

Q2 • 2025

Strategy Overview

The Large Cap Equity Income strategy returned 1.74% (1.49% on a net basis) in Q2, versus 10.94% for the S&P 500 index. This quarter's market dynamics sharply diverged from Q1. Whereas Q1 favored more defensive, stable assets due to recession and trade concerns, Q2 saw a strong resurgence in high-growth, high-valuation stocks. Our strategy, which typically focuses on stable income and growth, was therefore out of sync with the market's leadership during this period. Stock selection (52%) and asset allocation (48%) were essentially equally responsible for the performance. Outperforming stock selections in Financials were partially offset by underperforming selections in Technology. Being underweight Financials and Energy helped performance while being underweight Technology and overweight Healthcare detracted from performance. In Q2, the average weighted dividend yield for the strategy was 1.81% (vs. 1.47% for the S&P 500).

As seen in the table below, the top contributors to Q2 performance were Broadcom, Microsoft, J.P. Morgan, Schwab, and Qualcomm. The bottom contributors were Eli Lilly, Church & Dwight, Chevron, Apple, and Becton Dickinson.

Top Contributors in Q2		
Company	Avg. Weight	Contribution
Broadcom	3.75%	1.94%
Microsoft	6.04%	1.73%
J.P. Morgan	5.24%	0.92%
Charles Schwab	4.30%	0.75%
Qualcomm	3.74%	0.17%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	Avg. Weight	Contribution
Eli Lilly	5.61%	-0.33%
Church & Dwight	2.93%	-0.37%
Chevron	2.80%	-0.46%
Apple	5.72%	-0.48%
Becton Dickinson	2.52%	-0.72%

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Top Contributors

Broadcom reported a solid quarter with its guidance slightly above consensus, largely attributable to robust AI revenue that is expected to accelerate further through 2026. The company demonstrated strong execution on its AI strategy, while also maintaining high EBITDA margins and generating record free cash flow. While non-AI segments like wireless and industrial remained subdued, the company believes these are nearing a bottom.



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Microsoft delivered an impressive quarter, primarily fueled by strong growth in its AI initiatives and the Azure cloud platform, allaying previous concerns about data center pullbacks. Azure's revenue growth, with AI contributing a substantial portion, showcased the company's successful investment in artificial intelligence. Other segments like Office software and Windows also saw healthy double-digit growth, and their advertising business lines performed well.

J.P.Morgan

J.P. Morgan shares were strong last quarter, with its stock price rising despite broader market anxieties concerning a looming recession and the impact of tariff and trade wars. The company delivered strong financial performance, exceeding top and bottom-line estimates and maintaining its full-year guidance for Net Interest Income (NII) and expenses. While there was some conservative reserve builds in anticipation of potential economic shifts, these actions underscore JPM's prudent risk management and robust financial health, positioning it to withstand downturns. Furthermore, JPM's confidence in its underlying business was reinforced by a recent 7% boost to its dividend and the announcement of a substantial \$50 billion share buyback program.

charles SCHWAB

Schwab reported a good first quarter as management made strides in paying off the high-cost debt that was taken on to fund clients moving cash from the bank to the brokerage to capitalize on higher money market rates. Schwab also continued to gather assets at a good rate, further growing the asset base.

Qualcomm

Qualcomm delivered a strong quarter, exceeding revenue and EPS estimates with robust performance driven by its automotive and IoT segments. The Snapdragon platform's success significantly boosted QCT revenue, which was up 18%. Despite a flat QTL licensing business due to ongoing China/Huawei royalty discussions, the company's Q3 guidance surpassed consensus estimates, and management is optimistic about the rest of its businesses, expecting expanding margins. Relief on tariffs and trade also helped boost the shares.

Bottom Contributors

Lilly

Eli Lilly reported good Q1 earnings but drugs companies were under pressure due to the Trump administration's push to harmonize drug prices between the U.S. and other developed countries. While we believe drug companies would likely raise prices outside the U.S. to offset any price concession in the U.S., investors saw this as a risk and the shares lagged in Q2.



