



January 11, 2016

U.S. Small Cap Value Strategy

The Waiting (Is The Hardest Part)

The U.S. stock market turned in its worst annual performance since 2008. Specifically, the S&P 500 was down nearly 1% and the Dow down over 2%. The energy sector was a particularly poor performer, negatively impacted by a 53% decline in West Texas Intermediate (WTI) crude oil. This weakness has persisted in early 2016 with the price of WTI crude oil below \$34 a barrel. The Russell 2000 Small Cap Index was down nearly 6% in 2015. Per Morningstar, Small Cap Value and Mid Cap Value funds were the worst performing fund categories for the year, down on average 6.7% and 5.4%, respectively.

The Fed officially put an end to QE in the United States by raising the Fed Funds rate 25 bps. It was the first rate hike since June 2006. Further tightening is expected this year. The U.S. economy continues to muddle along at about a 2% growth rate. In contrast, the ECB committed to QE via bond purchases of close to €1.5 trillion. The growth slowdown and Yuan devaluation underway in China is making headlines and the ripple effect is being felt by companies around the world.

The following lyrics from the Tom Petty and the Heartbreakers 1981 #1 hit "The Waiting" are relevant today: "The waiting is the hardest part. Every day you see one more card. You take it on faith, you take it to the heart. The waiting is the hardest part." It can be difficult to stay disciplined and patient in the face of extreme market volatility. The crowd can obsessively focus on the short-term results, pressuring the stock price and causing investors to sell too soon. Furthermore, the rise of algorithmic trading programs and the growing popularity of ETFs and other passive strategies intensifies these effects.

Benjamin Graham said it best: "You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right." We seek to take advantage of the short-term market dislocations while also patiently waiting for the long-term investment theses to play out for our portfolio companies. It may be the hardest part but in our opinion it's the right way to invest: a long-term perspective is an absolute necessity in order to generate superior investment performance.

Performance (periods ending December 31, 2015)

	4Q	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Gross)	0.19%	-6.88%	10.11%	11.20%	14.50%	8.00%	13.64%
R2000V	2.88%	-7.47%	9.06%	7.67%	11.72%	5.58%	9.99%
R2500V	2.78%	-5.49%	10.51%	9.23%	13.84%	6.51%	11.00%
+ / - R2000V	-2.69%	0.59%	1.05%	3.53%	2.78%	2.42%	3.65%
+ / - R2500V	-2.59%	-1.39%	-0.40%	1.97%	0.66%	1.49%	2.64%

	4Q	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Net)	0.02%	-7.44%	9.41%	10.47%	13.73%	7.23%	12.74%
R2000V	2.88%	-7.47%	9.06%	7.67%	11.72%	5.58%	9.99%
R2500V	2.78%	-5.49%	10.51%	9.23%	13.84%	6.51%	11.00%
+ / - R2000V	-2.86%	0.03%	0.35%	2.80%	2.01%	1.65%	2.75%
+ / - R2500V	-2.76%	-1.95%	-1.10%	1.24%	-0.11%	0.72%	1.74%

*The Bernzott U.S. Small Cap Value strategy inception date is January 1, 1995

4Q 2015 Strategy Overview:

The strategy's return was 0.02% (net) compared to the benchmark Russell 2000 Value's return of +2.88%. The strategy's -286 bps of underperformance in the quarter was primarily driven by relative weakness in Information Technology and Materials offset by relative strength in Industrials and Consumer Discretionary. The top three performers were Mistras, Total System Services and Hillenbrand. The top three detractors were Knowles, Innophos and Owens-Illinois. During the quarter we added two new positions: Air Methods and TriMas - please see full summaries below.

4Q 2015 Hits and Misses:

What worked

Mistras Group (MG) +49% in 4Q, +4% in 2015. After reporting disappointing 4Q results, MG reported strong 1Q16 results leading to a 38% stock price increase in one day. Despite a sell-side analyst downgrade in mid-December, MG was still up almost 50% in the quarter. We continue to own MG and remain positive on its long-term prospects, but did trim the position in the quarter on the significant improvement in valuation.

Total System Services (TSS) +10% in 4Q, +48% in 2015. TSS delivered strong 3Q results ahead of both consensus and last year while raising its 2015 guidance. The company continues to benefit from the successful Bank of America conversion completed earlier this year but TSS is seeing strength across all of its segments. Adjusted EBITDA was +21% and Adjusted EBITDA margin was +170 bps to 37.5% in part due to a tax benefit. The company is executing at a high level. Given the significant share price appreciation, we trimmed the position again in the quarter.

