Bernzott
Capital
Advisors

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Domestic equity markets posted modest gains in November. The S&P 500 gained +2.7% for the month, and is now up +14.0% on a year-to-date basis. Small cap stocks underperformed large cap stocks, continuing a trend that has been intact for most of 2014. The Russell 2000 Index of small cap stocks returned +0.1% versus +2.6% for the Russell 1000 Index of large cap stocks. Year-to-date, the Russell 1000 has outperformed the Russell 2000 by nearly 11.5%.

Economic data continued to underpin the equity market's gains, as consumer spending, business investment, and job growth exhibited signs of strength. While there were broad based gains for the month, the one sector of the market that was an outlier was energy, which fell precipitously as a result of a sharp drop in crude oil prices. Slowing global demand amid increasing supply has weighed heavily on the sector. Falling oil prices have far reaching and mostly positive implications on the economy overall. With oil and heating gas costs at their lowest levels in years, consumers will have more discretionary income at their disposal and lower raw material costs to manufacturers will improve profitability. If prices remain at these levels for an extended period of time, this dynamic should prove beneficial for the economy.

Against this economic backdrop, the Bernzott U.S. Small Cap Value composite outperformed on a relative basis against its benchmarks. For November, the strategy returned +0.57% on a net basis compared to -0.46% and +0.12% for the Russell 2000 Value and Russell 2500 Value indexes. Year-to-date, the strategy has generated a net return of +3.68% which compares favorably to the Russell 2000 Value index which has returned +1.45%. The strategy continues to underperform the Russell 2500 Value which has returned 5.58% so far in 2014.

In terms of sector performance attribution versus the Russell 2000 Value, the portfolio experienced positive contributions from energy, technology, and consumer discretionary sectors. The portfolio has very little exposure to the energy sector and simply not having positions in that sector served as a key contributor to our outperformance for the month. Strong stock selection in technology and an overweight to consumer discretionary names were positives as well. Top individual contributors included Gentex (+8.6%), Synopsys (+5.9%), and PetSmart (+9.1%). Conversely, our overweight positions to materials and industrial stocks were drags on performance. Specifically, our worst performing materials position was Rayonier Advanced Materials (-13.6%); it was also the worst performer across the portfolio. Other key detractors were Landauer (-7.8%) and Clean Harbors (-5.8%).