"Genius always gives its best at first; prudence at last." – Lucius Annaeus Seneca

Fourth Quarter 2017

Following a strong fourth quarter, equity markets closed out 2017 on a high note as major indices achieved record levels. Optimism over strong global economic growth, as well as the benefits from corporate tax reform, drove an impressive run for stocks. The S&P 500 rose 6.6% in Q4 and 21.8% for 2017, the best year for the index since 2013. While it took the Dow Jones Industrial Average 14 years to climb from 10,000 to 15,000, it took only three and a half years to climb to 20,000, and in about one year surpassed 25,000 early in 2018.

Driving much of the investor optimism was anticipation of the passage of the tax reform bill, which occurred just prior to Christmas. The reduction in the corporate tax rate to 21% should be a significant boon to many companies in 2018 and beyond. Importantly, the tax bill is viewed as a victory for the Trump administration and Republican-led Congress, after discord caused the attempt at a repeal and replace of Obamacare to fail earlier in the year. Investors now are expressing more confidence in additional business friendly legislation becoming law in 2018.

Strong economic data also bolstered the ongoing rally, despite the Federal Reserve increasing interest rates by 25 bps to a range of to 1.25% - 1.50% during its December meeting. Employment numbers remain strong, with the economy adding 148K jobs in December following 228K jobs in November, driving the unemployment rate to 4.1%, the lowest number since 2000. Q3 GDP growth remained strong at 3%, driven by consumer spending as well as increased business investment ahead of the new tax plan.

Fed Governor Jerome Powell was confirmed as the replacement for current Fed Chair Yellen when her term ends in February, but Fed policy is unlikely to change dramatically. Inflation numbers remain stubbornly below the Fed's target of 2%, meaning the Fed will likely tread carefully despite expectations for four additional rate hikes during 2018.

Geopolitical risks remain, with the quarter marked by tension over secession in the Spanish state of Catalonia and fiery rhetoric between President Trump and North Korea's Kim Jong Un. The Mueller investigation remains ongoing, as former National Security Advisor Flynn pleaded guilty to lying to Federal investigators on December 1, which caused the largest drop in equity prices during the quarter. However, certain reports regarding the story were deemed inaccurate and equities quickly recovered. Treasury yields also continue to creep higher. Despite these risks, corporate profits remain strong, and further business friendly government policies, such as infrastructure spending and deregulation, have the potential to provide additional tailwinds to equities moving into 2018.

AMI Large Cap Growth Strategy

In Q4, the AMI Large Cap Growth strategy underperformed the Russell 1000 Growth index by 1.58% on a gross basis (1.83% on a net basis). This underperformance was mostly attributed to asset allocation, due to being overweight Healthcare (which underperformed the market) and underweight Technology and Consumer Discretionary (which outperformed the market). Security selection was negatively impacted by certain stocks picks in Consumer Staples but was partially offset by outperformers in Financials and Energy.

As seen in the table below, the top contributors to Q4 performance were Charles Schwab, Avery Dennison, Zoetis, PayPal and Adobe. The bottom contributors to Q4 performance were McCormick, Healthcare Services Group, Walgreens, Henry Schein and Allergan.

Top Contributors in Q4

Company	Avg. Weight	Return	Contribution
Charles Schwab	3.91%	17.66%	0.66%
Avery Dennison	3.14%	17.26%	0.51%
Zoetis Inc	3.87%	13.16%	0.49%
PayPal Holdings	3.41%	14.98%	0.48%
Adobe Systems	2.70%	17.49%	0.44%

Bottom Contributors in Q4

Company	Avg. Weight	Return	Contribution
McCormick & Co	2.45%	0.27%	0.00%
Healthcare Services Group	2.75%	-1.94%	-0.06%
Walgreens Boots Alliance	2.55%	-5.43%	-0.17%
Henry Schein	2.65%	-14.77%	-0.45%
Allergan	2.79%	-19.87%	-0.65%

Top Contributors

Charles Schwab posted solid Q3 results as it continues to gather assets, grow revenue, and expand margins. Schwab has been able to increase yields on assets despite the low interest rate environment by moving money market funds to its bank, where spreads are wider. Lastly, Schwab's stock rose on the prospects of tax reform as it currently pays a very high tax rate and would be a prime beneficiary of a lower corporate rate.

