AMI Small Cap Growth Equity Quarterly Update

Growth Through Stability

Q3 ▪ 2023

Strategy Overview

The AMI Small Cap Growth strategy returned -9.90% (-10.15% on a net basis) in Q3 versus the Russell 2000 Growth Index which returned -7.32%. Stock selection drove 60% of the relative performance, with asset allocation driving the balance. Underperforming stock picks in Consumer Discretionary and Information Technology were partially offset by outperforming picks in Consumer Staples. Being underweight Energy and Financials was a significant drag, while being overweight Consumer Staples helped.

As seen in the table below, the top contributors to Q3 performance were Hostess Brands, PowerSchool, BJ's Wholesale, Halozyme Therapeutics, and CyberArk Software. The bottom contributors to Q3 performance were Envestnet, CONMED, Verint Systems, Perficient, and ICU Medical.

Top Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Hostess Brands	1.90%	0.79%
PowerSchool	4.18%	0.60%
BJ's Wholesale	3.16%	0.37%
Halozyme	4.95%	0.18%
CyberArk Software	4.02%	0.17%

**Please see last page for important disclosures.

Bottom Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Envestnet	3.24%	-0.89%
CONMED	3.59%	-1.00%
Verint Systems	2.88%	-1.06%
Perficient	3.15%	-1.07%
ICU Medical	2.94%	-1.12%

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Top Contributors

Hostess was acquired by J.M Smucker for $34.25 per share in cash and stock, driving the shares up sharply.

PowerSchool's Q2 revenue was better than expected as earnings were driven by margin expansion. At the company's inaugural investor day, management gave long term guidance of $1 billion in revenue by 2026 and 36% EBITDA margins, both above estimates and representing approximately 12% and 18% growth respectively. In addition, the company discussed an extensive product roadmap that should expand the K-12 software provider's presence within schools.

BJ's reported Q2 results that were uninspiring and lowered guidance for the year due to weaker-than-expected discretionary spending in its clubs. However, the stock performed well amid the broader selloff due to BJ's defensive nature, its focus on value in the current inflationary environment, and the fact that it should benefit from rising gas prices.

Halozyme reported another good quarter with revenue and EPS rising 45% and 38% respectively. The supplier of an enzyme that speeds drug injections had been under pressure this year on concerns over its royalties and the upcoming Medicare price negotiation. However, more clarity on these issues from both management and Medicare showed that the concerns are likely overblown and made for improving sentiment in Q3.

CyberArk reported strong Q2 results with profitability coming in much better than expected as the company's transition to a fully recurring SaaS based model nears completion. Management also raised guidance and noted how AI is increasing the cyberthreat landscape, leading enterprises to increase spending on cybersecurity.

Bottom Contributors

Envestnet reported an inline Q2 but the shares have been pressured by the stock market volatility given that revenue has a heavy asset-based component. As one of the leading 3rd party investment platforms, we continue to believe that Envestnet will be a solid asset gatherer long term.

CONMED reported a solid Q2 and raised full year guidance but with the stock up 31% in Q2, some pullback was to be expected. However, investors became concerned over additional competition in one of CONMED's primary growth drivers, the Airseal insufflation device that is used to inflate the abdomen during laparoscopic surgery. CONMED is a leader in this space and has faced multiple competitors over the past several years with little impact to its 20% growth trend and we are thus not overly concerned.

Verint's Q2 results missed estimates as management noted that certain deals are taking longer to sign and continue to shift into subsequent quarters. This dynamic has existed throughout 2023 and resulted in slowing growth and management lowering guidance. While we believe the company's call center software products have substantial value in the marketplace, we are closely monitoring the situation to see if this is more than macro-driven sales cycle elongation.

Perficient's Q2 earnings and revenue were below expectations as the company said that its clients were reducing the scope of engagements, as well as taking longer to start new projects. The result of this is an overall slowing of growth and led management to reduce its full year outlook. We believe the slowing is not a function of the company specifically but rather reflects caution among businesses given the uncertain macroeconomy.

ICU Medical has been facing COVID-related supply chain issues for a few quarters now following its acquisition of the medical device business of Smiths. While the benefits of the acquisition in the long run appear substantial, the short term has been challenging and has weighed on the stock. While management is making progress on rectifying the issues, it has taken longer than expected. We remain bullish as medical procedures continue to recover from COVID lockdowns and we believe the shortage issue will be fixed soon, allowing ICU to realize sizable benefits from the acquisition.

Portfolio Additions & Deletions

During Q3, we added Casella Waste, VitaCoco and PDF Solutions, and sold Leslie's, National Vision and Hostess.

Casella Waste is a regional solid waste services company in the Northeast with a recent expansion into the mid-Atlantic region. The company is uniquely positioned as an integrated hauler (collection, transfer, disposal, and recycling) in 2nd tier size cities in the Northeast and now mid-Atlantic markets. As smaller non-integrated trash haulers face cost pressure, Casella could see additional M&A opportunities. The company also has a small but growing renewable gas business that should benefit from "green" initiatives. We believe the constrained region where the company operates will continue to grant it strong pricing power, sustaining organic growth and expanding M&A opportunities.

VitaCoco is the leader in the growing coconut water category, with close to 50% market share. Coconut water is an attractive category, growing in the high-single digits in the U.S., and VitaCoco is helping drive category growth through increased distribution and household penetration. Earnings growth is poised to accelerate into FY24, as the company shifts away from lower margin private label sales to higher margin VitaCoco branded business, in addition to lower ocean freight costs. We believe VitaCoco's exclusive coconut supply agreements provide it with a competitive advantage over competitors that may have taste variances and supply uncertainty from multi-source arrangements.

PDF Solutions provides semiconductor manufacturing software that is used to improve the yield and quality of chips. The company's Exensio Analytics Platform is currently deployed in 18 of the top 20 semiconductor companies to drive significant cost savings. In addition, we believe that the rise of AI will generate increased demand for advanced chips, which in turn should benefit PDF by helping its customers meet this demand.

Leslie's pre-announced weak Q3 FY23 earnings in early July after seeing significant traffic declines through the key start to pool season. The company believes that consumers had an excess supply of chemicals from last year, when concerns about chlorine shortages led consumers to stockpile. While we continue to view the pool industry as attractive, there is little clarity as to the timing of a recovery in the medium-term, and we lost faith in management's ability to accurately forecast the business. As a result, we exited the position.

National Vision announced that Walmart ended the company's partnership where National Vision operated optometry clinics inside of Walmart superstores. This decision was unexpected and will pose a significant headwind to National Vision's growth, as Walmart was approximately 20% of total sales. We view this setback, combined with inflation pressures on the company's core low-income customer, as too large of a near term issue and we sold the shares.

As noted above, we sold Hostess after the company agreed to be acquired by J.M. Smucker.

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 Small Cap Growth Composite includes all fully discretionary, fee-paying and non-fee-paying, taxable and nontaxable accounts with at least $100,000 in small cap equities on the last day of each previous quarter. The composite was created on October 1, 2008. 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. Prior to July 1, 2019, net returns were calculated by deducting 1/4th of the highest applicable fee of 1.50% 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 Russell 2000® Growth Index which measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values and includes the reinvestment of dividends. 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 Small Cap Growth composite. The representative account was selected because it closely reflects the AMI Small 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 Small 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.