



November 19, 2014

Following a weak third quarter, equities reversed course rumbling higher in October. With global macro concerns easing and Ebola fears subsiding, investor appetite for riskier assets resulted in small cap stock outperformance during the period. While there was little dispersion in returns between growth and value stocks, there were several sectors that recorded outsized gains. High yielding REITs and Utilities were notable gainers as both benefited from the Federal Reserve's reassurance it would keep rates low for an extended period of time despite ending its bond-buying program. Healthcare stocks also performed extremely well in advance of the mid-term elections where Republicans were expected to make gains in the Senate. Investors are hopeful Congress will revisit the Affordable Care Act (ACA) which has been incredibly onerous for companies large and small. Energy stocks were notable underperformers in October as weak global demand and plentiful supply weighed on commodity prices.

The Bernzott U.S. Small Cap Value strategy performed well on an absolute basis. However, on a relative basis versus our respective indices, the Russell 2000 Value and the Russell 2500 Value, we underperformed. For the month of October, the strategy returned 4.33% (net) versus 6.99% and 4.45% for the Russell 2000 Value and Russell 2500 Value. Year to date, performance versus the indices has been mixed. The Bernzott U.S. Small Cap Value strategy has returned 3.09% (net) versus 1.92% for the Russell 2000 Value and 5.45% for the Russell 2500 Value.

During the month, a majority of the portfolio holdings contributed positively to performance. The top three contributors were Gentex (+22%), FTI Consulting (+15%), and SP Plus (+15%). Gentex, which designs, develops and manufactures automatic-dimming rear-view mirrors and driver assist video cameras, was up strongly after reporting earnings which exceeded analysts' expectations. FTI Consulting rallied throughout the month as investors expected a strong earnings report from the company. Management did not disappoint exceeding consensus estimates while also announcing higher full year 2015 guidance. FTI looks to have turned the corner after falling out of favor earlier this year as a result of revenue uncertainties, reduced guidance, and a change in management. After falling to a multi-year low in late September, SP Plus posted solid returns. While there were no new headlines from the company, investors seem to be getting more comfortable with the company's merger integration of Central Parking.

There were only a few holdings that detracted significantly from performance. Mistras Group (-15%), one of our largest holdings, was down after posting mixed fiscal results early in the month. The company's profitability was impacted by short term challenges executing an initiative to establish and expand a footprint in the Canadian oil sands region. Rayonier Advanced Materials (-13%) fell after the company posted results well below consensus estimates. RYAM is currently facing significant headwinds from weak pricing and slower demand growth for its products. Finally, Clean Harbors (-8%) fell on little news. We suspect weakness in commodity prices have tainted the stock in the short term.