AMI Equity Income Quarterly Update

Growth Through Stability

Q4 ▪ 2020

Strategy Overview

In Q4, the impending rollout of the coronavirus vaccine helped drive the stocks of companies which are more levered to a reopening of the economy. We believe that while bumpy, the vaccination effort will eventually lead to higher consumer confidence, spending, and an overall higher level of economic activity. The incoming Biden administration may also boost this activity with a large infrastructure and spending program. As such we have added two new companies in Q4 that should benefit from this dynamic. Broadcom (AVGO) is a semiconductor company that supplies chips to many areas of the economy including communications, energy, and industrial applications. The company has more than a 3% dividend yield while also growing earnings in the double digits. We also added Roper Technologies which provides software and services to a variety of industries and many industrial end-markets which typically thrive in cyclical upturns. We added to existing positions, Merck and Johnson & Johnson, as the health of the population becomes more of a focus and elective procedures resume. J&J also has a promising COVID-19 vaccine candidate.

Despite the potential for higher growth, we are still positive on the fundamentals for our existing Consumer Staples and retail holdings such as Walmart and Church & Dwight. While these have clearly benefitted from stay-at-home measures, we believe some changes in consumer behaviors will remain (e.g., online grocery, eating at home). While 2021 may be a difficult comparison vs. the growth these companies achieved in 2020, in addition to rising interest rates typically being negative for some high yielding stocks, we remain positive on the longer-term prospects and continue to expect dividend growth. That said, we will be opportunistic if we see better opportunities in other sectors. The Equity Income portfolio strives to seek a balance between companies that should fare well in an economic recovery but also do well should economic growth be less robust. As always, we seek capital preservation, earnings growth, and a steady or growing dividend income stream. We believe the companies in the portfolio should achieve these objectives.

In Q4, the Large Cap Equity Income strategy rose 8.20% (7.95% on a net basis), vs. the S&P 500 index, which rose 12.15%. Performance was driven by both asset allocation and security selection. Outperforming stock picks in Financials and Materials were offset by picks in Consumer Staples and Consumer Discretionary. Being overweight Consumer Staples and being underweight Energy and Financials detracted from performance vs. the S&P. This was partially offset by being Overweight Materials.

The top contributors to Q4 performance were Schwab, Apple, Target, J.P. Morgan, Starbucks, and Medical Properties Trust. The bottom contributors to Q4 performance were McCormick, McDonald's, General Mills, Home Depot, and Church & Dwight.

Top Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Schwab	2.44%	0.96%
Apple	6.62%	0.95%
JP Morgan	3.19%	0.95%
Starbucks	2.90%	0.68%
Medical Properties Trust	2.55%	0.61%

**Please see last page for important disclosures.

Bottom Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
McCormick	1.54%	-0.04%
McDonald's	3.29%	-0.06%
General Mills	2.69%	-0.11%
Home Depot	3.05%	-0.12%
Church & Dwight	3.05%	-0.23%

**Please see last page for important disclosures.

Top Contributors

Schwab stock had been depressed for the better part of 2020 given its high sensitivity to interest rates amid a low-interest rate environment which began early in the pandemic. However, the stock rose sharply in Q4 on the prospects of additional government stimulus spending, which is expected to have an inflationary effect and thus push interest rates higher. Schwab also closed its large acquisition of TD Ameritrade and provided a better-than-expected cost saving estimate on the Q3 call.

Apple's fiscal Q4 was very good despite lackluster iPhone sales due to a later release of the newest model. Stay-at-home measures spurred strong growth in wearables, iPads, Macs, and Services and drove the upside in the quarter. Despite the muted Q4 iPhone sales, expectations for the new 5G phone remain robust and sales should be stronger in future quarters as older models are replaced.

J.P. Morgan reported a good Q3 as lower net interest revenue was more than offset by higher non-interest revenue, led by banking and capital markets. Also notable was that the company's provision for loan losses fell significantly as uncertainty over its loan portfolio is reduced. Credit card spending also improved. Dividend remains intact and share repurchases have resumed.

