

Q2 - 2021

Strategy Overview

In Q2, the AMI SMID Cap Growth strategy returned 8.62% (8.37% on a net basis) versus the Russell 2500 Growth index which gained 6.04%. Security selection drove the relative performance, with asset allocation a slight headwind. Outperforming stocks picks in Industrials, Information Technology and Consumer Staples were partially offset by underperforming picks in Materials, Communication Services and Financials. Being overweight Consumer Staples (which underperformed) and underweight Real Estate (which outperformed) was partially offset by being underweight Industrials and Materials (which underperformed).

As seen in the table below, the top contributors to Q2 performance were Perficient, Celsius, Mimecast, Upwork and Simply Good Foods. The bottom contributors to Q2 performance Genius Sports, Frontdoor, Ligand Pharmaceuticals, Utz and Danimer Scientific.

Top Contributors in Q2		
Company	Avg. Weight	Contribution
Perficient	3.36%	1.10%
Celsius	1.69%	0.92%
Mimecast	3.11%	0.90%
Upwork	2.84%	0.85%
Simply Good Foods	3.58%	0.67%

Bottom Contributors in Q2		
Company	Avg. Weight	Contribution
Genius Sports	1.83%	-0.19%
Frontdoor	2.67%	-0.20%
Ligand Pharmaceuticals	2.15%	-0.36%
Utz	2.89%	-0.37%
Danimer Scientific	1.01%	-0.50%

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Top Contributors



Perficient's Q1 topped estimates with strong revenue acceleration as its enterprise clients are rapidly moving toward more online environments to conduct business and Perficient facilitates these changes. Perficient also raised full-year guidance and boosted its capital return program, both good signals that the business is strong. Margins also improved on better utilization and growth in their offshore and nearshore labor.



Celsius reported very strong quarterly results, with total revenue growing 78% including 101% in the U.S. This growth occurred despite a global can shortage. Celsius is benefiting from growth in the overall better-for-you energy category, with additional upside in the quarter as gyms were able to reopen. Celsius is well positioned to continue to see outsized growth, especially as distribution increases and can availability normalizes in the back half of the year.



Mimecast posted a strong quarter and guided toward revenue acceleration in the upcoming fiscal year. This comes after a mixed fiscal Q3 impacted by a security incident which was slightly disruptive to business. Following several high-profile data breaches and hacks, Mimecast's customers are looking to secure their email infrastructure and Mimecast remains a top vendor. Existing customers are also expanding the number of services they purchase from the company.

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Upwork posted a 37% increase in revenue y/y in Q1 as the demand for freelance work increased amid a tight labor market. The company also raised full-year guidance as its enterprise clients seek to utilize freelance labor on a more consistent basis. Upwork's pool of freelance workers are increasingly willing to work on longer-term projects, versus quick one off "gig" type jobs, which is more profitable for Upwork and a win-win for both the freelancer and the employer.



Simply Good Foods reported solid results in early April, but it was strong Nielsen industry sales data that drove the stock's outperformance. In addition, management made very positive comments at an industry conference in May, outlining how the company's core brands (Atkins and Quest) were poised for strong growth. The company also highlighted its ability to effectively manage input costs headwinds, which has been an issue for all food companies this year.

Bottom Contributors



Genius Sports reported solid quarterly results in its first report as a new public company, while providing strong revenue guidance that included the new exclusive NFL data deal. Despite a number of positive tailwinds from robust growth in global sports betting, the stock underperformed due to an equity raise in June.



Frontdoor reported good Q1 results and raised full year guidance. However, the stock was weak throughout the quarter as investors were concerned that extreme weather, especially in the West where the company has a large share of the home warranty market, would weigh on appliance repair claims. While extreme weather can impact Frontdoor's gross margin, we believe the company has made great strides in managing these headwinds and is poised to see double-digit revenue growth this year.



Ligand Pharmaceuticals reported very good Q1 results, driven by sales of a key ingredient to Remdesivir, one of the few COVID treatments. Ligand stock was a top contributor in Q1, rising 50%+, as it was being viewed as a possible short squeeze opportunity by the "Reddit investor" crowd. As interest from this investor group waned, Ligand stock pulled back in Q2. However, we remain bullish as we believe sales will shift from Remdesivir ingredients to royalties from new partnered drugs that will launch in 2021-2023.



Utz missed quarterly estimates, largely due to a weather-induced delay in upgrading a warehouse that negatively impacted sales (which has since been resolved). Utz, like all food companies, is seeing headwinds from broad-based inflation, which also weighed on the stock throughout the quarter. That said, we continue to view the business positively, with significant opportunities to expand distribution and gain market share in the highly attractive salty snacks industry.

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Danimer Scientific's stock performance in the first half of the quarter was largely attributable to the decline in a group of companies that went public via SPAC. The company also saw further declines due to a highly-visible short-report, which ultimately contained erroneous claims against Danimer. Despite these distractions, we believe that demand for Danimer's biodegradable plastic solution, driven by the desire for sustainability, combined with the timely execution of planned capacity expansions, will bode well for the stock in the long-term.

Portfolio Additions & Deletions

In Q2, we added Genius Sports and Verra Mobility and sold Kansas City Southern and Quidel.



Genius Sports is a leading provider of official sports data that is used by sportsbooks in the creation of betting lines. Genius is well-positioned to benefit from the global growth of sports betting, especially in the U.S. as more states legalize the practice. Genius has relationships with all the large consumer-facing sportsbooks and is therefore agnostic as to which of their customers are ultimately successful in attracting new bettors. Genius' recently announced official data and media deal with the NFL should be a game changer, given the sport's popularity in the U.S.



Verra Mobility operates in two segments; offering toll payment systems to rental car companies and large fleets and installing and managing red light and speed safety cameras for municipalities. The company has an attractive financial profile and will likely benefit from renewed travel post-pandemic. Legislative support for speed safety and school zone cameras should drive significant growth in this business. We are also bullish on the company's recent acquisition of RedFlex, an Australian-based competitor that vastly expands the company's presence internationally.



We sold Kansas City Southern after the announcement of its planned merger with another major railroad, Canadian National.



We sold Quidel as we saw better opportunities elsewhere.

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 contributor's 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.

