AMI Small Cap Growth Equity Quarterly Update

Growth Through Stability

Q2 ▪ 2025

Strategy Overview

The AMI Small Cap Growth strategy returned 5.85% (5.60% on a net basis) in Q2 versus 11.97% for the Russell 2000 Growth index. Asset allocation was the primary driver of performance, with stock selection a slight benefit. Being overweight Health Care was a drag, partially offset by being underweight Energy. Outperforming stock picks in Consumer Staples and Health Care were partially offset by underperforming picks in Information Technology and Industrials.

As seen in the table below, the top contributors to Q2 performance were Verona Pharma, e.l.f. Beauty, Blueprint Medicines, Kiniksa Pharma, and Primoris Services. The bottom contributors were PagerDuty, Braze, Merit Medical, Arcutis, and Halozyme.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Verona Pharma	6.36%	2.78%
e.l.f. Beauty	2.17%	1.65%
Blueprint Medicines	1.77%	1.17%
Kiniksa Pharma	4.20%	0.94%
Primoris Services	2.58%	0.82%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
PagerDuty	2.68%	-0.67%
Braze	4.50%	-0.80%
Merit Medical	2.93%	-0.80%
Arcuits	1.26%	-0.84%
Halozyme	1.70%	-1.24%

**Please see last page for important disclosures.

Top Contributors

Verona Pharmaceuticals reported another strong quarter as its new COPD treatment continued its strong launch trajectory, exceeding analyst estimates by a wide margin. The stock rose further post quarter end as it will be acquired by Merck for $10 billion, a 20% premium.

Following a poor third quarter that saw the company lower guidance, e.l.f. Beauty reported better-than-expected Q4 earnings but declined to provide guidance due to uncertainty around tariffs. Investors though were very excited by the company's acquisition of Rhode, a fast-growing skincare brand founded by Hailey Bieber. Nielsen scanner tracking data also improved throughout the quarter and given e.l.f.'s sourcing exposure in China, the stock also benefited from positive news on the trade front.

Blueprint accepted a buyout offer from Sanofi in late May for a near 30% premium and we exited the position.

Kiniksa reported a good quarter as its pericarditis treatment, Arcalyst, continued to increase penetration among cardiologists. The stock also benefitted from management announcing that it has a next generation drug in trials that will extend the dosing interval to monthly, from weekly, but more importantly, Kiniksa won't have to share 50% of the profits with Regeneron as it does with Arcalyst. If successful, it could be a significant growth driver into 2029 and beyond.

Primoris reported a solid first quarter with the infrastructure contractor achieving record-breaking Q1 revenue. Apart from batteries, the company has all the necessary equipment on-site for its 2025 projects, enabling it to effectively manage uncertainties arising from tariffs. In addition, the recently enacted tax bill incentivizes the acceleration of renewable energy development by shortening the tax credit eligibility period for solar and wind projects from 2032 to 2027, driving increased demand for Primoris' construction services in the near term.

Bottom Contributors

PagerDuty experienced a challenging quarter, despite exceeding EPS estimates, as its guidance for both Q2 and the full fiscal year 2026 was below expectations. The company continues to struggle to convert free users or retain existing paying customers at the lower end of its market. The shift to focus on enterprise could not sufficiently offset the slower performance in other segments. The stock, though seemingly cheap, faces headwinds from its middling mid-single-digit growth trajectory, and a reacceleration from the enterprise business does not appear imminent. Consequently, we exited our position as we identified more compelling investment opportunities elsewhere.

Digital marketing software supplier, Braze, delivered a solid quarter with 20% revenue growth and exceeding consensus estimates for both revenue and EPS. While the recent acquisition of OfferFit will cause some short-term dilution to EPS, this strategic move should enhance Braze's growth and broaden its capabilities, particularly in AI-driven personalization. The company continues to gain market share against legacy marketing platforms and overall ad spending appears steady despite broader macro and tariff concerns. We continue to like the stock, believing its current performance is more a reflection of broader small-cap software market dynamics than any company-specific issues, and we anticipate the stock price will eventually reflect Braze's fundamental strength.