Avery Dennison reported strong 3rd quarter results headlined by organic revenue growth ahead of expectations. Improving GDP growth is driving the strong performance in the base business (product labels, shipping & logistics labels, and retail apparel tags & tickets) while the company is achieving outsized growth due to the greenfield opportunity in its Radio Frequency Identification tags (RFID) business. Additionally, execution on management's cost saving restructuring plan has been enhancing profitability with expectations for achievable savings continuing to increase.

Zoetis reported good Q3 results, driven by solid growth in drugs to treat pets, primarily its new oral flea and tick medicine (Simparica), and dog dermatitis treatment (Apoquel). Zoetis remains one of the more stable growers in the Healthcare space which has driven the stock higher.

PayPal's Q3 results were strong and met relatively high expectations, with Total Processing Volume (TPV), revenue, and EPS all better than expected. The company's initial 2018 guidance was also strong with growth in the 20% range across all key metrics. Expense management is contributing to earnings growth. The company's Venmo product is in the early stages of being monetized which could further accelerate growth.

Adobe's fiscal Q4 was a strong finish to the year and the company has a lot of continued momentum entering 2018. The company's Digital Media and Creative Cloud businesses continue to grow at more than 30% and management expects this trend to continue. The relatively newer Digital Experience segment returned to high-teens growth rates after a slight deceleration in the prior quarter. Adobe continues to expand its addressable market and has the ability for additional growth by expanding margins as it tweaks its pricing strategy and gains operating leverage.

Bottom Contributors

McCormick announced strong Q3 earnings in late September, buoyed by the benefit from the acquisitions of the Frank's Red Hot and French's brands from Reckitt Benckiser (RB Foods). However, the stock was weighed down by a broader shift away from consumer staples with high multiples and yields due to expectations of increasing interest rates during Q4. We believe McCormick is one of the best growth stories in large cap packaged food and the RB Foods deal should benefit the stock in 2018.

In October, Healthcare Services Group reported 3rd quarter results with revenue in line with expectations. However, the margin headwind from newly added facilities was greater than anticipated. The company typically experiences a margin headwind as new, less efficient facilities are onboarded and costs saving programs are initiated. Following this initial ramp-up period margins typically return to prior levels. We continue to like Healthcare Services Group as its outsourced housekeeping and dining services for healthcare facilities remain in high demand.

Walgreens Boots Alliance reported strong earnings in early October, with record prescription volume growth above 9%. The stock was hurt throughout the quarter by rumors and speculation surrounding Amazon's potential entry into the pharmacy business, as well as concerns over the impact of CVS's proposed acquisition of Aetna. We continue to like Walgreen's strategy of building partnerships throughout the pharmacy supply chain and believe concerns over Amazon are overblown.

Henry Schein reported mixed results for Q3 with revenue growth beating expectations and earnings missing slightly. Although revenue grew nicely at 10%, lower margin medical and veterinary supplies are growing faster than the higher margin dental products, thus pressuring earnings. In addition, Amazon has been making some inroads into the dental market causing investor trepidation. However, we are less concerned as Amazon has been selling into highly commoditized areas that don't require the expertise that Henry Schein provides. We remain bullish on the stock as we see continued geographic and product expansion combined with an aging population as an attractive combination for growth.

