AMI Small Cap Growth Equity Quarterly Update

Growth Through Stability

Q4 ▪ 2020

Strategy Overview

In Q4, the AMI Small Cap Growth rose 28.53% (28.28% on a net basis) versus the Russell 2000 Growth index which gained 29.61%. Asset allocation drove the relative performance with security selection a minor contributor. The impact from asset allocation was mostly driven by our overweight position in Consumer Staples (which underperformed the index) and our underweight position in Energy (which outperformed). Outperforming stock selections in Consumer Staples and Financial Services were offset by underperforming stock selections in Healthcare and Technology.

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

Top Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Halozyme Therapeutics	4.65%	0.86%
Western Alliance	3.08%	0.79%
CyberArk	2.83%	0.72%
Itron	2.99%	0.67%
Celsius	1.15%	0.66%

**Please see last page for important disclosures.

Bottom Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Karyopharm Therapeutics	2.90%	0.16%
PetIQ	0.87%	0.14%
Ligand Pharma	2.67%	0.10%
Reynolds	2.26%	-0.03%
BJ's Wholesale	2.80%	-0.32%

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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.

CyberArk's Q3 was mixed as the company accelerates its transition from one-time license revenue to recurring subscription revenue. The company has been in this transition for many months but accelerated this transition due to the pandemic. The recurring side of the business rose 40% y/y in Q3 and as the company eventually becomes almost entirely subscription based, we believe investors will react positively. The stock also benefited from the widely publicized SolarWinds hack which should spark an increase in IT security spending.

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.

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.

Bottom Contributors

Despite making substantial progress in expanding its addressable market in multiple myeloma, Karyopharm Therapeutics' stock lagged in Q4. The company's Xpovio drug (in combination with Velcade) received an early approval and a recommendation from the National Comprehensive Cancer Network, which guides treatments. This expands the addressable market by 8-10x versus its currently approved indication. In addition, Karyopharm announced positive Phase 3 results in liposarcoma (fat cancer), which demonstrated that the drug works in solid tumors as well, which is not typical of blood cancer treatments. We remain bullish and believe sales will ramp sharply in 2021 with this new approval.

PetIQ reported disappointing Q3 results, as Costco shifted a large flea & tick program from Q3 into FY21, resulting in revenue and margins that were below estimates. PetIQ's veterinary clinics are also seeing headwinds from closures and employee absenteeism. We believe PetIQ is well positioned to benefit from the ongoing trend towards pet ownership and from the reopening of the economy.

Ligand Pharmaceuticals posted very strong growth in Q3 as it was supplying a main ingredient for remdesevir, one of the only Covid-19 treatments. Despite management's optimism on continued growth in remdesevir 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 its categories.

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.

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 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.