Merit Medical reported good Q1 results with 10% revenue and 15% EPS growth, however, it lowered guidance by 10% due to potential tariff impact in FY25. Although this didn't have an immediate impact on the stock, MMSI languished in Q2 along with other medical device names on the tariff overhang. We remain bullish on MMSI as we believe tariffs will be a one-time impact in 2025 with the potential for upside if management can adjust manufacturing or tariffs are removed.

Arcutis reported solid Q1 results as Zoryve topical treatment for psoriasis, seborrheic dermatitis, and eczema continued to gain share from topical steroids, where doctors have long sought an alternative. The stock has been somewhat volatile and disconnected from the solid fundamentals in our view, and we expect the shares to continue to move higher over time especially with new formulation and pediatric launches in 2025.

Halozyme reported another strong quarter as its royalty driving partnered drugs continue to grow nicely. Halozyme also saw new launches of subcutaneous versions of large established drugs, such as Ocrevus for MS, late in 2024 that should ramp throughout 2025 and beyond. The stock was under pressure due to some commentary from Medicare about whether subcutaneous versions of drugs that contain Halozyme's enzyme would be treated the same as the older IV versions for Medicare price negotiations. Based on wording of the law, the newer subcutaneous versions should not be included in our view, however, there is some risk until clarified later this year, which is already reflected in the stock in our opinion.

Portfolio Additions & Deletions

In Q2, we added Scholar Rock, CG Oncology, and Commvault. We exited CCC Solutions, Tenable, BluePrint Medicines, and PagerDuty.

Scholar Rock is a supplier of anti-myostatin drugs designed to remove the human body's natural "brake" on muscle growth. There are several firms developing anti-myostatin, however, Scholar Rock takes a different approach from the others that produces fewer undesirable side effects and thus we believe it stands out from the rest. The initial application of this treatment will be for spinal muscular atrophy, a horrible inherited condition that causes motor neurons to malfunction leading to near paralysis or even death. Assuming FDA approval in September, Scholar Rock's drug will be an add-on treatment that helps build muscle in these patients and we see potential peak sales of $2 billion for this indication alone. In addition, anti-myostatin has many other applications such as a combination with GLP-1 weight loss drug to prevent the roughly 40% muscle loss that comes with overall weight loss.

CG Oncology is a supplier of a new type of treatment for non-muscle invasive bladder cancer. The disease has long been ignored by Biopharma and the current treatment supplied by Merck has been in short supply and is an older drug with decent efficacy. However, several new treatments have been introduced, and we believe CG's is one of the best. The company has positive phase 3 trial results for its initial indication, and we expect approval in 2026. In addition, CG is running several trials for various cancer progressions in bladder cancer and we see a $1-2 billion annual opportunity.

Commvault Systems is a leader in AI-driven data protection. The company provides data management software applications and related services, designed to protect and manage data throughout its lifecycle. Commvault's "Commvault Cloud" platform offers a comprehensive solution for enterprise data protection, security, and AI-driven recovery across hybrid and multi-cloud environments. At its core is "Arlie", an AI assistant that provides autonomous incident response, predictive threat analysis, and intelligent data management. The company has been generating mid-teens top-line growth and operating margins of more than 20%, with potential upside as it transitions to a high-margin, recurring revenue SaaS model.

Q2 - 2025

CCC Solutions delivered a decent quarter with revenue slightly ahead of estimates. However, core organic growth remained modest and an acquisition introduced some near-term margin dilution. Given the limited growth prospects, we decided to exit our position in CCC Solutions to pursue opportunities with higher growth potential elsewhere.

Tenable reported an in-line quarter, but its outlook was dampened by increased caution regarding lower visibility and longer sales cycles, especially within the U.S. public sector due to personnel and funding uncertainties. While enterprise demand remained healthy and cash flow strong, the overall growth trajectory didn't inspire significant excitement. Given these headwinds and a desire to allocate capital to higher-growth opportunities, we decided to sell our position in Tenable.

Springworks was acquired by Merck KgA.

As mentioned previously, we exited our positions in PagerDuty and Blueprint Medicines.

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 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.