Allergan's stock sold off in Q4 following the invalidation of patents on Restasis, one of Allergan's best-selling eye treatments. Generic versions could enter as early as 2018, which would hurt revenue and earnings. We had always accounted for this event in our analysis and we view the selloff as an overreaction. We also expect Allergan to cut costs to offset the lost sales. While EPS will likely take a dip in 2018, we see the current valuation, as well as continued strong growth in Allergan's cash-pay cosmetic businesses, as a compelling buy case.

Portfolio Additions and Deletions

There were no additions or sales during the quarter

AMI Small Cap Growth Strategy

The AMI Small Cap Growth strategy underperformed the Russell 2000 Growth index in Q4 by 0.23% on a gross basis (0.61% on a net basis). The underperformance was evenly weighted between asset allocation and security selection. Asset allocation was negatively impacted by being underweight Consumer Discretionary and Materials (which outperformed the market) and being overweight Healthcare (which underperformed) and partially offset by being overweight Consumer Staples (which outperformed). Underperforming stock picks in Healthcare were partially offset by strong picks in Technology, Consumer Staples, Consumer Discretionary and Producer Durables.

As seen in the table below, the top contributors to Q4 performance were Echo Global Logistics, SiteOne Landscape Supply, Snyder's-Lance, On Assignment, and Performance Food Group. The bottom contributors to performance were Cardtronics, INC Research, TiVo Corporation, Blackhawk Network, and Teligent.

Top Contributors in Q4

Company	Avg. Weight	Return	Contribution
Echo Global Logistics	3.23%	48.54%	1.30%
SiteOne Landscape Supply	3.64%	32.01%	1.03%
Snyder's-Lance	3.18%	31.88%	0.98%
On Assignment	3.57%	19.73%	0.70%
Performance Food Group	3.35%	17.17%	0.56%

Bottom Contributors in Q4

Company	Avg. Weight	Return	Contribution
Cardtronics	1.54%	-19.51%	-0.37%
INC Research	2.91%	-16.63%	-0.55%
TiVo Corporation	2.62%	-20.53%	-0.63%
Blackhawk Network	3.31%	-18.61%	-0.76%
Teligent	2.31%	-45.90%	-1.41%

Top Contributors

Following a period of underperformance, Echo Global Logistics reported 3rd quarter results that were well ahead of expectations. The improved performance was driven by an overall tightening in the trucking market which led to higher spot pricing and utilization. Capacity constraints driven by major hurricanes and a later-than-normal harvest shipping season were the primary catalysts of the favorable market. The near-term outlook for Echo is good as the 2017 holiday shipping season appears to have been strong and further capacity constraints are likely.

SiteOne reported Q3 results that were below expectations, mainly driven by a significant negative impact from hurricanes Harvey and Irma (10% of SiteOne's business is generated in the state of Florida). However, SiteOne's consolidation strategy in a highly fragmented industry, combined with positive commentary at investor conferences regarding longer term growth, buoyed the stock throughout the quarter. SiteOne will be a significant beneficiary of tax reform as a full tax payer with an almost exclusively domestic business.

Snyder's-Lance announced it had agreed to be acquired by Campbell's Soup on December 18 for $50 per share, a 30% premium to the company's stock price before rumors of the deal percolated on December 14.

On Assignment reported strong 3rd quarter results in October. The company's largest business, Apex Systems (regionally based IT temporary staffing) continues to post double-digit top line growth which well exceeds competitor and overall industry growth rates. In addition, Creative Circle (marketing temporary staffing) showed significant improvement from a "summer lull" experienced in the 2nd quarter.

Performance Food Group announced strong Q3 results, growing independent case volume above 6% and taking market share from larger competitors. Performance Food also outlined a bullish outlook for 2018 and guided to EBITDA growth above expectations. As a purely domestic business and full taxpayer, Performance Food will also see a significant benefit from a lower corporate tax rate.

