AMI SMID Cap Growth Equity Quarterly Update

Growth Through Stability

Q2 ▪ 2020

Strategy Overview

In Q2, the AMI SMID Cap Growth strategy increased 32.03% (31.78% on a net basis) versus the Russell 2500 Growth index which gained 32.87%. Asset allocation drove the relative performance, with security selection a positive contributor. Outperforming stock picks in Healthcare, Financials and Producer Durables were offset by selections in Technology, Materials and Consumer Staples. Being overweight Consumer Discretionary (which outperformed the index) and underweight Utilities (which underperformed) was offset by being overweight Consumer Staples (which underperformed the index) and underweight Technology (which outperformed).

As seen in the table below, the top contributors to Q2 performance were Horizon Therapeutics, Green Dot, Merit Medical, Insperity and Quidel. The bottom contributors to Q2 performance were SAIC, Lamb Weston, Verint, Simply Good Foods and ICU Medical.

Top Contributors in Q2

Company	Avg. Weight	Contribution
Horizon Therapeutics	4.21%	3.12%
Green Dot	3.87%	3.08%
Merit Medical	4.01%	1.75%
Insperity	2.70%	1.74%
Quidel	1.53%	1.63%

**Please see last page for important disclosures.

Bottom Contributors in Q2

Company	Avg. Weight	Contribution
SAIC	3.51%	0.25%
Lamb Weston	1.83%	0.21%
Verint	3.06%	0.18%
Simply Good Foods	2.94%	-0.15%
ICU Medical	3.99%	-0.25%

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Top Contributors

Horizon Therapeutics reported very good Q1 results with much higher than expected initial sales of its new thyroid eye disease treatment, Tepezza. Management had initially forecasted $30-40 million in Tepezza sales for all of 2020 but generated $24 million in the first two months since launch alone, leading management to raise the full year guidance for Tepezza to $200 million. Given that Horizon grew to a near $10 billion market cap, we sold it due to its large size.

Green Dot's Q1 substantially beat analyst estimates in its seasonally strong quarter partially driven by the disbursement of stimulus money. The recently named CEO also gave some initial insight into his plans, which included retaining the bank as it is a key differentiator, in addition to engaging in substantial cost cutting opportunities.

Merit Medical reported better than expected Q1 results as most of the company's medical device products are used in essential and non-elective procedures. Although it does have some exposure to elective procedures, we expect this portion of the business to recover as electives are restarted. Merit also came to an agreement with its activist investor, which we believe will result in a coordinated effort to improve margins.

Insperity topped estimates in Q1 despite the COVID-related slowdown in new business. The company noted that business in April was only down slightly, which was a relief to investors. Insperity highlighted that it has a high-quality and diverse client base that was also aided by the federal paycheck protection program, which enabled employees to remain on payrolls during the shutdown. Healthcare costs, which have been an issue over the past few quarters, have continued to improve though some of this trend may be due to an inability to receive certain elective procedures.

Quidel's stock benefitted from the COVID virus as the infectious disease test supplier launched its lab based COVID test, followed by its 15-minute office-based test, and lastly its antibody test. Given that these were launched late in the quarter, we expect Q3 to be even stronger as the company will experience a full quarter of COVID test sales.

Bottom Contributors

SAIC reported better-than-expected Q1 revenue as its recent acquisitions of Engility and Unisys Federal begin to produce results. As a government contractor, mostly to defense agencies, SAIC is an essential business and demand for its services remained strong. The company experienced additional costs to support remote personnel, which had a slight negative impact on margins. There was also a modest revenue impact to revenue from COVID-related issues. The stock was up in the quarter but not as much as some of the higher growth technology companies.

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.

Verint's Q1 results missed estimates as upfront software sales declined driven by delays in on-premise deployments. The inability to travel, especially internationally, had a significant impact on the upfront software business. Verint expects sequential improvement in Q2 and throughout the year as their customers return to work. However, the cloud / SaaS business was strong and customer retention was high. Verint's split into two companies remains on track with the investment from private equity firm Apax now complete. While the stock was up in the quarter, the softness in the on-premise division did cause shares to lag vs. other tech peers.

Simply Good Foods reported strong fiscal Q2 results in early April, but commentary around negative shopping patterns in early Q3 drove the stock lower throughout the quarter. The company's health and wellness offerings and on-the-go snacking became less relevant with people sheltering at home. However, as the economy began to open up and more people left the house, sales trends began to improve with fiscal Q3 results exceeding expectations in early July.

ICU Medical's Q1 results beat expectations handily as the intravenous product supplier made progress in right-sizing its liquids business following the industry oversupply last year. However, management struck a somewhat negative tone as it was cautious on elective procedures restarting, which are the primary users of its products. In addition, the company is seeing modest pressure from a stronger U.S. Dollar and higher interest expense as a result of drawing on its revolver. We believe the company is being prudently cautious on its view of elective surgeries, but it appears to be more conservative than most companies exposed to elective surgeries.

Portfolio Additions & Deletions

In Q2, we added SiteOne Landscape Supply, Perficient and Halozyme.

Perficient is a consulting firm focused on digital transformation projects for a wide range of Global 2000 companies. The company helps its clients engage in online content delivery, e-commerce, and improve vendor/customer relationships. We owned the company in the AMI Small Cap Strategy and used the recent market dislocation to add it to the SMID strategy as the company's Q1 results indicated that bookings remained strong despite the pandemic as its digital service offering remains in high demand.

SiteOne Landscape Supply is the leading supplier of landscape supplies to professional landscaping contractors in North America. The company has been performing very well, growing organic sales while also consolidating the broader industry which is highly fragmented. People spending more time at home was actually a positive for SiteOne, as people looked to invest in their backyards. The company should continue to perform well over time and has diversified exposure to end markets including maintenance that should make the company more resilient in an economic downturn.

Halozyme supplies a product, called Enhanze, that allows drug manufactures to convert treatments requiring a multi-hour infusion into a subcutaneous injection requiring just 5-10 minutes. This conversion has several advantages, including patient compliance and comfort, fewer infusion reactions, improved treatment facility throughput, and longer patent life. These advantages lead to a more competitive product for the drug manufacturer, resulting in a large opportunity to convert long infusion treatments. Halozyme is currently used on five approved products and is in testing with many more. We believe there will be many years of outsized earnings growth for this unique company.

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. The composite was created on April 1, 2013. 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. Prior to July 1, 2019, net returns were calculated by deducting 1/4th of the highest applicable fee of 1.25% 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 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. 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 Small-Mid Cap Growth composite. The representative account was selected because it closely reflects the AMI Small-Mid 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 Small-Mid 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.