

# PSN Top Guns

## Congress Asset Management Company

# Short-Term Fixed Income

Congress Asset Management Company | Third Quarter 2011

Assets Under Management \$6.59 bn | Founded 1985 | Ownership Structure LLP | Investment Professionals 22

Congress Asset Management strives for preservation of capital, consistent income, and alpha generation through a diversified portfolio of investment grade government, corporate, and securitized bonds. Consistency of approach and adherence to sound fundamental and relative value analysis is the basis of our investment process.

### Achieved a PSN Top Guns status in the following peer group universe:

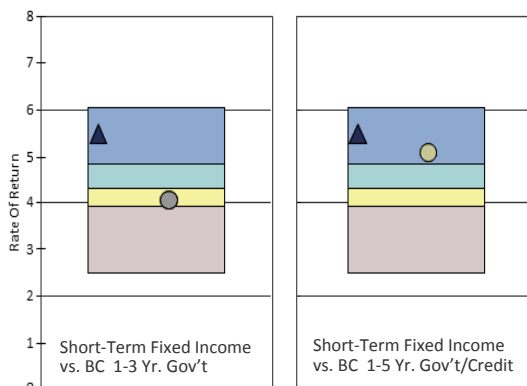
PSN Short Maturity

★★★★

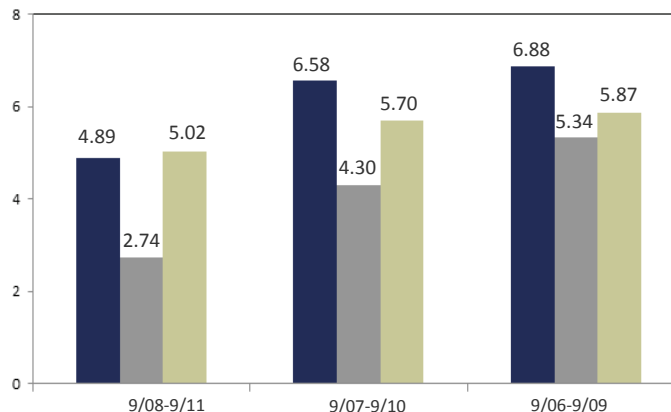
Criteria: Products must have an R-Squared of 0.80 or greater relative to the style benchmark for the recent five year period. Products must have returns greater than the style benchmark for the three latest three-year rolling periods. The top ten returns for the latest three-year period then become the TOP GUNS.

Universe comprised of 142 firms; 211 products

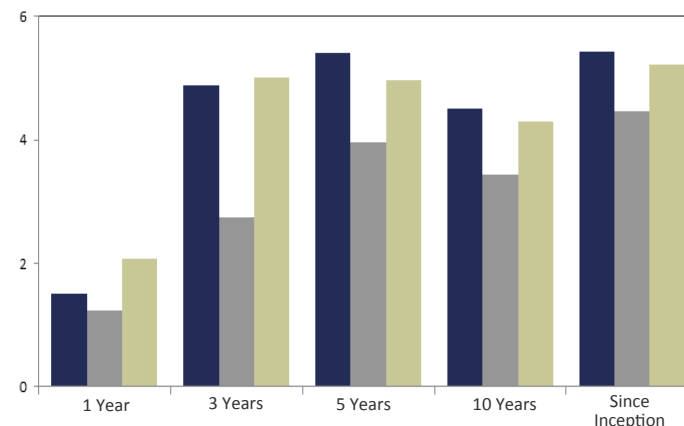
5 Years PSN Short-Maturity Universe



3 Year Rolling Returns Short-Term Fixed Income



Short-Term Fixed Income Annualized Performance



|   | Value | Rank |
|---|-------|------|
| ▲ Short-Term Fixed Income               | 5.40  | 3    |
| ● Barclays Capital 1-3 Yr. Gov't        | 3.96  | 64   |
| ● Barclays Capital 1-5 Yr. Gov't/Credit | 4.96  | 16   |

■ Short-Term Fixed Income  
 ■ Barclays Capital 1-3 Yr. Gov't  
 ■ Barclays Capital 1-5 Yr. Gov't/Credit

Inception Date: 7/1/97. Source: PSN. All information is as of 9/30/11.

The PSN Short Maturity peer group was created using the information collected through the PSN investment manager questionnaire and uses only gross of fee returns. The peer group is benchmarked against Barclays Capital 1-3 Yr. Gov't Index. Congress Asset Management Short-Term Fixed Income composite is benchmarked against the Barclays Capital 1-5 Year U.S. Gov't/Credit A+ Index. Returns above are of the Barclays Capital 1-5 Year U.S. Gov't/Credit Index and may vary from the composite benchmark.

