AMI SMID Cap Growth Equity Quarterly Update

Growth Through Stability

Q3 ▪ 2020

Strategy Overview

In Q3, the AMI SMID Cap Growth strategy added 2.77% (2.52% on a net basis) versus the Russell 2500 Growth index which gained 9.37%. Security selection drove the relative performance, with asset allocation a minor contributor. Security selection was led by underperforming picks in Healthcare, Financials, and Consumer Discretionary. Being underweight Technology and Utilities (which underperformed the market) was offset by being underweight Energy (which outperformed).

As seen in the table below, the top contributors to Q3 performance were Horizon Therapeutics, Cubic, National Vision, Kansas City Southern, and Simply Good Foods. The bottom contributors to Q3 performance were Cardtronics, Frontdoor, Western Alliance, Ligand, and Karyopharm.

Top Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Horizon Therap.	4.73%	1.54%
Cubic	3.46%	0.85%
National Vision	3.09%	0.67%
Kansas City Southern	2.43%	0.54%
Simply Good Foods	3.33%	0.53%

**Please see last page for important disclosures.

Bottom Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Cardtronics	1.35%	-0.36%
Frontdoor	2.87%	-0.37%
Western Alliance	2.57%	-0.45%
Ligand	3.27%	-0.47%
Karyopharm	2.36%	-0.77%

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Top Contributors

Horizon's new drug, Tepezza, used to treat a debilitating eye condition called thyroid eye disease, continued to exceed expectations with sales that were well above expectations. As a result, management raised its full-year guidance to $650 million, from $200 million, and peak sales estimate to $3 billion, from $1 billion. While Horizon has other attractive drugs, Tepezza will likely drive the stock for the foreseeable future.

Cubic's stock spiked at the end of Q3 following news that hedge fund Elliott Management, in partnership with a private equity firm, had made a bid to acquire the company. Regardless of the outcome, the news highlighted Cubic's underappreciated assets and should place a floor on the stock price moving forward.

After shutting down all of its branded retail optometry stores in April and May, National Vision reported challenged Q2 results. However, the company highlighted strong demand since the stores reopened in early June, with comparable sales growth the highest in the company's history. While there is likely pent-up demand and additional benefits from fiscal stimulus, the value-focused retailer should be well-positioned to take significant market share as consumers tighten their belts in response to economic uncertainty and restrictions that force some competitors to close.

Despite Q2 being down year-over-year from a volume and revenue standpoint, Kansas City Southern noted that its operational improvements have helped to preserve margins. The company also believes railcar volumes have bottomed as businesses in the U.S. and Mexico have begun to reopen. A perhaps bigger catalyst for the shares was the report that private equity firms were interested in acquiring the railroad and take it private at a significant premium to the share price. Currently, the two sides remain at odds over the value of the company so it is unclear if a transaction will occur. Even absent a deal, we believe the progress the company has made on the operational front, combined with improving volumes, should bode well for the company.

Simply Good Foods saw a steep downturn in demand for the company's meal replacement and on-the-go snacking products during March and April as mobility decreased meaningfully. As the economy gradually reopened, the company's Atkins and Quest brands of low carb bars and shakes returned to growth, with substantial acceleration in the company's e-commerce business. Despite the lower volumes, Simply Good Foods was able to expand margins, highlighting the strength of the company's business model.

Bottom Contributors

We sold Cardtronics as the largest ATM operator will likely continue to see weakness due to a COVID-driven travel depression. As such, we saw better opportunities elsewhere.

Frontdoor's reported solid Q2 results, however, the company guided to Q3 profitability that was below estimates as at-home trends accelerated appliance usage, leading to elevated levels of service calls which put downward pressure on margins. We believe that the increased usage of appliances will lead to higher customer retention which should benefit the business moving forward. The company's burgeoning on-demand service business and technology that allows for digital service calls also represent a growth opportunity.

