AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q2 ▪ 2022

Strategy Overview

In Q2, the AMI Large Cap Growth strategy returned -14.78% (-15.03% on a net basis) versus the S&P 500 index which returned -16.10%. Asset allocation primarily drove the relative performance with security selection being a minor contributor. Overweight positions in Consumer Staples and Health Care were partially offset by underweight positions in Energy and Utilities. Outperforming stock selections in Industrials and Consumer Discretionary were offset by underperforming selections in Health Care and Financials.

As seen in the table below, the top contributors to Q2 performance were Pfizer, Constellation Brands, PepsiCo, Quanta Services and Air Products. The bottom contributors to Q2 performance were Amazon, Charles Schwab, Microsoft, Alphabet and Apple.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Pfizer	2.90%	0.08%
Constellation Brands	2.91%	0.01%
PepsiCo	3.41%	0.00%
Quanta Services	3.42%	-0.03%
Air Products	1.66%	-0.05%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Amazon	2.25%	-0.91%
Charles Schwab	3.48%	-0.92%
Microsoft	6.03%	-0.99%
Alphabet	4.68%	-1.07%
Apple	6.71%	-1.53%

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Top Contributors

Pfizer outperformed as the company's COVID-19 vaccine and new Paxlovid treatment continue to generate good sales with a solid outlook for the full year. For reference, Pfizer generated approximately $12 billion in revenue pre-vaccine and generated approximately $26 billion in Q1 with the difference almost all due to vaccines and Paxlovid.

Constellation Brands reported solid Q4 FY22 results driven by strong sales of Corona and Modelo. Constellation also offered good FY23 guidance. The stock had seen some weakness earlier in the year on reports that the company was considering an acquisition of Monster Beverage, but management reaffirmed its focus on returning cash to shareholders through buybacks and dividends.

PepsiCo reported solid Q1 results but issued a mixed FY23 outlook, increasing its organic growth forecast and lowering EPS guidance due to costs and the brand's exit from Russia. The stock performed well throughout the quarter as it is generally viewed as a safe haven during times of elevated volatility.

Quanta reported strong Q1 results and raised FY22 guidance. A shift in U.S. policy with respect to imported solar panels from Asia provided relief to concerns over potential supply chain disruptions and increases visibility into the company's solar projects into 2024. The company still stands to benefit from increasing demand in electric transmission and distribution, 5G buildout, and electric vehicle charging infrastructure.

Air Products reported fiscal Q2 results in-line with expectations, with strong demand for industrial gases and pricing offsetting surging raw materials inflation. The company's large hydrogen projects and robust backlog underpin its energy transition growth strategy, providing visibility to double-digit EPS growth well into the future.

Bottom Contributors

Amazon's Q1 revenue was in-line although EPS missed due to higher costs and a mark-to-market loss on its equity stake in electric vehicle manufacturer Rivian. Amazon is managing through rising costs from the capacity investments it made in response to the surge in demand during the pandemic. We believe that the online store will return to profitability, and we continue to like the highly profitable web server business (AWS) which grew 37% y/y in the quarter.

Charles Schwab's Q1 EPS missed analyst estimates as Schwab should benefit from higher interest rates, but it typically takes several quarters to materialize. Also weighing on the stock was the decline in the overall stock market, which will impact asset fees. We remain bullish on Schwab as yields on its balance sheet should start to move higher and the stock market should eventually recover.

Microsoft's fiscal Q3 topped estimates as the company's cloud server division (Azure) posted 49% y/y growth. All business units reported strong growth including the More Personal Computing division (Windows) despite some supply chain struggles. The stock declined amid broader Tech sector woes and on news that the strength of the U.S. Dollar vs. major currencies would be a headwind to top-line growth.

Alphabet shares fell on broader Tech sector malaise and concerns over a potential ad slowdown in a recession despite reporting an inline Q1 and better than expected growth in Cloud. Search was strong as retailers continue to advertise as shoppers return to physical stores. YouTube growth of 14% was slightly below expectations due to a tough year-over-year comparison.

Apple's fiscal Q2 was good despite shutdowns in China crimping the supply chain and having an impact on demand in the region. iPhone revenue rose 6% y/y and Mac sales continued to show strength, up 14% y/y. Services revenue rose but slowed below the 20% growth rate over the past several quarters. The China shutdowns, plus overall weakness in the Technology sector, drove shares lower. We view these issues as temporary and see upside as China reopens.

Portfolio Additions & Deletions

In Q2, we sold our position in PayPal.

PayPal struggled coming out of the pandemic as user buying patterns changed, with consumers spending more money on experiences as opposed to goods, which led to significant guidance reductions. The company then announced that it was shifting its strategy to focus on engagement vs. adding new users which carries execution risk and may take a while to materialize. We saw better opportunities elsewhere and decided to exit the remaining small 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. We use the Standard & Poor's 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 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.