AMI Small Cap Growth Equity Quarterly Update

Growth Through Stability

Q2 ▪ 2020

Strategy Overview

In Q2, the AMI Small Cap Growth rose 32.40% (32.15% on a net basis) versus the Russell 2000 Growth index which gained 30.58%. The relative performance was driven by security selection, with asset allocation a slight drag to performance. Outperforming stock picks in Healthcare, Financials and Producer Durables were partially offset by selections in Technology, Consumer Discretionary and Consumer Staples. Being overweight Consumer Discretionary (which outperformed the market) and underweight Utilities (which underperformed) was offset by being underweight Energy (which outperformed) and overweight Producer Durables (which underperformed).

As seen in the table below, the top contributors to Q2 performance were Green Dot, Horizon Therapeutics, Ligand, Merit Medical and ASGN. The bottom contributors to Q2 performance were SAIC, Cardtronics, Verint, Simply Good Foods and ICU Medical.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Green Dot	3.86%	3.09%
Horizon Therapeutics	2.97%	2.50%
Ligand	3.70%	1.76%
Merit Medical	3.94%	1.76%
ASGN	2.52%	1.76%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
SAIC	3.51%	0.27%
Cardtronics	1.60%	0.26%
Verint	3.08%	0.17%
Simply Good Food	3.32%	-0.17%
ICU Medical	3.98%	-0.24%

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Top Contributors

Green Dot's Q1 substantially beat analyst estimates in its seasonally strong quarter partially driven by the disbursement of stimulus money. The recently named CEO also gave some initial insight into his plans, which included retaining the bank as it is a key differentiator, in addition to engaging in substantial cost cutting opportunities.

Horizon Therapeutics reported very good Q1 results with much higher than expected initial sales of its new thyroid eye disease treatment, Tepezza. Management had initially forecasted $30-40 million in Tepezza sales for all of 2020 but generated $24 million in the first two months since launch alone, leading management to raise the full year guidance for Tepezza to $200 million. Given that Horizon grew to a near $10 billion market cap, we sold it due to its large size.

Ligand reported a sizable beat for Q1 and raised 2020 guidance due to increased Captisol sales, which are used in Remdesevir, the only currently approved COVID treatment. Although Ligand doesn't earn a royalty on Remdesevir, as it typically would with a drug that uses Captisol, management has stated that it earns a higher profit margin on these sales to make up for the lack of a royalty.

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Merit Medical reported better than expected Q1 results as most of the company's medical device products are used in essential and non-elective procedures. Although it does have some exposure to elective procedures, we expect this portion of the business to recover as electives are restarted. Merit also came to an agreement with its activist investor, which we believe will result in a coordinated effort to improve margins.

ASGN reported better-than-feared Q1 results, as there were concerns that the company's staffing business would be severely impacted by layoffs. The company noted that business only declined slightly in March, since its client base is diverse with limited exposure to the most affected industries such as travel and retail. Moreover, the company's government staffing business was robust as many of the government agencies in which it supports are considered essential.

Bottom Contributors

SAIC reported better-than-expected Q1 revenue as its recent acquisitions of Engility and Unisys Federal begin to produce results. As a government contractor, mostly to defense agencies, SAIC is an essential business and demand for its services remained strong. The company experienced additional costs to support remote personnel, which had a slight negative impact on margins. There was also a modest revenue impact to revenue from COVID-related issues. The stock was up in the quarter but not as much as some of the higher growth technology companies.

Cardtronics reported mixed Q1 results as ATM revenue came up short of estimates but EPS was better than expected. The business is being pressured by the reduction on travel and entertainment, which has a higher cash usage. We continue to believe that cash remains in-demand and that ATM withdrawals should recover later in 2020. In addition, Cardtronics is benefiting from the trend of bank branch consolidation and outsourcing of ATM operations. We believe Cardtronics will be a beneficiary regardless of near-term cash usage trends.

Verint's Q1 results missed estimates as upfront software sales declined driven by delays in on-premise deployments. The inability to travel, especially internationally, had a significant impact on the upfront software business. Verint expects sequential improvement in Q2 and throughout the year as their customers return to work. However, the cloud / SaaS business was strong and customer retention was high. Verint's split into two companies remains on track with the investment from private equity firm Apax now complete. While the stock was up in the quarter, the softness in the on-premise division did cause shares to lag vs. other tech peers.

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Simply Good Foods reported strong fiscal Q2 results in early April, but commentary around negative shopping patterns in early Q3 drove the stock lower throughout the quarter. The company's health and wellness offerings and on-the-go snacking became less relevant with people sheltering at home. However, as the economy began to open up and more people left the house, sales trends began to improve with fiscal Q3 results exceeding expectations in early July.

ICU Medical's Q1 results beat expectations handily as the intravenous product supplier made progress in right-sizing its liquids business following the industry oversupply last year. However, management struck a somewhat negative tone as it was cautious on elective procedures restarting, which are the primary users of its products. In addition, the company is seeing modest pressure from a stronger U.S. Dollar and higher interest expense as a result of drawing on its revolver. We believe the company is being prudently cautious on its view of elective surgeries, but it appears to be more conservative than most companies exposed to elective surgeries.

Portfolio Additions & Deletions

In Q2, we added ServiceMaster, Halozyme and ConMed. As outlined above, we sold Horizon Therapeutics.

ServiceMaster operates as a pest control business under the Terminix brand. The stock dropped more than 20% following Q1 earnings, as the core termite business was negatively impacted by technicians' inability to perform in-home inspections. We viewed the drop as an opportunity, as pest control is a resilient business in economic downturns and believe that ServiceMaster has been making the right investments to improve customer retention, which should drive solid organic growth and margin expansion over time.

Halozyme supplies a product, called Enhanze, that allows drug manufactures to convert treatments requiring a multi-hour infusion into a subcutaneous injection requiring just 5-10 minutes. This conversion has several advantages, including patient compliance and comfort, fewer infusion reactions, improved treatment facility throughput, and longer patent life. These advantages lead to a more competitive product for the drug manufacturer, resulting in a large opportunity to convert long infusion treatments. Halozyme is currently used on five approved products and is in testing with many more. We believe there will be many years of outsized earnings growth for this unique company.

ConMed is a supplier of medical products used in orthopedic, laparoscopic, and general surgeries. The company has a diverse product portfolio, with two fast growing products standing out. The AirSeal inflation system used in laparoscopic surgeries and the Buffalo smoke filter system used to prevent healthcare worker exposure to smoke in operating rooms are key growth drivers for the company. ConMed stock has lagged in 2020 due to a high exposure to elective surgeries but we believe it is an attractive opportunity as these begin to recover.

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. The composite was created on October 1, 2008. 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 1.50% 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 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. 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 Cap Growth composite. The representative account was selected because it closely reflects the AMI Small 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 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.