Bottom Contributors

Cardtronics Q3 results beat expectations handily, however, the stock was pressured during Q4 on news that the four largest banks in Australia and New Zealand will be eliminating fees on ATM transactions. This move will weigh on 2018 results as Cardtronics will have to either lower ATM fees or risk losing transactions to free ATMs. Despite the added competition, we still believe in the company's growth prospects beyond 2018 as small regional banks join the company's surcharge free AllPoint network and as Cardtronics expands its geographic reach.

INC Research (now called Syneos Healthcare) closed its merger with inVentiv, creating an integrated drug trial and commercialization outsourcer, serving biopharma companies of all sizes. Although the merger makes sense in our view, the combined company is facing near term headwinds from drug trial delays and some cancellations at inVentiv. This caused a sizable stock drop in Q4, which we view as unwarranted due to the combined company's longer-term potential.

TiVo reported a strong third quarter as revenue and EPS were better than what analysts had estimated. Despite a favorable ruling in November from the U.S. International Trade Commission in its legal battle with Comcast, TiVo shares sold off as it appears a licensing deal with Comcast may not come as soon as was previously expected. We continue to like TiVo for its strong free cash flow, capital return program, and prospects for long term growth.

Blackhawk reported strong Q3 earnings but warned that grocery retailers, where Blackhawk sells a large majority of its gift cards, are struggling against online competitors. In addition, a large customer is looking to renegotiate a more favorable revenue split, which will weigh on revenue in 2018. Despite these near-term headwinds, the outlook remains bright as gift cards continue to gain acceptance worldwide, Blackhawk moves into 1st party digital cards (a much larger opportunity), and gift card usage for employee incentive programs gains traction.

Teligent reported weak Q3 results and lowered guidance for 2017 due to continued industrywide delays in FDA approvals. We have always believed that it is not a question of if, but when, Teligent's applications will be approved. Admittedly, the approvals have come slower than expected but we believe 2018 could see an acceleration given that speeding generic approvals is a focus area of the FDA to drive down drug costs. We also believe that there are applications outstanding for drugs with sizable markets that could drive EPS substantially higher. For those reasons, we remain bullish and have added to our position.

Portfolio Additions and Deletions

In Q4 we added Verint Systems and MGP Ingredients; sold Smart & Final Stores.

Verint uses data from unstructured sources (e.g. voice, video, social media, etc.) in two distinct businesses. Verint's workforce optimization and customer engagement segment provides software that synthesizes, analyzes, and automates interactions with consumers so that Verint's customers can create a more efficient workforce and provide a better customer experience. Verint software also analyzes similar unstructured data sets for cyber intelligence purposes for use by government and security end markets. Both segments are growing revenues steadily and we believe the company can expand margins which can further propel earnings growth.

MGP Ingredients is a manufacturer of distilled alcohol products for use in both food production and industrial and beverage alcohol. The company provides white whiskeys (whiskeys at various stages of aging) to a number of large and craft brands. The significant opportunity is in the large inventory of whiskey that MGP is now aging in its own warehouses for future sale to customers, in addition to the development of the company's own brands. MGP also has a significant growth opportunity in the better-for-you food space through its proprietary high fiber and protein starches.

Smart & Final struggled with food deflation and the perceived competitive impact of Amazon's entry into the grocery space throughout 2017. While we continue to believe that Smart & Final's focus on providing everyday value to both business and retail customers creates a differentiated model, Smart & Final's decision following Q3 earnings to dramatically reduce unit expansion and focus on paying down debt is inconsistent with the types of growing companies we seek to own. After a rally during Q4 we seized the opportunity to invest in faster growing names elsewhere.

AMI SMID Cap Growth Strategy

In Q4, the AMI SMID Cap Growth strategy underperformed the Russell 2500 Growth index by 1.76% on a gross basis (2.07% on a net basis). The underperformance was largely driven by security selection due to underperforming stock picks in Healthcare and Financials, partially offset by outperforming stock picks in Consumer Staples, Energy, Technology and Producer Durables. Asset allocation also negatively contributed to performance during the quarter, driven by an overweight position in Healthcare (which underperformed the market), partially offset by an overweight position in Consumer Staples (which outperformed the market).