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Congress Asset Management Co. Short-Term Fixed Income Composite 7/1/97 – 9/30/11

### Investment Philosophy

Our investment philosophy for short-term fixed income management emphasizes a unique and defined tactical allocation approach to fixed income management, with the following strategic and tactical factors:

#### Strategic:

- Global Macro Considerations
- Yield Curve Management
- Sector Considerations

#### Tactical:

- Security Selection
- Relative Valuation
- Break-even analysis versus risk free investments

### Investment Process

We seek to add value through the following five step process:

- Determining global macro trends and credit market impact
- Controlling interest rate risk through management of yield curve exposure
- Integrating proprietary research, quantitative analysis, and break-even screens
- Selecting credits based on deep fundamental credit research and relative valuation
- Continuing the process and reviewing on an active daily basis

Portfolio managers utilize an array of proprietary analytical tools:

- Fundamental credit models
- Relative valuation models
- Pre-and post-trade scenario models
- Detailed benchmark comparison model

Fixed Income strategy is based on the decision of the Fixed Income Investment Policy Committee. Implementation of the strategy is based upon the decision of the Portfolio Manager(s).

### Portfolio Construction

- <75% exposure to non-government securities to maintain sufficient liquidity
- No non-government security will exceed 5% of total market value

### Sell Discipline

- Security no longer meets established risk/reward criteria
- Fundamental deterioration of the credit quality of the security

| Year               | Total Return Gross of Fees % | Barclays Capital 1-5 Year U.S. Gov't/Credit A+ % | Composite 3-Yr St. Dev (%) | Barclays Capital 1-5 Year U.S. Gov't/Credit A+ 3-Yr St Dev (%) | Number of Portfolios | Dispersion % | Total Composite Assets End of Period (\$ millions) | Total Firm Assets End of Period # (\$ millions) |
|--------------------|------------------------------|--|----------------------------|--|----------------------|--------------|--|---|
| 6/30/97 – 12/31/97 | 4.0                          | 4.1  |                            |  | *                    | *            | 206  | 206   |
| 1998               | 7.6                          | 7.7  |                            |  | *                    | *            | 188  | 188   |
| 1999               | 2.7                          | 2.0  |                            |  | *                    | *            | 203  | 203   |
| 2000               | 9.1                          | 9.2  |                            |  | *                    | *            | 203  | 203   |
| 2001               | 9.3                          | 9.0  |                            |  | *                    | *            | 288  | 288   |
| 2002               | 7.9                          | 8.2  |                            |  | *                    | *            | 380  | 589   |
| 2003               | 3.1                          | 2.9  |                            |  | *                    | *            | 396  | 663   |
| 2004               | 1.7                          | 1.7  |                            |  | *                    | *            | 391  | 658   |
| 2005               | 1.8                          | 1.5  |                            |  | *                    | *            | 373  | 674   |
| 2006               | 4.4                          | 4.2  |                            |  | *                    | *            | 344  | 689   |
| 2007               | 7.5                          | 7.5  |                            |  | *                    | *            | 350  | 684   |
| 2008               | 9.0                          | 6.0  |                            |  | *                    | *            | 351  | 690   |
| 2009               | 3.4                          | 3.2  |                            |  | *                    | *            | 681  | 1,160   |
| 2010               | 4.0                          | 3.9  |                            |  | *                    | *            | 850  | 6,678   |
| YTD                | 2.1                          | 2.7  |                            |  | *                    | *            | 866  | 6,599   |

\* Composite contains 5 or fewer portfolios

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 – 6/30/11. 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. The Short-Term Fixed Income Composite has been examined for the periods 6/30/97 – 6/30/11. 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 Advisors Act of 1940. CAM manages large cap equity, mid cap equity, fixed income and private equity asset classes for private and institutional clients. CAM acquired Prelude Asset Management LLC on March 15, 2010. Composite performance results and the percentage of total firm assets managed by Jeffrey Porter, from July 1, 1997 to March 15, 2010 were realized while employed at Prelude Asset Management LLC. Total firm assets for the periods July 1, 1997 through December 31, 2009 represent those of Prelude Asset Management LLC.

**Composite Characteristics:** The Short-Term Fixed Income Composite was created in September 2009 and the inception date is July 1, 1997 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 accounts managed in the short-term fixed income style for a minimum of one consecutive month. There is no minimum account value for inclusion. Accounts with wrap commissions are excluded from the composite. The composite benchmark is the Barclays Capital 1-5 Year U.S. Gov't/Credit A+ Index. 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. Prior to March 31, 2010 composite returns were asset-weighted. Gross of fees returns are calculated gross of management and custodial fees and net of transaction costs. Accruals for fixed income securities are included in calculations. The dispersion measure is the asset-weighted standard deviation of accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented for 1997 through 2010 as it is not required for periods prior to 2011.

**Fee Schedule:** The Short-Term Fixed Income fee schedule is as follows: 0.25% for first \$5-25 million, 0.20% for next \$25 million, 0.15% for next \$25 million and 0.10% for \$75 million and up. The above 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 0.25% annual fee deducted quarterly would earn a 9.7% 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. Total Firm Assets End of Period #: Effective 3/31/10 number includes a portion of assets where Congress Asset Management Co. does not have full conditional trading authority. The assets consist of model portfolio relationships with third party platforms and totaled 10% of the firm's assets as of 9/30/11. Year-end model portfolio totals were 4% as of 12/31/10.

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