AMI Small Cap Growth Equity Quarterly Update

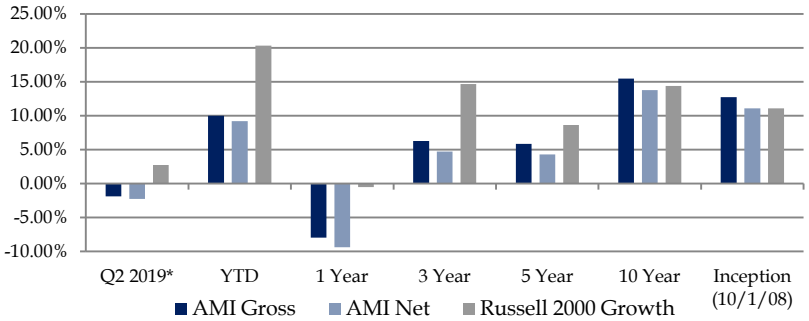
Growth Through Stability

Q2 ▪ 2019

Strategy Overview

The AMI Small Cap Growth strategy underperformed the Russell 2000 Growth index in Q2 by 4.63% on a gross basis (5.01% on a net basis). Security selection was the main driver of this underperformance. Underperforming stock picks in Financials, Healthcare, Producer Durables and Technology were partially offset by outperforming picks in Consumer Discretionary, Energy and Materials. Being underweight Materials (which outperformed the market) was partially offset by being underweight Consumer Discretionary (which underperformed) and overweight Producer Durables (which outperformed).

SMALL CAP GROWTH ANNUALIZED RETURNS



	Q2 2019*	YTD	1 Year	3 Year	5 Year	10 Year	Inception (10/1/08)
AMI Gross	**-1.88%**	**10.03%**	**-7.95%**	**6.29%**	**5.85%**	**15.48%**	**12.75%**
AMI Net	**-2.26%**	**9.24%**	**-9.37%**	**4.72%**	**4.29%**	**13.81%**	**11.11%**
R2000G	2.75%	20.36%	-0.49%	14.69%	8.63%	14.41%	11.12%

*Please see last page for important disclosures

As seen in the table below, the top contributors to Q2 performance were Frontdoor, SiteOne Landscape Supply, Simply Good Foods, Cubic Corp and SAIC. The bottom contributors to Q2 performance were MGP Ingredients, Virtusa, Surgery Partners, Cardtronics and Green Dot.

Firm Summary

- Founded in 1994
- Located in Los Angeles, CA
- Employee Owned
- Total Firm-Wide AUM: ~$1.8 billion
- Total Strategy AUM: ~$313 million

Portfolio Management Team

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

Andrew Zamfotis, CFA
Co-Equity Portfolio Manager

Top Contributors in Q2			
Company	**Avg. Weight**	**Return**	**Contribution**
Frontdoor Inc	3.25%	26.53%	0.77%
SiteOne Landscape	3.05%	21.26%	0.64%
Simply Good Foods	2.90%	16.95%	0.44%
Cubic Corp.	3.13%	14.65%	0.44%
SAIC	3.27%	13.05%	0.44%

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Bottom Contributors in Q2			
Company	**Avg. Weight**	**Return**	**Contribution**
MGP Ingredients	3.44%	-13.92%	-0.45%
Virtusa	3.53%	-16.88%	-0.60%
Surgery Partners	2.28%	-27.84%	-0.72%
Cardtronics	2.87%	-23.22%	-0.74%
Green Dot	3.84%	-19.37%	-0.75%

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Top Contributors

Frontdoor's Q1 results were another step in the right direction, as the home warranty company's investments in technology to improve efficiency began to pay dividends. In addition, the company's announcement of a novel plan to cover smart technology was well-received by investors. AMI believes Frontdoor is just scratching the surface of the broader opportunity in on-demand services and as a result AMI sees more upside ahead.

SiteOne recovered from a difficult Q1 as the company's perceived leverage to new housing construction was helped by lower interest rates. Longer-term, SiteOne has a massive opportunity to consolidate the highly fragmented landscape supply industry, which should help the company grow revenue and earnings in the high-teens over time.

Simply Good Foods continues to produce industry-leading sales results, as the company's low-carb snack offerings benefit from demographic tailwinds and savvy marketing. At a time when most food companies have struggled to grow sales, Simply Good Foods has been a positive outlier. Ongoing strength in the core Atkins brand as well as M&A opportunities suggest positive results should continue.

Cubic Corp. reported solid Q1 results, as the financial benefits of the company's contract wins to install next-generation payment systems for municipal transit agencies in Boston and New York began to come to fruition. These contracts should remain a tailwind over the course of the next few years, with additional opportunities as the company cements its lead in contactless payments and integration for municipal transit.

SAIC's fiscal Q1 was a strong start to the year as the company's recent acquisition of Engility appears to be on track and starting to bear some fruit. With a strong defense spending backdrop, the combined company sees significant opportunities for top-line growth as well as margin expansion. The company reported a $13 billion backlog, 70% of which is new business, which bodes well for continued revenue growth and potential acceleration.

Bottom Contributors

Following a strong report in Q4, MGP Ingredients produced a disappointing Q1, as a large sale of aged whiskey was pushed from March into April. As such, these sales should recover over the course of Q2. AMI continues to believe that MGP's competitive advantages within the bourbon and rye whiskey markets are underappreciated, and as these categories grow MGP should perform well over the long-term.

