AMI Small Cap Growth Equity Quarterly Update

Growth Through Stability

Q2 ▪ 2023

Strategy Overview

In Q2, the AMI Small Cap Growth strategy returned 3.62% (3.37% on a net basis) versus the Russell 2000 Growth Index which returned 7.05%. Stock selection drove the relative performance with asset allocation a smaller benefit. Underperforming stock picks in Information Technology and Consumer Staples were slightly offset by outperforming picks in Consumer Discretionary. Being underweight Discretionary and Energy was the main driver of the benefit from asset allocation.

As seen in the table below, the top contributors to Q2 performance were CONMED, Itron, GXO Logistics, Neogen, and SPS Commerce. The bottom contributors to Q2 performance were Leslie's, Upwork, BJ's Wholesale, Western Alliance, and PagerDuty.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
CONMED	4.15%	1.15%
Itron	3.82%	1.07%
GXO Logistics	3.87%	0.87%
Neogen	3.60%	0.79%
SPS Commerce	2.11%	0.72%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Leslie's	2.54%	-0.39%
Upwork	0.86%	-0.62%
BJ's Wholesale	3.27%	-0.63%
Western Alliance	0.59%	-0.82%
PagerDuty	3.05%	-1.37%

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Top Contributors

After running into software issues at its warehouse in Q4, CONMED bounced back nicely and reported a better-than-expected Q1 and raised guidance. The orthopedic and general surgery product supplier is benefitting from a rebound in procedures, as well as continued solid growth in two unique products, surgical smoke filtration and abdomen inflation for laparoscopic surgeries.

Itron reported a very strong first quarter, as semiconductor supply constraints eased and the company was finally able to start working through its sizable backlog of smart utility meters.

GXO Logistics reported better than expected Q1 results driven by continued success in signing up new customers for its warehouse and logistics services. GXO is also rapidly growing its eCommerce returns offering, called reverse logistics, a newer high growth area.

Neogen reported somewhat mixed results as revenue came in light but EPS was well above estimates. The food and animal safety company is making strides in integrating its recent purchase of 3M's food safety business, which saw some hiccups soon after closing. We believe margins will continue to improve over the next few years as supply chain issues ease and as Neogen integrates manufacturing.

SPS Commerce topped estimates in Q1 and raised its full-year guidance. The company believes that despite macro uncertainty, they are well positioned to continue to deliver on long-term growth targets as its software helps retailers and suppliers save money and better manage inventory. The company's network continues to expand as new suppliers come online and retailers need access to all channels to optimize inventory and price.

Bottom Contributors

Leslie's Q2 earnings came in below expectations, largely due to difficult comparisons last year when there was a shortage of chlorine and pool owners stocked up early in the season. There has also been ongoing concern that the price of chemicals, specifically chlorine, will deflate as additional supply has returned this year. We continue to monitor this position, even as we view the long term outlook positively, as we are concerned about management's execution.

Despite better-than-expected Q1 results, Upwork's guidance for the full year suggested a significant slowdown in revenue as user growth slows amid the uncertain economy. The company took steps to improve profitability, but this may come at the expense of slowing overall growth and potential market share losses. We saw better opportunities elsewhere and exited the position.

BJ'S Wholesale reported solid Q1 earnings but struck a somewhat cautious tone on the balance of the year, as spending on general merchandise has come under pressure. There is also concern that food inflation, which has helped drive strong comps, is falling rapidly and will present a headwind into next year. We view these concerns as short-sighted, given the significant membership gains BJ's has driven over the past three years, as well as the likelihood that BJ will benefit in a difficult economy from being a price leader for essentials.

Western Alliance shares came under pressure following the fall of Silicon Valley Bank which hurt many small and regional banks over fears of a run on deposits. Despite management issuing updates suggesting deposit growth and a stable business, the overall fears never subsided. Moreover, the cost of deposits going forward for these banks may be structurally higher for a long period of time which will limit growth. We saw better opportunities elsewhere and exited the position.

PagerDuty reported inline Q1 revenue and much better than expected EPS. However, the company reduced its full year revenue outlook due to small and medium-sized businesses choosing smaller deal sizes and opting for a free version PagerDuty offers as they navigate an uncertain economic environment. The company is doing much better than expected on margins, while also investing, and significantly raised its full-year earning guidance. While the top line is slowing slightly, we like the better profitability and believe the software remains unique and value added to customers as evidenced by enterprise customer growth which remains healthy (+17% y/y).

Portfolio Additions & Deletions

In Q2, we bought Bright Horizons and SPS Commerce, while selling positions in Western Alliance and Upwork.

Bright Horizons is the leader in the corporate sponsored childcare market, operating 1,100 childcare centers in the U.S. and other markets such as the UK, the Netherlands, India and Australia. Affordable, reliable childcare is a significant issue globally, and Bright Horizons is at the forefront of partnering with employers to provide options for working families. The return of workers to physical offices is a natural growth driver for Bright Horizons, and longer-term we view childcare demand as sticky and not sensitive to the economy. Bright Horizons also offer Backup Care services and programs to help employees and their families apply to college and graduate school. These unique tailwinds should drive high-single to low-double digit organic growth over time, augmented by M&A in a fragmented sector, and attractive mid-teens EPS growth.

SPS Commerce is a cloud-based supply chain software company with more than 42,000 customers paying the company a monthly fee (highly recurring) on a contractual basis. In addition to these paying customers, there are more than 72,000 connections to the SPS network. SPS software allows customers the ability to have a single destination to manage inventory, digital catalogues, orders, invoices, shipments, and more across the entire omnichannel retail channel. The company's software helps retailers and logistics optimize cost and inventory levels which becomes even more essential during uncertain economic times. Helping to manage both online and offline vendor transactions, the company believes it can grow revenue in the mid-teens with significant EBITDA margin expansion opportunities.

As mentioned above, we exited the positions in Western Alliance and Upwork.

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 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.