

Q4 2025 Strategy Overview

The Large Cap Equity Income strategy returned 2.43% (2.18% on a net basis) in Q4, versus 2.66% for the S&P 500 index. Asset allocation was the driver of relative performance, with stock selection neutral. Being overweight Healthcare and underweight Information Technology helped, while being underweight Communication Services and overweight Consumer Staples were drags.

As seen in the table below, the top contributors to Q4 performance were Eli Lilly, Merck, Apple, Johnson & Johnson, and GSK. The bottom contributors were Roper, Southern Co, Zoetis, Home Depot, and Microsoft.

Top Contributors in Q4

Company	Avg. Weight	Return	Contribution
Eli Lilly	6.20%	41.06%	2.08%
Merck	2.08%	26.48%	0.50%
Apple	6.84%	6.87%	0.46%
Johnson & Johnson	3.21%	12.31%	0.39%
GSK	2.30%	14.63%	0.32%

Bottom Contributors in Q4

Company	Avg. Weight	Return	Contribution
Roper	0.65%	-10.36%	-0.21%
Southern Co.	2.82%	-7.24%	-0.21%
Zoetis	2.25%	-13.71%	-0.35%
Home Depot	2.61%	-14.52%	-0.43%
Microsoft	6.31%	-6.45%	-0.44%

As of 12/31/25. Data from Bloomberg.

**Please see last page for important disclosures.

Top Contributors



Eli Lilly reported very good Q3 results, led by Mounjaro for type 2 diabetes and Zepbound for weight loss. The stock also benefitted from a deal with the Trump administration to lower prices on anti-obesity drugs, which would also improve access. Cost has been a limiting factor for anti-obesity meds and this removes that barrier.



Merck stock rose after a decent Q3 and after the stock bottomed in the Summer following a sizable drop on concerns the loss of Keytruda in 2028 will be a substantial headwind. Merck has made several acquisitions, as well as positive drug trials, that is closing the gap in 2029 and the stock has responded positively.



Apple outperformed in Q4 due to the highly successful launch of the iPhone 17. Unlike recent incremental updates, the iPhone 17 is driving a large upgrade cycle despite an updated Apple Intelligence still on the horizon. Fiscal Q1 guidance for iPhone sales were much better than expected and the company's pricing power with suppliers also helped it maintain healthy margins as the impact from tariffs abate. Other business lines, including Services, also had strong growth.



Johnson & Johnson reported a good Q3 result and announced it will exit the slow growing orthopedic segment. Large cap pharma in general performed better in Q3 after a long period of underperformance and J&J was no exception.



GSK reported good Q3 results and raised guidance as its HIV, respiratory, and emerging oncology businesses offset weak vaccines. Changes in CDC vaccine recommendations will likely weigh on many vaccine players but GSK has growth drivers to take the helm.

Bottom Contributors



We sold Roper as what had historically been a steady, dependable business began to show signs of strain, with management lowering guidance last quarter amid execution issues. With growth remaining muted and the yield not particularly attractive, we saw better risk-reward opportunities elsewhere across income and technology.



The election of Georgia regulators with a strong focus on affordability has weighed on investor sentiment, raising concerns about potentially adverse regulatory outcomes, even though Georgia Power's next rate case is not due until 2028 and state electricity rates remain below the national average. Additional ratepayer protections, such as SB 34, which prevents infrastructure costs built to serve large load customers from being passed on to retail customers, are viewed as a potential deterrent to incremental large-scale projects in the state. While the bill could limit the company's growth, it also protects customers, and the company, should the rapid increase in electricity demand fail to materialize.



Zoetis' Q3 earnings were somewhat lackluster as aggressive pricing from competitors and a reversal of a former growth driver in osteoarthritis (OA) treatments weighed on revenue. However, we believe these issues are temporary as competitor threats tend to come and go and the company is nearing launch of a next generation OA drug for dogs and cats.



Home Depot's Q3 was disappointing, as the weak housing market continues to weigh on results, even as management continues to spend on employee wages and sizable acquisitions. We became concerned with management credibility on another guide down and also don't see many catalysts for an improved housing market in 2026. As a result, subsequent to the end of the quarter we exited the position as we saw better opportunities elsewhere.



Microsoft lagged in the quarter as Azure cloud growth, while still strong at 39% y/y, came in just modestly below the market's elevated expectations. The stock was further pressured by concern over the scale of its AI-driven capex ramp, which is weighing on near-term margin expectations. We view this as short-term impatience as AI demand continues to outstrip supply and management expressed high confidence that all new capacity will be absorbed. Microsoft's enterprise relationships and full-stack AI offering position it to be a primary beneficiary of sustained corporate AI spending.

Portfolio Additions and Deletions

In Q4, we added Next Era Energy and as mentioned above, exited Roper.



We bought NextEra Energy, the largest utility company in the world. The company is well positioned to benefit from rising electricity demand on two fronts. First, its core generation, transmission, and distribution business stands to gain, particularly from the re-contracting of power purchase agreements at materially higher rates. Second, NextEra is capitalizing on the data-center capex supercycle by developing infrastructure to support hyperscale demand. To address growing affordability pressures on ratepayers, the company is introducing a new Bring Your Own Generation (BYOG) model, under which hyperscalers co-develop dedicated generation assets in partnership with NextEra, leveraging its scale and execution capabilities as the leading player in the market.

Sincerely,

Your AMI Investment Management Team

Disclosures

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** 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.