AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q4 ▪ 2020

Strategy Overview

In Q4, the AMI Large Cap Growth returned 9.96% (9.71% on a net basis) versus the S&P 500 index which gained 12.15%. Asset allocation drove 60% of the relative performance, with security selection contributing the balance. Asset allocation was driven by our underweight position in Financial Services (which outperformed the index) and our overweight positions in Consumer Staples (which underperformed). Outperforming stock selections in Financial Services and Consumer Discretionary were offset by picks in Industrials, Health Care, and Consumer Staples.

As seen in the table below, the top contributors to Q4 performance were Schwab, Apple, Palo Alto Networks, Alphabet, and PayPal. The bottom contributors to Q4 performance were Zoetis, McCormick, Horizon Therapeutics, Church & Dwight, and Salesforce.

Top Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Schwab	3.17%	1.27%
Apple	6.59%	0.95%
Palo Alto Networks	2.16%	0.88%
Alphabet	3.70%	0.69%
PayPal	3.53%	0.64%

**Please see last page for important disclosures.

Bottom Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Zoetis	2.82%	0.01%
McCormick	2.80%	-0.03%
Horizon Therapeutics	3.06%	-0.19%
Church & Dwight	3.91%	-0.30%
Salesforce	2.72%	-0.33%

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Top Contributors

Schwab stock had been depressed for the better part of 2020 given its high sensitivity to interest rates amid a low-interest rate environment which began early in the pandemic. However, the stock rose sharply in Q4 on the prospects of additional government stimulus spending, which is expected to have an inflationary effect and thus push interest rates higher. Schwab also closed its large acquisition of TD Ameritrade and provided a better-than-expected cost saving estimate on the Q3 call.

Apple's fiscal Q4 was very good despite lackluster iPhone sales due to a later release of the newest model. Stay-at-home measures spurred strong growth in wearables, iPads, Macs, and Services and drove the upside in the quarter. Despite the muted Q4 iPhone sales, expectations for the new 5G phone remain robust and sales should be stronger in future quarters as older models are replaced.

Palo Alto Networks reported a strong fiscal Q1, beating both revenue and earnings estimates. Billings were strong, and the company was able to expand margins materially. The company continues to execute well on its transition from traditional corporate firewall products to cloud-based, subscription security solutions. The recent, widely publicized SolarWinds hacking incident also helped the stock as it will likely lead to increased IT security spending.

Alphabet (Google) reported a nice Q3 as the company's core advertising business returned to growth following a decline in Q2. Weakness in in-store retail and travel during Q2 impacted Google's ad business in Q2 and the partial rebound of these activities in Q3 benefitted the company. Moreover, YouTube had substantial growth and Google Cloud continues to post some of the best growth rates in the industry. Margins also expanded, helping to drive the better-than-expected earnings.

PayPal had a better-than-expected Q3 and despite a tepid Q4 guide, expectations for growth in e-commerce drove the stock higher. Given the rapid increase in online shopping, PayPal has been a direct beneficiary. The company expects 70 million new accounts in 2020, and existing customers are increasingly using PayPal and Venmo. In addition, industries which have not previously used online payments or e-commerce are now turning to PayPal, thus increasing the number of merchants accepting PayPal.

Bottom Contributors

Zoetis reported good Q3 results following a weak Q2 when many veterinarians were closed. Revenue and EPS grew 13% and 15% y/y, respectively, driven by 20% growth in its pet business. Despite these good results, Zoetis stock had outperformed leading up to earnings and pulled back as investors rotated into laggards. We continue to believe Zoetis will be a good long-term performer based on increased pet ownership and new drugs coming to market in 2021.

McCormick continued to post strong results in Q3, seeing outsized consumer demand as people spent more time cooking at home, somewhat offset by weakness in the company's Flavor Solutions business which sells into restaurants. McCormick also announced two attractive acquisitions during the quarter including Cholula hot sauce. However, McCormick's stock was out of favor as investors shifted away from stay-at-home names. We view McCormick as one of the best growth stories in Consumer Staples and believe the company will continue to see organic growth even as the economy normalizes post-vaccine.

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 to 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.

Church & Dwight reported good Q3 results, with the majority of the company's portfolio of brands seeing pandemic driven demand. Especially strong was demand for vitamins, as people seek to boost immune health to fight off the virus. However, Church provided conservative Q4 guidance, largely driven by increased marketing spending, and the stock was also grouped with other stay-at-home beneficiaries that were sold by investors in Q4.

Salesforce had record revenue and earnings in fiscal Q3, and its forward guidance was better-than-expected. The stock ended Q3 at a very high level, after rising approximately 25% in one day when the company reported its Q2 results. Thus, we attribute some of the decline in the shares over the past few months to some profit taking (AMI also trimmed its holdings near the highs last quarter). The company also announced the acquisition of Slack which some investors deemed to be pricey.

Portfolio Additions & Deletions

In Q4, we added Roper Technologies.

Roper Technologies operates several different businesses that are all leaders in niche industrial software categories. The company has built a highly recurring subscription software business organically and through acquisitions. Existing software customers provide significant downside protection in recessions while leverage to more cyclical businesses allow the company to participate in economic recoveries. We believe the company will continue to generate mid-single digit organic revenue growth with expanding margins, driving solid EPS growth, with additional upside should the company separate its software business from more cyclical industrial businesses.

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 Large Cap Growth Composite includes all fully discretionary, fee-paying and non-fee-paying, taxable and nontaxable households with at least $400,000 in equities on the last day of the previous quarter. Beginning January 1, 2006, the composite was constructed using client households, as defined, whereas previously the composite was constructed at the account level. The composite was modified beginning January 1, 2006, to reflect the increase in our minimum equity balance per household from $100,000 to $400,000. 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. 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 benchmarks we use are the Standard & Poor's 500® Total Return and the Russell 1000® Growth Index. The Standard & Poor's 500® Total Return is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. It includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500® Total Return focuses on the large cap segment of the market with over 80% coverage of U.S. equities. The Russell 1000® Growth Index measures the large-capitalization growth sector of the U.S. equity market. It is a subset of the Russell 1000® Index. The Index is capitalization-weighted and consists of those companies, or portion of a company, with higher price-to-book ratios and higher forecasted growth within the Russell 1000® Index. 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 Large Cap Growth composite. The representative account was selected because it closely reflects the AMI Large 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 Large 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.

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