AMI Equity Income Quarterly Update

Growth Through Stability

Q2 ▪ 2023

Strategy Overview

In Q2, the Large Cap Equity Income strategy returned 7.49% (7.24% on a net basis), versus the S&P 500 index, which returned 8.74%. Asset allocation drove most of the relative performance, with stock selection a net positive contributor to performance. The rise in high-growth tech stocks in the quarter, and away from more defensive or value types of companies, was a key theme driving this performance. Outperforming stock selections in Healthcare and Financials were partially offset by underperforming selections in Consumer Discretionary and Communication Services. Being underweight in Energy and Utilities helped performance while being overweight Consumer Staples and Healthcare and being underweight in Technology detracted from performance.

As seen in the table below, the top contributors to Q2 performance were Microsoft, Apple, Eli Lilly, Broadcom, and J.P. Morgan. The bottom contributors to Q2 performance were Verizon, Starbucks, Qualcomm, CVS Health, and Target.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Microsoft	7.14%	1.26%
Apple	6.81%	1.18%
Eli Lilly	3.61%	1.14%
Broadcom	2.70%	0.95%
J.P. Morgan	3.36%	0.41%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Verizon	2.38%	-0.07%
Starbucks	2.71%	-0.12%
Qualcomm	3.19%	-0.14%
CVS Healthcare	2.66%	-0.19%
Target	2.80%	-0.64%

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Top Contributors

Microsoft posted better than expected results with accelerating top line growth and a resilient Azure cloud business, which grew over 30% y/y. The company is not seeing any slowdown in demand as it remains a critical vendor in digital transformation projects. Microsoft also benefited from the AI hype following its $10 billion investment in OpenAI, the creator of ChatGPT which is now integrated into the Bing search engine and could help Microsoft gain share vs Google.

Apple benefited from the resurgence of Technology stocks in the quarter while also posting better than expected iPhone sales following China's reopening. Margins remain strong and cash flow continues to grow, leading Apple to raise its dividend and add $90 billion to its share repurchase plan. The company also benefited from excitement following the announcement of the Vision Pro headset, its next major new product release expected next year.

Eli Lilly reported a somewhat weak Q1 as COVID antibodies fell to zero after becoming ineffective for the latest strains. However, the core growth products performed well, especially the diabetes portfolio (Trulicity, Jardiance, and Mounjaro). Given the success of Ozempic/Wegovy in weight loss, we expect Mounjaro, with its better efficacy, will be very successful once approved later in 2023.

Broadcom reported better than expected Q2 results with revenue and EPS coming in above estimates. During the quarter the company announced a new chip supply deal with Apple, allaying some fears regarding that important relationship. Broadcom also benefited from the AI hype as it supplies key components used in data centers.

J.P.Morgan

Amid all the banking woes earlier in the year, J.P. Morgan posted better than expected earnings as deposit margins were significantly better than estimates. The company was a beneficiary of deposits leaving smaller banks and was able to earn a nice margin on those funds. Loan growth was also strong, and provisions modest, despite rising levels of macroeconomic uncertainty.

Bottom Contributors

Verizon's EPS was inline with revenue slightly below estimates. Churn remains low and bad debt expense is within historical averages. Consumers just are not adding more wireless lines (non-phone) or getting more expensive plans give uncertain times. Broadband and Fios continue to do well. Cash flow remains strong and the dividend remains healthy.

Starbucks announced strong Q2 FY23 results, led by ongoing growth in the U.S. and a nice bounce back in China as that economy reopened following lockdowns. But the company reiterated its FY23 guidance, which was viewed as disappointing given the size of the earnings beat. Starbucks is taking a measured approach to the balance of the year, expecting the recovery in China to be choppy, and we continue to think the business is well-positioned, especially as workers return to offices in the U.S.

Qualcomm

Qualcomm reported an inline quarter on earnings with revenue slightly better than estimates. The guidance was below consensus estimates as the inventory glut of low-end smartphone components is taking longer to clear out. Some smartphone customers are adjusting timing of orders given the macro which is impacting when inventory can be absorbed. The Automotive segment was very strong as the company tries to diversify away from phones. Cash flow was strong and we believe there is no risk to the dividend at this time.

CVS Healthcare's results were strong and better than consensus estimates. The company did lower full-year EPS guidance to account for the deal costs associated with the acquisition of Oak Street and Signify Health. Also, later in the quarter, insurer United Health commented that healthcare costs may rise as discretionary procedures return in a post pandemic world. While this would impact CVS's Aetna division, this was already a known factor but it soured sentiment nevertheless. We remain positive on the company and its ability to grow the dividend over time.

Target reported decent Q1 earnings, but commentary on a weakening consumer into April, especially with respect to discretionary purchases, weighed on the stock. The stock was further hurt by controversy over products for Pride Month. We continue to view Target positively, with its unique assortment and quality own brands setting the business apart from peers, which should drive consistent performance despite a weakening backdrop.

Portfolio Additions & Deletions

In Q2 we exited the position in Comerica, General Mills, and Avery.

Comerica got caught up in the negative bank news cycle following the fall of Silicon Valley Bank and its shares fell. While the company was not at risk due to its stable deposit base, sentiment soured and the stock appeared to be disconnected from fundamentals. We saw better opportunities elsewhere and exited the position.

We became concerned by the performance of General Mills' pet business, where the Blue Buffalo brand has lost meaningful share due to capacity issues over the past year. Pet food is essential for General Mills, especially as the company laps the price increases that drove organic growth despite negative volumes. We saw better opportunities elsewhere in Consumer Staples and exited the position.

Avery Dennison was negatively affected by inventory de-stocking among its apparel customers stemming from a buildup once supply chain issues began to ease last year. We don't see an easing of these issues anytime soon and in the face of a weakening consumer, which will further erode demand for these products, we felt it was best to exit the name.

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 seven 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.