AMI Small Cap Growth Equity Quarterly Update

Growth Through Stability

Q1 ▪ 2024

Strategy Overview

The AMI Small Cap Growth strategy returned 1.06% (0.81% on a net basis) in Q1 versus the Russell 2000 Growth Index which returned 7.58%. Stock selection drove the relative performance, while asset allocation was a benefit. Underperforming stock picks in Information Technology and Industrials were partially offset by outperforming picks in Consumer Discretionary. It is important to point out that there was a 4.6% drag from not owning two names that are currently Large Caps that don't fit our investing style, MicroStrategy (Bitcoin play) and Super Micro Computer (Nvidia play). Being overweight the Information Technology sector helped, while being overweight Healthcare was a drag on performance.

As seen in the table below, the top contributors to Q1 performance were Shockwave Medical, CyberArk, AppFolio, Itron, and Bright Horizons. The bottom contributors to Q1 performance were Simply Good Foods, Veracyte, Conmed, Neogen, and Xometry.

Top Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
Shockwave Medical	4.11%	2.20%
CyberArk	4.39%	0.85%
AppFolio	2.07%	0.79%
Itron	2.72%	0.56%
Bright Horizons	2.55%	0.46%

**Please see last page for important disclosures.

Bottom Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
Simply Good Foods	3.45%	-0.52%
Veracyte	3.92%	-0.81%
Conmed	3.47%	-1.04%
Neogen	4.10%	-1.07%
Xometry	1.91%	-1.60%

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Top Contributors

Shockwave reported strong growth in Q4 as the calcium breaking catheter supplier is gaining share in procedures to treat calcified artery blockages. In addition, late in the quarter Shockwave stock rose sharply on rumors it will be acquired by J&J, a deal that would make sense in our view.

CyberArk significantly topped Q4 estimates on both revenue and EPS as demand for cyber security remains robust. The recent transition to become full subscription is also driving increases in operating margins and cash flows. With an increasing threat landscape and new regulations around cyber insurance, we believe CyberArk can continue to sustain high levels of profitable growth.

Apartment software supplier, AppFolio, had a strong Q4 as the investments made in 2021/2022 appear to be paying off. The company reported 13% growth in rental units served by the platform, allowing for substantial margin expansion and EPS growth. With a large number of apartments being built in 2024, we expect continued solid growth.

Itron reported strong Q4 earnings driven by improving semiconductor supply that allowed the company to ship more products from its large backlog. Utility capital spending was also a tailwind as the funding from the Infrastructure Investment and Jobs Act started to flow and kept the backlog at a record high. Also, the strong sales of smart meters suggest future orders of high-margin software services within the next 12-18 months.

Bright Horizons posted solid Q4 results and guided FY24 above estimates. The corporate sponsored childcare business is steadily improving as workers return to offices and need childcare. In addition, Bright Horizon's Back-up care business, which provides another care option for children if the primary caregiver is unavailable, is becoming a strong growth driver.

Bottom Contributors

Simply Good Foods reported an in-line quarter and investors were generally pleased with the company's plan to turn around the Atkins brand, which has been weighing on growth. However, consumption trends lagged investor expectations in January and February, weighing on the stock. We believe it is too early to determine the success of the Atkins turnaround, but we continue to like the solid growth being posted by Quest, the company's high protein snack brand.

Veracyte reported a solid Q4, growing revenue by 22% and reporting the 4th straight quarter of non-GAAP profitability. The company did acquire a supplier of cancer diagnostics that informs doctors if treatments are working, which will add to Veracyte's core cancer prediction tests. Given that the acquisition will not produce revenue until 2026, investors became concerned that margins would be pressured in the meantime and the stock fell. However, management does not see a large increase in costs; therefore we believe the investor reaction was unwarranted and remain bullish on the name.

Conmed reported good growth but missed consensus estimates slightly due to some supply chain challenges. While guidance was slightly ahead of estimates, investors were concerned about Intuitive Surgical's new surgical robot containing integrated insufflation capabilities. Insufflation allows a surgeon to inflate a patient's abdomen in order to perform laparoscopic surgery. Conmed has the best products on the market in our view and is often sold alongside Intuitive's robots. However, this new integrated capability, although likely inferior, poses some additional hurdles for Conmed. Given the benefits to patients and surgeons from Conmed's product, we still expect it to be a good growth driver and we remain bullish.

Neogen, a leading food and animal safety company, posted disappointing results as it is experiencing higher costs while it integrates the large food safety acquisition and as end markets are somewhat soft due to food inflation. We believe this is the peak cost period as duplicative costs will start to roll off and as management starts up its own manufacturing. Food volumes have been challenging for many companies due to inflation hurting volumes, but we expect the tough post Covid environment to improve.

Despite a decent Q4, Xometry's outlook was below expectations as the manufacturing marketplace operator cited a slowdown in orders from large customers, a cohort previously thought to be more immune to economic headwinds. Given the lack of visibility on any medium-term improvement, we decided to exit the position as we found better opportunities elsewhere.

Portfolio Additions & Deletions

In Q1, we added Arcutis Therapeutics and Smartsheet, and sold ASGN Corp., Perficient, and Xometry.

Arcutis Therapeutics supplies topical treatments for skin conditions. Its Zoryve cream and foam are approved for mild-moderate plaque psoriasis and seborrheic dermatitis (flaky skin), and atopic dermatitis (eczema) should be approved in July. It is one of only a few new topical treatments to come to market in many years, as most drug companies have targeted severe patients with injectable biologics. We believe it has one of the best efficacy-to-side effect ratios in the space and we expect strong growth over the next several years due to the massive market size.

Smartsheet is a cloud-based software provider that allows users to coordinate projects in a single tool, replacing workflows that were traditionally managed using several products like email, whiteboard, Excel spreadsheets, and Word documents. Customers can manage more projects with fewer project managers, saving time and with better accountability. The company is growing revenues at 20% and we believe can sustain relatively high levels of growth given its unique platform, high retention, and despite already having 14 million users, the company has many new markets to enter.

ASGN's Q1 print was slightly better than estimates, but growth was still negative on both top and bottom lines. The hi-tech contract worker supplier has been impacted by macro headwinds and layoffs in the Tech sector. As a result, ASGN has shifted the company's efforts into the Federal Government segment, which offers lower cyclicality but also lower margins. The stock recovered from its bottom in March 2023, giving us an opportunity to exit the position as we see continued headwinds in Tech hiring.

Perficient's Q1 was lackluster with revenue and EPS coming in slightly below estimates. Macro factors are driving extended sales cycles and smaller overall project sizes, pressuring growth. We saw better opportunities elsewhere and decided to exit the position.

As mentioned previously, we exited the position in Xometry.

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 Cap Growth Composite includes all fully discretionary, fee-paying and non-fee-paying, taxable and nontaxable accounts with at least $100,000 in small cap equities on the last day of each previous quarter. The composite was created on October 1, 2008. 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 1.50% 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 2000® Growth Index which measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 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 contributors information is based on a representative account taken from the AMI Small Cap Growth composite. The representative account was selected because it closely reflects the AMI Small 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 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.