



April 25, 2014

First quarter 2014 results were clearly disappointing. The U.S. Small Cap Value composite's return was -3.2% (net) compared to the Russell 2000 Value and Russell 2500 Value which returned +1.8% and 3.5%, respectively. Underperformance was driven primarily by weakness in Consumer Discretionary and Information Technology offset in part by strength in Healthcare and Materials. Within Consumer Discretionary, the two specific significant detractors were Weight Watchers (WTW) and International Game Technology (IGT). After several quarters of disappointing results and much weaker than expected 2014 guidance we decided to sell our position in WTW at a loss. In contrast to WTW, we took advantage of the price weakness in IGT and added to our position. (For more specific company color, please see our February performance update)

Within Information Technology, we saw broad weakness with five of our six holdings down in the quarter. In total, these six holdings together detracted significantly to performance. It is important to note, three sectors that BCA has no holdings in - Financials (39.6%), Telecommunications (0.6%) and Utilities (6.2%) together comprised 46.4% of the benchmark weighting and returned 2.3% during the quarter. This translated to 1.1% or 60% of the Russell 2000 Value's 1.8% 1Q14 return.

Small Cap Equity Composite Performance (3/31/14)

	YTD	1YR	3YRS	5YRS	7YRS	10YRS	Inception*
Bernzott Small Cap Value Equity (Gross)	-3.0%	16.2%	15.7%	21.9%	7.1%	9.0%	14.8%
Bernzott Small Cap Value Equity (Net)	-3.2%	15.4%	15.0%	21.1%	6.3%	8.2%	13.9%
Russell 2000 Value	1.8%	22.7%	12.7%	23.3%	5.4%	8.1%	11.3%
Russell 2500 Value	3.5%	21.8%	13.9%	24.8%	6.5%	9.0%	12.2%

*Equity product inception - Jan 1, 1995

While performance was negatively impacted by stock selection as outlined above, we did see a continuation of low quality company outperformance in 1Q. As you can see in the table below, we have experienced similar periods of underperformance when the market favors these types of companies. The recent cooling in the IPO market and corrections to prices of high-beta, high-multiple technology stocks may indicate investors are now redirecting their attention from momentum to fundamentals and from growth to value. Such a shift should benefit our strategy. Furthermore, we feel our high quality portfolio is well positioned to "weather the storm" should market volatility increase.

Quarterly Returns

Excess Returns : Russell 2000 Value

	Q1	Q2	Q3	Q4	Year
2014	-4.80%	---	---	---	-4.80%
2013	0.56%	-2.65%	0.22%	1.99%	-0.14%
2012	-4.56%	1.14%	-3.08%	5.18%	-1.24%
2011	0.46%	5.59%	8.10%	-1.75%	14.52%
2010	-1.15%	3.04%	-0.63%	-5.04%	-3.38%
2009	13.14%	-0.52%	-7.62%	-4.50%	4.74%
2008	0.93%	2.21%	-2.30%	7.17%	7.59%
2007	-0.08%	-1.33%	-2.94%	-3.91%	-7.66%
2006	-1.53%	0.46%	2.78%	2.69%	5.34%
2005	-0.02%	3.24%	-3.33%	-3.48%	-3.90%
2004	---	-4.53%	3.15%	-1.14%	-2.84%

Quarterly (USD) 06/04 - 03/14

Bernzott Capital: Bernzott US Small Cap