

# Small Cap Growth Portfolio

Commentary | 3Q24 | Managed Accounts

## Highlights

- The Congress Small Cap Growth Portfolio (“the Portfolio”) returned 9.7% (net of fees) vs 8.4% for the Russell 2000 Growth Index (“the Index”) in 3Q24. Year to date, the Portfolio returned 19.5% vs 13.2% for the Index.
- Small 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.
- Relative outperformance was driven by Industrials and Consumer Discretionary, but we also had strong returns in Financials and Materials. This was partially offset by selection in Consumer Staples.
- The Portfolio has shown an ability to participate in up markets and mitigate risk in down markets, relative to its index. Since inception, it has a 107% up capture and 72% down capture and has compounded capital 5x vs 3x for the Index, net of fees.

## 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 slightly negative in August as market turmoil early in the month was mostly offset by a stronger-than-expected earnings season, and September saw stronger returns following the Fed rate cut.
  - We outperformed in July and particularly in August as our Portfolio had a strong earnings season. Eight of our holdings were up 10% or more on earnings while only three were down 10% or more.
- The Portfolio benefited from its Industrials holdings, particularly CSW Industrials and Comfort Systems, both stocks with exposure to HVAC that continue to benefit from growing demand in the residential and commercial space. Within Consumer Discretionary, Chuy’s led performance as it was acquired during the quarter at a -50% premium. Boot Barn was also a top contributor as quarterly results saw sales and margins that exceeded expectations.
- Consumer Staples was the top detractor, mostly due to e.l.f Beauty which underperformed as its sales growth has moderated from the dramatic levels it has achieved in recent quarters. Information Technology also detracted, particularly Nova and Onto Innovation. Both companies had strong quarterly earnings results but were 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. During the quarter we sold several positions, including one that was acquired and another that exceeded our market cap guidelines. We added holdings in Consumer Discretionary, Communication Services, Technology, and Energy.

## Outlook

- While small caps outperformed large caps during the quarter, we continue to believe small caps offer an attractive value proposition.
  - The forward P/E of the Russell 2000 Growth Index relative to the Russell 1000 Growth Index is at a 31% discount to long term averages, almost 2 standard deviations, 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 especially important as rates are expected to stay elevated and -25% 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

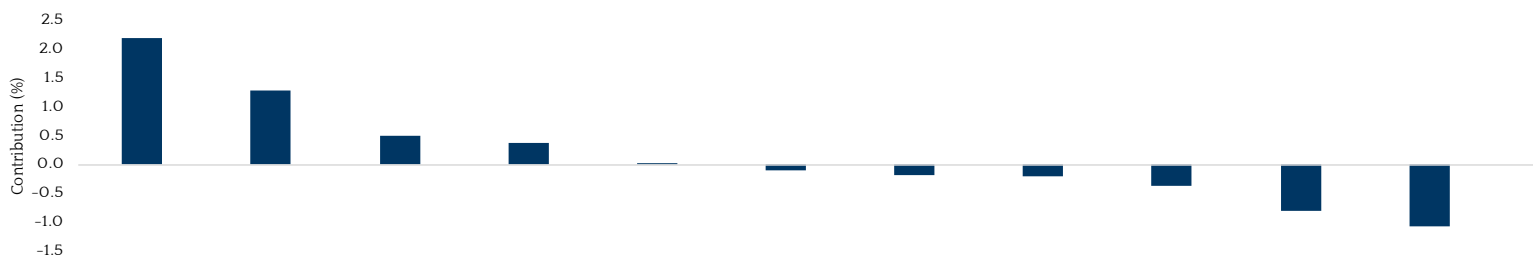
	QTD	YTD	1 Yr	3 Yrs	5Yrs	10 Yrs	Since Inception (7/1/2013)
Small Cap Growth Composite (Gross)	9.9	20.2	28.4	6.2	17.1	15.9	15.5
Small Cap Growth Composite (Net)	9.7	19.5	27.6	5.5	16.4	15.4	15.0
Russell 2000 Growth <sup>®</sup>	8.4	13.2	27.7	-0.4	8.8	8.9	9.4

### 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. 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

6/30/2024 - 9/30/2024



	Industrials	Cons Disc	Materials	Financials	Utilities	Energy	Real Estate	Comm Svcs	Health Care	Info Tech	Cons Staples
<b>Allocation Effect</b>	0.02	0.12	0.04	-0.19	0.01	-0.11	-0.18	0.00	-0.03	0.02	-0.05
<b>Selection Effect</b>	2.17	1.16	0.45	0.55	0.00	0.02	0.00	-0.19	-0.33	-0.84	-1.03
<b>Total Effect</b>	2.20	1.28	0.50	0.37	0.01	-0.09	-0.18	-0.20	-0.36	-0.81	-1.07

