AMI SMID Cap Growth Equity Quarterly Update

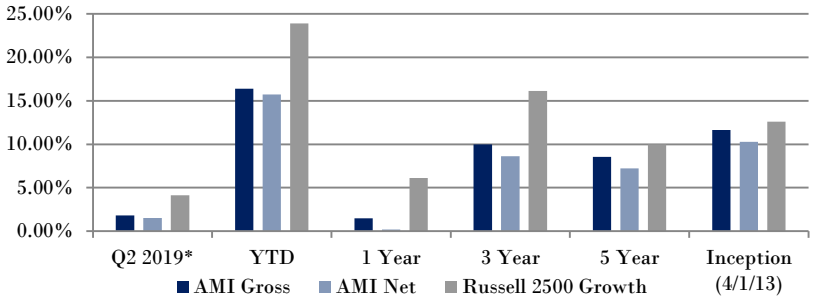
Growth Through Stability

Q2 ▪ 2019

Strategy Overview

In Q2, the AMI SMID Cap Growth strategy underperformed the Russell 2500 Growth index by 2.32% on a gross basis (2.63% on a net basis). Security selection drove 75% of the underperformance, with asset allocation contributing the balance. Underperforming stock picks in Financials, Healthcare, Producer Durables and Technology were partially offset by outperforming stock picks in Consumer Discretionary, Energy, Materials and Consumer Staples. Being overweight Consumer Staples and Energy (which underperformed the market) was partially offset by being underweight Technology (which underperformed) and overweight Producer Durables (which outperformed).

SMID CAP GROWTH ANNUALIZED RETURNS



	Q2 2019*	YTD	1 Year	3 Year	5 Year	Inception (4/1/13)
AMI Gross	**1.82%**	**16.40%**	**1.48%**	**9.97%**	**8.55%**	**11.66%**
AMI Net	**1.51%**	**15.72%**	**0.21%**	**8.63%**	**7.23%**	**10.30%**
R2500G	4.14%	23.92%	6.13%	16.14%	9.98%	12.60%

*Please see last page for important disclosures

As seen in the table below, the top contributors to Q2 performance were Frontdoor, Broadridge, Aramark, West Pharmaceutical Services and Simply Good Foods Co. The bottom contributors to Q2 performance were SS&C Technologies, Dave & Buster's, MGP Ingredients, Cardtronics and Green Dot.

Firm Summary

- Founded in 1994
- Located in Los Angeles, CA
- Employee Owned
- Total Firm-Wide AUM: ~$1.8 billion
- Total Strategy AUM: ~$4 million

Portfolio Management Team

Christian Sessing, CFA
Chief Investment Officer, Lead Equity Portfolio Manager

Andrew Zamfotis, CFA
Co-Equity Portfolio Manager

Top Contributors in Q2			
Company	**Avg. Weight**	**Return**	**Contribution**
Frontdoor	3.20%	26.53%	0.77%
Broadridge	3.00%	23.59%	0.67%
Aramark	3.04%	22.45%	0.64%
West Pharma. Serv.	3.37%	13.72%	0.43%
Simply Good Foods	2.72%	16.95%	0.42%

**Please see last page for important disclosures

Bottom Contributors in Q2			
Company	**Avg. Weight**	**Return**	**Contribution**
SS&C Technologies	3.53%	-9.38%	-0.35%
Dave & Buster's	2.29%	-18.54%	-0.43%
MGP Ingredients	3.33%	-13.92%	-0.43%
Cardtronics	2.61%	-23.22%	-0.67%
Green Dot	3.80%	-19.37%	-0.75%

**Please see last page for important disclosures

AMI ASSET MANAGEMENT

Point of Contact: Matthew Dorband, Director of Sales & Marketing · 424-320-4007 · mdorband@amiassetmanagement.com

10866 Wilshire Blvd, Ste. 770, Los Angeles, CA 90024 · 424-320-4000 · www.amiassetmanagement.com

Top Contributors

Frontdoor's Q1 results were another step in the right direction, as the home warranty company's investments in technology to improve efficiency began to pay dividends. In addition, the company's announcement of a novel plan to cover smart technology was well-received by investors. AMI believes Frontdoor is just scratching the surface of the broader opportunity in on-demand services and as a result we see more upside ahead.