As seen in the table below, the top contributors to Q4 performance were Echo Global Logistics, Snyder's-Lance, Avery Dennison, On Assignment and Performance Food Group. The bottom contributors to Q3 performance were Cardtronics, Innerworkings, Envision Healthcare, INC Research and Blackhawk Network.

Top Contributors in Q4

Company	Avg. Weight	Return	Contribution
Echo Global Logistics	2.91%	48.54%	1.14%
Snyder's-Lance	3.12%	31.88%	0.96%
Avery Dennison	3.75%	17.26%	0.61%
On Assignment	3.22%	19.73%	0.58%
Performance Food Group	3.21%	17.17%	0.54%

Bottom Contributors in Q4

Company	Avg. Weight	Return	Contribution
Cardtronics	1.91%	-19.51%	-0.28%
Innerworkings	2.94%	-10.84%	-0.34%
Envision Healthcare	1.70%	-26.27%	-0.65%
INC Research	3.40%	-16.63%	-0.69%
Blackhawk Network	3.07%	-18.61%	-0.71%

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Following the release of its 3rd quarter earnings, shares of Innerworkings traded higher on results that were largely in line with expectations. However, in December, management announced the current CFO would step down for reasons unrelated to the company's business and the stock traded lower into the end of the year. We continue to believe the outlook for Innerworkings is strong and shares remain undervalued. The company's backlog has increased over recent years on strong new business wins from new clients as well as expansions of relationships with existing clients.

We sold Envision Healthcare following a weak quarter and a lowering of Q4 guidance. The physician staffing company is seeing weakness at its hospital clients, which is translating into weaker margins. Although the Q3 results included a one-time hurricane impact, we believe there is growing uncertainty in the physician staffing market and we see better opportunities elsewhere.

INC Research (now called Syneos Healthcare) closed its merger with inVentiv, creating an integrated drug trial and commercialization outsourcer, serving biopharma companies of all sizes. Although the merger makes sense in our view, the combined company is facing near term headwinds from drug trial delays and some cancellations at inVentiv. This caused a sizable stock drop in Q4, which we view as unwarranted due to the combined company's longer-term potential.

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Market Outlook

By most measures, the global economy appears to be improving nicely. Leading indicators show no significant risk of an economic recession in the near term. Most risks to the equity markets appear to be centered around “black swan”, geopolitical events. Though interest rates are moving incrementally higher, economic optimism has improved and corporate earnings appear poised for solid growth, buoyed by improving fundamentals and a tailwind from tax reform. As always, AMI remains disciplined and continues to invest for the long run in companies that we believe will do well in both good and bad times.

Sincerely,

Your AMI Investment Management Team

If at any time your current financial situation, investment needs or objectives change, please notify your portfolio manager promptly. Attached is a copy of our ADV Part 2. You may call or write us to obtain the latest copy of our Privacy Notice and/or Proxy Voting Policies and Procedures. All attribution data is courtesy of Bloomberg.

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Past performance is not indicative of future returns. Composite 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 for AMI’s equity strategies are calculated by deducting the *highest annual fee of any account included in the composite of 1.0% (Large Cap Growth Strategy) or 1.5% (Small Cap Growth Strategy) from the quarterly gross return. Please note that the annual fees for institutional accounts are lower than the 1.0% and 1.5% deducted from the gross returns (higher net returns), while certain retail accounts are subject to our minimum annual management fee requirement and therefore have higher fees (lower net returns). Therefore, individual account performance will vary. Net returns for AMI's fixed income strategies are calculated by deducting the highest annual fee of any account included in the composite of 0.60% (Core Taxable), 0.50% (Municipal), or 1.0% (High Yield) from the quarterly gross return. Additional information about AMI's management fees is included in its Form ADV Part 2. 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.*