AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q3 ▪ 2020

Strategy Overview

In Q3, the AMI Large Cap Growth returned 13.99% (13.74% on a net basis) versus the S&P 500 index which gained 8.93%. Security selection drove most of the relative outperformance, with additional contribution from asset allocation. Outperforming picks in Technology and Health Care was somewhat offset by stock selections in Materials. The positive impact from asset allocation was mainly driven by our underweight position in Energy and Materials (which underperformed the index), offset partially by our underweight position in Consumer Discretionary (which outperformed) and overweight position in Health Care (which underperformed).

As seen in the table below, the top contributors to Q3 performance were Apple, Salesforce, Horizon Therapeutics, Church & Dwight, and Nike. The bottom contributors to Q3 performance were Google, Ecolab, Becton Dickinson, Lamb Weston and Teleflex.

Top Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Apple	6.94%	2.20%
Salesforce	3.57%	1.35%
Horizon Therapeutics	3.02%	1.05%
Church & Dwight	4.30%	0.90%
Nike	2.47%	0.73%

**Please see last page for important disclosures.

Bottom Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Google	3.63%	0.14%
Ecolab	2.00%	0.01%
Becton Dickinson	3.53%	-0.02%
Lamb Weston	0.71%	-0.15%
Teleflex	2.76%	-0.19%

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Top Contributors

Apple posted a very strong fiscal Q3 with iPhone revenue rising despite store closures throughout much of the world. Mac and iPad were even more impressive, clearly benefiting from the need for additional devices to be able to work and attend school from home. The company also announced a stock split which increased interest in owning the shares among retail investors.

Salesforce reported a great Q2 with strong revenue and earnings growth and proved that as businesses accelerate their digitization efforts, it provides an extremely valuable service and product. There were some initial concerns about the company's ability to close new business given the lack of travel, but these were clearly overstated. In addition, its backlog of future business rose much higher than expected, suggesting these current trends are likely to continue in the near term.

Horizon's new drug, Tepezza, used to treat a debilitating eye condition called thyroid eye disease, continued to exceed expectations with sales that were well above expectations. As a result, management raised its full-year guidance to $650 million, from $200 million, and peak sales estimate to $3 billion, from $1 billion. While Horizon has other attractive drugs, Tepezza will likely drive the stock for the foreseeable future.

Church and Dwight reported Q2 results above expectations, as demand for detergent and vitamins accelerated meaningfully as people spent more time at home. Given the unprecedented demand for Church's core products, profitability also grew meaningfully as the company was able to scale back promotions and marketing. While unlikely that demand will remain at such elevated levels in perpetuity, Church's well-known brands should allow the company to continue to perform well over time.

Nike announced very strong fiscal Q1 results late in the quarter, with the company's digital business accelerating from Q4, even as stores reopened. The company was also able to effectively manage inventory by focusing on "differentiated" retail partners, which saw increased traffic throughout the quarter. With the return of professional sports and a broader consumer focus on health and wellness during the pandemic, Nike is well positioned to continue its strong performance.

Bottom Contributors

Although Google's shares were up in the quarter, they lagged the strong performance of their tech peers as revenues fell year-over-year for the first time in company history. The company's leverage to advertising was a headwind as companies, especially those in travel and retail, curtailed their advertising spending during the pandemic. YouTube and Google Cloud were bright spots and growth on those platforms continue. Management indicated that the end of the quarter was positive which gives us confidence that growth can reaccelerate as more businesses reopen and advertising activity normalizes.

In Q2, Ecolab experienced sluggish performance broadly across all businesses leveraged to full-service restaurants and hospitality. While approximately one-third of the company's business saw a boost from increased global demand for sanitation and cleaning products, another 30% was adversely impacted by COVID-19 related shutdowns in restaurants and hotels. Despite stunted growth in the recent quarter, we continue to believe the company will benefit from anticipated long-term growth in demand for a greater focus on cleanliness in almost every industry and end-market.

Becton Dickinson reported better-than-expected earnings in July, but it was affected by the shutdown of elective procedures which offset the benefit from COVID-related sales. The company is also being impacted by a recall of infusion pumps that somewhat muddles the quarterly results. As COVID cases began to rise again in September, investors feared that elective procedures could be shut down again, resulting in weakness in the medical device industry. However, we do not envision this happening and expect earnings growth to improve going forward as electives have resumed and COVID testing levels remain elevated, which benefits Becton's diagnostics business.

Lamb Weston reported mixed results in July, with demand for French fries from fast food customers improving, but the independent restaurant business is still suffering, and the company experienced elevated costs due to COVID outbreaks at one of the company's plants. With independent restaurants likely to take multiple quarters to recover, we felt there were better opportunities elsewhere and exited the position.

Like Becton, Teleflex was impacted by the shutdown of elective procedures in Q2, with an especially sizable impact to its faster-growing, but highly elective Urolift treatment for enlarged prostates. However, Teleflex reported better-than-feared earnings and the stock rallied to a new high by late August before selling off along with others amid the rise in COVID cases at the end of the quarter. As elective procedures have resumed, we expect growth to reaccelerate going forward and remain bullish, especially for Urolift, which is a one-of-kind outpatient cure for enlarged prostate sufferers.

Portfolio Additions & Deletions

In Q3, we added Chegg, DocuSign, Palo Alto Networks and Pfizer. As mentioned above, we sold Lamb Weston.

Chegg is an online education platform that operates in two segments: Required Materials, which rents and sells digital textbooks, and Chegg Services, a variety of online study tools providing "a smarter way to study." As the leader in a rapidly growing industry, with a huge opportunity for continued online migration, Chegg should be able to drive substantial subscriber growth, significant margin expansion, and earnings growth over time.

DocuSign is the leader in electronic signature technology. The company's platform offers tools to prepare, route, track, and manage the document process from creation to execution. While the company has been benefiting from more remote contract signing, the company was growing quickly before COVID and we believe this growth is sustainable. We view this as similar to how online bill-pay has all but eliminated the "check in the mail" process and will become a de facto standard used by companies worldwide.

Palo Alto has been a leader in next-generation firewall solutions which allows companies to secure their corporate networks as more business processes move into the cloud. The company recently expanded its market by selling services attached to their firewall equipment rather than focusing solely on hardware. The result has been a company with more recurring revenue, greater revenue visibility, and improving margins over time. We believe as this transition progresses, the market will rate the company's shares higher. Moreover, given the work-from-home movement taking place, securing corporate networks has become a greater priority and Palo Alto has the services and products needed to solve these complex problems.

Pfizer is a diversified pharmaceutical supplier that is undergoing a shift to become more focused and with a higher growth profile following its divestiture of slower growing consumer and generic products. Entering 2021, Pfizer will be focused on oncology, vaccines, immunology, internal medicine, hospital antibiotics, and rare diseases. As mentioned above, Pfizer is also the frontrunner in the COVID vaccine race, and we expect its prowess in vaccines to be a distinct advantage.

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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