Broadridge had a good fiscal third quarter and reaffirmed its earnings and revenue guidance for the full year. The financial back-office operations provider continues to post solid organic growth while operating margins continue to expand (21% vs. 14% a year ago).

Aramark's strong quarterly performance was driven by rumors of an acquisition. While no deal has materialized yet, AMI continues to believe there is substantial upside from improving the company's underlying base business through new customer wins and efficiency gains.

West Pharmaceutical Services reported a solid Q1 and raised EPS guidance for FY19. West's vial and syringe products for use in pharmaceutical packaging continue to increase market share and are used by most new biologic treatments coming to market. As biologics continue to increase as a percentage of treatments, West's products are in greater demand due to the fact that biologics require specialty packaging that doesn't react with the treatment. These products are also higher priced and carry a higher margin, thus driving West's growth.

Simply Good Foods continues to produce industry-leading sales results, as the company's low-carb snack offerings benefit from demographic tailwinds and savvy marketing. At a time when most food companies have struggled to grow sales, Simply Good Foods has been a positive outlier. Ongoing strength in the core Atkins brand as well as M&A opportunities suggest positive results should continue.

Bottom Contributors

SS&C's Q1 was mixed with inline revenue and EPS better-than-expected. Revenue guidance for the full year was slightly below what some had expected raising concerns about the company's ability to grow revenue organically. With the stock up nearly 50% year-to-date prior to the announced results, investors took some gains and the stock fell. While much of the synergies from recent M&A are now complete, the company needs to prove it can continue to grow. AMI believes the company can indeed grow organically and is generating significant cash flow with which it can pay down debt, return cash to shareholders and continue to consolidate the industry.

Dave & Buster's reported disappointing Q1 results, as comparable sales turned negative after showing momentum in Q4. While AMI is frustrated with the lack of consistency in the company's performance, AMI continues to believe that the stock is inexpensive given the strong new unit openings and free cash flow. Dave & Buster's would likely benefit from going private, which AMI views as a possible outcome given the low leverage and the presence of an activist as a top 5 shareholder. As such AMI feels it is prudent to be patient but are actively monitoring the position.

Following a strong report in Q4, MGP Ingredients produced a disappointing Q1, as a large sale of aged whiskey was pushed from March into April. As such, these sales should recover over the course of Q2. AMI continues to believe that MGP's competitive advantages within the bourbon and rye whiskey markets are underappreciated, and as these categories grow MGP should perform well over the long-term.

Cardtronics reported better than expected Q1 results and management raised the full year guidance but late in May a short-seller report drove the stock substantially lower. The report highlighted the long-term risk to the ATM operator of the declining use of cash relative to card transactions. These concerns are not new and AMI believes Cardtronics will be a continued beneficiary of bank ATM outsourcing.

GreenDot reported decent Q1 results but the prepaid credit card provider's announced plans to spend $60 million in 2019 to accelerate development and launch two new credit card products weighed on the stock. The increased spending reduced the earnings estimate by 15-20% for the year and drove the selloff. However, management anticipates adding 1 million new users from the new product, which should drive 2020 earnings higher and should ultimately be a good long-term strategic move.

Portfolio Additions & Deletions

In Q2, AMI added Genomic Health, Insperity, Kansas City Southern, Lamb Weston and Qualys. AMI sold Diamondback Energy, Echo Global Logistics, LogMeIn and Synopsys.

Genomic Health is a leading provider of genetic tests designed to predict cancer outcomes. Its main test is used to predict breast cancer recurrence following surgery and whether a patient should be treated with chemotherapy. Genomic Health's other tests focus on prostate cancer, namely to predict the aggressiveness of the cancer, and the effectiveness of a certain type of prostate cancer treatment. Both are newer tests that are not widely used yet, offering substantial upside potential. We see 20% EPS growth over the next several years driven by increased adoption globally as new data supports broad reimbursement and as margins expand.

