CONGRESS
ASSET MANAGEMENT COMPANY

# Balanced Portfolio

Commentary | 3Q24 | Managed Accounts

## Highlights

- The Congress Balanced Portfolio ("the Portfolio") returned 3.5% (net of fees) vs 5.2% for the blended 60% S&P 500 / 40% Bloomberg Intermediate Gov/Credit Index ("the Index").
- Within the equity allocation, our holdings in Industrials, particularly stocks with exposure to the strong aerospace environment, benefited relative performance. Communication Services also contributed, aided by our exposure to advertising technology. This was partially offset by Health Care.
- We believe our Balanced Portfolio offers an attractive alternative to the S&P 500. Since inception, the Portfolio has provided 81% of the return of the S&P 500 with only 66% of the volatility (net of fees).
- We invest in companies with established profitability, a history of earnings growth, positive free cash flow, and prudent use of debt and leverage.

## Portfolio Review

- The Portfolio benefited from its Industrials holdings, particularly Howmet Aerospace which is seeing exceptional margin expansion due to strong demand for new airplanes and expanding market share. Within Communication Services, Meta contributed to performance as it posted solid quarterly results and engagement, and monetization of its services continues to improve.
- Health Care detracted from performance, particularly Dexcom which had disappointing earnings and reduced forward guidance due to a large salesforce restructuring. Within Technology, Synopsys, which caters to the semiconductor industry, also detracted from performance on concerns of weakness in Intel, one of its largest partners. The semiconductor industry was also broadly hurt on fears of a weaker capex cycle, further export restrictions, and a pullback in AI enthusiasm.
- Within the fixed income allocation, our overweight to corporate bonds was additive to returns. This was offset by our modestly shorter duration, which detracted given the falling rate environment.
- We made several changes in the quarter to upgrade our holdings.
  - Within equities, we continue to focus on Consumer companies that offer good value and can pass along price increases. In Health Care, we increased exposure to the recovery in biopharma spending. We also added holdings in Technology and Financials.
  - Within fixed income, we extended duration within our Treasury holdings and extended and picked up spread in Financials.

## Outlook

- The economy should continue to expand as inflation maintains its downward trend and economic data remains stable. However, we expect more volatility through the end of the year due to Fed uncertainty, the election, and global geo-political events.
- While the Fed has embarked on a rate cutting cycle, longer term yields remain near historical averages. Investment grade fixed income continues to be an attractive opportunity, both as a standalone allocation and as a complement to equities, in our view.
  - Our recommended allocation remains 60% equity and 40% fixed income.
- We believe long-term investors will continue to benefit from portfolio diversification. The Portfolio holds the largest Technology stocks that drove year-to-date performance but also maintains broad exposure across sectors and themes: including AI, the buildout of data centers, reshoring of manufacturing, and the strong aerospace environment.

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

| | QTD | YTD | 1 Yr | 3 Yrs | 5Yrs | 10 Yrs | Since Inception (1/1/1985) |
|---|---|---|---|---|---|---|---|
| Balanced Composite (Gross) | 3.7 | 14.7 | 25.2 | 7.7 | 11.2 | 10.8 | 10.4 |
| Balanced Composite (Net) | 3.5 | 14.3 | 24.6 | 7.2 | 10.7 | 10.2 | 9.5 |
| Benchmark[1] | 5.2 | 14.9 | 25.1 | 7.4 | 10.2 | 9.0 | 9.6 |

**Past performance does not guarantee future results.** [1]Blended Benchmark: 60% S&P500/40% Bloomberg US Intermediate Govt/Credit Index

# Equity Sleeve

## Top 5 Contributors/Detractors

| Stock | Avg. Weight% |
|---|---|
| Howmet Aerospace, Inc. | 1.62 |
| Sherwin-Williams Co. | 1.55 |
| Parker-Hannifin Corp. | 1.32 |
| Home Depot, Inc. | 1.60 |
| Apple, Inc. | 2.70 |

## Bottom 5 Contributors/Detractors

| Stock | Avg. Weight% |
|---|---|
| Dexcom, Inc. | 0.49 |
| Synopsys, Inc. | 1.89 |
| Freeport-McMoran, Inc. | 1.18 |
| Alphabet, Inc. Class A | 2.12 |
| NXP Semiconductors N.V. | 1.61 |

**Howmet Aerospace, Inc. (HWM)** is a leading manufacturer of jet engine components, fastening systems, and airframe structural components, primarily for the commercial and defense aerospace industries. Despite ongoing production quality issues affecting Boeing, one of Howmet's largest clients, the company is achieving exceptional margin expansion. The demand for new airplanes remains strong, and as industry supply chain issues improve over time, Howmet is expected to realize further operating leverage.

