AMI Equity Income Quarterly Update

Growth Through Stability

Q4 ▪ 2024

Strategy Overview

The Large Cap Equity Income strategy returned -1.81% (-2.06% on a net basis) in Q4, versus 2.41% for the S&P 500 index. Asset allocation drove around 60% of the relative performance with stock selection the balance. Outperforming stock selections in Financials and Materials were partially offset by underperforming selections in Consumer Discretionary and Consumer Staples. Being underweight Real Estate and Industrials helped performance while being overweight Healthcare and underweight Communication Services detracted from performance. In Q4, the average weighted dividend yield for the strategy was 1.80% (vs. 1.51% for the S&P 500).

As seen in the table below, the top contributors to Q4 performance were Broadcom, JP Morgan, Schwab, Apple, and Mastercard. The bottom contributors to Q4 performance were Qualcomm, Colgate, Mondelez, Zoetis, and Eli Lilly.

Top Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Broadcom	4.21%	1.34%
JP Morgan	5.42%	0.71%
Schwab	4.27%	0.54%
Apple	6.49%	0.47%
Mastercard	2.14%	0.14%

**Please see last page for important disclosures.

Bottom Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Qualcomm	4.05%	-0.38%
Colgate	3.08%	-0.40%
Mondelez	2.31%	-0.47%
Zoetis	3.32%	-0.59%
Eli Lilly	5.80%	-0.79%

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Top Contributors

Broadcom delivered a strong quarter, driven by surging AI-related revenues, which grew 220% for the year, and consistent performance across its semiconductor and infrastructure software businesses. The company's Q1 guidance indicates continued growth, with AI demand expected to remain robust and non-AI revenues showing signs of stabilization. The sharp rise in the stock occurred when CEO Hock Tan highlighted the long-term opportunity in custom AI chips, projecting a $60B-$90B market by 2027, where Broadcom is poised to secure a leading share. Strong cash flow supported an 11% dividend hike, and VMware's performance added further stability to the overall business, balancing the unevenness in non-AI segments.

JP Morgan's stock did well in Q4 due to strong revenue growth in investment banking, where they led competitors by a significant margin, and the anticipation of Federal Reserve rate cuts which could boost bank profitability. Additionally, the company's net interest income was supported by a favorable balance sheet mix and higher credit card balances. The market also reacted positively to the prospects of a less stringent regulatory environment under a new Trump administration.

Schwab reported a decent Q3, but the stock rallied as the use of high cost funding to support the cash moves from bank to brokerage appears to be turning the corner. Recall that when yields rose in 2022, clients moved cash out of low yielding Schwab bank accounts and into higher yielding Schwab money market funds. This put a strain on the balance sheet as Schwab didn't want to sell its debt portfolio holdings at a loss, so it instead used short-term debt to fund the client withdrawals. This high-cost debt pressured margins but appears to be ending, sending the stock higher.

Apple delivered a steady quarter, highlighted by stronger-than-expected iPhone revenue, driven by a favorable shift toward higher-end Pro and Pro Max models. The iPhone, Apple's most critical product, posted a 6% increase in sales, setting a Q3 record and helping to lift both total revenue and margins despite broader concerns about supply chain issues. While the Q1 guide was modest, management remains optimistic about growth in China and upcoming AI-driven features, including ChatGPT integration. Overall, it was a solid and consistent performance, with iPhone strength reaffirming Apple's resilience in a competitive market.

Mastercard reported continued good quarterly results as cardholders resumed travel, especially in Europe. While there have been concerns about consumers slowing spending, this has not shown up in Mastercard's results so far. Mastercard is also benefitting from the long-term trend of using electronic payment over cash and checks, which we believe still has many years to go.

Bottom Contributors

Qualcomm's stock price fell in Q4 despite reporting higher-than-expected earnings and revenue. The decline can be attributed to the company's heavy reliance on the smartphone market, particularly Apple, where there is concern that Apple may increasingly use its own chips on new certain iPhone models. Additionally, there was an IP dispute with ARM Holdings which potentially threatened Qualcomm's rollout of its new AI PC chip, although this suit was subsequently resolved in Qualcomm's favor.

Colgate reported a solid third quarter, beating estimates and raising guidance to the high-end of the prior range. However, the company's North American business missed estimates, driven by negative pricing, as Colgate sought to bring pricing back in-line with demand following steep increases over the past couple years. Colgate is still growing nicely outside the U.S. and overall growth is quite strong relative to peers. The stock underperformed following the election as safe haven assets were out of favor, and the strengthening of the dollar presents a headwind to multinational businesses like Colgate which generates the majority of sales outside the U.S.

Mondelez reported a good Q3, as volumes inflected positive, and the company benefited from increased pricing in Europe. However, Mondelez underperformed with other Food stocks following the election, given concerns over Robert F. Kennedy Jr.'s appointment as head of Health and Human Services, and what that might mean for "indulgent" snacking brands like Oreos and Chips a-Hoy.

Zoetis' Q3 was good but concerns over its new osteoarthritis drug for dogs popped up again in Q4. Librela for dogs is expected to be a nice growth driver in 2025 as there are no good drug treatments for osteoarthritis. However, there were reports earlier in 2024 that the drug caused excess deaths in dogs, raising concerns over the competitiveness of Librela. These concerns popped up again in Q4 after reports of dog deaths and this weighed on the stock. Management pointed out that these are typically older dogs with other health issues, however, this growth contributor to 2025 is at higher risk. Nevertheless, Zoetis is well diversified, and we believe investors are too focused on one product.

Eli Lilly reported a disappointing Q3 despite growing revenue 20% as distributors adjusted inventories of Mounjaro/Zepbound now that supply has finally caught up to demand. Management also lowered the top end of FY24 revenue guidance. Mounjaro/Zepbound have been the primary drivers of growth throughout 2024 which is expected to continue, so any weakness will be disappointing. However, we believe this is a temporary issue associated with the supply chain shortages finally resolving and we believe growth will resume in 2025 as weight loss drugs have just scratched the surface of a huge market opportunity.

Portfolio Additions & Deletions

In Q4, we added Taiwan Semiconductor.

TSMC is the leader in advanced semiconductor manufacturing, playing a critical role in powering AI innovation. As one of the only foundries capable of producing cutting-edge chips at 3nm and beyond, it remains the main supplier for NVIDIA's high-performance AI chips and a key partner for major players like Apple. With demand for AI, IoT, and electric vehicles surging, TSMC's technological leadership makes it the go-to fab for the most advanced semiconductors. The company is investing heavily in expanding capacity and building new fabs in the U.S. and Europe to meet demand, reinforcing its dominance in the global supply chain for next-generation chips.

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.