Insperity provides human resources (HR) and other business services to the small and medium-sized business market (SMB). The company provides these businesses with the opportunity to outsource critical HR functions and allows these firms the ability to offer benefits (insurance, etc.) to employees that they would otherwise be unable to do in a cost-effective way. Insperity has a large, untapped SMB market that is currently underserved in terms of HR function outsourcing. AMI believes the company can sustain mid-teens revenue growth and greater than 20% earnings growth over the next few years.

Kansas City Southern is a railroad with broadly-diversified end markets, an extensive network in the Midwest United States, and exclusive access to key ports in Mexico. KSU provides global shippers access to lower cost transport into the US. Moreover, recent cost-saving initiatives should drive operating efficiencies and margin expansion through 2021. AMI believes the company can sustain mid-teens earnings growth as volume growth and pricing remain steady.

Lamb Weston is the second largest global manufacturer of processed potatoes, mainly french fries, with customers including restaurants as well as a presence in grocery retail. French fries are the most profitable food item on a chain restaurant menu, with solid underlying demand growth both domestically and from fast food restaurants expanding into emerging markets. Fears of overcapacity and the resulting impact on pricing created an opportunity to buy a quality growth staple leveraged to trends outside of the supermarket.

Qualys is the industry leader in identifying vulnerabilities within computer networks. The company boasts high operating margins (>30%) and has strong customer retention rates. With the migration of enterprise software applications to the cloud, the ability to quickly and adeptly assess vulnerabilities is paramount. Qualys is also expanding its expertise into remediation which should catalyze a new leg of growth.

Diamondback Energy grew to be too large for the SMID portfolio and thus AMI sold the position.

Echo Global Logistics reported decent Q1 results, but AMI saw a better opportunity within the transportation sector (Kansas City Southern), and thus sold the position.

Despite a decent Q4, LogMeIn made the decision to restructure its business and increase spending which would pressure growth and margins for the foreseeable future. AMI did not like the timeline and potential uncertainty this shift raises and thus AMI exited the position as AMI saw better opportunities within the Tech sector.

Synopsys' market cap became too large for the SMID strategy and thus AMI sold 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 Small-Mid Cap Growth Composite includes all fully discretionary, fee-paying and non-fee-paying, taxable and nontaxable accounts with at least $100,000 in small-mid cap equities on the last day of each previous quarter. The composite was modified beginning January 1, 2018, to reflect the decrease in our minimum equity balance per account from $500,000 to $100,000. AMI manages the Domestic Small-Mid Cap Growth Composite with the goal of achieving long term returns in excess of the Russell 2500® Growth Index through investing in quality small-mid cap growth companies that trade at a discount to their fair values. The composite was created on April 1, 2013. There have been no changes in AMI's organization that has led to modification of historical composite results. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. 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 an annual fee of 1.25% from the annual gross composite return. 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. Individual results may vary in the AMI SMID Cap Growth Equity Strategy based upon the (1) individual account asset management fee, and (2) when the client enters and exits investment in the AMI SMID Cap Growth Equity Strategy. The benchmark we use is the Russell 2500® Growth Index which measures the performance of the small-mid cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values and includes the reinvestment of dividends. To receive a complete list of composite descriptions, contact Katharine Kim at (424) 320-4003, or write AMI Asset Management Corporation, 10866 Wilshire Boulevard Suite 770, Los Angeles, California 90024, or Katharine@amiassetmanagement.com.

**To receive a description of (1) the calculation's methodology; and (2) a list showing every holding's contribution to the overall composite performance during the measurement period, contact AMI Asset Management at 424-320-4000. Client 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 SMID Cap Growth Equity 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. Investing in equities may result in a loss of capital. Past performance is not a guarantee of future results. A complete list of all buy and sell recommendations for this strategy within the last 12 months is available upon request. Past performance is not an indication of future returns. Nothing presented herein is or is intended to constitute investment advice, and no investment decision should be made based on any information provided herein. There is a risk of loss from an investment in securities, including the risk of loss of principal. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable or suitable for a particular investor's financial situation or risk tolerance. Asset allocation and portfolio diversification cannot assure or guarantee better performance and cannot eliminate the risk of investment losses. Accordingly, you should not rely solely on the information contained in these materials in making any investment decision. This material should not be relied upon as investment advice.