

# SMid Growth Portfolio

Commentary | 2Q25 | Managed Accounts

## Highlights

- The Congress SMid Growth Portfolio ("the Portfolio") returned 12.3% (net of fees) vs 11.3% for the Russell 2500 Growth Index ("the Index") in 2Q25. The Portfolio's outperformance was aided by downside risk mitigation in April and strong earnings results in May.
- 2Q25 was another wild ride for the Index, which hit its lowest level in over a year at the start of the quarter on continued tariff concerns. However, following the pause of reciprocal tariffs on April 8th, the Index rebounded sharply, increasingly driven by the lowest quality stocks as the quarter progressed. The Portfolio benefited from its focus on fundamentals, particularly in April and May.
- The Portfolio's relative outperformance was driven by security selection, notably in Industrials. The Portfolio outperformed the Index sector by over 2200bps, aided by our continued exposure to datacenters, AI spend, and aerospace. This was partially offset by idiosyncratic weakness in some of our Technology holdings.
- The Portfolio has outperformed the Index over the YTD and trailing 3yr, 5yr, and since inception periods (net of fees). We have shown an ability to participate in up markets and mitigate risk in down, relative to the Index. Since inception, the Portfolio has a 98% up capture and 78% down capture (gross of fees\*) and has compounded capital 3.0x vs 2.1x for the Index (net of fees).

## Portfolio Review

- Markets began the quarter in a dour mood as the selloff in the Index that began in mid-February accelerated following the expanded tariffs, falling almost 14% from April 2nd through April 8th. After the Trump administration paused the most extreme measures, sentiment reversed and investors refocused on growth opportunities, fueling a strong rebound.
  - The Portfolio outperformed in 2Q25 and saw positive absolute returns in each month of the quarter.
  - We outperformed in April, as our downside risk mitigation was aided by our focus on quality, and in May as our holdings posted a solid earnings season, in general. We trailed the Index in June, particularly later in the month as lower quality stocks in the Index rallied.
- The Portfolio benefited from Industrials, as our holdings outperformed the Index sector by over 2200bps. Notable contributors included Sterling Infrastructure and Comfort Systems. Sterling reported strong quarterly results and announced a well-received acquisition expected to expand its total addressable market. Comfort Systems experienced increased bookings tied to data center investments and has benefited from onshoring of manufacturing. Consumer Staples also aided performance, notably e.l.f. Beauty, reported positive earnings and has gained market share recently.
- Technology was the largest detractor, in particular Clearwater Analytics, which had positive earnings growth during the quarter but was weighed down by an increased debt load from acquisitions. Consumer Discretionary also detracted, especially Tractor Supply, which fell on heightened tariff concerns early in the quarter. We maintain confidence in both stocks.
- We continue to evaluate opportunities that may enhance the Portfolio's growth profile and during the quarter purchased ExlService Holdings, a business process outsourcing firm that offers AI driven solutions, and

## Portfolio review continued

Hawkins, a leading provider of water treatment solutions. Our sales included Azek Co, an outdoor living products manufacturer that announced it would be acquired earlier in the year, and Werner Enterprises, a trucking and logistics company impacted by the ongoing US freight recession.

## Outlook

- We believe SMid caps present a compelling opportunity, particularly relative to larger-cap peers
  - SMid caps may offer the stability of mid caps with the the outsized return potential provided by small caps. The forward P/E of the Index is at a 29% discount to the Russell 1000 Growth Index and 21% discount to the Russell Midcap Growth, approximately 2 standard deviations cheap.
  - EPS growth in the 2500 Growth Index is expected to turn positive in 3Q and outpace the Russell 1000 Growth in 2026, according to Bloomberg.
- The impact of tariffs and government spending cuts has thus far been less than anticipated, and the US economy remains resilient. While volatility is likely to remain elevated given continued macro and policy uncertainty, believe we have exposure to areas of the economy with durable growth drivers.
  - In Industrials, we maintain exposure to AI-related capex and data-center buildout (Sterling Infrastructure and Comfort Systems), an area where we see continued demand.
  - In the Consumer sectors, consumers continue to emphasize value-oriented spending and we are seeing more trading down, even from higher-end consumers (Ollie's, BJ's, e.l.f.).
  - In Technology, we continue to benefit from exposure to cyber security (CyberArk and Commvault).