### Top 5 Contributors/Detractors

Stock	Avg. Weight%
CSW Industrials, Inc.	3.09
Sprouts Farmers Market, Inc.	3.48
Boot Barn Holdings, Inc.	3.29
Champion Homes, Inc.	2.38
Comfort Systems, Inc.	2.90

### Bottom 5 Contributors/Detractors

Stock	Avg. Weight%
e.l.f. Beauty, Inc.	2.39
Progyny, Inc.	0.68
Qualys, Inc.	1.48
ONTO Innovation, Inc.	0.81
NOVA Ltd.	2.52

**CSW Industrials, Inc. (CSWI)** is a diversified manufacturer of mechanical products for HVAC/refrigeration, railings and fire systems for buildings, and specialty chemicals for the energy, mining, rail, and general industrial markets. Revenue growth continues to outpace the broader residential HVAC market and reflects an expanding market share. Management is also implementing price increases, improving gross margins, and enabling reinvestment in growth initiatives.

**Sprouts Farmers Market, Inc. (SFM)** owns and operates specialty grocery stores offering a unique selection of fresh, natural, and organic products. Quarterly results exceeded expectations, reflecting consistent sales growth, strong store traffic, and continued margin expansion. SFM continues to attract customers with its differentiated product assortment.

**Boot Barn Holdings, Inc. (BOOT)** is the nation's leading lifestyle retailer of western and work-related footwear, apparel, and accessories. Quarterly results were bolstered by sales and margins that exceeded expectations, with broad-based improvements seen across all sales categories. A late-quarter update indicated that this momentum carried into the first 10 weeks of the current quarter.

**e.l.f. Beauty, Inc. (ELF)** is a leading beauty products company known for offering high-quality cosmetics at value prices. ELF continues to drive sales through product innovation, effective marketing, and expanded distribution. While sales growth continues to outpace the overall beauty category, the rate of growth has moderated from the dramatic levels experienced in recent quarters.

**Progyny, Inc. (PGNY)** is a fertility benefits management company. The company reported weak Q2 2024 financial results and lowered its full-year 2024 guidance. Lower than expected utilization of fertility benefits continues to confound results, potentially the result of competitive pressures or macroeconomic headwinds. The position was sold following the disappointing earnings report.

**Qualys, Inc. (QLYS)** provides cybersecurity solutions with a focus on vulnerability management, detection, and response. The company has experienced decelerating revenue and billings growth as customers shift their IT budgets. To address this slowdown, Qualys is investing in sales and marketing and shifting its product portfolio toward higher-growth areas, though both strategies will take time and yield uncertain results. The stock was sold during the quarter.

Information is as of 9/30/2024. 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
Criteo S.A.	Communication Services	ONTO Innovation, Inc.	Information Technology
Oceaneering International, Inc.	Energy	Core Laboratories, Inc.	Energy
Stride, Inc.	Consumer Discretionary	Progyny, Inc.	Health Care
Box, Inc.	Information Technology	Qualys, Inc.	Information Technology
		Chuy's Holdings, Inc.	Consumer Discretionary

**Criteo S.A. (CRTO)** is a market leader in niche markets of advertising technology, leveraging data to connect e-commerce, digital marketing, and media monetization. In ad retargeting, Criteo uses consumer data to show ad content based on past website visits. While this market is currently challenged by data privacy initiatives, Criteo's leadership in the area of retail media has emerged as a powerful growth driver in one of the fastest growing areas of digital advertising, resulting in an improving growth profile, persistent profitability, and robust cash flow.

**Oceaneering International, Inc. (OII)** is one of the largest offshore energy servicing companies, a market leader in offshore remotely operated vehicles (ROVs) and related services, equipment manufacturing, installation, and subsea interventions. Offshore energy fundamentals have been enhanced by lower costs and emissions. Rising offshore activity is driving higher utilization and pricing of OII's ROV fleet, demand and backlog for its manufactured products, with benefits to the visibility of growth, rising profitability, and cash generation.

**Stride, Inc. (LRN)** is the leading provider of online educational programs in the K-12 virtual school market. Stride's products and services include curriculum, systems, instruction, and support services to help clients operate full-time virtual schools. We believe Stride will continue to expand its enrollment base as parents and students increasingly choose online learning as an alternative to public schools. Profitability and cash flow have benefited from significant operating leverage in the business model, driving margin expansion.

