AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q1 ▪ 2024

Strategy Overview

In Q1, the AMI Large Cap Growth strategy returned 5.66% (5.41% on a net basis) versus the Russell 1000 Growth index which returned 11.41%. Stock selection was the main driver of the relative performance, with asset allocation also a headwind. Underperforming stock picks in Information Technology and Healthcare were partially offset by outperforming picks in Industrials and Consumer Staples. It is important to point out that not owning Nvidia, which does not fit our investment approach given that it does not have recurring revenue, was an approximate 2.1% drag on performance. Being underweight Tech and Communication Services were also headwinds, while being underweight Consumer Discretionary helped performance.

As seen in the table below, the top contributors to Q1 were Eli Lilly, Quanta Services, Microsoft, Amazon, and Waste Management. The bottom contributors to Q1 were Teleflex, Nike, Adobe, Zoetis, and Apple.

Top Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
Eli Lilly	3.53%	1.11%
Quanta Services	3.85%	0.77%
Microsoft	6.30%	0.74%
Amazon	4.03%	0.71%
Waste Management	3.16%	0.58%

**Please see last page for important disclosures.

Bottom Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
Teleflex	1.41%	-0.21%
Nike	1.49%	-0.21%
Adobe	2.89%	-0.47%
Zoetis	3.75%	-0.56%
Apple	5.75%	-0.66%

**Please see last page for important disclosures.

Top Contributors

Lilly reported another solid quarter with Mounjaro (type 2 diabetes) driving growth. Most of the other big drugs also grew nicely, namely Verzenio for breast cancer, Jardiance for diabetes, and Taltz for psoriasis. Zepbound (same as Mounjaro) for weight loss launched in Q4 and is adding to the GLP excitement.

Quanta Services reported a strong Q4 as the utility contracting service provider is growing rapidly in renewable energy expansion projects. In addition, the reacceleration of utility companies' capital spending was a meaningful driver, partially fueled by Inflation Reduction Act incentives and the fast growth of energy-demanding data centers.

Microsoft's fiscal Q2 was strong as all three business segments experienced accelerating growth. The cloud division (Azure) continues to post strong growth and is now getting an additional boost from AI-based demand. The Office segment is in the early days of monetizing its AI feature (Copilot) and the Personal Computing segment saw a stabilization in PC sales as well as a boost in gaming following the closing of the Activision acquisition.

Amazon reported a good Q4 as recent efforts to trim costs post Covid are starting to make a meaningful contribution to operating income and overall profits. Amazon's operating margin rose 600 basis points year-over-year, driving a large EPS beat and strong cash flows. Similar to Microsoft's Azure, the company's cloud division (AWS) continues to grow profitably, with management expecting acceleration later this year driven by AI-related consumption.

Waste Management reported a strong Q4 and guided FY24 above estimates. Price increases, an uptick in core trash collection, and increasing recycling product prices drove growth. Additionally, new truck deliveries improved operations by reducing maintenance, labor, and rental costs.

Bottom Contributors

Teleflex reported a decent quarter but slow growing, albeit stable, companies were not in favor in Q1. While the diversified medical device company has merits, the once fast-growing Urology segment (UroLift) that was severely impacted by Covid has not returned to its fast grower status. Hence, we saw better growth opportunities elsewhere and exited the position.

Nike reported a better-than-expected Q3 FY24, with growth led by U.S. and China, as well as solid margin expansion. However, the company provided an initial look at FY25 that disappointed investors. Nike has been losing market share in running in the U.S. due to a lack of innovation but is now firmly focused on bringing better products to market. To stimulate demand, Nike will be focusing on new brands at the expense of some older franchises, causing revenue to decline in the first half of FY25. We agree that Nike needs to accelerate innovation, but the approach does come with some risk.

Adobe's fiscal Q1 was better than expected on both revenue and EPS but the size of the beat vs. consensus was not as large as it has been in the past and the stock sold off. Furthermore, Q2 guidance for revenue was a touch light but we view this as conservative as the company's initiatives to monetize new AI products should play out later in the year or in fiscal 2025. The company announced many new innovations at a recent user conference while also reiterating full-year financial metrics and we believe Adobe remains an attractive growth company at a reasonable valuation.

Zoetis reported a somewhat disappointing Q4 due to a higher mix of lower margin livestock medicine sales. In addition, the 2024 EPS growth guidance of 9-11% was slightly disappointing given that investors had high expectations for the U.S. rollout of Liberela for osteoarthritis in dogs. This new treatment grew rapidly in Europe last year and the U.S. launch should still be a nice growth driver in 2024, although management appears to be somewhat cautious at this point in the new year.

Apple's fiscal Q1 was good with the first year-over-year increase in revenues in a year. iPhone sales remained healthy and Services posted a record quarter despite slightly missing consensus estimates. However, a slowdown in China and a recent probe by the Department of Justice drove negative sentiment in the quarter and the shares fell after hitting a new high in January. While we are monitoring these issues, we believe that the company's new focus on AI and shift away from developing a car could help to reignite growth.

Portfolio Additions & Deletions

During Q1, we added Netflix and Insulet and we sold Teleflex.

Netflix is the leading streaming television service with more than 260 million global subscribers and a growing share of U.S. television time. While we have always liked the recurring nature of Netflix, valuation, and the added risk from the end of password sharing and subsequent launch of new lower priced ad tier, kept us on the sidelines. However, this move appears to have been successful and with the stock at a more reasonable valuation, we believe this is a good entry point.

Insulet is the supplier of the Omnipod insulin delivery device for type 1 and type 2 diabetes patients. We believe the Omnipod family of products will continue to grow as patients seek out an alternative to their 3-5 insulin injections per day. We also believe Omnipod is a better solution than the other alternative, implanted pumps, due to lower cost, kid friendly design, and being waterproof (think swimming and showering). We expect Insulet to continue to grow revenue rapidly through the end of the decade, as well as to substantially expand margins.

As mentioned, we sold Teleflex for better opportunities amidst a new lower growth outlook.

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.