**Sherwin-Williams Co. (SHW)** is a global leader in the manufacture, development, distribution, and sale of paints, coatings, and related products. SHW's business is primarily driven by single-family housing activity in the U.S. Investments in the Paint Stores Group, which began in 2022, are starting to pay off, as evidenced by positive volume growth and margin expansion.

**Parker-Hannifin Corp. (PH)** is a leading global manufacturer of highly engineered motion and control solutions, with products used in nearly every significant manufacturing, transportation, and processing industry. Parker impressed investors by initiating its fiscal year 2025 guidance, expecting robust growth despite a soft industrial economy in North America and Europe. Growth is attributed to company-specific margin expansion initiatives and strength in its aerospace business.

**Dexcom, Inc. (DXCM)** manufactures continuous glucose monitors (CGM) for patients with diabetes. A salesforce restructuring created headwinds in a key distribution channel, leading to a significant reduction in growth and forward guidance that was more severe than expected. The position was sold following the disappointing quarterly earnings report.

**Synopsys, Inc. (SNPS)** is a leading provider of electronic design automation (EDA) software and intellectual property (IP) for the semiconductor industry. One of Synopsys' largest customers, Intel, recently announced cost-saving initiatives, raising concerns about the future size of their relationship. Despite this, EDA and IP solutions remain strategic to semiconductor companies, and Synopsys is well-positioned to benefit from shorter design cycles and increasing complexity in chip architecture.

**Freeport-McMoRan, Inc. (FCX)** is a leading international mining company with geographically diverse assets and significant proven and probable reserves of copper, gold, and molybdenum. FCX's revenues are primarily driven by copper sales, making it highly sensitive to copper prices, which declined for much of Q3 due to slowing global demand. As a result, the position was sold during the quarter.

# Fixed Income Sleeve

Sector allocation in Industrial and Financial corporate issues improved relative performance as corporates outperformed Treasuries. Security selection in Financial and Industrial corporate issues weakened relative performance as lower quality issues outperformed, however. A duration mismatch with the benchmark also weakened relative performance as rates rallied during the quarter, resulting in a lower yield curve.

## Top 5 Contributors/Detractors

| Issue |
|---|
| Bristol-Myers Squibb Co. of 2/22/2034 |
| UnitedHealth Group of 5/15/2031 |
| US Treasury of 5/15/2032 |
| PepsiCo, Inc. of 7/18/2032 |
| US Treasury of 2/15/2028 |

## Bottom 5 Contributors/Detractors

| Issue |
|---|
| JPMorgan Chase & Co. of 1/23/2030 |
| Wells Fargo & Co. of 4/22/2026 |
| Goldman Sachs Group, Inc. of 5/22/2025 |
| Intel Corp. of 8/05/2032 |
| Intel Corp. of 11/15/2029 |

Information is as of 9/30/2024. Sources: Congress Asset Management, Bloomberg Finance L.P., and Barclays Investments. 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 contributions of every holding in the strategy's composite account, 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. Actual client account holdings and sector allocations may vary.