Virtusa's fiscal Q4 was mixed due to an unforeseen tax-related expense. The bigger issue during the quarter was that the company's fiscal Q1 guidance was below estimates due to a slowdown of spending at one of its banking clients. Despite the Q1 guidance shortfall, management was very optimistic about the demand for its services and is seeing strong growth in other areas of the business.

Surgery Partners stock fell after reporting Q1 results that were below estimates although management reiterated FY19 guidance of single-digit revenue growth and double-digit EBITDA growth. Earnings were depressed due to management pruning unprofitable surgical facilities but, after accounting for the divestitures, the results were decent. Despite near term choppiness, the long-term trend of increased use of outpatient surgery centers for procedures appears to be intact.

Cardtronics reported better than expected Q1 results and management raised the full year guidance but late in May a short-seller report drove the stock substantially lower. The report highlighted the long-term risk to the ATM operator of the declining use of cash relative to card transactions. These concerns are not new and AMI believes Cardtronics will be a continued beneficiary of bank ATM outsourcing.

GreenDot reported decent Q1 results but the prepaid credit card provider's announced plans to spend $60 million in 2019 to accelerate development and launch two new credit card products weighed on the stock. The increased spending reduced the earnings estimate by 15-20% for the year and drove the selloff. However, management anticipates adding 1 million new users from the new product, which should drive 2020 earnings higher and should ultimately be a good long-term strategic move.

Portfolio Additions & Deletions

In Q2, AMI added Genomic Health, Insperity and Qualys. AMI sold Fico, LogMeIn, TiVo and Teligent.

Genomic Health is a leading provider of genetic tests designed to predict cancer outcomes. Its main test is used to predict breast cancer recurrence following surgery and whether a patient should be treated with chemotherapy. Genomic Health's other tests focus on prostate cancer, namely to predict the aggressiveness of the cancer, and the effectiveness of a certain type of prostate cancer treatment. Both are newer tests that are not widely used yet, offering substantial upside potential. AMI sees 20% EPS growth over the next several years driven by increased adoption globally as new data supports broad reimbursement and as margins expand.

Insperity provides human resources (HR) and other business services to the small and medium-sized business market (SMB). The company provides these businesses with the opportunity to outsource critical HR functions and allows these firms the ability to offer benefits (insurance, etc.) to employees that they would otherwise be unable to do in a cost-effective way. Insperity has a large, untapped SMB market that is currently underserved in terms of HR function outsourcing. AMI believes the company can sustain mid-teens revenue growth and greater than 20% earnings growth over the next few years.

Qualys is the industry leader in identifying vulnerabilities within computer networks. The company boasts high operating margins (>30%) and has strong customer retention rates. With the migration of enterprise software applications to the cloud, the ability to quickly and adeptly assess vulnerabilities is paramount. Qualys is also expanding its expertise into remediation which should catalyze a new leg of growth.

After more than doubling since our initial purchase in 2017, FICO's market cap had become too large for the Small Cap Growth strategy and thus AMI sold the position.

Despite a decent Q4, LogMeIn made the decision to restructure its business and increase spending which would pressure growth and margins for the foreseeable future. AMI did not like the timeline and potential uncertainty this shift raises and thus AMI exited the position as we saw better opportunities within the Tech sector.

After more than a year of seeking a buyer for the company, TiVo decided that it would split into two companies and operate them independently. This not only further lengthened the process but added additional risks. AMI felt there were better opportunities elsewhere and so AMI sold the position.

Teligent's stock had become too illiquid and small for the Small Cap strategy and AMI thus 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 Cap Growth Composite includes all fully discretionary, fee-paying and non-fee-paying, taxable and nontaxable accounts with at least $100,000 in small cap equities on the last day of each previous quarter. AMI manages the Domestic Small Cap Growth Composite with the goal of achieving long term returns in excess of the Russell 2000® Growth Index through investing in quality small cap growth companies that trade at a discount to their fair values. The composite was created on October 1, 2008. There have been no changes in AMI's organization that has led to modification of historical composite results. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. 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 an annual fee of 1.50% from the annual gross composite return. 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. Individual results may vary in the AMI Small Cap Growth Equity Strategy based upon the (1) individual account asset management fee, and (2) when the client enters and exits investment in the AMI Small Cap Growth Equity Strategy. The benchmark we use is the Russell 2000® Growth Index which measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values and includes the reinvestment of dividends. To receive a complete list of composite descriptions, contact Katharine Kim at (424) 320-4003, or write AMI Asset Management Corporation, 10866 Wilshire Boulevard Suite 770, Los Angeles, California 90024, or Katharine@amiassetmanagement.com.

**To receive a description of (1) the calculation's methodology; and (2) a list showing every holding's contribution to the overall composite performance during the measurement period, contact AMI Asset Management at 424-320-4000. Client 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 Cap Growth Equity 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. Investing in equities may result in a loss of capital. Past performance is not a guarantee of future results. A complete list of all buy and sell recommendations for this strategy within the last 12 months is available upon request. Past performance is not an indication of future returns. Nothing presented herein is or is intended to constitute investment advice, and no investment decision should be made based on any information provided herein. There is a risk of loss from an investment in securities, including the risk of loss of principal. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable or suitable for a particular investor's financial situation or risk tolerance. Asset allocation and portfolio diversification cannot assure or guarantee better performance and cannot eliminate the risk of investment losses. Accordingly, you should not rely solely on the information contained in these materials in making any investment decision. This material should not be relied upon as investment advice.