Western Alliance's Q2 was impressive in that net income rose 10% vs. Q1 despite rising loan provisions. The company is driving efficiencies in the business as it navigates a challenging environment due to low interest rates and closures at several of its borrowers (e.g. hotels). The company believes that its loan portfolio remains strong and that loan provisions may be near a bottom given recent re-openings across the country. The company also reinstated its stock repurchase plan which is another positive signal.

Bottom Contributors Cont.

Ligand's stock has been somewhat volatile lately due to its supply of Captisol used in in the COVID treatment, Remdesevir. Ligand continues to raise guidance based on a large increase in Captisol production. However, other treatments have recently emerged that will provide competition and potentially slowing the growth of Remdesevir. Nevertheless, we view Remdesevir as an additional upside for Ligand as it has several other royalty-bearing drugs on the market today and a large pipeline that should drive growth in the future.

Karyopharm reported strong Q2 earnings as its lead drug, Xpovio, continues to gain traction in late line multiple myeloma. Given that Xpovio has many potential uses, the company was testing it as a COVID treatment. While the trial was not successful, the drug did show promise in younger patients and could be developed by a partner given that cancer is the core focus of Karyopharm. Although we did not have any expectations for success in a COVID treatment, some investors may have anticipated this additional growth opportunity resulting in a decline in the shares.

Portfolio Additions & Deletions

In Q2, we added Evestnet, Karyopharm, Mimecast, and Utz Brands. We sold Cardtronics, Lamb Weston, and SAIC.

Envestnet provides a platform where investment advisors and other financial professionals can outsource many investment management functions as a service. From the ability to outsource front-office (portfolio creation) and back-office (tax and other admin), Envestnet is the main digital provider of tools so that these financial professionals can focus more on building client relationships and growing their business. Envestnet has 103,000 advisors, 12 million accounts, and more than $3.8 trillion in assets on its platform.

Karyopharm is a specialty pharmaceutical company focused on a unique drug, Xpovio, that disrupts a cell's lifecycle process when it has been taken over by cancer or a virus. The drug is currently approved for late line multiple myeloma and has an application with the FDA to expand its use to 2nd line treatment in combination with Velcade, a commonly used drug in multiple myeloma. We expect an approval in early 2021 that could dramatically expand usage. Xpovio was also recently approved in late line lymphoma and we expect moderate uptake to begin in late 2020/2021. While the drug has shown positive results in early solid tumor cancer trials, we are eagerly awaiting phase 3 trial data this year, which could also substantially expand the market.

Portfolio Additions & Deletions Cont.

Mimecast is a premier provider of security to protect against email-based threats. With most cybersecurity threats coming into corporate networks via e-mail, securing this is consistently among the highest priorities. A prolonged period of remote work furthers the need to ensure that all endpoints are secure from malicious e-mails. The company has its roots in the small and medium-sized business market and has recently had considerable success moving up-market to larger and more profitable deals which we believe can help drive consistent, 20% top-line growth over the next several years.

Utz Quality Foods is a leader in the salty snacks' category (#4 in terms of total market share), with iconic brands including Utz, Zapp's, Dirty, Tim's Cascade, Hawaiian, and Boulder Canyon. The company has significant opportunity to expand distribution of some of its regional brands throughout the country and has a track record of successful M&A within the salty snack space. Enhanced productivity and a streamlined manufacturing footprint should drive margin expansion and strong mid-teens EPS growth over time.

As mentioned above, we exited the position in Cardtronics.

Lamb Weston reported mixed results in July, with demand for French fries from fast food customers improving, but the independent restaurant business is still suffering, and the company experienced elevated costs due to COVID outbreaks at one of the company's plants. With independent restaurants likely to take multiple quarters to recover, we felt there were better opportunities elsewhere and exited the position.

Despite an average Q2, SAIC's top-line growth remained sluggish even though their main customer is the U.S. government to which SAIC provides an essential service. Despite recent acquisitions and a large increase in defense spending, SAIC's growth prospects did not improve as much as we anticipated. This, combined with the prospect of ongoing budget battles in Congress in a new administration, we believed that there were better growth opportunities within small cap technology and exited 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. 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.