AMI Equity Income Quarterly Update

Growth Through Stability

Q1 ▪ 2024

Strategy Overview

The Large Cap Equity Income strategy returned 7.59% (7.34% on a net basis) in Q1, versus 10.56% for the S&P 500 index. Asset allocation drove one-third of the relative performance with Stock Selection driving the balance. Outperforming stock selections in Consumer Staples and Industrials were partially offset by underperforming selections in Consumer Discretionary and Technology. Being underweight Real Estate and Utilities helped performance while being overweight Consumer Staples and Healthcare detracted from performance. In Q1, the average weighted dividend yield for the strategy was 1.68%.

As seen in the table below, the top contributors to Q1 performance were Eli Lilly, Microsoft, J.P. Morgan, Waste Management, and Qualcomm. The bottom contributors to Q1 performance were Starbucks, McDonald's, Air Products & Chemicals, Zoetis, and Apple.

Top Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
Eli Lilly	5.43%	1.58%
Microsoft	7.40%	0.87%
J.P. Morgan	4.60%	0.82%
Waste Management	4.20%	0.78%
Qualcomm	4.17%	0.71%

**Please see last page for important disclosures.

Bottom Contributors in Q1		
Company	**Avg. Weight**	**Contribution**
Starbucks	2.16%	-0.10%
McDonald's	3.35%	-0.15%
Air Prod. & Chem.	1.94%	-0.25%
Zoetis	3.83%	-0.58%
Apple	5.51%	-0.64%

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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.

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.

J.P. Morgan had a strong Q4 with EPS and net interest income coming in ahead of expectations. Expenses were mildly higher due to inflationary forces, but more than manageable, and credit card delinquencies were in line. The 2024 outlook was increased, and the company recently raised its dividend 10% indicating strong confidence in the business.

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.

Qualcomm's Q4 results and Q1 guidance were both better than expected as the recent oversupply of semiconductors in the lower end smartphone market has normalized. Higher end, more AI-focused chips continue to do well and should provide additional growth. The company also renewed its modem licensing agreement with Apple, which was a prior overhang. Cash flows remain strong which should support future dividend growth.

Bottom Contributors

Starbucks reported a somewhat disappointing Q1 FY24, as the company is seeing demand headwinds due to a weak economy and competition in China as well as boycotts of Western brands in the Middle East. The company cut its comparable sales guide for FY24 as a result. While we continue to view Starbucks favorably given its scale and daily role in consumer's lives, the company is facing some real challenges, including significant wage pressure across the U.S. and especially in California.

McDonald's reported a decent Q4 but spoke of a slowdown moving into FY24, especially within its lower income consumer base. McDonald's performance in developing markets was also hurt by boycotts against Western brands in certain countries. McDonald's remains a leader in value, which we view favorably as we expect consumer spending to slow in 2024.

Air Products & Chemicals reported a weak Q1 and cut guidance, driven by soft sales in China and persistent high costs and delays for some of its major projects. Investors reacted to the absence of off-take agreements on these projects, which prevents them from having clear visibility into the company returns as costs increase and the first mover advantage in large-scale hydrogen production shrinks.

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 cars could help to reignite growth.

Portfolio Additions & Deletions

Southern Company

In Q1 we bought Southern Co., a regulated utility and energy provider serving 9 million customers across the Southeast. Southern offers a unique opportunity for reliable and predictable dividend growth driven by secular trends such as government initiatives in the IIJA and IRA supporting infrastructure upgrades, increasing energy demand driven by population growth, manufacturing reshoring, and data centers. Vogtle 3 & 4, the two new nuclear power plants in Georgia, add new capacity of clean energy which should be a benefit to the business now that both are operational.

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 Equity Income Composite includes all fully discretionary, fee-paying and non-fee-paying, taxable and nontaxable accounts with at least $400,000 in large cap equity income securities on the last day of each previous quarter. The composite was created on January 1, 2015. 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 benchmark we use is the S&P 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 Equity Income composite. The representative account was selected because it closely reflects the AMI Large Cap Equity Income 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 Equity Income 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.