AMI Equity Income Quarterly Update

Growth Through Stability

Q3 ▪ 2023

Strategy Overview

The Large Cap Equity Income strategy returned -4.54% (-4.79% on a net basis) in Q3, versus -3.27% for the S&P 500 index. Asset allocation drove approximately 60% of the relative performance, with stock selection driving the balance. The rise in bond yields in the quarter relative to the yields of dividend paying companies was a key theme driving this performance. Outperforming stock selections in Healthcare and Financials were partially offset by underperforming selections in Technology and Communication Services. Being underweight Real Estate and Utilities helped performance while being underweight Energy and overweight Consumer Staples detracted from performance. In Q3, the average weighted dividend yield for the strategy was 1.89%.

As seen in the table below, the top contributors to Q3 performance were Eli Lilly, Costco, Broadridge, Constellation Brands, and CVS Health. The bottom contributors to Q3 performance were McDonalds, Waste Management, Microsoft, Hershey, and Apple.

Top Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Eli Lilly	4.30%	0.55%
Costco	3.16%	0.15%
Broadridge	1.57%	0.12%
Constellation Brands	1.71%	0.04%
CVS Health	2.60%	0.04%

**Please see last page for important disclosures.

Bottom Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
McDonalds	3.57%	-0.41%
Waste Management	3.79%	-0.46%
Microsoft	6.80%	-0.48%
Hershey	2.35%	-0.50%
Apple	6.31%	-0.73%

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Top Contributors

Eli Lilly reported very good Q2 results, driven by strong growth in its core drug portfolio, Mounjaro (diabetes/weight loss), Jardiance (diabetes) and Verzenio (breast cancer). The stock also benefitted from diabetes competitor, Novo Nordisk's, announcement of positive trial results for Wegovy (same drug as Ozempic and also known as a GLP) for weight loss and reduced cardiovascular events. Currently, weight loss drugs like Novo's Wegovy, and soon Lilly's Mounjaro, aren't broadly covered by insurance but data showing these drugs provide cardiovascular benefits on top of weight loss should lead to improved coverage and expectations of this drove LLY shares higher.

Costco reported solid results late in September, with consistent growth in the company's grocery business and better performance in its discretionary categories. Costco is viewed as a stable business in an uncertain macro environment and is benefitting from traffic as a result of the sharp increase in gas prices.

Broadridge reported a strong fiscal Q4 and management's FY24 guidance was nicely above consensus. The company has focused heavily on expense management, which drove nice margin expansion and cash flow. Management also raised the quarterly dividend by 10%.

Constellation Brands stock benefited from accelerating Nielsen sales data for its portfolio of Mexican beer brands throughout the quarter. An agreement with activist fund Elliott Management also helped the shares. We continue to like Constellation's volume driven top-line growth, with significant room for distribution growth, household penetration, and margin expansion in the near-term.

CVS had a solid Q2 with a 10% growth in revenue and better-than-expected earnings as the company executes its cost-cutting plans following recent acquisition activity. The company also benefitted from reports that the company may be close to regaining its Medicare Advantage 4.5 star rating, which would help revenue growth in a few years.

Bottom Contributors

McDonalds reported strong Q2 results, but the stock underperformed throughout the quarter due to exposure to China, where the economy has struggled coming out of COVID lockdowns. In addition, fast food names in general were under pressure driven by concerns over increased adoption of weight loss drugs. We remain bullish on McDonalds' business model and we believe that underlying demand could actually increase as consumers trade down should the economy weaken.

Waste Management missed estimates slightly driven by lower-than-anticipated renewable energy prices and lower recycling commodity prices. Unlike its peers, WM owns and operates all of its landfill renewable natural gas plants, making the stock more susceptible to renewable energy price variations. We continue to believe that WM's portfolio of 250 landfills and 135 landfill-to-energy facilities, the largest in North America, gives it a competitive advantage. The upside potential in energy generation is sizable in our view, and the EPA's volume obligation set until 2025 gives us unprecedented visibility into the company's future cash flows.

Microsoft reported very consistent fiscal Q4 results with all product lines exhibiting growth, but the company's Q1 revenue guidance was slightly disappointing. This gave investors some pause with the shares near an all-time high and drove the stock decline. We believe management is building in some conservatism to its outlook given the uncertain macroenvironment and we continue to like the company's durable growth profile, diverse lines of business, and expanding margins. The company is also beginning to monetize its AI offering, Chat GPT, by integrating it into Office and Bing software, which should boost growth.

