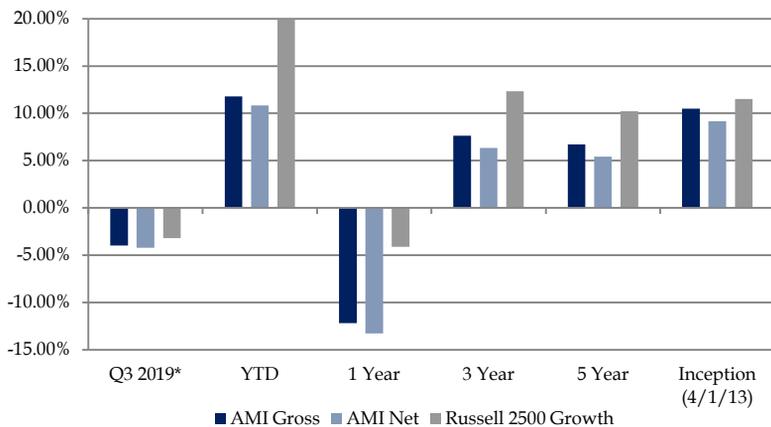


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## Strategy Overview

In Q3, the AMI SMID Cap Growth strategy underperformed the Russell 2500 Growth index by 0.78% on a gross basis (1.03% on a net basis). Security selection drove the underperformance, with asset allocation a slight benefit to performance. Underperforming stock picks in Financials, Technology and Producer Durables were partially offset by outperforming stock picks in Consumer Discretionary, Healthcare and Materials. Being overweight Consumer Staples and Producer Durables (which outperformed the market) was partially offset by being underweight Financials and Utilities (which outperformed).

### SMID CAP GROWTH ANNUALIZED RETURNS



	Q3 2019*	YTD	1 Year	3 Year	5 Year	Inception (4/1/13)
AMI Gross	-3.96%	11.78%	-12.18%	7.64%	6.72%	10.50%
AMI Net	-4.21%	10.85%	-13.26%	6.34%	5.42%	9.16%
R2500G	-3.18%	19.97%	-4.12%	12.33%	10.22%	11.51%

\*Please see last page for important disclosures

## Firm Summary

- ❖ Founded in 1994
- ❖ Located in Los Angeles, CA
- ❖ Employee Owned
- ❖ Total Firm-Wide AUM: ~\$1.7 billion
- ❖ Total Strategy AUM: ~\$2 million

## Portfolio Management Team



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



Andrew Zamfotis, CFA  
Co-Equity Portfolio Manager

### Top Contributors in Q3

Company	Avg. Weight	Contribution
Genomic Health	2.11%	0.96%
Aramark	3.50%	0.70%
Corcept Therapeutics	2.26%	0.54%
West Pharma. Serv.	3.59%	0.50%
Simply Good Foods	1.97%	0.41%

\*\*Please see last page for important disclosures

### Bottom Contributors in Q3

Company	Avg. Weight	Contribution
National Vision	3.40%	-0.77%
MGP Ingredients	3.20%	-0.92%
ICU Medical	3.38%	-1.42%
Green Dot	3.27%	-1.94%
Merit Medical	3.28%	-2.07%

\*\*Please see last page for important disclosures



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## Top Contributors



Genomic Health announced on July 29th that it will be acquired by Exact Sciences for \$72 in cash and stock, representing a 23% premium.



After a period of material underperformance, an activist investor reported an approximately 20% stake in Aramark during the third quarter. Much of Aramark's poor performance was driven by temporary missteps. With the activist in place, optimism for positive operational changes and strategic moves (like selling the Uniform business) drove the stock higher during the course of Q3.



Corcept Therapeutics reported better-than-expected Q2 results with revenue and EPS growing 16% and 27%, respectively. In addition, management announced that it will start a phase 3 trial in pancreatic cancer using a combination of chemotherapy and Relacorilant (Corcept's next-generation cortisol modulator). Relacorilant is also currently in phase 3 trials in Cushing's disease and this additional trial was an unexpected positive development.



West Pharmaceutical Services continued to produce solid growth as demand for the company's vials, syringes, and syringe components remains high. Biotech and Pharma companies are increasingly using West's high-performance products, which don't degrade with some of the latest drug treatments. West's products are used with nearly every new biologic treatment that comes to market, an area of higher growth in the Biopharma industry that we believe will persist for many years.



Simply Good Foods announced strong quarterly results, with tremendous growth from the company's core Atkins brand continuing despite lapping strong growth from last year. The company also benefited from the announced acquisition of Quest Nutrition, a protein-rich snacking brand that should help accelerate growth and build enhanced scale for the future.



