

Q2 - 2022

Strategy Overview

In Q2, the AMI SMID Cap Growth strategy returned -15.44% (-15.69% on a net basis) versus the S&P 400 Growth index which returned -17.46%. Security selection drove the relative performance with asset allocation being a contributor. Outperforming stock selections in Consumer Staples and Technology were slightly offset by selections in Consumer Discretionary and Health Care. Being underweight in Materials and Real Estate helped performance, while being overweight in Consumer Staples and Financials was an offset.

As seen in the table below, the top contributors to Q2 performance were Halozyme Therapeutics, EXL Services, Insperty, Simply Good Foods and Upwork. The bottom contributors to Q2 performance were Leslie's, Merit Medical Systems, Envestnet, Horizon Therapeutics and National Vision Holdings.

Top Contributors in Q2		
Company	Avg. Weight	Contribution
Halozyme	4.81%	0.50%
EXL Services	3.45%	0.09%
Insperty	2.88%	-0.01%
Simply Good Foods	3.28%	-0.02%
Upwork	1.58%	-0.03%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	Avg. Weight	Contribution
Leslie's	3.62%	-0.81%
Merit Medical	4.26%	-0.82%
Envestnet	2.71%	-0.84%
Horizon Therapeutics	4.56%	-1.12%
National Vision	2.99%	-1.36%

**Please see last page for important disclosures.

Top Contributors



Halozyme Therapeutics reported a solid Q1 with revenue and earnings growing 32% and 28%, respectively. The main royalty generating drug, Darzalex Faspro, continues to grow nicely as patients shift from the original intravenous version that takes approximately 6 hours to infuse to Halozyme's subcutaneous version that takes 10 minutes.



EXL Services' Q1 revenue and EPS exceeded estimates and management raised FY22 guidance. The Analytics business should continue to grow in the high-teens while the non-discretionary nature of the legacy back-office outsourcing business provide a path for stable and durable earnings growth.



Insperty reported a solid beat and raised guidance amid an acceleration in worksite employee growth. In addition, concerns over COVID-19 related costs waned which led to a significant improvement in profitability with gross profit increasing 14% y/y.



Simply Good Foods reported strong Q2 FY22 results, with good underlying organic growth for the company's Atkins and Quest brands. Simply Good Food's positioning as a stable healthy snacking business and a food company that is levered to the reopening of the economy helped support the stock throughout the quarter.

Q2 - 2022



Upwork had a very strong Q1 as the freelance model gains traction with employees and employers. The big news in the quarter was that talent based in Ukraine was at 95% operational capacity. Earlier this year, Upwork had removed guidance due to the displacement of Ukrainian freelancers amid the conflict with Russia. With this group returning to work, management had confidence to reinstate guidance to a level above expectations and the stock reacted positively.

Bottom Contributors



Leslie's stock underperformed during the quarter largely due to commentary at conferences in early June suggesting that poor weather had impacted the company's performance over Memorial Day weekend, which is a key holiday for the pool industry. However, we expect these sales to be recaptured as weather has improved throughout the summer, and pool maintenance is non-discretionary.



Merit Medical Systems reported good Q1 earnings and beat estimates. However, Management did not raise the full year guidance, which was viewed negatively. We believe given the input cost inflation that it is prudent for Management to adopt a conservative approach to margins and remain bullish on the medical device name.



Investnet's full-year guidance was lowered due to volatility in the capital markets, as a portion of the company's revenue is directly tied to asset values. In addition, the company had been rumored to be acquired by private equity firms and when those talks failed to result in a deal, likely due to the market volatility, the stock fell.



Horizon Therapeutics' Q1 was strong but Management did not raise guidance despite a decent beat. While viewed negatively by investors, we are not concerned as quarterly results can be lumpy and we can appreciate Management's conservatism.



National Vision reported disappointing Q1 results and lowered guidance for the full year. Lower income consumers, feeling the impact of inflation and economic uncertainty, are putting off the purchase of new glasses and contact lenses. We continue to like National Vision's positioning as consumers can only put off the purchase of new glasses for so long. We also expect trade-down from more expensive optical options to benefit National Vision moving forward.

Q2 • 2022

Portfolio Additions & Deletions

In Q2 we bought Evoqua and Olaplex and sold our positions in Fair Isaac, Primerica, and Terminix.



Evoqua is the largest public pure-play on water treatment technology, and provides equipment and services to industrial, commercial, and municipal end-markets. It is the leading player in North America with approximately 11% market share in a highly fragmented market. We believe Evoqua has competitive advantages driven by the breadth of solutions, technology leadership, customer service and a solid installed base. Secular themes in infrastructure modernization in addition to global water quality, scarcity, and security play an important role in the company's growth profile, driving EPS growth in the high-teens.

OLAPLEX.

Olaplex is the leader in the hair repair category, offering products such as shampoo and conditioner designed for three uses – treatment, maintenance, and repair. Olaplex sells its products to professional hairstylists, through retailers like Ulta and Sephora, and directly to consumers through Olaplex.com and via Amazon. Olaplex has close to 5% market share in the Prestige haircare market and the company has more than 100 patents globally. We believe Olaplex should be able to grow revenue well in excess of 20% annually, with industry leading margins driving significant EPS and free cash flow growth.



We sold Fair Isaac due to concern with potential slowdown in mortgage applications due to higher interest rates.



Primerica's Q1 results were negatively impacted by its recently acquired Senior Health business as well as its Mortgage brokerage unit (also a recent acquisition) which struggled as mortgage rates rose. While the core Life Insurance and Investment Product business lines are faring well, execution issues within Senior Health and Mortgage have been a distraction and reduced our confidence in the overall business. As such, we decided to exit the position.



Terminix was acquired by UK-based Rentokil.

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 S&P MidCap 400® Index which provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. S&P measures growth stocks using three factors: sales growth, the ratio of earnings change to price, and momentum. S&P Style Indices divide the complete market capitalization of each parent index into growth and value segments. Constituents are drawn from the S&P MidCap 400®. 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.

