



May 2, 2014

Small and mid cap stocks faced significant headwinds in April as investors harvested multi-year gains. Within the asset class, we witnessed a sharp reversal in investor preference for higher quality companies. Low quality suffered the largest losses with low ROE, high beta stocks underperforming. Micro-caps, fast growers and non-earners, outperformers during the first quarter, were laggards as well. Value stocks trounced their growth brethren, continuing a year-to-date trend. On a sector basis, Health Care and Technology suffered the greatest losses while Energy, REITs, and Utilities generated positive returns.

With investors favoring high quality businesses, Bernzott's U.S. Small Cap Value strategy found solid footing during the month outperforming its benchmarks. The composite was down -0.80% (net) while the Russell 2000 Value and Russell 2500 Value, fell -2.57% and -1.15%, respectively.

Compass Minerals (CMP), Clean Harbors (CLH), and Total System Services were the top three contributors to performance. The strategy also benefited from its position in Energizer Holdings (ENR), which announced plans to split its business into two companies, one focused on batteries and household items, the other focused on personal care products. The top three detractors during the month were International Game Technology (IGT), Gentex (GNTX), and SP Plus (SP).

On a year-to-date basis, the composite is down -3.96% (net) compared to the Russell 2000 Value which is down -0.84% and the Russell 2500 Value which remains positive at +2.33%. Not surprising given our high quality bias, we were able to make up ground on both indices during the month picking up 185 bps against the Russell 2000 Value and 42 bps versus the Russell 2500 Value.