AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q1 ▪ 2021

Strategy Overview

The AMI Large Cap Growth Equity strategy returned 2.42% in Q1 (2.17% on a net basis) versus the Russell 1000 index which gained 0.94%. Security selection drove the relative performance with asset allocation a minor contributor. Outperforming stock selections in Health Care, Financial Services and Producer Durables offset security selections in Technology, Materials and Consumer Staples. Our overweight position in Producer Durables (which outperformed the index) and underweight position in Consumer Discretionary (which underperformed) offset our overweight position in Consumer Staples (which underperformed) and underweight position in Technology (which outperformed).

As seen in the table below, the top contributors to Q1 performance were Labcorp, Schwab, Horizon Therapeutics, Alphabet and Kansas City Southern. The bottom contributors to Q1 performance were McCormick, Nike, Ball, Palo Alto Networks and Apple.

Top Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
Lab Corp.	3.86%	0.86%
Schwab	3.76%	0.79%
Horizon Therapeutics	3.25%	0.74%
Alphabet	4.08%	0.65%
Kansas City Southern	2.13%	0.60%

**Please see last page for important disclosures.

Bottom Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
McCormick	2.49%	-0.18%
Nike	3.44%	-0.21%
Ball	2.33%	-0.22%
Palo Alto Networks	2.60%	-0.24%
Apple	6.64%	-0.55%

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Top Contributors

Labcorp reported massive growth for Q4 with revenue growing 52% and earnings up 269%, driven by increased Covid-19 testing amid the spike in cases. In addition, management's guidance for FY21 was better than estimates, reflecting some moderation in Covid-19 testing, partially offset by a resumption of routine tests as people return to their doctors. Lastly, management announced late in March that it hired Goldman Sachs to explore strategies to increase shareholder value.

Schwab stock benefitted from the rise in interest rates in Q1 as the company generates over 50% of revenue from the spread on interest rates. Schwab earnings have been impacted since the Fed cut rates last year and an uptick in rates is signaling a possible return to more normal interest rate levels.

Horizon Therapeutics reported very strong Q4 results on continued strength in its newer drug for thyroid eye disease, Tepezza. Horizon's gout treatment, Krystexxa, also reported solid growth despite management's caution on the Covid-19 impact last year. The outlook remains bright and management's FY21 guidance exceeded estimates.

Alphabet (Google) posted strong Q4 results as advertising revenues improved due to reopening of the economy. YouTube was a standout, with revenue up 46% y/y. The cloud division's revenue also rose more than 40% y/y with profitability improving. This improvement helped the company's overall margins expand to 28% (from 20% a year ago), which drove better-than-expected EPS growth. As the economy continues to reopen and consumer spending returns, Google should continue to be a beneficiary.

Kansas City Southern ended Q1 on a high note after announcing its strategic merger with another major railroad, Canadian Pacific. The deal values the company at $29 billion ($275 per share) in cash and stock and is expected to close next year.

Bottom Contributors

McCormick reported mixed Q4 FY20 results and offered conservative guidance for FY21. McCormick saw significant benefits from people cooking at home during the pandemic, and as a result will face very difficult growth comparisons this fiscal year, similar to other Consumer Staples. We remain positive on McCormick given its dominant position in spices, seasonings and condiments and history of beneficial acquisitions (for example, the recent deal for the Cholula hot sauce brand should be good for the stock longer-term).

Nike missed Q3 FY21 estimates driven by challenges in North America, where the company faced inventory issues due to unprecedented backlogs at U.S. ports. The stock was also impacted by concerns over a boycott in China, Nike's second biggest market, in response to the company's public statements on Xinjiang. We view these issues as transitory headwinds and continue to focus on the underlying consumer demand for the Nike brand, which has been quite strong during the pandemic and should only improve as the economy reopens.

Ball reported Q4 FY20 results above estimates, although demand continues to outstrip supply as Ball invests to increase capacity. Ball is planning to spend at elevated levels during FY21 and into the near future to build new plants to meet this demand, which will be a near-term headwind to cash flow growth. Despite these additional costs, we continue to view the beverage can space positively as demand shifts away from plastics and towards aluminum driven by sustainability concerns.

Palo Alto topped estimates for fiscal Q2 and raised its full-year guidance as demand for security infrastructure products and services remains robust. The company noted that the recent SolarWinds security incident has been a positive tailwind. In early March, the stock declined with the rest of the Technology sector due to rising bond yields and a rotation into cyclical stocks and sectors which lagged the market in 2020. We remain bullish on the underlying fundamentals for Palo Alto and believe the stock price will react positively as the company continues to execute.

Apple blew past Q1 expectations for almost all products, especially the iPhone as the 5G cycle is off to a strong start. Apple continues to benefit from stay-at-home measures as consumers needed to upgrade their home office and home school environment. Similar to other technology companies, Apple shares pulled back from very lofty levels at the end of December, as investors sought other sectors in which to invest. Given the more than 80% increase in Apple's share price in 2020, this pause is not unexpected. We remain bullish on the company's prospects on the 5G upgrade cycle which could accelerate as world economies reopen.

Portfolio Additions & Deletions

In Q1, we added Ulta and sold Avery Dennison.

Ulta Beauty is the leading specialty cosmetics retailers in the U.S., offering makeup, skincare and haircare products as well as beauty services at more than 1,200 stores across the country. We see Ulta as a clear beneficiary from the return of social gatherings and the reopening of offices post-pandemic. Longer-term Ulta should see substantial market share gains as cosmetics and beauty sales shift from challenged mall-based department stores to standalone specialty beauty retailers.

We sold Avery Dennison 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 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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