AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q3 ▪ 2022

Strategy Overview

In Q3, the AMI Large Cap Growth strategy returned -6.38% (-6.63% on a net basis) versus the S&P 500 index which returned -4.88%. Stock selection primarily drove the relative performance with asset allocation a minor contributor. Underperforming stock selections in Health Care and Consumer Staples were partially offset by outperforming selections in Industrials and Financials. Being underweight Energy and overweight Consumer Staples detracted from performance, while being underweight Communication Services and Real Estate was a benefit.

As seen in the table below, the top contributors to Q3 performance were Charles Schwab, Synopsys, Starbucks, Waste Management, and Ulta Beauty. The bottom contributors to Q3 performance were Ball, Microsoft, Alphabet, Horizon Therapeutics, and Church & Dwight.

Top Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Charles Schwab	3.59%	0.42%
Synopsys	2.78%	0.21%
Starbucks	2.12%	0.19%
Waste Management	3.40%	0.13%
Ulta Beauty	3.78%	0.13%

**Please see last page for important disclosures.

Bottom Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Ball	1.64%	-0.52%
Microsoft	6.03%	-0.54%
Alphabet	4.54%	-0.55%
Horizon Therapeutics	2.71%	-0.64%
Church & Dwight	3.59%	-0.85%

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Top Contributors

Charles Schwab reported solid Q2 earnings as it began to benefit from rising interest rates, partially offset by weakness in stock and bond fees. Schwab's biggest segment, Interest Revenue, consists primarily of money market funds held at the bank, and these funds should continue to benefit from increased rates into next year. In addition, Schwab continues to gather assets, despite volatile markets.

Synopsys reported strong fiscal Q3 earnings as demand for its chip design software remains healthy. More companies (e.g., data center providers, auto manufacturers) are now interested in designing their own chip components, resulting in strong growth for Synopsys' chip design business. The company's Security and Intellectual Property businesses also reported double-digit growth, which combined with stable margins, drove a higher outlook for the full year.

Starbucks reported in-line fiscal Q3 results, but investor sentiment improved following the company's Analyst Day in September, where Starbucks laid out an attractive long-term growth outlook. Starbucks also appointed Laxman Narasimhan, the former CEO of Reckitt Benckiser, as CEO in a move that we view favorably given his experience managing global consumer brands.

Waste Management reported strong Q2 results and raised guidance reflecting continued strength in pricing and better volumes. The solid performance speaks to the essential nature of waste services, and we believe the business will remain resilient through economic cycles.

Ulta Beauty reported very strong fiscal Q2 results and raised full year guidance for the second time this year. The beauty category is performing very well as social events and travel recover post-pandemic. In addition, Ulta is taking meaningful market share from department stores with its unique assortment and exclusive brands.

Bottom Contributors

Ball had a difficult Q2 as aluminum beverage can volumes were softer than anticipated due to its beverage maker customers focusing on price over volume amid the inflationary environment. This is causing concern that the secular trend towards aluminum cans is softening. Adding to the demand concern among investors was Ball's decision to shut down two can plants in a cost saving move. However, this was a strategic decision to lower costs following the divestiture of its Russian business. We remain bullish on Ball as we believe the secular themes in sustainability and recyclability are still intact and that Ball is best positioned as the market leader to grow earnings double digits over the long run.

Microsoft's fiscal Q4 was hampered by a strong dollar, as well as by headwinds in China and Russia. Despite these issues, its Azure cloud business remained strong (+46% y/y) and overall commercial bookings were up 35% y/y. Microsoft saw no slowdown in large corporate deals but some slowing in PCs and gaming (Xbox) drove overall mixed results. We remain bullish on Microsoft given the healthy commercial business and demand for digital transformation projects which is driving the company's outlook for double-digit revenue growth and steady margins in FY23.

Google's Q2 results were slightly below analyst expectations due to a slowdown in advertising spend, which was centered in Europe and Asia, due to difficult y/y comparisons following the reopening of the economy. The company indicated that it would materially refine its spending which should allow the company to preserve margins and limit risk to earnings in the event of a mild economic downturn. We believe Google remains a premier destination for advertising that will take share if ad spend continues to shift online.

Horizon Therapeutics reported disappointing Q2 growth in its biggest and fastest growing drug, Tepezza for thyroid eye disease. While sales grew, there was a slowdown due to a bottleneck between patients' visits to the doctor and treatment. Given that this is a high price drug for a rare disease, the pre-approval process can be complex and time consuming. These dynamics created salesforce bandwidth issues which resulted in a slowdown in sales. Management is addressing these issues and we expect growth to resume but the near-term risk remains elevated.

Church & Dwight missed earnings estimates in Q2 and lowered earnings guidance as cost pressures and weakness in the company's more discretionary products (Water-Pik and Flawless hair removal) weighed on growth. Church is also facing very difficult comparisons in its gummy vitamin business, which benefitted from the pandemic last year. However, Church derives 50% of its revenue from non-discretionary value brands, such as laundry and pet litter, which should make up for any weakness elsewhere in the portfolio in a difficult economic environment.

Portfolio Additions & Deletions

In Q3, we didn't have any additions or deletions.

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. We use the Standard & Poor's 500® Total Return Index which 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. 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.