

Q3 - 2024

## Strategy Overview

The Large Cap Equity Income strategy returned 3.67% (3.42% on a net basis) in Q3, versus 5.89% for the S&P 500 index. Stock selection drove nearly all of the relative performance with asset allocation a positive offset. Outperforming stock selections in Consumer Discretionary and Materials were partially offset by underperforming selections in Financials and Healthcare. Being overweight Utilities and underweight Technology helped performance while being underweight Real Estate and Industrials detracted from performance. In Q3, the average weighted dividend yield for the strategy was 1.71%.

As seen in the table below, the top contributors to Q3 performance were Apple, McDonald's, Home Depot, Southern, and Starbucks. The bottom contributors to Q3 performance were Merck, Microsoft, Domino's Pizza, Charles Schwab, and Qualcomm.

Top Contributors in Q3		
Company	Avg. Weight	Contribution
Apple	6.26%	0.64%
McDonald's	2.93%	0.56%
Home Depot	2.85%	0.49%
Southern Co.	2.90%	0.46%
Starbucks	1.84%	0.45%

\*\*Please see last page for important disclosures.

Bottom Contributors in Q3		
Company	Avg. Weight	Contribution
Merck	2.90%	-0.24%
Microsoft	7.30%	-0.28%
Domino's Pizza	1.72%	-0.30%
Charles Schwab	3.84%	-0.50%
Qualcomm	4.48%	-0.73%

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## Top Contributors



Apple had a strong quarter, driven by investor excitement over an upcoming iPhone refresh cycle featuring AI enhancements that could encourage upgrades from users with older models. Additionally, the company's fiscal Q3 earnings exceeded expectations, fueled by robust revenue from Services and iPad sales.



McDonald's stock outperformed during the quarter driven by evidence that the new \$5 value meal was driving incremental traffic and sales growth. McDonald's value proposition had been negatively impacted by a steep increase in prices in response to inflation over the past few years, so any sign that the company was recapturing the value-seeking consumer was well-received.



Home Depot's business continued to be hurt by higher interest rates, with demand from both Pro and Do-It-Yourself customers under pressure. However, the Fed rate cut should help spur demand, and optimism over the economy and housing market caused the stock to outperform.



Southern Company had a strong quarter, driven by the hottest summer in 38 years in its service region and the consequent electricity demand. Additionally, the new nuclear power plants Vogtle 3 and 4 are contributing nicely to earnings. Lastly, the investments approved by the regulators to meet the growing electricity demand from data centers expand the rate base from which the company derives its profits.

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Starbucks stock soared in August, driven by news that Brian Niccol was set to become the company's new CEO. Niccol's strong track record at Chipotle and Taco Bell inspired hope that he can orchestrate a turnaround in Starbucks business, especially in the U.S. and China, which has been underperforming recently.

## Bottom Contributors



Merck reported good Q2 results but its FY24 guidance was disappointing as Gardasil sales in China have been weak. China has been a problem area for many Healthcare companies due to recent "anti-bribery/corruption" laws scaring many doctors into curtailing procedures and treatments for fear of being prosecuted for overtreatment. This was not surprising, and we believe the issues in China will resolve.



Microsoft reported solid fiscal Q4 growth across all business lines, with Azure maintaining a robust 30% year-over-year growth rate. The company continues to project high 20s growth for Azure, along with healthy growth across its other segments. The MS Office unit (PBP) remains stable, with low double-digit growth, while the Windows division (MPC) has returned to growth after a period of modest PC sales. The stock was near all-time highs at the end of the last quarter, and like other mega-cap tech stocks, it experienced a slight pause in Q3. We remain bullish on Microsoft's diverse product portfolio and its ability to monetize AI initiatives.



Domino's Pizza reported an in-line quarter, but it lowered its outlook for global unit growth due to slowing growth from one of its franchisees, with the issues centered in Japan and France. However, this change will have very little actual impact on Domino's reported financials, and the company's business in the U.S. continues to perform well. Domino's provides significant value with its delivery and carryout offerings, which should continue to grow nicely even in a difficult economy.



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.



Qualcomm shares, like many other companies in the semiconductor industry, reached all-time highs in June before experiencing a brief pause after a strong run. Fundamentally, the company reported a solid June quarter and provided Q3 guidance that exceeded estimates. Revenue in China surged over 50%, the automotive segment showed strength, and the outlook for handset revenue, particularly for higher-end 5G phones, remains positive. Qualcomm's flagship Snapdragon processor will power new AI PCs, and we believe the shift of AI functionality to end devices will continue to benefit the company.

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## Portfolio Additions & Deletions

In Q3 we bought Sempra.



Sempra is a leading energy infrastructure company serving millions of customers through its subsidiaries Oncor, SoCalGas, SDG&E, and Sempra Infrastructure. As peak load in the ERCOT region nearly doubles in the next four years, Sempra's transmission and distribution capabilities will require equally large investments that will grow the company's rate base, from which it derives its profit. Additionally, Sempra is a major player in the fast-growing LNG export market.

# 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](mailto:katharine@amiassetmanagement.com).