AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q2 ▪ 2025

Strategy Overview

In Q2, the AMI Large Cap Growth strategy returned 10.94% (10.69% on a net basis) versus the S&P 500 index which returned 10.94%. Asset allocation was a drag on performance, while stock selection was an equivalent benefit. Outperforming stock picks in Industrials and Health Care were partially offset by underperforming picks in Information Technology and Consumer Staples. Being overweight Consumer Staples and Health Care were sizable headwinds.

As seen in the table below, the top contributors to Q2 were Netflix, Microsoft, Quanta Services, Broadcom, and Taiwan Semiconductor. The bottom contributors to Q2 were Starbucks, Pepsi, Church & Dwight, Apple, and Becton Dickinson.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Netflix	5.43%	2.10%
Microsoft	6.41%	1.92%
Quanta Services	4.12%	1.71%
Broadcom	3.00%	1.62%
Taiwan Semi	2.60%	0.89%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Starbucks	0.76%	-0.26%
PepsiCo	0.67%	-0.26%
Church & Dwight	3.45%	-0.51%
Apple	6.08%	-0.56%
Becton Dickinson	3.31%	-1.10%

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Top Contributors

Netflix reported a strong quarter, driven by continued growth across both ad-supported and higher-tier subscriptions. The company also benefitted from being viewed as "tariff resistant", which helped drive the shares higher. Management highlighted the popularity of hit shows and robust viewer engagement, indicating strong content performance and pricing power. Improving margins and a significant share buyback announcement further boosted investor confidence, with the company also seeing strong geographic revenue growth, particularly in APAC and EMEA.

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.

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Quanta Services delivered a robust quarter as the infrastructure contractor is seeing sustained demand for electric grid expansion and upgrades, as well as fiber optic installations to connect data centers across the U.S. The recently passed tax bill, shortens the tax credit eligibility period for solar and wind projects from 2032 to 2027, which will likely accelerate project timelines and spur a surge in solar and wind infrastructure development and increase demand for Quanta's specialized construction services.

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.

Given all the tariff related concerns, Taiwan Semiconductor had a much better than feared quarter, surpassing estimates for the last period and providing a strong Q2 guide and maintaining its full-year outlook. The company's significant exposure to high-performance computing, which includes AI chips and now constitutes nearly 60% of sales, positioned it well amidst strong demand from AI companies like NVIDIA. The dismissal of an Intel JV rumor was also seen as a positive and despite global trade uncertainties, TSMC noted no immediate change in customer orders due to tariffs.

Bottom Contributors

Starbucks reported relatively weak Q2 results, and the company declined to provide guidance for the balance of the year. Comps in the U.S. remain negative, and we have become more skeptical on the pace of the company's turnaround, especially as consumers appear to be more stretched. As such, we saw better opportunities elsewhere and exited the position.

Pepsi's Q2 was weak as the Frito-Lay and soda businesses remain under pressure. We see two major factors impacting Pepsi over the long run, increased GLP-1 obesity medication usage and a trend toward healthy eating. We lack conviction that the current management team has a strong grasp on the underlying issues impacting growth, and as a result exited the position.

Church reported a mixed Q1, with lowered FY25 guidance due to inventory de-stocking Walmart and in the pharmacy channel. However, Church's main categories, laundry 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.

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.

Portfolio Additions & Deletions

In Q2, we exited Adobe, Starbucks and Pepsi.

Adobe reported revenue and EPS that was ahead of estimates and reiterated its full-year guidance. The main concern for investors was the perception that Adobe is being left behind in the "AI war," with AI-driven threats impacting its growth outlook. While the company is integrating AI into its products, investors are seeking a more compelling AI strategy to drive new market expansion rather than just justifying price increases, leading us to exit the position in favor of better growth opportunities.

As mentioned above, we exited Starbucks and Pepsi.

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 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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