## Average Annualized Performance (%) as of 6/30/2025

	QTD	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (4/1/2017)
SMid Growth Composite (Gross)	12.4	4.3	8.9	14.8	13.4	14.8
SMid Growth Composite (Net)	12.3	4.0	8.4	14.3	12.9	14.3
Russell 2500 Growth <sup>®</sup>	11.3	-0.7	8.8	12.0	7.5	9.4

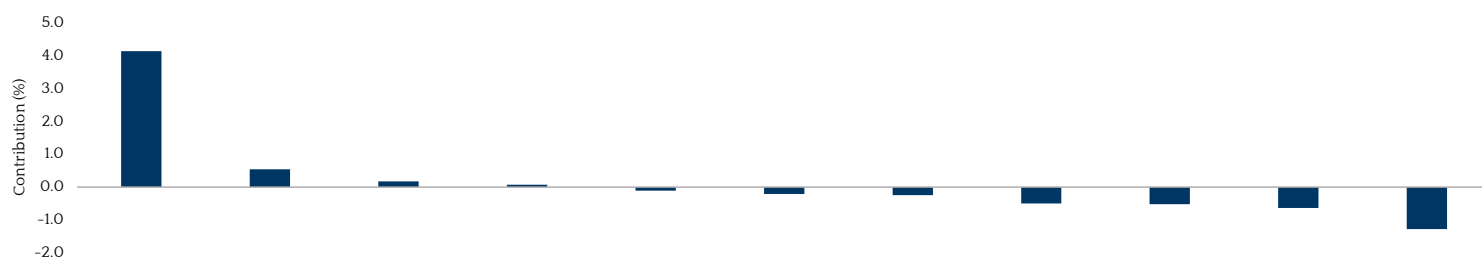
## Past performance does not guarantee future results

\*Characteristics are gross of fees and are computed without the deduction of fees and expenses.

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## % Total Effect Composite vs. Index\*

3/31/2025 - 6/30/2025



	Industrials	Cons Staples	Energy	Comm Svcs	Materials	Utilities	Real Estate	Health Care	Financials	Cons Disc	Info Tech
Allocation Effect	-0.04	-0.06	-0.08	0.07	0.04	-0.21	-0.03	0.13	-0.03	0.01	0.08
Selection Effect	4.17	0.60	0.25	0.00	-0.15	0.00	-0.22	-0.63	-0.48	-0.65	-1.36
Total Effect	4.14	0.54	0.17	0.07	-0.11	-0.21	-0.25	-0.50	-0.52	-0.64	-1.28

\*Characteristics are gross of fees and are computed without the deduction of fees and expenses.

### Top 5 Contributors/Detractors

Stock	Avg. Weight%
Comfort Systems USA, Inc.	4.48
Sterling Infrastructure, Inc.	2.83
Curtiss-Wright Corp.	4.02
e.l.f. Beauty, Inc.	2.19
Cyberark Software Ltd.	4.08

### Bottom 5 Contributors/Detractors

Stock	Avg. Weight%
Halozyyme Therapeutics, Inc.	2.61
Clearwater Analytics Holdings, Inc.	1.70
The Cooper Companies, Inc.	1.73
BJ's Wholesale Club Holdings, Inc.	3.83
Prestige Consumer Healthcare, Inc.	2.83

**Comfort Systems USA, Inc. (FIX)** provides mechanical and electrical contracting services. Business strength was driven by increased bookings tied to data center investments from hyperscalers—large cloud providers such as Meta and Amazon Web Services—supporting AI and cloud infrastructure. In addition, the company continues to benefit from the onshoring of manufacturing, which is driving incremental demand.

**Sterling Infrastructure, Inc. (STRL)** is a U.S. construction solutions leader specializing in large-scale site development for industrial, public infrastructure, and residential end markets. The company reported strong results, including 7% organic growth and an acceleration in its E-infrastructure (E-infra) business. Sterling also announced the acquisition of CEC Facilities Group, a leading electrical contractor—highlighting both capital discipline and the company's strategic entry into the specialty contracting market.

**Curtiss-Wright Corp. (CW)** is a diversified manufacturer of highly engineered products and critical technologies serving the aerospace and defense, commercial nuclear power, and general industrial markets. The company delivered double-digit earnings growth in its first quarter supported by demand across its end-markets and operating margin expansion. Further, we believe robust customer order placements for its naval nuclear propulsion equipment, avionics equipment, and commercial nuclear aftermarket product lines leaves the company well positioned to continue growing profits through the duration of the year.

**Halozyyme Therapeutics, Inc. (HALO)** develops drug delivery technologies that improve the efficiency of injectable therapeutics. Shares declined after the CMS (Centers for Medicare & Medicaid Services) released draft guidance on drug price negotiations, raising potential revenue headwinds. While the proposal introduces some uncertainty, we believe HALO remains a valuable partner for biopharma companies with infusion-based therapies, offering meaningful advantages in convenience and cost efficiency.

