AMI SMID Cap Growth Equity Quarterly Update

Growth Through Stability

Q1 ▪ 2021

Strategy Overview

In Q1, the AMI SMID Cap Growth Equity strategy returned 3.44% (3.19% on a net basis) versus the Russell 2500 Growth index which gained 2.49%. Asset allocation drove the relative performance, with security selection also a positive contributor. Being overweight Producer Durables and Consumer Staples (which outperformed) and underweight Technology (which underperformed) was partially offset by being underweight Materials (which outperformed). Outperforming stock picks in Healthcare, Materials and Financials were partially offset by underperforming picks in Technology, Consumer Discretionary and Consumer Staples.

As seen in the table below, the top contributors to Q1 performance were Danimer Scientific, Ligand Pharmaceuticals, Horizon Therapeutics, Verint Systems and Kansas City Southern. The bottom contributors to Q1 performance were PagerDuty, Green Dot, Karyopharm Therapeutics, Mimecast and Tenable.

Top Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
Danimer Scientific	0.97%	1.46%
Ligand Pharmaceuticals	2.54%	1.25%
Horizon Therapeutics	4.43%	1.02%
Verint Systems	2.64%	0.78%
Kansas City Southern	2.00%	0.58%

**Please see last page for important disclosures.

Bottom Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
PagerDuty	1.67%	-0.56%
Green Dot	3.20%	-0.60%
Karyopharm Therap.	2.48%	-0.93%
Mimecast	2.67%	-0.96%
Tenable	1.92%	-1.01%

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Top Contributors

Danimer Scientific produced strong results in its first quarter as a public company, driven by massive demand for eco-friendly single use plastics. The company recently announced extensive capacity expansions to accommodate the growing demand and still has capacity sold out through at least mid-2022. We view Danimer's prospects positively given the recent announcement of multiple partnerships with major blue-chip companies like Mars and Bacardi and an ongoing focus on sustainability at major corporations.

Ligand Pharmaceuticals reported strong Q4 results on supply of its drug ingredient, Captisol, for Remdesivir used for Covid-19 treatment. However, the stock was driven higher as it was a peripheral name in the "meme stock" craze. As the meme group of investors sought out the next GameStop, some were buying names like Ligand, which have a sizable short position. This buying, along with likely short covering, drove the shares up sharply early in Q1 before pulling back somewhat as the meme stock trend waned. Although we remain bullish on Ligand, we took advantage of this dynamic and reduced the position.

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.

Verint shares rose following the long-awaited split of its two main business units: Cyber Intelligence (now called Cognyte Software) and Customer Engagement (retained the Verint name). We exited our position in Cognyte as we see greater prospects for Verint's Customer Engagement business which is undergoing a transition from perpetual licenses to subscription, and that subscription business is growing at 30% y/y. This business is also part of the digital transformation theme which we are constructive on as more and more enterprises need to modernize the way they interact with their customers.

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

PagerDuty reported strong Q4 results with billings up more than 40% and retention rates above 120% as existing customers expand their use case of PagerDuty's services. The company is growing its user base, especially in the more profitable Enterprise segment with that group growing more than 40%. Despite the positive results, PagerDuty shares fell during the quarter as all high-growth technology stocks fell amid rising long-term bond rates. We view that phenomenon as transitory and believe that PagerDuty shares will resume reflecting the underlying fundamentals.

Green Dot reported very good Q4 results with revenue growing 15% and earnings growing 121%, both beating estimates. However, guidance for FY21 was somewhat disappointing as management was not factoring in any stimulus funds as the bill had not yet been passed, although this bill will help in FY21 as it did last year due to the funds being loaded on Green Dot debit cards. Despite the weaker guidance, we remain bullish on the company as its new digital banking product, Go2Bank, is off to a solid start and we see recovery in the Covid-19 impacted areas.

