

# SMid Growth Portfolio

Commentary | 4Q24 | Managed Accounts

## Highlights

- The fourth quarter was challenging for the Congress SMid Growth Portfolio (“the Portfolio”) as the performance of the Russell 2500 Growth Index (“the Index”) was dominated by lower-quality stocks. The Portfolio returned -0.2% (net of fees) vs 2.4% for the Index in the quarter.
- The Index saw significant volatility during the quarter – November had the strongest monthly return in over 2 years while December had the weakest. Our Portfolio trailed in November but outperformed in the sell-off in December.
- Materials aided relative returns as one of our holdings was acquired for a significant premium. We also saw strength from our Consumer holdings. This was offset by weakness in some of our Technology positions. Despite the relatively weaker performance, we maintain conviction in our Technology holdings and feel well positioned to benefit in the near- and longer-term.
- The Portfolio has outperformed the Index over the trailing 3yr, 5yr, and since inception periods. We have shown an ability to participate in up markets and mitigate risk in down markets, relative to its Index. Since inception, the Portfolio has a 97% up capture and 79% down capture and has compounded capital 3x vs 2x for the Index, net of fees.

## Portfolio Review

- Positive overall Index performance in 4Q masked significant volatility, particularly later in the quarter. November’s double-digit returns were driven by a strong post-election risk-on rally led by lower quality companies. This reversed in December as rate expectations shifted higher on the hawkish commentary from the Fed’s meeting.
- The Portfolio underperformed early in the quarter on mixed earnings results and strong performance from lower quality stocks. We saw strong absolute returns in November, but we trailed given our high-quality focus. In December, we outperformed by 180bps (net of fees), mitigating downside risk as low-quality sold off.
- The Portfolio benefited from its Materials exposure, particularly Summit Materials, which agreed to be taken over at a 29% premium. Consumer Staples also aided relative performance, as e.l.f Beauty saw increasing market share and increased forward guidance. Within Consumer Discretionary, Williams-Sonoma exceeded margin expectations and significantly beat estimates.
- Technology was the largest detractor, particularly CDW Corp and Entegris. CDW reported weaker results as enterprise customers have spent selectively. Entegris, which supplies advanced materials and process solutions to the semiconductor industry, also saw disappointing results due to the slow semi recovery. We maintain conviction in both – CDW is poised to benefit from the anticipated hardware refresh cycle and Entegris should benefit from a rebound in the semi industry and transition to more advanced technologies.
- The Portfolio underperformed in 2024. Our Industrials holdings contributed, particularly those with exposure to data center buildout and aerospace. This was offset by Technology, which was driven by not owning Super Micro and weaker results from CDW and Entegris.

## Portfolio Review continued

- During the quarter we continued to find stocks with better growth profiles. In Industrials, we added a holding that should benefit from global infrastructure buildout and the continued focus on cybersecurity. We also added positions in Technology and Finance.

## Outlook

- SMid caps continue to offer an attractive value proposition.
  - SMid caps offer investors the stability of mid caps with the ability to participate in the outsized return potential provided by small caps.
  - The Index trades at a discount to its larger cap peers. The forward P/E of the Russell 2500 Growth Index relative to the Russell 1000 Growth Index is at a 28% discount to long term averages and a 19% discount to the Russell Mid Cap Growth Index, almost 2 standard deviations cheap.
  - The Index has projected earnings growth of 18% in 2025, similar to the Russell 1000 Growth (+20%) and the Russell Midcap Growth (+21%).
- 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 remain elevated and 20% of the Index has negative trailing earnings.
- We believe AI will continue to play a dominant role in 2025 and the benefits will broaden beyond the megacap tech stocks. We have exposure across Technology and Industrial stocks that we believe are well-positioned to benefit. For example, in Industrials we have several holdings that benefit from data and infrastructure buildout. We also have several cybersecurity stocks in the Portfolio, which we believe will continue to be a prevalent theme as AI makes cybercriminals more effective.

