

Q2 - 2024

Strategy Overview

The AMI Small Cap Growth strategy returned 1.37% (1.12% on a net basis) in Q2 versus the Russell 2000 Growth Index which declined -2.92%. Stock selection was the main driver of the relative performance, with asset allocation also a benefit. Outperforming stock picks in Health Care and Information Technology were partially offset by underperforming picks in Industrials. Being overweight Staples helped performance, while being underweight Communication Services, Utilities and Energy were drags.

As seen in the table below, the top contributors to Q2 performance were Halozyme Therapeutics, Merit Medical, VitaCoco, SmartSheet and Ligand Pharmaceuticals. The bottom contributors to Q2 performance were Utz Brands, Tenable, Conmed Corp., Willscot Mobile Mini, and SiteOne Landscape Supply.

Top Contributors in Q2		
Company	Avg. Weight	Contribution
Halozyme	5.28%	1.42%
Merit Medical	4.52%	0.61%
VitaCoco	4.00%	0.54%
Smartsheet	3.71%	0.52%
Ligand Pharma	2.49%	0.26%

**Please see last page for important disclosures.

Bottom Contributors in Q2		
Company	Avg. Weight	Contribution
Utz Brands	3.32%	-0.28%
Tenable	2.86%	-0.40%
Conmed	3.55%	-0.52%
Willscot Mobile Mini	3.14%	-0.71%
SiteOne Landscape	2.66%	-0.94%

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Top Contributors



Halozyme reported another good quarter as the drugs that use Halozyme's enzyme to facilitate a short subcutaneous injection continue to grow. After a relatively quiet two-year period for new drugs, Halozyme has several new subcutaneous approvals from now until year end that should contribute nicely to growth.



Merit Medical reported good Q1 results, and the outlook remains positive for the medical device company. Management's ability to continue to drive margin expansion has exceeded most investor expectations and the Company should launch a new and exciting dialysis catheter in 2025.



Vita Coco reported better-than-expected Q1 results and raised guidance for FY24. The stock was also supported throughout the quarter by accelerating sales tracked by Nielsen, including sales up close to 17% in late May and early June, well above estimates and the company's guidance for the current quarter.



Smartsheet had a very good Q1, topping estimates and raising full-year guidance which for software companies was very unique. The company's collaboration software is resonating with businesses of all sizes, especially large enterprise who are looking to increase productivity. Margins rose sharply year-over-year, driving strong cash flow and earnings growth.

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Ligand

Ligand reported decent Q1 results but the stock gained on its ownership of Viking Therapeutics, which has a new weight loss drug in development and has posted some good early efficacy. However, the changing business model over the years led us to sell the name for better opportunities elsewhere.

Bottom Contributors

Utz

Utz reported solid Q1 results, with accelerating organic growth and positive volumes, which is a rarity in the packaged food space this year. However, the stock suffered from weakness in the overall salty snacks category, which has seen weak volumes and negative pricing. Utz is taking significant market share from category leader Frito-Lay, and has significant geographic expansion opportunities that should offset any underlying category weakness, and therefore we remain bullish.

tenable

Tenable topped Q1 estimates and raised its FY25 guidance but the stock fell as investors shifted focus onto companies more involved with the buildout of generative AI models, specifically hardware and semiconductor companies. The company is still growing its earnings and cash flow and we remain bullish on companies involved in the cyber security space. Management expects the business to accelerate in the second half, which we believe will help the shares.

CONMED
CORPORATION

Conmed reported good quarterly results, but investors remain concerned about future competition for Conmed's insufflation device, which is used often in conjunction with Intuitive Surgical's robotic surgery platforms. Intuitive recently launched its next generation robot, which includes a "plain vanilla" insufflation system that could present competition for Conmed's high end system. We believe that the competition will ultimately prove to be minimal and that Conmed management's slower growth assumptions will prove to be conservative.

WILLSCOT

Willscot Mobile Mini reported decent Q1 FY results, and reiterated guidance for FY24. While there have been some headwinds to underlying growth from weakness in commercial construction, the company has started to see improving trends recently, and pricing for portable storage containers and mobile offices has remained strong. Sentiment on the stock was also hurt by the ongoing FTC review of the proposed acquisition of McGrath Rentcorp. We like the deal, but also believe Willscot is set up for accelerating growth in the second half of the year.

SiteOne
LANDSCAPE SUPPLY

SiteOne reported mixed Q1 results with better organic sales but weaker margins, as profitability is being squeezed by deflation in certain commodity products like fertilizer and PVC pipes. Post earnings, the company highlighted weakening volume trends at a conference in June, largely tied to the repair and remodel market. Recognizing the cyclical nature of some of SiteOne's end markets, we believe that its highly recurring maintenance business will help offset any weakness elsewhere, and that the company should be able to accelerate its roll up of smaller landscape suppliers if there is a pronounced downturn.

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Portfolio Additions & Deletions

In Q2, we added Braze Inc, CCC Solutions, Freshpet and Verona Pharma. We sold Shockwave Medical and, as mentioned above, Ligand Pharma.



Braze is a subscription-based customer engagement platform allowing brands to drive loyalty and purchases. Traditionally, companies engage with their customers in different ways depending on if a customer prefers to use email, phone, online web browser, or another method which creates a disjointed customer experience. Braze solves this by allowing a business to interact with customers in a consistent way regardless of the method. It is also a more personalized approach which is higher value, drives purchases, and improves customer loyalty. Braze has over 6 billion active users via its customers apps and website and is growing revenue over 20%. A good customer experience is critical for brands, making Braze an important part of their marketing strategy.



CCC Solutions is a subscription-based software provider for the auto insurance industry. The company works with 300 insurers, connecting them to all major car manufacturers and nearly 30,000 repair facilities to facilitate vehicle repairs after an accident in a cost-effective manner. After an accident, CCC's software can make the post-accident process less stressful by speeding up repairs and keeping consumers informed as to the status of claims and repairs. The insurance companies find value as happier customers lead to better retention rates. The repair facilities also can use this software to get parts faster and get paid by the insurer in a timelier manner. CCC is critical software within the insurer/repair/consumer ecosystem with highly recurring revenue streams operating at high margins.



Freshpet is a manufacturer and distributor of fresh pet food, with dogs the vast majority of the business. Freshpet offers products through branded refrigerators at grocery stores and pet specialty stores. Fresh pet food has been growing rapidly and Freshpet is by far the market leader with 96% market share. For many years Freshpet was focused on growth at all costs, which led to some significant production issues that hurt margins and cash flow. Freshpet is now managing top line growth to 25%, has built out adequate capacity to support growth through 2028, and should be free cash flow positive by 2026. We like the underlying category, and especially like the renewed focus on profitability, while also viewing Freshpet as an attractive takeout candidate.



Verona Pharmaceuticals is a London based supplier of a new class of inhaled drug to treat chronic obstructive pulmonary disease (COPD). The company just received FDA approval for its drug, called Ohtuvayre, and will launch very soon into a large market characterized by a large number of unsatisfied patients. Verona's drug should be successful as an add on to existing therapies like Symbicort and Trelegy and could be successful in other lung ailments such as asthma and cystic fibrosis. Given the small size of the company, just a few points of market share could translate into meaningful revenue.



Shockwave Medical was acquired by Johnson & Johnson.

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Ligand[®]

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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.

