AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q2 ▪ 2024

Strategy Overview

In Q2, the AMI Large Cap Growth strategy returned 2.13% (1.88% on a net basis) versus the S&P 500 index which returned 4.28%. Security selection drove the majority of the relative performance, with asset allocation also a drag. Underperforming stock picks in Information Technology and Consumer Discretionary were partially offset by outperforming picks in Communication Services and Health Care. Being underweight Information Technology and overweight Health Care hurt performance, while being underweight Financials and Energy was a modest offset.

With respect to performance within the Information Technology sector, it is important to note that 57% of the sector return was driven by Semiconductors (Nvidia was a 1% headwind) but other names also performed quite well. In addition, 34% of the return was driven by Hardware (which includes Apple). These industry subsectors are areas where we have typically not invested due to the lack of recurring revenue streams. Software, where we have sizable exposure, was a laggard relative to the other two subsectors.

As seen in the table below, the top contributors to Q2 were Apple, Alphabet, Pinterest, Eli Lilly and Insulet. The bottom contributors to Q2 were Starbucks, Workday, West Pharmaceutical Services, Salesforce, and Ulta Beauty.

Top Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Apple	5.76%	1.23%
Alphabet	5.30%	1.00%
Pinterest	2.61%	0.71%
Eli Lilly	3.16%	0.51%
Insulet	2.47%	0.46%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	**Avg. Weight**	**Contribution**
Starbucks	1.57%	-0.26%
Workday	2.61%	-0.54%
West Pharmaceutical	3.15%	-0.59%
Salesforce	3.60%	-0.62%
Ulta Beauty	2.31%	-0.79%

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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.

Alphabet had an excellent Q1 earnings report which saw strong growth in YouTube and Search, indicating that the core advertising business remains healthy. More importantly, its Cloud division improved significantly as it is starting to see benefits from AI-driven demand. Better margins and cash flow drove the company to initiate its first ever dividend and increase its stock buyback, both of which helped boost shares.

Pinterest's Q1 was very good as the company's recently announced initiatives to help advertisers better target users have started to show up in the financial results. The company is benefiting from being a friendly and non-controversial social media platform and this drove industry-leading active user 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.

Recent portfolio addition, Insulet, continued to grow rapidly as its Omnipod insulin delivery device is winning new patients who don't want to inject themselves with insulin multiple times per day. In addition to the convenience, Omnipod also does a better job of keeping patients in the optimal blood glucose range, a win/win. We expect continued growth as Insulet rolls out new iPhone and Dexcom glucose monitor interoperability this year.

Bottom Contributors

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.

Workday's Q1 earnings report was better than expected but its guidance was lowered slightly as the company noted that enterprises are taking longer to approve deals and its customers hired fewer employees during the quarter, impacting Workday's Human Resources software business. These activities are not unique to Workday's customers; however, the slower growth caused the stock to decline. Our view is that this is a temporary situation and enterprises will need to ultimately find productivity improving applications like Workday, which is incorporating AI features to drive better pricing and value. Thus, we remain positive on the stock.

West Pharmaceutical Services Q1 report was weaker than expected due to customers temporarily reducing orders. West has been supply constrained for many quarters as demand for its syringe components has been strong. However, recent manufacturing plant expansions have allowed the Company to catch up, which resulted in customers reducing orders to work off safety stock. This happens from time to time and usually only lasts a couple of quarters, so we believe West will be back to growth by year end.

Salesforce Q1 results and guidance were mixed as the company experienced what many other software companies are going through – specifically, customers are focused on generative AI projects and are taking longer to approve new investments in software. The quarter was still strong with earnings up 44% as margins continued to improve. Salesforce has a large amount of its customer's data which we believe will be valuable for use in niche AI models that need specialized data. We remain confident that the company's growth will reaccelerate as it monetizes these opportunities in the next phase of AI investment.

Speaking at a conference in early April, Ulta Beauty management indicated that sales trends had slowed more than expected in Q1, largely due to difficult sales comps to the strong growth last year, and to a lesser degree increased competition. Ulta reported a solid quarter in May but reduced its guidance for the fiscal year. The beauty category has seen outsized growth the past two years, and some growth normalization is to be expected. It is important to note that the category and Ulta's sales are still growing, and that competition has always existed. We believe Ulta has a unique assortment that will allow it to stand out from other beauty outlets and we continue to like the underlying resilience of the beauty category relative to other areas of discretionary spending.

Portfolio Additions & Deletions

In Q2, we added Pinterest and ServiceNow and sold Roper and Air Products.

Pinterest operates a pinboard-based photo sharing website which allows users to "pin" images they find around a broad array of interests, themes, events, and hobbies. The company has nearly 500 million monthly active users (MAUs) and generates revenue selling advertising to a highly engaged consumer base with curated interests. User growth remains among best-in-class vs. other social media peers. The company recently started new ad offerings and entered into new partnerships with Amazon and Google which should add to growth later this year. We like the less toxic, friendly platform Pinterest offers which should appeal to advertisers. The company should also be able to expand margins which we believe will drive a high level of earnings growth.

ServiceNow provides enterprise software for workflow automation. Traditional ways of getting data from within an organization that were very manual, labor-intensive, hard to find and collate, etc. can all now be done in a user friendly and automated fashion. Areas such as customer service, IT operations, HR, facilities management, and other parts of a business can now operate much more efficiently. ServiceNow also has a very easy-to-use text-to-code platform where users can create their own applications using simple language, which should be further enhanced with AI. As enterprises are constantly looking to do more with less, ServiceNow fits perfectly. The company is highly recurring, growing revenue at 20% while also expanding margins.

Although Roper's organic growth was steady in the mid-to high-single digits, we saw better growth opportunities within Technology and thus sold the position.

Air Products, a pioneer in large-scale clean hydrogen and other industrial gases, faced challenges through supply chain disruptions and inflation. These factors pushed the cost of hydrogen projects higher and delayed their initial operating date. With these delays and uncertainty around pricing, we sold 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 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.