Church reported a mixed Q1, with lowered FY25 guidance due to inventory de-stocking at Walmart and in the pharmacy channel. However, Church's main categories, laundry detergent and pet litter, have improved since April and Church's underlying volume remains one of the strongest in Consumer Staples. We also like the potential upside from the company's recent acquisitions, which have strong underlying growth with an opportunity for additional distribution.

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Chevron delivered a strong quarterly performance, and the highly anticipated acquisition of Hess is expected to close soon, marking a significant strategic milestone. However, like the broader energy sector, the company has faced pressure from a sharp decline in oil prices. West Texas Intermediate (WTI) crude fell to as low as \$57 per barrel, driven in part by OPEC's decision to raise output quotas, which added to global supply. At the same time, escalating trade tensions and the growing risk of tariffs have raised concerns about a potential slowdown in the global economy, weighing on the demand outlook and investor sentiment.



Apple shares struggled in Q2, primarily due to investor concerns about its lagging AI strategy and significant exposure to trade tariffs given its substantial supply chain in China. iPhone, Mac, and iPad experienced modest growth, and the company announced a massive \$100 billion share buyback, however, these positives were overshadowed by a slight miss in Services revenue. Also weighing on the shares were expectations of lower gross margins, partly due to tariffs (at the time pegged to be around \$900 million) despite actively working to diversify its supply chain away from China. Although we do see some near-term headwinds, we are optimistic on a long-term AI strategy retool and we see a potential bottom in iPhone sales in China.



Becton reported decent quarterly results albeit with a slight top-line miss and slight EPS beat. However, tariffs will impact the company later in 2025 and into 2026 to some degree and while management has plans to move manufacturing to avoid tariffs, it will take some time to adjust. Although the impact from tariffs should be manageable, there is broader investor concern over the long-term growth rate of the business. Becton has historically grown EPS at mid-teens prior to the pandemic, however, the recent run rate has been disappointing and closer to 8-9%. We believe that the EPS slowdown is temporary and that most of the headwinds, China regulatory changes, tariffs, and U.S. funding cutbacks, will be behind the company within a few quarters. In the meantime, the valuation is not demanding and its soon to be divested Biosciences business should open opportunities for acquisitions of faster growing businesses.

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Portfolio Additions & Deletions

In Q2, we added Corning. We sold Taiwan Semiconductor, West Pharmaceutical, and Mondelez.

CORNING

We added Corning, a key player in the evolving landscape of AI and data center infrastructure, providing essential optical fiber and cable solutions. The company's "GlassWorks AI Solutions" offer a comprehensive portfolio designed to meet the high-density fiber requirements of generative AI, both within data centers and in the long-haul networks connecting them. Corning is actively collaborating with industry leaders like Broadcom on co-packaged optics (CPO) infrastructure, which significantly increases processing capacity, optical interconnection density, and power savings crucial for large-scale AI clusters. Corning aims to replace copper wiring in data center racks with optical fiber, addressing power constraints and meeting the exponentially increasing demand for interconnects as AI clusters expand. The company has shown consistent growth, with enterprise sales surging, driven by rapid adoption of its AI-enabling products. Additionally, Corning has had a track record of consistently paying and raising its dividend, offering additional return opportunities.



We opted to sell our position in Taiwan Semiconductor (TSMC). This decision was not driven by a change in our fundamental view of the company, which remains strong, but rather as a measure to manage risk. The ongoing tariff concerns and trade issues with China introduced significant volatility for TSMC, leading us to exit the position to reduce overall portfolio risk as we saw other opportunities with similar growth and income characteristics but with slightly less trade-related risk.



We exited West Pharmaceutical due to inventory destocking challenges that emerged in Q1. It was a small position and we decided to reallocate capital to investments offering higher yields.



We decided to exit our position in Mondelez as a way to lower our overall exposure to foods that are likely to be impacted by weight loss drugs. We also felt that the ongoing volatility in cocoa, a key input for Mondelez, added significant cost uncertainty for what is supposed to be a stable business. We saw better opportunities elsewhere in Consumer Staples and thus 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 six 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.