**Box, Inc. (BOX)** is a leading cloud-based enterprise content management and collaboration platform. Box's introduction of artificial intelligence capabilities to its platform for enterprise use cases is driving both an upgrade cycle at existing clients and new client wins. The increased adoption and pricing of these products are poised to re-accelerate top-line growth and further benefit profitability, in our view.

**Onto Innovation, Inc. (ONTO)** manufactures equipment that is essential for the fabrication of semiconductor chips equipment, including process control, metrology, and lithography systems. Onto was sold as the stock exceeded the Portfolio's market cap guidelines.

**Core Laboratories, Inc. (CLB)** is one of the world's leading providers of proprietary and patented reservoir description and production enhancement services and products to the oil and gas industry. CLB's Production Enhancement business has been slowed by stagnant U.S. onshore completion and production activity. The position was sold in favor of more attractive growth opportunities.

**Progyny, Inc. (PGNY)** provides fertility benefit services to employers. While we continue to hold a positive view of the fertility market, recent disappointing results may indicate poor execution and/or competitive incursions, creating company specific risk. These factors resulted in a sharp decline in revenue growth and heighten the threat of competitive losses.

**Qualys, Inc. (QLYS)** offers cybersecurity solutions that focus on vulnerability management, detection, and response. Qualys has seen revenue and billings growth decelerate as customers shift their IT budgets. Qualys is addressing this slowing growth by investing in sales and marketing and shifting its product portfolio to higher growth areas. Both measures will take time to execute and are not certain to generate results.

**Chuy's Holdings, Inc. (CHUY)** is a full-service restaurant concept offering a distinct menu of authentic, freshly prepared Mexican and Tex-Mex inspired food. In mid-July, Darden Restaurants announced an offer to acquire Chuy's for a roughly 47% premium.

## Congress Asset Management Co. Small Cap Growth Composite 1/1/2014 - 12/31/2023

Year	Total Return Gross of Fees %	Total Return Net of Fees %	Russell 2000 Growth Return % (dividends reinvested)	Composite Gross 3-Yr annualized ex-post St Dev (%)	Russell 2000 Growth 3-Yr annualized ex-post St Dev (%)	Number of Portfolios	Gross Dispersion %	Total Composite Assets End of Period (\$ millions)	% of composite represented by non fee paying accounts	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	21.9	21.1	18.7	19.8	21.8	410	0.83	1073	<1%	12,146	8,514	20,660
2022	-25.6	-26.1	-26.4	24.1	26.2	322	0.47	537	<1%	10,083	6,799	16,882
2021	41.7	40.9	2.8	20.6	23.1	303	1.24	390	<1%	12,778	8,018	20,796
2020	35.8	35.3	34.6	23.8	25.1	206	1.64	84	<1%	10,746	5,523	16,269
2019	22.9	22.5	28.5	16.9	16.4	128	0.90	41	<1%	8,445	4,083	12,528
2018	2.1	1.7	-9.3	17.4	16.5	103	0.69	30	<1%	7,102	3,132	10,234
2017	22.4	22.0	22.2	14.8	14.6	69	0.62	25	<1%	7,272	3,274	10,546
2016	17.3	16.9	11.3	16.2	16.7	15	n/a	9	0	5,693	2,445	8,139
2015	3.0	2.8	-1.4	n/a	n/a	≤5	n/a	1	n/a	5,941	1,153	7,094
2014	6.1	5.9	5.6	n/a	n/a	≤5	n/a	1	n/a	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. 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. The Small Cap Growth Composite has had a performance examination for the periods 1/1/18 – 12/31/23. 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 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 Small Cap Growth Composite is July 1, 2013, 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 small cap growth style for a minimum of one full month. The small cap growth strategy invests in the equity of high-quality companies with market capitalizations between \$300 million and \$4 billion (at the time of purchase) exhibiting consistent earnings growth. Accounts with wrap commissions are excluded from the composite. Prior to January 1, 2016, the composite minimum was \$50 thousand (US dollars). The primary composite benchmark is the Russell 2000 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 prior to 2016 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. The management fee schedule and expense ratio for the Small Cap Growth Fund Institutional Shares is 0.85% and 1.00%, respectively. The management fee schedule and expense ratio for the Small Cap Growth Fund Retail Shares is 0.85% and 1.25%, respectively.

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.