AMI Quarterly Commentary

Growth Through Stability

Q1 ▪ 2020

Capital Market Outlook

First and foremost, we at AMI hope that everyone is safe and healthy, and our hearts go out to those affected by the virus. We recognize that these are trying times, but we remain confident that we will get through this. AMI remains fully operational and we are here for your needs. The global COVID-19 pandemic has impacted the life of every single person in the U.S. and around the world and thus the impact it had on financial markets during Q1 was profound. Since the initial reports of cases in China, the virus has spread globally in less than three months, leading to unprecedented restrictions to "flatten the curve". The closure of schools and businesses deemed non-essential has created an economic environment unlike anything experienced in over a decade.

Energy was another major story during the quarter, with Saudi Arabia failing to reach an agreement with Russia, leading to a flood of new oil supply pressuring prices. This dispute came at a time of a steep drop in demand, as millions work from home and decline to travel. The price of oil is currently down more than 50% this year, though there is some hope that an agreement between the two nations can be successfully brokered. While the low price of oil is good for consumers and certain businesses who use oil as an input, it is not good for employment in the oil and gas industry as new production is reduced. We believe an oil price closer to $50 strikes the right balance between energy jobs and gas prices at the pump.

The decline in major equity indices during Q1 was broad-based and substantial, with the S&P 500 down more than 20%, the worst quarterly performance since 1987 and the worst start to a year ever. March was the most volatile month in the S&P's history, with the index averaging daily moves of 4.8% in both directions. In response to the economic impact from the virus, on March 15th the Federal Reserve enacted an emergency interest rate cut to provide support and ensure liquidity to markets. This decline in rates hurt banks and other interest rate sensitive stocks and despite this action by the Fed, the entire market eventually fell and reached its low on March 23rd.

Firm Summary

- Founded in 1994
- Located in Los Angeles, CA
- Employee Owned
- Total Firm-Wide AUM: ~$1.4 billion

Portfolio Management Team

Christian Sessing, CFA
Chief Investment Officer, Lead Equity Portfolio Manager

William Tanner, CPA
Co-Founder & Chairman, Co-Equity Portfolio Manager

Andrew Zamfotis, CFA
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AMI ASSET MANAGEMENT

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Following the passage of a massive $2 trillion fiscal stimulus package by the federal government (CARES Act) and significant, additional monetary support by the Federal Reserve, the market rebounded sharply off of the March low and is up nearly 25% since, helped by hopes that the worst of the virus is behind us. The CARES Act provides numerous benefits to those affected by the virus, including cash payments to individuals, expanded unemployment benefits, and significant support to small businesses in the form of grants and forgivable loans. The stimulus package also provides benefits to large businesses that have been affected by the virus in the form of $58 billion for airlines and a tax credit for companies that retain workers. In addition to fiscal stimulus, the Federal Reserve is essentially committed to an unlimited amount of stimulus measures in the form of bond purchases and other direct lending facilities. It is clear that the government is willing to do whatever it takes to support the financial markets and the economy in any way possible.

The initial impact of the economic shutdown began to manifest in late March, as weekly jobless claims rose with large sectors of the economy forced to lay off workers. Unlike in prior downturns, the government's substantial measures to provide these furloughed workers with cash and other assistance will serve to soften the impact on the economy. We would expect the benefits to begin to materialize within a few weeks. There is no doubt that there will be winners and losers as long as the economy is shut down, but the more important question becomes the success of the mitigation attempts to reign in the virus.

We believe that the economy will reopen once there is some combination of increased testing, declining cases and effective treatment. At first, we would expect a limited reopening of the economy with higher risk businesses (e.g., theaters, restaurants, and sporting events) opening later. While we have seen some signs of improvement in cases and some early anecdotal evidence of hydroxyloroquine (a 50-year-old malaria drug) having a positive effect, there is still some debate over when it will be appropriate to send people back to work. A solution to the virus will be the primary driver of stocks over the next few months as we believe that once restrictions are lifted, the economy will heal itself through increased employment and thus consumer spending. While we do expect that it will take time to resume the level of economic activity of late 2019, we believe that there will be substantial room for economic growth over the next several years and thus, equities should remain an attractive asset class.

At AMI, we took the opportunity during Q1 to add high-quality companies that had previously been outside of our valuation parameters. In addition, we exited stocks that we believe will face significant, prolonged earnings pressure. As always, we continue to focus on limiting downside while also looking to own companies that will see major benefits when the economy inevitably reopens. Although the near term remains uncertain, we are confident that the virus will subside, and the economy will snap back rather quickly. We urge investors to remain focused on the long term and not panic during this difficult period. As we have written during past declines, trying to time markets can be detrimental to long-term performance. Since

1930, if an investor was outof the market for the best 10 days of each decade, cumulative returns would be just 91%, vs. 14,962%*** with a buy and hold strategy. Since the March low, we have already seen several days when the market was up more than 4%. We fully recognize that volatility can be emotionally difficult to endure, which is why we urge investors to have a sound, long-term financial plan and invest in stocks that do better in down markets and still participate when things improve. While it may not seem like it now, this too shall pass, and we are focused on brighter days ahead.

Sincerely,

Your AMI Investment Management Team

AMI
ASSET MANAGEMENT

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