Hillenbrand (HI) +15% in 4Q, -12% in 2015. HI's fiscal 4Q results were mixed and fiscal 2016 guidance was slightly below consensus. Like other companies in our portfolio, the Process Equipment Group (PEG) segment was negatively impacted by currency as well as weakness in mining and proppants (frac sand) markets. The Batesville segment revenue was up slightly vs. last year with margins improving sequentially. HI continues its transition from a domestic casket manufacturer to a global industrial company via a disciplined acquisition strategy. HI continues to apply its lean expertise to these acquired companies. While future results may be lumpier than in the past, we believe long-term growth prospects have improved. We own a full position.

What didn't work

Knowles (KN) -27% in 4Q, -43% in 2015. While KN posted Q3 revenue and earnings at the midpoint of management's guidance, the stock sold off sharply on Q4 guidance that was slightly below the Street's expectations. Part of decline can be attributed to the stock running up ahead of the earnings release after a "tear-down" showed that the newest Apple iPhone had four MEMs microphones (up from three previously), three of which were KN's. Subsequent to the earnings release, the stock drifted lower (as did AAPL) throughout the remainder of the quarter as a number of sell-side channel checks at other iPhone component manufacturers indicated a slowdown in iPhone production. With Apple representing ~25% of KN's revenue, KN often trades as a proxy that correlates with this newsflow. We believe that the correction is overdone and that KN will continue to benefit as the market leader of integrated audio solutions for smart devices. The stock continues to trade at a significant discount to fair value and we added to our position on the pullback.

Innophos (IPHS) -26% in 4Q, -48% in 2015. IPHS is feeling pressure on several fronts. Volume has suffered due to weaker demand as many of its end markets have softened. Additionally, price has suffered due to increased competitive pressures. IPHS makes all sales in US dollars, and consequently, foreign competition has become much more problematic as the US dollar has appreciated. The result of these factors has been margin compression that management has not seen in over 10 years. Still, IPHS continues to generate good cash flow, the hefty 6.5% dividend is well covered and we believe many of the factors that are currently plaguing the company are temporary. The main attributes of the company have not changed, a new CEO has been hired and we believe the shares are trading meaningfully below intrinsic value. We added to the position during the quarter.

Owens-Illinois (OI) -16% in 4Q, -35% in 2015. OI reported in-line 3Q earnings but provided below consensus guidance for 4Q. OI has been significantly impacted by FX this year. For example, reported revenue was down approximately 10% but constant currency revenue growth was up approximately 4%. On September 1, 2015 OI closed the Vitro acquisition which we believe will significantly improve margins. Current COO Andres Lopez was named CEO as expected, taking over for retiring CEO Al Stroucken. Mr. Lopez has a significant operating experience and we believe he was the best choice to lead the company. We own a full position.

2015 Hits and Misses:

What worked

Total System Services (TSS) - please see commentary above.

Masimo (MASI) +8% in 4Q, +57% in 2015. MASI's 3Q results were solid, ahead of consensus and last year with shipments and installed base up nicely. Margins continued to expand with EBIT margin +460 bps reflecting top-line growth and cost controls. As initially discussed in our 4Q14 letter, MASI won a \$466 million judgment in a patent infringement case vs. Philips; the case remains on appeal. We trimmed our position during the year as it had become outsized given the strong performance. We continue to maintain a full position, though.

Hasbro (HAS) - While we remain positive on the company, we sold our position in 3Q after the stock reached our fair value estimate.

What didn't work

Rayonier Advanced Materials (RYAM) -68% in 2015. We exited the position in 3Q after re-underwriting the company and concluding our investment thesis was no longer intact.

Innophos (IPHS) - please see commentary above.

Knowles (KN) - please see commentary above.

4Q 2015 Portfolio Activity:

- Established two new positions: Air Methods (AIRM) and TriMas (TRS).
- Exited two positions: Cintas (CTAS) and FTI Consulting (FCN).
- Added to seven positions: Artisan Partners (APAM), Daktronics (DAKT), Douglas Dynamics (PLOW), Innophos (IPHS), Knowles (KN), Manning & Napier (MN) and Verint (VRNT).
- Trimmed two positions: Mistras (MG) and Total System Services (TSS).

