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In July, small cap stocks experienced their biggest decline since May 2012. Perhaps more importantly, year-to-date relative performance for the asset class versus its large cap peer group has not been this weak since 1998, a year which turned out to be the third worst for small caps dating back to 1926. The Russell 2000 is trailing the Russell 1000 by nearly 9% year-to-date. With global tensions rising and questions around economic growth making headlines, equity investors continued to take shelter in larger more defensive, higher quality companies - a trend that began earlier this year.

The Bernzott U.S. Small Cap Value strategy tends to hold up well in down markets and this was certainly the case in July. With both the Russell 2000 Value and Russell 2500 Value down 6.05% and 4.81%, respectively, the U.S. Small Cap Value strategy outperformed during the month down 3.21% on a net basis. Year-to-date, the strategy has made significant ground on its relative first quarter underperformance versus the indices. Through July, the strategy ended the month slightly ahead of the Russell 2000 Value, -1.89% vs. -2.10%. The Russell 2500 Value, up 2.67% year to date, continues to benefit from its larger cap orientation.

While small cap stocks in aggregate were down sharply during the month, the Bernzott portfolio had nine stocks generating positive returns. The two most notable names were International Game Technology (+6.4%) and PetSmart (+13.9%). IGT rallied on news it had accepted a \$6.4bn buyout offer from Italian lottery operator GTECH, while PETM gained after two institutional investors, Jana Partners and Longview Asset Management, called for management to sell the company. Not surprising given the current market environment, the portfolio had a number of detractors during the month with Rayonier Advanced Materials (-16.2%) and Mistras Group (-13.9%) the most significant. RYAM delivered disappointing news to shareholders with earnings that were below consensus and lowering guidance the remainder of the year. MG moved lower on no news of note.