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## Bottom Contributors



National Vision reported a strong Q2, with revenue and same-store-sales above estimates. Since the report, however, the company has been impacted by announced plans from Wal-Mart to roll out integrated health centers that would include optical offerings. National Vision currently manages 227 Wal-Mart optical centers, which make up approximately 10% of the company's revenue. In our opinion, the core thesis is centered on the growth of the America's Best and Eyeglass World banners, both of which have been growing same-store-sales in the mid-single digits. We believe the National Vision story remains attractive and view the sell-off since August as a significant overreaction.

MGP Ingredients missed revenue and earnings estimates in Q2, as sales of its inventory of aged whiskey progressed more slowly than the company had planned. However, the company reiterated its 2019 revenue guidance, increased the top end of its earnings guidance (albeit due to a lower tax rate) and only lowered the bottom end of its operating profit guidance to reflect the timing of aged whiskey sales. We view the reaction to this quarter as overdone and believe that the company is taking the right approach to ensure it receives premium pricing for its inventory.



ICU Medical reported decent Q2 results but management lowered FY19 guidance due to aggressive competitor actions in the IV Solutions market. The IV Solutions market is dominated by three large players, with ICU holding the number two market share position. ICU is lapping a market share benefit from a hurricane that impacted its competitors in 2017. In addition, the market leader, Baxter, has recently become especially aggressive, forcing ICU to restructure its business to improve profitability. We remain bullish on ICU, however, we now see a recovery in 2020 as opposed to our original thesis of 2019.



Green Dot announced early in 2019 that it will launch a new pre-paid credit card and will spend aggressively in pursuit of new users, which will pressure margins in 2019. In Q3, Green Dot launched this new card but approximately 6 weeks later than originally planned, which will further impact 2019 EPS. In addition, management cited increased competition in the older legacy pre-paid card space. We remain bullish on Green Dot as we believe the pioneers of the banking-as-a-service industry will be successful with the new card, as well as with another planned launch in early 2020 targeting younger users. We believe that most of the EPS impact will be in 2019 and that 2020 will be a return to growth.



Merit Medical missed estimates and lowered guidance due to a product mix shift where higher-margin products were growing more slowly and lower margin products had seen a recent growth acceleration. This mix shift will pressure 2019 EPS but we believe it is temporary and driven in part by disruptions at competitors. We also believe that the slow start in two high margin acquisitions will improve throughout 2019 and into 2020 and thus we remain positive on Merit's growth outlook.



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## Portfolio Additions & Deletions

In Q3, we added BJ's Wholesale, CyberArk Software, Itron and Primerica. We sold Broadridge, Diamondback Energy, and as noted above, Healthcare Services Group and SS&C Technologies.



BJ's Wholesale operates 217 warehouse clubs and 140 gas stations with 5.5 million members, mainly concentrated in the Northeast and mid-Atlantic regions. BJ's is in the beginning stages of a significant initiative to streamline its operations, reducing repetitive SKUs and creating more shelf space for higher margin general merchandise products. The company has a clear line of sight to mid-teens earnings growth as membership growth and retention drive margin expansion.



CyberArk is the leader in Privilege Access Management (PAM), which is designed to protect the credentials of key IT personnel. PAM is a critical requirement of any security infrastructure and penetration remains low as corporate security officers are now realizing that defensive measures are needed not only at the perimeter but the application level. According to Forrester Research, 80% of security breaches involve privileged credentials and CyberArk offers its customers the tools to defend against these types of breaches.



Itron developed the first "smart" utility meter in the 1970s and now has more than 8,000 utility customers in 100 countries. Itron's solutions not only improve meter accuracy (legacy meters are highly inaccurate) but also streamline a utility's workforce as meters can be read remotely and automatically. More importantly, utilities can efficiently manage the usage of gas, electricity and water in a sustainable and secure way. We also are positive on the company's acquisition of Silver Spring Networks, which has accelerated Itron's move towards consulting and managed services, which should drive continued revenue growth and margin expansion.



Unlike traditional life insurance companies, Primerica focuses on the distribution of a wide variety of financial products to middle-income households using its salesforce of 130,000 agents. In addition to term life insurance products, Primerica also has an investment and savings business unit that distributes 3rd party mutual funds and annuities. We believe this segment of the market is underserved and as more of these households become aware of the need for term life and retirement savings, Primerica's ability to sell to this group should increase.



Broadridge became too large for the SMID strategy and therefore was sold



We sold Diamondback Energy due to better investment 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 1/4<sup>th</sup> 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 1/4<sup>th</sup> 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<sup>®</sup> 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](mailto:katharine@amiassetmanagement.com).