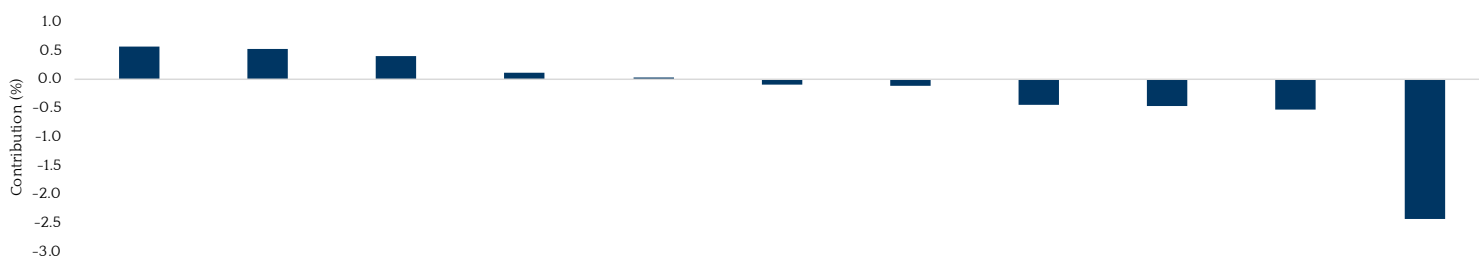
## Average Annualized Performance (%) as of 12/31/2024

	QTD	YTD	1 Yr	3 Yrs	5Yrs	Since Inception (4/1/2017)
SMid Growth Composite (Gross)	0.0	13.0	13.0	1.8	15.3	15.2
SMid Growth Composite (Net)	-0.2	12.4	12.4	1.4	14.8	14.8
Russell 2500 Growth®	2.4	13.9	13.9	0.0	8.1	10.2

### Past performance does not guarantee future results

Data is as of 12/31/2024. Sources throughout this presentation: Congress Asset Management, Bloomberg, 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. Actual client account holdings and sector allocations may vary. Performance is preliminary and subject to change at any time.

## % Total Effect Portfolio vs. Index 9/30/2024 - 12/31/2024



	Materials	Cons Staples	Cons Disc	Energy	Utilities	Comm Svcs	Real Estate	Industrials	Health Care	Financials	Info Tech
<b>Allocation Effect</b>	-0.07	0.07	0.04	0.03	0.04	-0.08	-0.04	0.06	0.05	-0.16	-0.12
<b>Selection Effect</b>	0.64	0.47	0.37	0.09	0.00	0.00	-0.07	-0.50	-0.52	-0.36	-2.30
<b>Total Effect</b>	0.57	0.54	0.41	0.12	0.04	-0.08	-0.11	-0.44	-0.46	-0.52	-2.42

### Top 5 Contributors/Detractors

Stock	Avg. Weight%
Summit Materials, Inc.	2.52
Cyberark Software Ltd.	3.69
Williams-Sonoma, Inc.	2.65
Sterling Infrastructure, Inc.	2.65
Comfort Systems USA, Inc.	4.44

### Bottom 5 Contributors/Detractors

Stock	Avg. Weight%
CDW Corporation	2.16
UFP Technologies, Inc.	2.38
Option Care Health, Inc.	1.25
Halozyme Therapeutics, Inc.	2.33
The Cooper Companies, Inc.	2.19

**Summit Materials, Inc. (SUM)** is a construction materials company offering aggregates, cement, asphalt, and ready-mix concrete, as well as delivery, trucking, and paving services. On November 25th, SUM announced that it had reached an agreement to be acquired by Quikrete. Under the terms of the deal, SUM shareholders will receive \$52.50 per share which reflects a 29% premium compared to the share price on October 24th when rumors of the acquisition first surfaced in the financial press.

**CyberArk Software Ltd. (CYBR)** is a leading provider of cybersecurity software, specializing in privileged access management. The company continues to benefit from high-profile breaches, such as the U.S. Treasury incident at the end of the year. CyberArk's ability to secure every identity across an organization and consolidate spending through its platform of products drives strong demand. Furthermore, the Venafi acquisition adds a robust solution for securing machine identities—an adjacent market that will support future growth.

**Williams-Sonoma, Inc. (WSM)** is a retailer specializing in home and kitchen products, sold online and in stores. Although sales were down compared to last year due to industry challenges, the decline wasn't as severe as expected. The company exceeded margin expectations by avoiding the heavy discounts that many competitors offered. As a result, earnings per share significantly beat analysts' forecasts.

