AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q2 ▪ 2023

Strategy Overview

In Q2, the AMI Large Cap Growth strategy returned 10.44% (10.19% on a net basis) versus S&P 500 index which returned 8.74%. Security selection drove the relative performance, with asset allocation a slight drag. Outperforming stock selections in Healthcare and Consumer Staples were partially offset by underperforming selections in Consumer Discretionary. Being overweight Consumer Staples and Healthcare, which underperformed, weighed on performance. Underweight positions in Energy and Utilities, which underperformed, helped.

As seen in the table below, the top contributors to Q2 performance were Apple, Microsoft, Eli Lilly, Palo Alto Networks, and Amazon.com. The bottom contributors to Q2 performance were Pepsi, Teleflex, Starbucks, Nike, and Ulta Beauty.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Apple	7.26%	1.27%
Microsoft	6.55%	1.17%
Eli Lilly	3.17%	1.06%
Palo Alto Networks	3.09%	0.85%
Amazon.com	3.23%	0.80%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Pepsi	3.57%	0.09%
Teleflex	1.95%	-0.09%
Starbucks	2.38%	-0.11%
Nike	2.01%	-0.22%
Ulta Beauty	3.31%	-0.55%

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Top Contributors

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.

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.

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.

Palo Alto's fiscal Q3 results showed that spending trends in network security remain strong, even amid an uncertain macroenvironment. Palo Alto's revenue and earnings were better than expected as clients consolidate their network security needs around Palo Alto's platform. Operating leverage improved and the company raised its full-year guidance again, above expectations. The stock also benefited from additional buying when it was added to the S&P 500 index.

Amazon's Q1 top line was better than expected as the online and physical store segments accelerated, and while the important AWS cloud business slowed, it was not as bad as feared. The company's efforts to control costs are now bearing fruit with operating margins up 50bps y/y. Operating income guide for Q2 was also relative strong and could be conservative should the cost control measures work as planned.

Bottom Contributors

Pepsi reported solid Q2 results, with pricing-led organic growth across Pepsi's beverages and salty snacks businesses. The stock lagged as Pepsi is largely viewed as defensive, and the enthusiasm for growth names during the quarter left slow growing but stable names like Pepsi out of favor with investors. We continue to believe that Pepsi will provide an important ballast should the market weaken.

Teleflex reported better than expected quarterly results as medical procedure growth continues to improve post-COVID. However, the lack of a guidance raise despite the EPS beat, and similar to Pepsi, lack of investor appetite for more defensive names, led to underperformance in Q2. Although the formerly high-growth Urolift product for enlarged prostate is lagging in procedure recovery, the remaining 80% of Teleflex's business is performing well and we remain bullish on the long term.

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.

Nike stock reacted negatively to a disappointing earnings report from large customer Foot Locker in the middle of May. The issues that caused Foot Locker's lowered guidance were largely its own and Nike reported good results at the end of June with particular strength in China. However, conservative guidance for the upcoming fiscal year weighed on the stock. While there is some risk to consumer spending should the economy weaken, we continue to view Nike favorably as the global leader in the fast-growing athletic apparel and footwear market and believe it is a more defensive Consumer Discretionary name.

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Ulta Beauty reported in-line Q1 results, but lowered FY24 operating margin guidance, largely driven by increased shrink (a retail term mainly referring to theft). Shrink is a growing issue for all retailers, but one we view as solvable over the medium term. Underlying demand for beauty has remained strong, and Ulta is well-positioned to continue taking market share with its industry leading loyalty program and unique assortment.

Portfolio Additions & Deletions

There were no portfolio additions or deletions in Q2.

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 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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