AMI Large Cap Growth Equity Quarterly Update

Growth Through Stability

Q4 ▪ 2023

Strategy Overview

In Q4, the AMI Large Cap Growth strategy returned 12.21% (11.96% on a net basis) versus the Russell 1000 Growth index which returned 14.16%. Being underweight Tech and overweight Healthcare and Consumer Staples were headwinds, while being underweight Communication Services and Materials helped performance. Underperforming stock picks in Consumer Staples and Health Care were partially offset by outperforming picks in Industrials and Financials.

As seen in the table below, the top contributors to Q4 were Microsoft, Charles Schwab, Salesforce, Cintas and Apple. The bottom contributors to Q4 performance were Air Products, Constellation, McCormick, Becton Dickinson, and West Pharmaceutical Services.

Top Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Microsoft	6.09%	1.15%
Charles Schwab	3.87%	0.97%
Salesforce	3.39%	0.95%
Cintas	3.64%	0.88%
Apple	6.38%	0.81%

Bottom Contributors in Q4		
Company	**Avg. Weight**	**Contribution**
Air Products & Chemicals	1.67%	-0.05%
Constellation Brands	2.52%	-0.10%
McCormick & Co.	1.57%	-0.18%
Becton Dickinson	3.47%	-0.23%
West Pharm. Services	3.53%	-0.27%

Top Contributors

Microsoft reported a strong fiscal Q1 as all business segments experienced accelerating growth, especially the PC/Windows division. The company is benefiting from the rapid shift to AI-based products and is utilizing its partnership with OpenAI to infuse such models into its software and services, all of which should help growth for years.

Schwab stock rallied as the period of asset flows from the Bank segment to the Brokerage segment, where it generates lower margins, slowed and may be nearing an end. Schwab has been impacted by this shift for the past three quarters as clients seek higher yields in purchased money market funds than can be obtained in brokerage sweep funds. Although this process was well telegraphed by management in 2022, the Silicon Valley Bank failure in March of 2023 put the spotlight on this shift and has weighed on the stock. The light at the end of the tunnel drove a rally in the stock.

Salesforce reported a better-than-expected fiscal Q3 and raised its full-year guidance. The company continues to expand margins, which have risen from 20% in 2021 to 31% in the latest quarter. This is driving strong cash flow and share buyback activity. The outlook on margins was also bullish, suggesting additional upside.

Cintas was one of the biggest beneficiaries of last year's hot labor market, which drove demand for its uniform rental services. Cintas has also been successful cross-selling ancillary services like floor mats and first aid supplies. The company will move into less cyclical industries, such as healthcare and local government, to buoy revenue amid a potential softer economic climate.

Apple's fiscal Q4 revenue met expectations on better iPhone sales and strong Services revenue. Capacity constraints are expected to move into balance soon, which should help the company meet demand. Margins expanded y/y and the company returned $25 billion to shareholders as cash flow remained strong. The new Vision Pro headset, which is expected to be released in early 2024 is the company's first new product in some time and could be a potential revenue driver in the future.

Bottom Contributors

Air Products earnings were slightly better than expected but increased costs for its Louisiana hydrogen project and the absence of firm commitments for some of its larger projects, drove a stock selloff. However, we view Air Products as a first mover in large-scale clean hydrogen and it is poised to benefit from higher selling prices in a low-supply environment for 2-3 years ahead of competitors.

Constellation Brands reported a good quarter in early October but only raised guidance slightly, which was disappointing. Constellation was also negatively impacted throughout the quarter by concerns over the longer-term impact of weight loss drugs on alcohol consumption, which we view as overblown in the near-term.

McCormick reported an in-line quarter, but volume growth missed estimates due to weakness in China where the company's business is largely selling spices and condiments to quick service restaurants. Investor skittishness over the growth impact on food companies from weight loss drugs also weighed on the stock. Recognizing there is likely a long-term risk from increased adoption of weight loss drugs, we continue to like McCormick given its dominant market share in the spice category and fast-growing condiment business, which is popular with younger consumers that are less likely to take the drugs.

Becton Dickinson reported solid but inline growth for the September quarter (Q4), however, 2024 constant currency EPS growth guidance of 8.25-10.25% was below estimates. While we believe Becton is typically conservative at this point in the year, it is facing headwinds from China and the sale of a surgical business. Nevertheless, we still view the name as a steady grower amid a worsening economic backdrop.

West Pharmaceutical Services reported decent Q3 results but lowered FY24 revenue guidance slightly, although it raised EPS guidance, due to higher inventories at customers. Reordering patterns ebb and flow and are not concerning to us as long as its high biologic win rate (on 95% of new drugs) remains intact.

Portfolio Additions & Deletions

During Q4, we added Colgate Palmolive.

Colgate Palmolive is a leader in oral, personal, and pet care, with well-known brands including Colgate, Palmolive, Soft-Soap and Hill's Science Diet. Colgate generates 65% of revenue outside the U.S. and 45% from emerging markets, with dominant global market share in toothpaste and manual toothbrushes. We like Colgate's exposure to emerging markets, which should help drive 3-5% organic revenue growth over the long-term. Colgate is also focused on the premiumization of its portfolio, with teeth whitening a good example, which will benefit margins and drive low double-digit EPS growth. We also like Hill's, as it should be able to maintain strong growth given its science-based formulas that target specific ailments in dogs and cats.

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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