

Q4 • 2020

Strategy Overview

In Q4, the AMI SMID Cap Growth strategy returned 23.96% (23.71% on a net basis) versus the Russell 2500 Growth index which gained 25.89%. Asset allocation drove the relative performance, with security selection a positive contributor. The drag from asset allocation was driven by being underweight Technology and Energy (which outperformed) and overweight Consumer Staples (which underperformed). Outperforming stock picks in Consumer Staples and Financial Services were partially offset by underperforming picks in Healthcare.

As seen in the table below, the top contributors to Q4 performance were Halozyme Therapeutics, Western Alliance, Celsius, RealPage and Itron. The bottom contributors to Q4 performance were Ligand Pharmaceuticals, Reynolds, Quidel, BJ's Wholesale and Horizon Therapeutics.

Top Contributors in Q4		
Company	Avg. Weight	Contribution
Halozyme Therap.	4.51%	2.45%
Western Alliance	3.08%	2.12%
Celsius	1.17%	1.48%
RealPage	2.72%	1.33%
Itron	2.51%	1.27%

**Please see last page for important disclosures.

Bottom Contributors in Q4		
Company	Avg. Weight	Contribution
Ligand	2.13%	0.02%
Reynolds	2.10%	-0.03%
Quidel	0.92%	-0.16%
BJ's Wholesale	2.79%	-0.32%
Horizon Therapeutics	4.62%	-0.33%

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Top Contributors

Halozyme Therapeutics reported strong revenue and EPS growth for Q3 as the new subcutaneous version of Darzalex for multiple myeloma is off to a strong start. Halozyme's technology replaces multi-hour infusions with a short injection. The new fixed-dose Herceptin/Perjeta combo for breast cancer is beginning to ramp and should be a larger contributor to revenue in 2021. Lastly, the pipeline of drugs seeking to utilize Halozyme's technology continues to grow.



Western Alliance reported declining loan provisions as the gradual reopening of the economy gave the bank additional confidence as to its borrowers' ability to repay loans. In addition, the company reported 29% loan growth y/y. Net interest margin is expected to improve while the company builds a sizeable asset base. Overall net interest income grew 7% y/y and the company is continuing its expense management to deliver a high level of profitability.



Celsius' better-for-you energy drinks continue to see strong consumer demand, with revenues up approximately 80% y/y in Q3. The company also indicated that strong takeaway trends had persisted into Q3, driven by product velocity and distribution gains. Celsius' stock also benefited at the very end of the quarter from the announcement that the stock would be added to the S&P 600 SmallCap Index.



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RealPage announced that it would be acquired by private equity firm Thoma Bravo for approximately \$10 billion. As such we sold the position shortly after the end of the quarter.



Itron's business continues to see Covid-19 related headwinds, as deployments of the company's smart meter technology have been hampered by caution surrounding in-home installation. The company benefited during the quarter from optimism over the vaccine, which should allow the release of pent-up demand for Itron's solutions. Itron allows utilities to efficiently manage water, gas, and electricity grids, and investors believe this "green technology" will benefit under the Biden Administration and a possible infrastructure bill.

Bottom Contributors



Ligand Pharmaceuticals posted very strong growth in Q3 as it was supplying a main ingredient for remdesivir, one of the only Covid-19 treatments. Despite management's optimism on continued growth in remdesivir ingredients, the approval of vaccines may limit this opportunity and the stock sold off as a result. Nevertheless, we remain attracted to Ligand's large pipeline of partner/royalty bearing drugs that should begin commercial sales in 2021 and beyond after a lull in activity over the past two years.



Reynolds reported strong Q3 results and raised FY20 guidance, as the company is seeing unprecedented demand for its Reynolds Wrap aluminum foil and Hefty trash bags with consumers spending more time at home. However, Reynolds stock was out-of-favor during the quarter, as investors focused on companies that would benefit from a reopening of the economy following the vaccine rollout. We view Reynolds as a high quality, defensive company with number one share in all of its categories.



Despite reporting substantial growth due to Covid-19 testing, Quidel's stock sold off as vaccines rolled out, potentially limiting the opportunity for pandemic-driven revenue growth.



BJ's Wholesale reported another quarter of excellent momentum in comparable sales and membership gains in Q3. However, the company is clearly viewed as a stay-at-home beneficiary, which hurt the stock during the quarter. As a club store where members pay a fee, we believe that BJ's customer base is far stickier than investors are appreciating, and the high-quality new cohort of members added during the pandemic should drive better comparable sales growth moving forward regardless of reopening trends.

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Horizon Therapeutics generated strong revenue growth throughout 2020 as its new thyroid eye disease drug, Tepezza, experienced a successful launch, leading the company to raise guidance in each of the first three quarters of FY20. However, the stock lagged in Q4 and further pulled back late in the quarter when management announced that Tepezza supply would be constrained due its manufacturing partner shifting focus to Covid-19 vaccines at the behest of the U.S. Government. We expect the sales impacted by this shift will not be lost but rather delayed as the company ramps production of Tepezza elsewhere.



Portfolio Additions & Deletions

In Q4, we added Celsius and Leslie's and sold Graphic Packaging.

Celsius is a fast-growing player in the energy drink category, offering carbonated and non-carbonated drinks that feature a proprietary thermogenic (calorie-burning) formulation. Having grown out of health clubs and gyms, the company is rapidly gaining mainstream distribution driven by industry leading sales growth. We believe there is a long runway for Celsius' growth, as well as being an attractive takeout target for a larger beverage company hoping for a stake in the energy drink market.



Leslie's Inc. is a leading retailer of pool and spa supplies. The pandemic has increased demand for outdoor living spaces, with pools seeing huge interest (200K new pools set to be constructed in 2020 and 2021). Unlike some pandemic beneficiaries, we believe Leslie's will benefit from this demand for years to come as homeowners will be required to take care of their new pools. Leslie's also has an attractive unit growth story and the opportunity to consolidate a fragmented industry.



We sold Graphic Packaging 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.