Starbucks reported improving Q4 FY20 results in late October, with better comparable sales in the U.S. and a return to growth in China. The company then provided a highly attractive longer-term outlook at its December Analyst Day, with mid-teens EPS growth anticipated through FY2025. While Starbucks is still working through some of the headwinds presented by the pandemic, the ability to shift strategically (e.g., investing in more drive-through stores) should position the company for solid dividend growth.

Medical Properties Trust, which is a REIT for hospital operators, reported Q3 results that were better than expected. The company creates shareholder value by buying properties and while deals slowed in the past two quarters, it appears that activity is now resuming. Lease coverage was strong (even better if you include CARES Act grants) although general acute care is still facing some headwinds from lower levels of elective procedures. The company said that nearly all its operators are paying rents and those that are not are expected to be current by the end of the year.

Bottom Contributors

McCormick continued to post strong results in Q3, seeing outsized consumer demand as people spent more time cooking at home, somewhat offset by weakness in the company's Flavor Solutions business which sells into restaurants. McCormick also announced two attractive acquisitions during the quarter including Cholula hot sauce. However, McCormick's stock was out of favor as investors shifted away from stay-at-home names. We view McCormick as one of the best growth stories in Consumer Staples and believe the company will continue to see organic growth even as the economy normalizes post-vaccine.

McDonald's had a very good third quarter as the company's robust drive-thru offering and increased re-openings helped drive significant sequential improvement in comps. The company's margin picture improved overall following a quarter troubled by higher Covid-19 related expenses. The stock had been a winner in prior quarters but was slightly lower in Q4 as investors shifted their focus onto restaurants which had been previously closed and are soon to reopen. Nevertheless, we are bullish on the company's future growth and the company felt confident enough to raise its dividend by 3%.

General Mills' fiscal Q2 consisted of the same drivers seen over the past 2 quarters: higher at-home food consumption and reduced foodservice. One takeaway is that the company expects the at-home trend to be stickier than they previously thought in 2021, despite vaccine distribution, as new habits form. They do expect moderation, but it will take time. Pet was a standout surprise with margins in that segment well above expectations. Like other Staples companies, the shares lagged in Q4 as investors rotated into companies with a greater emphasis on the economy reopening.

Home Depot posted very strong Q3 comps but increased costs and lower margins temporarily weighed on shares. The company is making massive push into digital (80% growth in Q30 and BOPIS (buy online, pick up in-store) which they believe will persist and will drive higher, sustainable margins over time. While Home Depot was a winner during the pandemic, we believe the move from cities into the suburbs and a renewed focus on the home can help to sustain growth for the company.

Church & Dwight reported good Q3 results, with the majority of the company's portfolio of brands seeing pandemic driven demand. Especially strong was demand for vitamins, as people seek to boost immune health to fight off the virus. However, Church provided conservative Q4 guidance, largely driven by increased marketing spending, and the stock was also grouped with other stay-at-home beneficiaries that were sold by investors in Q4.

Portfolio Additions & Deletions

In Q4, we added Broadcom and Roper Technologies. We exited our position in Graphic Packaging, Energizer and Viatris.

Broadcom is a global leader in high end semiconductor design and manufacturing. The company's supplies products to a wide range of end markets including, wireless telecommunication, data center networking, home connectivity, factory automation, telecommunications equipment, smartphones, storage systems, power generation, and alternative energy systems. The company's recent acquisition of Symantec Enterprise also helped bolster its infrastructure software solutions business which includes cyber security, payment authentication and storage management. Broadcom shares currently offer a more than 3% dividend yield in addition to what we believe can be low-double-digit earnings growth.

Roper Technologies operates several different businesses that are all leaders in niche industrial software categories. The company has built a highly recurring subscription software business organically and through acquisitions. Existing software customers provide significant downside protection in recessions while leverage to more cyclical businesses allow the company to participate in economic recoveries. We believe the company will continue to generate mid-single digit organic revenue with expanding margins, driving solid EPS growth, with additional upside should the company separate its software business from more cyclical industrial businesses.

Energizer posted a mixed fiscal Q4 but, more importantly, pulled its long-term guidance and goals after a series of execution missteps over the past few quarters. We believe that the company will need some time to course correct and, given better opportunities elsewhere, exited the position.

We received shares of Viatris as part of a spin-off from Pfizer. Viatris will not be paying a dividend until later this year and thus we exited the position shortly after the spin-off.

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.