AMI Small Cap Growth Equity Quarterly Update

Growth Through Stability

Q4 ▪ 2023

Strategy Overview

The AMI Small Cap Growth strategy returned 10.06% (9.81% on a net basis) in Q4 versus the Russell 2000 Growth Index which returned 12.75%. Stock selection drove the relative performance, while asset allocation helped performance. Underperforming stock picks in Health Care and Information Technology were partially offset by outperforming picks in Industrials. Being underweight Energy helped, while being underweight Consumer Discretionary and Real Estate were drags.

As seen in the table below, the top contributors to Q4 performance were Xometry, CyberArk, VeraCyte, Itron and Simply Good Foods Co. The bottom contributors to Q4 performance were Halozyme, Verint Systems, BJ's Wholesale, Envestnet, and ICU Medical.

Top Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Xometry	2.37%	2.11%
Cyberark	4.97%	1.55%
Veracyte	4.10%	0.94%
Itron	3.59%	0.86%
Simply Good Foods	3.80%	0.59%

**Please see last page for important disclosures.

Bottom Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Halozyme	4.90%	-0.13%
Verint Systems	0.36%	-0.22%
BJ's Wholesale	3.44%	-0.26%
Envestnet	1.46%	-0.48%
ICU Medical	1.28%	-0.88%

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Top Contributors

Xometry reported a strong Q3 earnings beat with its online manufacturing procurement system growing revenue by 22% y/y and expanding margins. The company is seeing strong activity on its platform with the number of active buyers rising 43% y/y and management guided to accelerating growth.

Cyberark reported a very strong quarter as its security software subscription revenue grew 68% y/y. High profile cyber-attacks at Clorox, MGM, and elsewhere put added emphasis on IT security and helped boost demand for Cyberark's privileged access management services.

Veracyte stock rallied as it continued to increase penetration of its cancer tests within the treatment paradigm, primarily in thyroid and urological cancers, where it provides a prediction of recurrence to inform treatment decision. The Company has exceeded expectations and still has a long runway within these two cancer areas in the U.S. It is also expanding outside the U.S. as well as into other cancer areas, which should develop over the next several years.

Itron reported a strong Q3 as the semiconductor supply chain improved, allowing the company to fulfill a larger portion of its backlog. The Network Solutions segment, smart electricity meters, revenue grew 43% y/y, which also tends to lead software sales, signaling continued growth into the future.

Simply Good Foods reported strong Q4 FY23 results, and provided FY24 guidance that was above estimates. While the company's Quest brand has been growing above 20%, its Atkins brand has been declining. However, the new management team provided a compelling strategy to revitalize that brand, which was well-received by investors. In addition, management also discussed how both brands could be attractive to consumers on weight loss drugs.

Bottom Contributors

Halozyme reported a good quarter after adjusting for a milestone payment last year. The main Royalty business grew 15% on higher sales of partnered drugs that use the company's enzyme to facilitate a transition from hours long intravenous infusion to minutes long subcutaneous injection. Despite continued growth and several new drugs coming to market in 2023-2025, the stock was weak due to concerns over the royalty step-down over the next few years on its biggest drug. While this will be a headwind, we believe new product launches will overcome this and the stock is attractive trading at 10x earnings.

Verint completed its transition to a subscription-based model, but revenue growth slowed due to elongated deal cycles. While some slippage is understandable due to the uncertain macroenvironment, Verint's margins also contracted, which was a concern given other software companies have been able to preserve margins. We exited the position as we saw better opportunities elsewhere.

BJ's Wholesale missed comparable sales estimates, driven by continued economic-driven weakness in discretionary big-ticket purchases, as well as continued disinflation in fresh food. Concerns over fresh food prices declining next year also weighed on the stock. However, membership growth and traffic remained nicely positive, and we continue to like BJ's as a defensive play with upside from new club openings.

Envestnet reported a decent quarter but lowered guidance as asset inflows to its 3rd party investment platform were not accelerating as hoped. We believe that Envestnet will continue to struggle and sold the position as we saw better opportunities elsewhere.

ICU Medical reported a disappointing Q3 as integration of the large Smiths acquisition continued to create synergy delays. We believe this will be an extended integration process with the timing of the benefits of the acquisition uncertain. We therefore sold the position as we saw better opportunities.

Portfolio Additions & Deletions

During Q4, we added Appfolio, e.l.f Beauty and Madrigal, and sold Verint, ICU Medical, Envestnet and Insperity.

Appfolio provides software for all aspects of the real estate management life cycle, from property acquisition and analysis, tenant background checks, move-in/move-out, rent collection, maintenance, and more. The software is designed to help property owners and managers improve the efficiency of their operations with subscription-based software, essentially removing costly manual processes. With 19,000 customers and 8 million units covered by the platform, we believe the company can continue to grow double digits given its technology advantage and large addressable market.

e.l.f Beauty is a cosmetics and skincare brand that offers prestige-quality products at value prices. The company has seen significant market share gains in the mass beauty category by investing in its brands while competitors (Cover Girl, Revlon) largely view their brands as cash cows and put little support behind them. The company has a significant opportunity to expand shelf space at current customers like Target, Ulta, and Walmart, while also expanding into new products, both organically and through acquisition. We expect e.l.f. to grow sales at double digits over the long-term, largely driven by volume, with margin expansion leading to high-teens EPS growth.

Madrigal is a supplier of what we expect will be the first approved treatment (March 2024) for non-alcoholic steatohepatitis (NASH), a serious liver condition caused by an accumulation of fat in the liver, usually through an unhealthy lifestyle. The patient population could be as high as 10 million in the U.S., making for a large addressable market. While there will be multiple competitors in the coming years, we believe Madrigal has a substantial first-mover advantage.

As mentioned previously, we exited the position in Verint, ICU Medical, and Envestnet.

We also exited Insperity, a professional employer organization that offers HR and benefits services to partnering companies. We believe revenue could be impacted due to overall employment headwinds in the U.S., combined with higher healthcare costs weighing on margins. We viewed the risk-reward tradeoff as unattractive and therefore exited the position.

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.