



June 5, 2014

The trends we noted in April, namely a bias to size and quality, remained largely intact in May. Large cap stocks outperformed small cap stocks while value stocks outperformed growth stocks. Our friends at pensionpartners.com highlight the massive divergence between the largest cap stocks and the rest of the market. Using the Russell 3000 as a proxy for the market, the 50 largest stocks are up +4.1% year-to-date (thru 6/2) while the average return for the rest of the index constituents is -1.1%. The divergence is even more pronounced since the Russell 2000 peaked on March 4th with the largest 50 stocks up +3.8% vs. -4.9% of the rest of the index.

Against this backdrop, Bernzott's U.S. Small Cap Value strategy had a strong month outperforming both of its benchmarks. The composite was up +1.26% (net) while the Russell 2000 Value and Russell 2500 Value returned +0.63% and +1.03%, respectively. On a year-to-date basis, the strategy continues to make back ground lost during the first quarter. The composite's year-to-date return is -2.75% (net) vs. -0.21% and +3.39% for the Russell 2000 Value and Russell 2500 Value.

During May, two-thirds of our portfolio holdings were either flat or positive with the top three contributors, Laundae (LDR), Broadridge Financial (BR), and Cinemark (CNK), generating over 90bps of performance. All three reported revenue and earnings ahead of consensus estimates. The top three detractors were Petsmart (PETM), Total System Services (TSS), and Innophos Holdings (IPHS). While IPHS and TSS moved lower with little news of note, PETM was down after a revenue miss and announcement of lowered 2015 guidance. We took advantage of the PETM price weakness to add to our position.