AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q3 ▪ 2023

Strategy Overview

In Q3, the AMI Large Cap Growth strategy returned -4.03% (-4.28% on a net basis) versus the S&P 500 index which returned -3.27%. Asset allocation drove the relative performance, with security selection a slight benefit. Being underweight Energy and overweight Consumer Staples were headwinds, while being underweight Utilities and Real Estate helped performance. Outperforming stock selections in Health Care and Consumer Staples were partially offset by underperforming picks in Consumer Discretionary and Materials.

As seen in the table below, the top contributors to Q3 performance were Eli Lilly, Alphabet, Costco, Adobe, and Synopsys. The bottom contributors to Q3 performance were Palo Alto Networks, Ball Corp., Microsoft, Ulta Beauty, and Apple.

Top Contributors in Q3		
Company	Avg. Weight	Contribution
Eli Lilly	3.25%	0.42%
Alphabet	4.55%	0.38%
Costco Wholesale	2.87%	0.14%
Adobe	3.59%	0.14%
Synopsys	1.83%	0.10%

**Please see last page for important disclosures.

Bottom Contributors in Q3		
Company	Avg. Weight	Contribution
Palo Alto Networks	2.75%	-0.37%
Ball Corp	2.60%	-0.39%
Microsoft	5.92%	-0.42%
Ulta Beauty	2.77%	-0.44%
Apple Inc.	6.62%	-0.77%

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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.

Alphabet (Google) reported strong growth in Q2 as the advertising market showed signs of recovery after a weak 2022. YouTube resumed growth, Google Search growth accelerated, and the Cloud business continued to grow at more than 20% y/y. All this while the company cut costs, boosting margins and earnings. The company is also developing its own generative artificial intelligence (AI) technology, Bard, which could add to growth over time.

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.

Adobe topped expectations in its fiscal Q3 and provided guidance for Q4 that surpassed estimates. Adobe saw double digit growth across its entire product portfolio and the company sees significant growth opportunities from upselling AI features in its software. Adobe is one of the first companies to monetize AI and we believe it will be a long run winner in this area.

Synopsys reported solid Q3 revenue and earnings, driven by growing demand for its advanced semiconductor design technologies. With businesses increasingly investing in AI, which requires cutting-edge servers and microprocessors, Synopsys is a leading supplier of the essential software solutions for these efforts.

Bottom Contributors

Palo Alto Networks stock declined leading into earnings due to the company scheduling the conference call on a Friday afternoon, which is usually reserved for bad news. Ultimately, Palo Alto reported good earnings and the stock recovered most of the losses but still ended the quarter down slightly. We remain bullish on this leading cybersecurity software provider, especially considering recent high-profile ransomware attacks in Las Vegas and at Clorox.

Ball's aluminum can volume fell in the second quarter, due to inflation driven price increases hurting consumer demand for beverages. However, beverage prices are beginning to stabilize and promotional activities are resuming, which should provide a tailwind to volume growth, especially in FY24. We view the company's divestiture of its Aerospace business as a positive, allowing the company to return more cash to shareholders and to become a more focused company.

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.

Ulta Beauty was largely caught up in the retail and consumer spending concerns following weak earnings reports from other consumer names, such as Dick's Sporting Goods and Foot Locker. Ulta reported relatively good earnings and the company raised guidance for FY24. We continue to view Ulta favorably and expect resilient sales growth in the second half of the year, as the beauty category should be less vulnerable to any slowdown in spending.

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

During Q3, we added Workday and BioMarin, and sold Fortrea.

Workday offers a comprehensive suite of Human Resources software that covers all aspects of the employee lifecycle, from recruiting and onboarding to performance management and compensation. Workday has made a number of strategic acquisitions in recent years, which have helped to expand its product portfolio beyond its core human resources focus and into accounting and finance. In addition, enterprise functions are moving to the cloud, providing Workday with a large and growing addressable market.

BioMarin is a biopharma company focused on rare diseases. It has a stable portfolio of drugs treating rare genetic enzyme defects, that should provide moderate growth. In addition, BioMarin has two recently launched drugs, one for "short stature" conditions, such as dwarfism, and the other a gene therapy that is designed to cure hemophilia A. These should provide much higher growth over the next several years. BioMarin has an early-stage pipeline of drugs that should add to growth later this decade and unlike many of the larger drug companies, BioMarin won't face drug price negotiation from Medicare in the next few years.

Fortrea is the drug development business that was spun out of Labcorp. We sold the shares as we believe that there were 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 Growth Composite includes all fully discretionary, fee-paying and non-fee-paying, taxable and nontaxable households with at least $400,000 in equities on the last day of the previous quarter. Beginning January 1, 2006, the composite was constructed using client households, as defined, whereas previously the composite was constructed at the account level. The composite was modified beginning January 1, 2006, to reflect the increase in our minimum equity balance per household from $100,000 to $400,000. 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 benchmarks we use are the Standard & Poor's 500® Total Return and the Russell 1000® Growth Index. The Standard & Poor's 500® Total Return 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. The Russell 1000® Growth Index measures the large-capitalization growth sector of the U.S. equity market. It is a subset of the Russell 1000® Index. The Index is capitalization-weighted and consists of those companies, or portion of a company, with higher price-to-book ratios and higher forecasted growth within the Russell 1000® Index. 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 Growth composite. The representative account was selected because it closely reflects the AMI Large Cap Growth 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 Growth 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.

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