AMI Equity Income Quarterly Update

Growth Through Stability

Q2 ▪ 2024

Strategy Overview

The Large Cap Equity Income strategy returned 1.73% (1.48% on a net basis) in Q2, versus 4.28% for the S&P 500 index. Asset allocation drove nearly two-thirds of the relative performance with stock selection driving the balance. Outperforming stock selections in Financial and Materials were partially offset by underperforming selections in Consumer Discretionary and Healthcare. Being underweight Industrials and Real Estate helped performance while being underweight Technology and being overweight Healthcare detracted from performance. In Q2, the average weighted dividend yield for the strategy was 1.68%.

As seen in the table below, the top contributors to Q2 performance were Apple, Eli Lilly, Qualcomm, Broadcom, and Microsoft. The bottom contributors to Q2 performance were GSK, McDonald's, Starbucks, Home Depot, and CVS.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Apple	5.39%	1.15%
Eli Lilly	5.89%	0.93%
Qualcomm	4.92%	0.81%
Broadcom	3.36%	0.67%
Microsoft	7.42%	0.46%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
GSK	1.54%	-0.20%
McDonald's	2.92%	-0.28%
Starbucks	1.81%	-0.30%
Home Depot	2.76%	-0.30%
CVS	1.03%	-0.94%

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Top Contributors

Apple's stock rose sharply in Q2 following the company's Worldwide Developer's Conference (WWDC) where Apple unveiled new AI-based features, including integration with ChatGPT, that will be available on the next version of its iOS software. The new software will only function on the newest phones, which could spark an iPhone upgrade cycle and reaccelerate growth.

Eli Lilly reported another solid quarter driven by the diabetes/weight loss franchise Mounjaro/Zepbound. Although Zepbound was approved after Novo Nordisk's Ozempic/Wegovy, it has higher efficacy with less nausea, which is driving growth.

Qualcomm reported strong fiscal Q2 earnings as sales to OEMs in China surged 40% y/y as that economy starts to recover. Automotive sales in the company's QCT division continue to hit quarterly records. The company is starting to see some benefit from AI-enabled phones and PCs which should further add to growth.

Broadcom's fiscal Q2 topped estimates on both the top and bottom line as its AI-related semiconductor products boosted revenue by over $3 billion. The company recently closed on its acquisition of software company VMWare which adds to recurring revenue and provides an additional growth vector. Free cash flow rose 18% and should help fuel future dividend increases.

Microsoft's fiscal Q3 EPS rose 20%, topping estimates as all the company's business segments had strong growth and better profitability. The cloud division (Azure) is benefitting from AI and Microsoft's close ties with OpenAI (ChatGPT), while the stabilization of the PC market has helped Windows software sales. We continue to like Microsoft's diversified business and exposure to higher growth areas within the Tech sector..

Bottom Contributors

GSK shares fell after the CDC raised its recommended age for the company's blockbuster RSV vaccine. The efficacy of GSK's vaccine remains better than competitors, so we view this as a minor setback. Moreover, the company's oncology, HIV and general medicine franchises continue to improve, and we remain positive on the company's ability to deliver growth.

McDonald's reported a challenging Q1, as traffic from lower income consumers in the U.S. worsened, as these consumers actively sought greater value. McDonald's was also hurt by boycotts in Europe and the Middle East over the company's perceived stance on the Gaza conflict. There is little doubt that McDonald's and all fast-food restaurants raised prices too much to offset inflation. That said, McDonald's has always been a leader in value, and we are encouraged by the recent introduction of a $5 meal deal that should help traffic.

Starbucks reported weak quarterly results, with notable declines in customer traffic in both the U.S. and China, leading the company to lower its full-year guidance. Value-seeking customer behavior, long waits, competition in China, as well as some misinformation regarding the company's stance on the conflict in Gaza, all contributed to the slowdown. While disappointing, we are encouraged by some of the initiatives the company has put in place in response, including more streamlined operations to improve throughput, value-focused drink and food bundles and new products, which seem to have driven accelerating traffic in the U.S. thus far in Q3.

Home Depot reported in-line Q1 results and reiterated guidance for the fiscal year. The stock was under pressure throughout the quarter as high interest rates weigh on the housing market and demand from both Pro and DIY customers. We do believe that we are close to a demand nadir, and that Home Depot remains well positioned to grow market share over time.

CVS shares fell under pressure as the insurance side of the business (Aetna) deteriorated due to rising costs and healthcare utilization post Covid. Additionally, Medicare reimbursement rates also lowered the growth outlook. As a result, we sold the position as we saw better opportunities elsewhere.

Portfolio Additions & Deletions

In Q2 we bought GSK and Domino's Pizza. We sold Procter & Gamble and CVS.

GlaxoSmithKline (GSK) is a global pharmaceutical company with a diversified business portfolio that includes pharmaceuticals, vaccines, and consumer healthcare products. GSK is well known for its respiratory franchises including treatments for asthma and COPD. The company also has a significant presence in the HIV treatment and oncology markets. Vaccines for shingles and RSV are among its fastest growing business lines. GSK continues to focus on innovation and expanding its pipeline across these therapeutic areas while also leveraging its consumer healthcare segment for stable revenue streams.

Domino's Pizza is the largest pizza chain globally, with close to 25k franchised restaurants globally. We like Domino's as the company is a clear leader in value, led by its two pizzas for $7.99 offer. We see a long path for accelerated unit growth, are bullish on the company's partnership with UberEats, and see significant potential for market share gains in the carry out business.

We became concerned by Procter & Gamble's exposure to China, which has been weighing on results for multiple quarters. Relative to peers Colgate and Church & Dwight, Procter's portfolio is skewed to the premium end in the majority of its product categories, and we see likelihood that the company will lose market share to trade down and private label as the economy weakens.

As mentioned above, we sold our position in CVS.

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.