New Positions

Air Methods Corporation (AIRM) - \$1.6 bil market capitalization - based in Englewood, CO, AIRM is one of the largest providers of air medical emergency transport services and systems in the United States (86% of revenue). In 2011, AIRM expanded into the helicopter tourism market and now provides helicopter tours and charter flights, primarily for Grand Canyon and Hawaiian tours (12% of revenue). The medical transport business provides highly skilled, lifesaving services, enabling the company to have pricing power in a market that is largely a duopoly (with some local competitors). That business is not sensitive to economic/macro conditions and has consistently generated 25%+ EBITDA margins. The management team has a great long-term track record, the balance sheet has reasonable leverage (<3X net debt / EBITDA even after accounting for capital leases), and AIRM recently began repurchasing stock after the stock declined nearly 30% from May to August. The company has a long history of growing organically and through accretive M&A. An activist, Voce Capital, has been pushing for a sale of the business and AIRM disclosed on its most recent earnings call that it is seeking out the counsel of Goldman Sachs and Bank of America Merrill Lynch. Valuation is attractive with the stock trading at 7.7X EV/EBITDA compared to a plethora of recent private market transactions that have taken place at 10X.

TriMas Corporation (TRS) - \$820 mil market capitalization – based in Bloomfield Hills, MI, spun off from Masco in 1989. TRS is a diversified, global industrial company that derives almost 90% of operating profits come from its packaging and aerospace divisions. Products include dispensing pumps (e.g., foamers, sprayers, and tubes for personal care products), industrial closures (e.g., plugs and seals for oil drums and paint cans), highly engineered rivets and bolts for commercial aircraft, and high and low pressure steel cylinders (e.g., canisters for storing and transporting natural gas). Key markets have high barriers to entry and the company boasts a laundry list of long-term relationships with blue chip customers, including Bath & Body Works, Colgate Palmolive, Dial Corporation, Kimberly-Clark, Pepsi, Starbucks, Sherwin-Williams, ExxonMobil, and Boeing. Tends to have the #1 or #2 market share in the segments in which it operates and focuses on highly engineered products, which allows the company to earn solid margins. Management is focused on improving operational efficiency, which should drive meaningful margin improvement over time. The company recently spun off its towing and cargo management business (Cequent), which was a low-quality, low margin business. Minimal capital expenditures (~3.5% of revenue). Attractive valuation (11.3X 2016E FCF). Stock declined 28% since spinning off Cequent, creating an attractive entry point.

Bernzott Organization Update:

Bernzott Capital Advisors ended 4Q managing \$577 million (+17% vs. \$495 million at the end of 3Q) with \$340 million in our U.S. Small Cap Value strategy (+35% vs. \$252 million at the end of 3Q).

As reported last quarter, we were awarded \$75 million by the City of Boston Retirement System which was funded in 4Q. We also were awarded \$10 million (which will fund in 1Q16) by the City of Memphis Retirement System via manger-of-managers Capital Prospects.

The Bernzott U.S. Small Cap Value Fund (ticker BSCVX) is available on most major mutual fund platforms including Fidelity and Schwab. As of December 31, 2015, BSCVX had \$29.0 million in assets. For more information on BSCVX please visit: <http://bcafunds.com/>.

Thank you for your continued interest and support.

Explanation of Equity Performance

Performance Footnote Disclosure - 4Q2015

Bernzott Capital Advisors claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Bernzott Capital Advisors has been independently verified for the periods of Jan. 1, 1995 through March 31, 2014. Verification assesses whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The US Small Cap Value composite has been examined for the periods of Jan. 1, 1995 through March 31, 2014. The verification and performance examination reports are available upon request.

