AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q3 ▪ 2024

Strategy Overview

In Q3, the AMI Large Cap Growth strategy returned 1.95% (1.70% on a net basis) versus the S&P 500 index which returned 5.89%. Stock selection was the main driver of relative performance, with asset allocation also a slight drag. Underperforming stock picks in Communication Services and Financials were partially offset by outperforming picks in Materials. Being underweight Consumer Discretionary and Financials hurt performance, while being underweight Information Technology helped.

As seen in the table below, the top contributors to Q3 were Apple, Quanta Services, Insulet, Zoetis, and Starbucks. The bottom contributors to Q3 were West Pharma, Synopsys, Charles Schwab, Alphabet, and Pinterest.

Top Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
Apple	6.76%	0.68%
Quanta Services	3.45%	0.58%
Insulet Corp	3.15%	0.52%
Zoetis	3.53%	0.44%
Starbucks	1.61%	0.40%

**Please see last page for important disclosures.

Bottom Contributors in Q3		
Company	**Avg. Weight**	**Contribution**
West Pharma Ser.	3.14%	-0.29%
Synopsys	1.94%	-0.32%
Charles Schwab	2.76%	-0.36%
Alphabet Inc	5.19%	-0.53%
Pinterest	2.46%	-0.87%

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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.

Quanta, the largest electric infrastructure contractor in the US, benefited from the ramp up in electricity infrastructure construction driven by data centers and the resulting power demands. In addition, renewable energy, electric vehicle adoption, and a reshoring of manufacturing are adding to growth.

Insulet, supplier of the Omnipod insulin delivery device, reported strong Q2 growth as it is winning patients shifting to automated insulin delivery and away from multiple daily insulin calculations and injections. The company is also growing rapidly in Type 2 diabetes patients that require insulin and while technically a different category than Insulet's core Type 1 focus, these patients share the same need for constant insulin to regulate blood sugar levels.

Zoetis reported good Q2 results with a slight beat to estimates but the stock has been driven higher by woes at its biggest competitor, Elanco, which received a somewhat unfavorable label from the FDA for its competitor to Zoetis's Apoquel. Zoetis has long dominated the market for dermatitis treatments in dogs and a new competitor from Elanco has been a looming threat for some time. However, Elanco's product now appears less compelling, and investors believe Zoetis will maintain its dominant position.

Starbucks stock jumped in August, driven by news that Brian Niccol was named the new CEO. Niccol's strong track record at Chipotle and Taco Bell inspired hope that he can orchestrate a turnaround at Starbucks, especially in the U.S. and China, which have been underperforming.

Bottom Contributors

West reported weaker-than-expected Q2 earnings driven by the industry-wide destocking of drug containers following the easing of supply constraints that caused Pharma companies to hold excess safety stock. West first discussed this in Q4 of FY23 but Q1 was much better than expected and investors downplayed the impact only to be surprised in Q2. Although timing is hard to predict, we believe the destocking will end soon and West will be back to growth, and we remain bullish.

Synopsys reported fiscal Q3 revenue and earnings that exceeded expectations, driven by increasing demand from chipmakers for advanced semiconductor designs. As semiconductors become more complex, the need for Synopsys' advanced design tools and intellectual property grows. However, the stock underperformed during the quarter as investors favored hardware and semiconductors over software.

Schwab reported an in-line quarter, but the earnings growth recovery now appears to be pushed out somewhat causing the stock to fall. Recall that for several quarters Schwab has experienced a shift from high margin bank money market funds to lower margin brokerage money market funds as clients sought higher yields on cash. Management has had to fund this shift with higher cost debt to minimize the impact on the balance sheet. The persistent high interest rates have pushed a return to earnings growth out to 2025 but now that the Fed has finally cut rates, we believe the interest rate environment becomes more favorable for Schwab, and we thus remain bullish.

Alphabet delivered a robust Q2, achieving double-digit growth across nearly all segments. Total revenue and earnings surpassed estimates and margins expanded as its Cloud division began to operate at scale. However, sentiment weakened due to two court battles, which could result in a potential loss of its status as the default search engine on the iPhone. We believe Alphabet can navigate these challenges and that its AI innovations will continue to drive strong growth.

Pinterest's Q2 earnings and revenue exceeded estimates, showing solid user growth across all regions. However, the stock lagged following Q3 guidance, which indicated a slight growth slowdown compared to Q2, partly due to tough comparisons and the ramp-up of new ad tools and partnerships. Despite this, we remain optimistic about the company's prospects, as it boasts best-in-class user growth while starting to monetize more of its platform and expanding margins.

Portfolio Additions & Deletions

In Q3, we added Broadcom, Chewy, and Qualcomm and sold BioMarin, Nike, and Workday.

Broadcom is a major player in the semiconductor industry, well-known for its diverse portfolio of chips used in mobile phones, networking, broadband, and storage. The recent acquisition of VMware has significantly bolstered its recurring revenue through the addition of software and enhancing its offerings in cloud and virtualization. As a key player in the AI infrastructure boom, Broadcom's components are vital for data centers, positioning the company to benefit from the growing demand for AI technologies while maintaining strong diversification across various sectors.

Chewy is a leader in the online sales of pet products, primarily pet food and treats but also accessories like leashes and crates. We view the longer-term growth in pet household formations favorably, as younger generations wait longer to have children and thus spend more money on pets. We like Chewy's margin expansion opportunity, as the company becomes more efficient at recruiting new customers and existing customers spend more on the platform. We also view Chewy's recent expansion into the pharmacy business as a strong long-term growth driver. Chewy's business should also be relatively insulted from any downturn in the economy, with food consisting of more than 70% of total sales.

Qualcomm is a leading semiconductor company recognized for its patents in mobile phone technology. The company is increasingly tapping into the AI market, with a strong emphasis on AI-powered chips that are facilitating the transition from data center processing to end-user devices like phones and laptops. This shift allows Qualcomm to capitalize on the growing demand for on-device AI capabilities. Additionally, Qualcomm's diverse product portfolio and strategic partnerships should position it well for sustained growth across various sectors in the Tech industry. Lastly, its technology licensing division provides a more predictable revenue stream through royalties on Qualcomm's intellectual property used in just about every mobile device.

We exited BioMarin due to a new and unexpected competitor entering the market for short stature diseases, which has been BioMarin's biggest growth driver. We had always expected BioMarin to face some competition, but this new entrant has a very compelling product that changes the market dynamic for the worse and we therefore sold this relatively smaller position.

We sold Nike as we believe that while the company is taking the right steps to accelerate innovation to stem market share losses, a turnaround will take substantial time. We also became increasingly concerned with overall consumer spending and saw better opportunities elsewhere.

We exited Workday given the overall malaise in the software sector and the company's reliance on employment and hiring trends, which became a headwind to growth as of late.

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.

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