**CDW Corporation (CDW)** purchases products from original equipment manufacturers and wholesalers for resale to more than 250,000 end customers. CDW reported disappointing results in its third-quarter earnings release, during which management lowered IT spending projections. Enterprise customers have been much more selective with their spending, often prioritizing upgrades to software and security over other expenses. Meanwhile, CDW's reliance on PC and hardware demand has created a headwind to growth. However, this challenge is expected to ease with a highly anticipated refresh cycle in 2025.

**UFP Technologies, Inc. (UFPT)** specializes in designing and manufacturing custom components, subassemblies, products, and packaging using specialty foams, films, and plastics, primarily for the medical market. Increased visibility of an insourcing initiative by a key customer has pressured the stock, a trend further compounded by insider sales in the open market during the quarter. While these developments raise concerns, we believe UFPT is less exposed to insourcing risk compared to competitors and maintain a favorable view of its near-term financial performance.

**Option Care Health, Inc. (OPCH)** is a leading provider of home infusion services and home care management solutions. A recent disappointing update involving a key drug highlighted the company's procurement risk, posing a significant headwind to near-term revenue and earnings growth. As a result, the position was sold.

Information is as of 12/31/2024. Sources: Congress Asset Management and Bloomberg. 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 contribution of every holding in the strategy's composite account, which we believe is most representative 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.

## Portfolio Activity

Purchases	Sector	Sales	Sector
Badger Meter, Inc.	Information Technology	Teledyne Technologies, Inc.	Information Technology
Parsons Corporation	Industrials	Calix, Inc.	Information Technology
PJT Partners, Inc.	Financials	Option Care Health, Inc.	Health Care

**Badger Meter, Inc. (BMI)** provides flow measurement, control products, and communications solutions to water utilities, municipalities, and industrial end-markets. BMI operates in a market with low product penetration, limited competitors and stable demand stemming from a consistent upgrade cycle and supportive regulatory backdrop. In addition, adoption of their more accurate digital water meters and software are driving consistent margin uplift.

**Parsons Corporation (PSN)** delivers solutions and services that enhance security, address global infrastructure demands, and drive digital transformation for its customers. The company has a strong track record of execution and is well-positioned for continued growth. Key areas of focus include infrastructure development in the Middle East and U.S. government initiatives to strengthen cyber capabilities, electronic warfare, space operations, and missile defense systems.

**PJT Partners, Inc. (PJT)** is a leading investment bank with globally recognized expertise in strategic and restructuring advisory services. Unlike many peers, the company has a lower reliance on M&A advisory revenues, making it less vulnerable to downturns in investment banking. PJT is experiencing strong growth in both strategic and restructuring advisory revenues—a trend expected to continue, driven by recovering capital markets activity and the impact of rising interest rates.

**Teledyne Technologies, Inc. (TDY)** focuses on electronic and communication products for wireless and satellite systems. Since 2021, the company has experienced declining organic growth, largely due to a higher proportion of revenue coming from businesses with slower revenue conversion rates. As a result, Teledyne has increasingly relied on mergers and acquisitions to drive growth.

**Calix, Inc. (CALX)** provides broadband communication access systems and software, offering solutions that range from basic voice and data to advanced broadband services. The anticipated benefits from the federal government's Broadband Equity, Access, and Deployment (BEAD) Program have been slower to materialize, and there is uncertainty regarding its future under the new presidential administration. Additionally, current business trends have softened, with customer spending patterns remaining weak.

**Option Care Health, Inc. (OPCH)** is a leading provider of home infusion services and home care management solutions. A recent setback involving a key drug has highlighted the company's procurement risks, posing a significant challenge to near-term revenue and earnings growth.

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

Year	Total Return Gross of Fees%	Total Return Net of Fees%	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	18.3	18.9	19.8	21.0	195	0.56	173	12,146	8,514	20,660
2022	-21.5	-21.7	-26.2	22.8	25.2	158	0.51	96	10,083	6,799	16,882
2021	28.4	27.9	5.0	18.5	22.0	98	0.91	79	12,778	8,018	20,796
2020	50.3	49.7	40.5	20.7	23.9	47	0.62	55	10,746	5,523	16,269
2019	28.7	28.2	32.7	n/a	n/a	14	n/a	37	8,445	4,083	12,528
2018	1.3	0.9	-7.5	n/a	n/a	≤5	n/a	27	7,102	3,132	10,234
3/31/17-12/31/17	12.8	12.5	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

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 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 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 periods prior to 2020 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.