Hershey reported in-line results, but a miss in the company's key salty snacks segment weighed on the stock throughout the quarter. Like many other snack food companies, Hershey is also viewed as being at risk from the increased adoption of weight loss drugs. We view these concerns as somewhat overdone as we expect Hershey to return to strong underlying organic growth in FY24.

Apple's fiscal Q3 was essentially inline as upside in Services offset lower than expected iPad sales. iPhone was inline in the normally tepid September quarter as users awaited the release of the newest model in October. Margins were also better and cash flow remains strong, allowing the company to continue to repurchase shares. Given that the stock was near an all-time high, some pullback was expected given the merely inline results. Very generous carrier promotions on iPhone 15 and next year's release of the Vision Pro headset should reinvigorate growth.

Portfolio Additions & Deletions

In Q3 we bought Chevron and exited our position in Verizon.

Chevron is a leading major oil company with one the best balance sheets and long-term execution in our view. The company is diversified into oil & gas exploration, storage, transportation, and refining. Chevron is well positioned to profit from higher oil and gas prices and favorable refining margins in an environment marked by constrained supply driven by OPEC+ cuts, geopolitical conflicts, the loss of global refining capacity post-COVID, and the need to replenish the now depleted strategic petroleum reserves. Improving efficiency in drilling cost and capital discipline empowers the company to efficiently return cash to its shareholders. Additionally, the company has entered the Venezuelan market through a relatively lower risk agreement that allows it to tap into some of the largest oil reserves in the world.

We exited our position in Verizon as the company's growth remained sluggish and we saw better opportunities elsewhere.

Disclosures

*Performance Disclosures: AMI Asset Management (AMI) is an independent investment management firm registered with the Securities and Exchange Commission since 1994. Registration does not imply a certain level of skill or training. AMI provides discretionary asset management services to institutional and individual clients through separately managed accounts using seven equity and fixed income strategies. The Domestic Large Cap Equity Income Composite includes all fully discretionary, fee-paying and non-fee-paying, taxable and nontaxable accounts with at least $400,000 in large cap equity income securities on the last day of each previous quarter. The composite was created on January 1, 2015. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns are presented before management fees but after all trading expenses. Net returns are calculated by deducting 1/4th of the highest applicable annual fee of 1.00% from the gross composite returns on a quarterly basis. Clients should not assume that managed accounts will attain similar investment performance in the future. All accounts are individually managed; therefore, returns for separate accounts may be higher or lower than the average performance stated above. The benchmark we use is the S&P 500® Total Return Index which is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. It includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500® Total Return focuses on the large cap segment of the market with over 80% coverage of U.S. equities. Index performance is provided as a point of reference only and does not imply that a Strategy will achieve returns, volatility, or other results similar to the index. The total returns for the index do not reflect the deduction of any fees or expenses which would reduce returns. Indices are unmanaged, and one cannot invest directly in an index.

** Source: AMI and Bloomberg. The top five and bottom five contributors information is based on a representative account taken from the AMI Large Cap Equity Income composite. The representative account was selected because it closely reflects the AMI Large Cap Equity Income investment strategy. Due to factors such as portfolio size, specific investment guidelines and inception dates of individual accounts, there will be dispersion between the weight, returns, and contributions of this account and other accounts in the composite. The Contribution is calculated by multiplying the weight (i.e., percentage of the total account) invested in each holding times the rate of return for that holding during the measurement period. The holdings identified do not represent all of the securities purchased, sold or recommended for AMI's clients. Actual client holdings and characteristics may vary and holdings are subject to change. The reader should not assume that (1) an investment in the securities identified was or will be profitable or (2) that the AMI Large Cap Equity Income Strategy will hold these stocks in the future. References to specific securities are not intended as representative of past recommendations by AMI. The securities shown should not be considered recommendations or solicitations and may not have been, or in the future be, profitable. Nothing presented herein is or is intended to constitute investment advice, and no investment decision should be made based on any information provided herein. Past performance is not an indication of future returns. There is a risk of loss from an investment in securities, including the risk of loss of principal.

To obtain free of charge (1) a complete list of composite descriptions, (2) the calculation's methodology and a list showing every holding's contribution to the overall account's performance during the measurement period, and/or (3) a complete list of all buy and sell recommendations for this strategy within the last 12 months, please contact Katharine Kim at (424) 320-4003 or katharine@amiassetmanagement.com.