**Clearwater Analytics Holdings, Inc. (CWAN)** develops cloud-native software that simplifies investment accounting operations for its clients. The company announced three acquisitions this year, which have increased its debt load and temporarily shifted focus from the core business, which continues to perform well. Nonetheless, we maintain a positive view on the acquisitions, as they expand Clearwater's product suite and build on the company's strong track record of successful integration.

**The Cooper Companies, Inc. (COO)** is a leading provider of vision correction products, medical devices, and fertility products. The company reported quarterly results that were in line with expectations, but management lowered their guidance for this fiscal year due to slowing end markets. We continue to believe COO's position in the market is strong, as evidenced by its continued market share gains.

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## Portfolio Activity

### Purchases

ExlService Holdings, Inc.

Hawkins, Inc.

### Sector

Information Technology

Materials

### Sales

Werner Enterprises, Inc.

The AZEK Co., Inc.

### Sector

Industrials

Industrials

**ExlService Holdings, Inc. (EXLS)** is an IT services company that provides AI-driven operations and business solutions, primarily to the insurance and healthcare industries. The company has demonstrated consistent revenue and earnings growth. In our view, ongoing demand for data and analytics services, combined with strategic tuck-in acquisitions, should support continued low double-digit growth.

**Hawkins, Inc. (HWKN)** is a leading provider of water treatment and specialty ingredients. Since 2020, the company has expanded its Water Treatment segment through a combination of acquisitions and organic growth. Unlike its legacy Industrial and Health & Nutrition segments, Water Treatment is generally non-cyclical and has benefited from steady municipal demand. We believe that the shift toward this historically more stable, water-focused model should support margin expansion and drive more consistent earnings over time.

**Werner Enterprises, Inc. (WERN)** is a U.S.-based trucking and logistics company offering full truckload shipping, freight brokerage, intermodal, and final-mile delivery services. The ongoing U.S. freight recession, driven by excess capacity in the truckload market, has resulted in heightened competition for limited demand, putting pressure on margins and earnings. These headwinds appear likely to persist in the near to medium term, and the outlook for recovery remains uncertain.

**The AZEK Co., Inc. (AZEK)** manufactures premium, low-maintenance outdoor living products made from recycled materials, including composite decking, railing, trim, and siding. In March 2025, management announced that the company would be acquired by James Hardie in a cash-and-stock transaction expected to close in the second half of the year. With the stock trading near the deal price, we elected to exit the position.

[The Russell 2500 Growth Index](#) measures the performance of those Russell 2500® Index companies with higher price-to-book ratios and higher forecasted growth values. [Upside Capture ratio](#) measures the manager's overall performance to the benchmark's overall performance, considering only months that are positive in the benchmark. An Upside Capture Ratio of more than 100% indicates a manager who outperforms the relative benchmark in the benchmark's positive months. [Downside Capture ratio](#) is the ratio of the manager's overall performance to the benchmark's overall performance, considering only months that are negative in the benchmark. A Downside Capture Ratio of less than 100% indicates a manager who outperforms the relative benchmark in the benchmark's negative months and protects more of a portfolio's value during down markets. [The Russell 1000 Growth Index](#) measures the performance of the Large cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price-to-value ratios and higher forecasted growth values. [The Russell Midcap Growth Index](#) measures the performance of the Mid cap growth segment of the US equity universe. It includes those Russell Midcap companies with higher price-to-value ratios and higher forecasted growth values. [The Forward P/E Ratio](#), or forward price-to-earnings ratio, is a valuation metric that divides a company's current stock price by its estimated earnings per share (EPS) for the next 12 months. It provides an indication of how much investors are willing to pay for each dollar of a company's projected future earnings. [EPS Growth](#), or Earnings Per Share growth, refers to the rate at which a company's profitability, on a per-share basis, is increasing or decreasing over time. It's a key metric for investors to assess a company's financial performance and potential. Essentially, it measures how much net income a company generates for each outstanding share of its stock. [Standard Deviation](#) is a measure of the dispersion of a set of data from its mean. It is used by investors as a gauge for the amount of expected volatility.

## Congress Asset Management Co. SMid Growth Composite 4/1/2017 - 12/31/2024

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 Disper- sion %	Total Com- posite 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)
2024	13.0	12.4	13.9	21.4	22.8	280	0.57	400	14,207	9,471	23,678
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 – 12/31/24. 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.

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