# Transactions

## 3Q 2024 Transaction Summary - Equity Sleeve

| Purchases | Sector | Sales | Sector |
|---|---|---|---|
| The Goldman Sachs Group, Inc. | Financials | CME Group, Inc. | Financials |
| Chipotle Mexican Grill, Inc. | Consumer Discretionary | Dexcom, Inc. | Health Care |
| Palo Alto Networks, Inc. | Information Technology | Procter & Gamble, Inc. | Consumer Staples |
| Thermo Fisher Scientific, Inc. | Health Care | Roper Technologies, Inc. | Information Technology |
| | | Freeport-McMoRan, Inc. | Materials |

## 3Q 2024 Transaction Summary - Fixed Income Sleeve

- Sold US Treasury of 08/15/2024 and bought US Treasury of 08/31/2030 for duration extension.
- Sold Goldman Sachs of 05/22/2025 and bought Goldman Sachs of 07/23/2030 for spread pickup and duration extension.
- Sold US Treasury of 10/31/2024 and bought US Treasury of 10/15/2026 for duration extension and key rate exposure adjustment.

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## Congress Asset Management Co. Balanced Composite 1/1/2014 - 12/31/2023

| Year | Total Return Gross of Fees% | Total Return Net of Fees% | 60% S&P 500 40% BUIGCI Blend Return % (dividends reinvested) | CAM Recomm. Allocation % | Composite Gross 3-Yr St Dev (%) | 60% S&P 500 40% BUIGCI Blend Return 3-Yr St Dev (%) | Number of Portfolios | Gross Dispersion % | Total Composite Assets End of Period ($ millions) | Total Firm Discretion-ary Assets End of Pe-riod ($ millions) | Total Firm Advisory-Only Assets End of Period ($ millions) | Total Firm Assets End of Period # ($ millions) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2023 | 21.9 | 21.3 | 17.6 | 60/40 | 13.4 | 11.6 | 26 | 1.17 | 37 | 12,146 | 8,514 | 20,660 |
| 2022 | -17.2 | -17.6 | -13.9 | 60/40 | 14.7 | 13.3 | 24 | 0.78 | 31 | 10,083 | 6,799 | 16,882 |
| 2021 | 17.5 | 17.0 | 15.9 | 65/35 | 11.0 | 10.4 | 34 | 1.1 | 50 | 12,778 | 8,018 | 20,796 |
| 2020 | 20.3 | 19.8 | 14.3 | 65/35 | 11.4 | 11.2 | 27 | 1.44 | 47 | 10,746 | 5,523 | 16,269 |
| 2019 | 24.5 | 23.9 | 21.3 | 65/35 | 7.6 | 7.1 | 26 | 1.66 | 44 | 8,445 | 4,083 | 12,528 |
| 2018 | 2.5 | 2.0 | -2.0 | 65/35 | 7.0 | 6.3 | 21 | 0.67 | 32 | 7,102 | 3,132 | 10,234 |
| 2017 | 19.2 | 18.5 | 13.6 | 70/30 | 6.7 | 5.8 | 10 | n/a | 15 | 7,272 | 3,274 | 10,546 |
| 2016 | 4.7 | 4.0 | 8.1 | 70/30 | 7.3 | 6.3 | 6 | n/a | 7 | 5,693 | 2,445 | 8,139 |
| 2015 | 2.4 | 1.7 | 1.5 | 65/35 | 7.6 | 6.3 | 11 | 0.61 | 13 | 5,941 | 1,153 | 7,094 |
| 2014 | 8.0 | 7.3 | 9.4 | 65/35 | 7.1 | 5.5 | 15 | 0.77 | 20 | 6,328 | 1,121 | 7,449 |

#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 – 12/31/23. 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 Balanced Composite was created on January 1, 1993, and the inception date of the composite is January 1, 1985, 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 $500 thousand (US dollars) managed with the recommended asset allocation between large cap equities and fixed income set by the Investment Policy Committee for a minimum of one full month. The current recommendation is a 60/40 allocation and accounts with allocations falling within 15% of the recommendation are eligible for composite inclusion. Accounts with wrap commissions are excluded from the composite. Prior to September 1, 2005, the composite did not include taxable accounts, private client accounts, or accounts with less than $1 million. For the Balanced Composite we present a custom benchmark, which is a 60/40 blend of the S&P 500 Index and Bloomberg US Intermediate Government / Credit Index. The custom benchmark is calculated by weighting the respective index returns on a daily basis. 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. 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. Prior to January 1, 1993, the composite is not in compliance with GIPS.

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 Balanced 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 fixed income and 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.

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.