

Congress Asset Management Co. SMid Growth Composite 4/1/2017 - 12/31/2023

Year	Total Return Gross of Fees%	Total Return Net of Fees 3%	Russell 2500 Growth Return % (dividends reinvested)	Composite Gross 3-Yr annualized ex-post St Dev (%)	Russell 2500 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)
2023	18.8	15.3	18.9	19.8	21.0	195	0.56	173	12,146	8,514	20,660
2022	-21.5	-23.8	-26.2	22.8	25.2	158	0.51	96	10,083	6,799	16,882
2021	28.4	24.6	5.0	18.5	22.0	98	0.91	79	12,778	8,018	20,796
2020	50.3	46.0	40.5	20.7	23.9	47	0.62	55	10,746	5,523	16,269
2019	28.7	25.0	32.7	n/a	n/a	14	n/a	37	8,445	4,083	12,528
2018	1.3	-1.7	-7.5	n/a	n/a	≤5	n/a	27	7,102	3,132	10,234
3/31/17-12/31/17	12.8	10.3	17.1	n/a	n/a	≤5	n/a	35	7,272	3,274	10,546

#The "Total Firm Assets" column includes unified managed account (UMA) assets

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Composite Characteristics: The creation and inception date of the SMid Growth Composite is April 1, 2017, 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 SMid growth style for a minimum of one full month. The SMid growth strategy invests in the equity of high-quality companies with market capitalizations between \$300 million and \$20 billion (at the time of purchase) exhibiting consistent earnings growth. Accounts with wrap commissions are excluded from the composite. The primary composite benchmark is the Russell 2500 Growth Index. The benchmark returns are not covered by the report of the 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 performance reflects the deduction of a maximum annual model delivery fee of 3%, or 0.25% monthly. 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 prior to 2016 because 36-month returns were not available.

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