Karyopharm Therapeutics reported revenue that was inline with the December pre-announcement, with its cancer drug product sales up 19% year/year but flat vs. Q3. Karyopharm saw some additional competition in late line myeloma that impacted sales. The bigger opportunity came earlier than expected with the approval of Xpovio in combination with a commonly used myeloma drug, Velcade. This will open the market opportunity ten-fold in our view but may take some time to educate doctors. Despite these new opportunities, the stock fell during the quarter along with other small cap biotechs.

mimecast

Despite better-than-expected earnings and revenue in fiscal Q3, Mimecast shares fell during the quarter due to the overall negative environment for technology stocks but also due to a security incident in which the company was involved. In early January, the company reported that a single digit number of customers had their email security certificates compromised. While the actual impact of this was immaterial, it was a negative headline and did consume the attention of management and Mimecast's salespeople. This led to a tepid forecast for the full-year as pipeline build activity was slowed. We believe the extremely narrow scope of this incident and the overall need for customers to secure email should lead to better results in future quarters.

tenable network security

Tenable had a good Q4 with strong revenue and billings growth, with margins also improving. The company gave conservative full-year 2021 guidance due to uncertainty surrounding Covid-19. Moreover, expectations were elevated for security companies following the SolarWinds hack which drove share prices to all-time highs in Q4. We remain bullish on the need for enhanced IT security environments, and Tenable sits on the front line. Tenable continues to add an increasing number of customers to its platform and we believe this accelerating level of activity will ultimately translate to reaccelerating revenue growth.

Portfolio Additions & Deletions

In Q1, we added Danimer Scientific, PagerDuty, Tenable and Upwork and sold Avery Dennison, Cubic, Qualys, Reynolds and RealPage.

danimer scientific llc

Danimer Scientific is a pure play on renewable plastic and the first company to offer industrial volumes biodegradable plastic for single-use applications (bags, straws etc.). The company has development partnerships with many well-known consumer companies. We believe Danimer is well positioned to capture the longer-term opportunities driven by secular shifts in consumer preferences for products that are biodegradable and reduce reliance on fossil fuels.

PagerDuty

PagerDuty was founded by former Amazon engineers to tackle inefficiencies in the way companies respond to technology-related incidents which could lead to extended downtime and lost revenue. PagerDuty software identifies when incidents occur but is able to predict these negative events. This ability to predict an outage or limit downtime saves its customers considerable amounts of money. We like this differentiated technology which we believe can continue to grow as IT environments grow increasingly complex and IT human resources become more distributed.

Tenable is the leading provider of software that manages and measures cyber exposure across a wide range of IT components such as networking infrastructure, desktops and servers. Tenable's software is able to prioritize vulnerabilities by likelihood, severity and difficulty which helps IT administrators ensure that these issues do not remain undetected. The company has over 30,000 customers with 94% of revenue on a recurring basis. We like the consistent level of top line growth as vulnerability management remains an essential (and growing) component of overall IT security.

Upwork is the largest marketplace for independent freelance work in areas including web development, mobile development, design, copywriting, and more. Clients get quick access to a qualified, global talent pool, thus significantly reducing the cost of hire. Upwork has 139K core clients with 100% retention among this group. While the pandemic certainly forced many employees to seek freelance work, we believe that there will be persistence in this dynamic as many talented professionals moved to lower cost of living areas and can use Upwork to find project-based and longer-term work.

We sold Avery Dennison as we saw better opportunities elsewhere.

At the end of Q1, shareholders of Cubic accepted a takeover bid from Veritas for $75/share following an all-out bidding war between Veritas and Singapore Technologies Engineering (STE).

We sold Qualys as we saw better opportunities elsewhere in IT Security.

Reynolds Consumer Products saw unprecedented demand for its aluminum foil and trash bags as people stayed home during the course of the pandemic. However, Reynolds will face very difficult comparisons in 2021, and will also see headwinds from rising commodity costs. While we view the company’s brands positively, we identified opportunities with better growth and exited the position.

RealPage announced it had agreed to be acquired by private equity firm ThomaBravo and so we exited the position.

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-Mid Cap Growth Composite includes all fully discretionary, fee-paying and non-fee-paying, taxable and nontaxable accounts with at least $100,000 in small-mid cap equities on the last day of each previous quarter. The composite was modified beginning January 1, 2018, to reflect the decrease in our minimum equity balance per account from $500,000 to $100,000. The composite was created on April 1, 2013. 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 1.25% 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 2500® Growth Index which measures the performance of the small-mid cap growth segment of the U.S. equity universe. It includes those Russell 2500 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 contributor's information is based on a representative account taken from the AMI Small-Mid Cap Growth composite. The representative account was selected because it closely reflects the AMI Small-Mid 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-Mid 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.