AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q2 ▪ 2020

Strategy Overview

In Q2, the AMI Large Cap Growth climbed 24.32% (24.07% on a net basis) versus the S&P 500 index which gained 20.54%. Security selection drove the relative performance, with asset allocation a slight drag. Outperforming picks in Technology, Healthcare and Consumer Staples were somewhat offset by stock selections in Materials, Consumer Discretionary and Financials. The drag from asset allocation was mainly driven by our overweight position in Consumer Staples (which underperformed the index), partially offset by being underweight Financials and Utilities (which underperformed).

As seen in the table below, the top contributors to Q2 performance were Apple, PayPal, Microsoft, Amazon and LabCorp. The bottom contributors to Q2 performance were Ball Corp, Lamb Weston, Becton Dickinson, Costco and Charles Schwab.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Apple	5.37%	2.16%
PayPal	3.17%	2.05%
Microsoft	5.61%	1.62%
Amazon	2.93%	1.11%
LabCorp	3.68%	1.10%

**Please see last page for important disclosures.

Bottom Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
Ball Corp.	3.53%	0.30%
Lamb Weston	2.31%	0.27%
Becton Dickinson	4.10%	0.26%
Costco	3.09%	0.25%
Charles Schwab	3.06%	0.02%

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Top Contributors

Apple's fiscal Q2 was not as bad as feared despite year-over-year declines in most hardware categories. Services growth slowed slightly but remained robust (+17% y/y). Some hardware sales were impacted by supply constraints following China's factory shutdowns, but the company exited the quarter essentially near normal levels. The company noted that while sales in late March and early April were depressed, by the end of April sales had bounced back as the company relied on online orders given the closure of many of its stores.

PayPal's Q1 results missed estimates but the stock reacted positively to a rapid acceleration in usage as consumers were forced to stay at home and online. Usage also increased in verticals where PayPal was not as strong previously, such as grocery. Merchants also quickly added PayPal payment capabilities to their websites. The shift to digital payments had already been occurring but the pandemic has now accelerated this move and PayPal is viewed as a reliable and trusted partner by both merchants and consumers.

AMI Asset Management

Microsoft posted solid fiscal Q3 results as the company continues to prove that it has a highly resilient business model, evidenced by the strong growth across its three business segments. Microsoft's business is diverse, with each segment geared to help with remote work and other offsite collaboration tools.

As expected, Amazon benefitted from the accelerated shift to online commerce and its Q1 results reflected that. Its online store revenue rose 25% y/y and its physical stores (Whole Foods) also performed well, buoyed by pantry loading. Similar to Microsoft, Amazon's cloud division (AWS) also benefited from the rapid shift to remote work capabilities.

LabCorp stock lagged in Q1 due to the shift from routine diagnostic testing to COVID testing, which is less profitable. The stock rebounded in Q2 following a better than feared earnings report and as elective procedures resumed in most states. The company also shifted to a smoother operating environment with a high COVID test throughput. LabCorp also launched several other innovative tests, including at-home collection and antibody tests to determine if a person previously had the virus.

Bottom Contributors

Ball Corp. reported Q1 earnings that were below expectations, as the company remains unable to meet heightened aluminum can demand due to capacity constraints. In addition, Ball signaled that its business in certain geographies (mainly Southern Europe and Brazil) was seeing disruptions due to virus impacts on the channels where most aluminum cans are purchased. We remain confident that Ball will be able to work through these near-term issues and feel that the company is well-positioned to capitalize on growth in aluminum can volumes as consumers shift away from plastics.

Lamb Weston reported weak fiscal Q3 results in early April and signaled a challenging outlook for its business due to restaurant closures in the U.S. Approximately 80% of Lamb's frozen french fries are sold to restaurants globally, and while the closures of independent restaurants will certainly have a near-term impact, the business is more leveraged to fast-food restaurants in the United States, which were able to stem sales declines as drive-throughs remained open. Longer-term, we believe french fry demand will return to pre-virus levels as restaurants are allowed to re-open, which should drive improved growth.

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Beckton Dickinson reported mixed quarterly results but were better than feared. Some areas benefitted from an extended flu season and the ramp in COVID tests (Becton supplies infectious disease testing machines), while other areas that are levered to elective procedures were weak, such as hernia repair and surgical drainage products. Becton was also hurt by a recall of I.V. pumps in January that will weigh on earnings in 2020 until the issue can be corrected.

Costco was a sizable beneficiary of the virus-driven stock up on essentials during March, which began to unwind in April. Costco reported a decline in monthly sales during April, as the company sought to limit the number of people in stores at one time. Sales in May and June recovered nicely, and we view Costco as a longer-term winner in retail.

Charles Schwab is levered to interest rate and stock market levels and although the market rallied substantially in Q2, Schwab's earnings will be impacted due to the Fed's rate cut. However, we remain positive on the company's long-term prospects as it recently closed the acquisition of USAA's brokerage business and is set to close the larger acquisition of competitor TD Ameritrade. We believe these deals will create substantial synergies over the next several years and, combined with an improving economy, make for an attractive outlook.

Portfolio Additions & Deletions

In Q2, we added Horizon Therapeutics and we sold Broadridge Financial Solutions.

Horizon Therapeutics is a pharmaceutical company focused on rare diseases, namely genetic defects that prevent a person from processing certain substances in the body that can have fatal consequences. These drugs are slow but steady growers that should provide a good base business. Two newer areas of growth are Krystexxa, the only treatment for uncontrollable gout, and Tepezza, the only treatment for thyroid eye disease. Krystexxa has been growing at 50%+ but is being impacted somewhat by patient reluctance to enter a medical facility for the infusion amid COVID. However, given the debilitating nature of gout, we expect sales to remain resilient. Tepezza is already exceeding initial expectations due to strong demand and the need to treat early in the disease cycle. Horizon also has an attractive pipeline of drugs in development and plenty of cash for acquisitions.

Broadridge's fiscal Q3 was inline despite some equity proxy delays and continued weakness in event-driven revenue. Full-year EPS was reduced because of the ongoing event-driven issues and the company's preliminary 2021 guidance was not inspiring. Although the company has a resilient business model, we believe there are higher growth opportunities and so we exited the position.

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.