	# of Portfolios in Composite at period end	Total Composite Assets (\$ millions) at period end	Composite Equity Only Assets (\$ millions) at period end ⁴	Composite Dispersion % ³	Composite 3 Yr Standard Deviation	Russell 2000 Value 3 Yr Standard Deviation	Russell 2500 Value 3 Yr Standard Deviation	Total US Small Cap Value Assets ² (\$ millions)	Total Firm-wide Assets Under Management (\$ millions)	Composite Assets as a % of US Small Cap Assets at period end	Composite Assets as a % of Firm-wide Assets at period end	Bernzott Gross of Fees	Bernzott Net of Fees	Russell 2000 Value	Russell 2500 Value
1995 ¹	2	< \$1.0	< \$1.0	n/a	n/a	n/a	n/a	\$ 0.8	\$ 3.0	n/a	n/a	26.61%	25.24%	25.75%	29.76%
1996	8	\$ 1.7	\$ 1.2	n/a	n/a	n/a	n/a	\$ 2.2	\$ 6.3	77.3%	27.0%	28.53%	27.14%	21.37%	22.21%
1997	17	\$ 4.3	\$ 3.0	4.7%	8.88	9.41	8.89	\$ 5.4	\$ 11.1	79.6%	38.7%	32.57%	31.21%	31.78%	33.09%
1998	33	\$ 7.1	\$ 5.9	3.2%	11.09	15.10	14.88	\$ 8.6	\$ 17.7	82.6%	40.1%	11.52%	10.49%	-6.45%	-1.92%
1999	53	\$ 14.6	\$ 10.5	5.6%	13.29	16.32	16.14	\$ 16.6	\$ 31.3	88.0%	46.7%	-1.56%	-2.43%	-1.49%	1.49%
2000	54	\$ 19.0	\$ 14.1	9.0%	14.23	16.61	16.55	\$ 21.0	\$ 37.8	90.5%	50.3%	28.59%	27.53%	22.83%	20.79%
2001	70	\$ 32.1	\$ 24.3	6.2%	13.24	14.65	14.62	\$ 36.1	\$ 49.6	88.9%	64.7%	19.21%	18.37%	14.02%	9.74%
2002	152	\$ 53.3	\$ 38.4	4.2%	11.28	17.39	16.27	\$ 74.1	\$ 100.8	71.9%	52.9%	11.89%	11.13%	-11.42%	-9.87%
2003	177	\$ 123.3	\$ 98.3	4.7%	9.86	18.42	16.97	\$ 170.6	\$ 195.0	72.3%	63.2%	38.95%	37.92%	46.03%	44.93%
2004	273	\$ 168.4	\$ 138.2	4.0%	10.73	17.51	15.68	\$ 232.9	\$ 299.4	72.3%	56.3%	19.42%	18.51%	22.25%	21.58%
2005	403	\$ 436.4	\$ 299.0	2.2%	11.28	14.09	12.81	\$ 507.1	\$ 515.9	86.1%	84.6%	0.81%	-0.05%	4.71%	7.74%
2006	338	\$ 592.4	n/a	3.4%	10.91	12.33	10.85	\$ 703.6	\$ 800.4	84.2%	74.0%	28.82%	27.72%	23.48%	20.18%
2007	363	\$ 564.8	n/a	2.9%	12.01	12.59	11.03	\$ 622.3	\$ 736.9	90.8%	76.7%	-17.44%	-18.18%	-9.78%	-7.27%
2008	320	\$ 344.9	n/a	4.8%	16.99	19.14	18.38	\$ 405.1	\$ 405.1	85.1%	85.1%	-21.33%	-21.85%	-28.92%	-31.99%
2009	278	\$ 442.5	n/a	5.8%	20.01	25.62	24.61	\$ 481.8	\$ 481.8	91.8%	91.8%	25.32%	24.41%	20.58%	27.68%
2010	94 *	\$ 302.0 *	n/a	1.2%	20.55	28.37	26.97	\$ 319.7	\$ 470.8	94.4%	64.2%	21.13%	20.23%	24.50%	24.82%
2011	80	\$ 195.2	n/a	1.3%	17.70	26.05	24.23	\$ 198.0	\$ 372.0	98.6%	52.5%	9.02%	8.24%	-5.50%	-3.36%
2012	34	\$ 169.2	n/a	1.0%	14.21	19.89	18.41	\$ 192.0	\$ 395.2	88.1%	42.8%	16.81%	16.04%	18.05%	19.21%
2013	35	\$ 237.4	n/a	0.75%	12.34	15.82	15.07	\$ 267.0	\$ 513.6	89.0%	46.2%	34.38%	33.52%	34.52%	33.33%
2014	35	\$ 269.9	n/a	0.4%	10.41	12.79	11.25	\$ 274.7	\$ 528.7	98.2%	51.0%	6.69%	5.98%	4.22%	7.11%
2015	38	\$258.16	n/a	0.5%	12.8	13.7	12.19	\$339.83	\$577.12	75.9%	44.7%	-6.88	-7.44	-7.47	-5.49

¹ Equity product inception: January 1, 1995. ² The difference between this column and the "total composite assets at period end" is the accounts that do not meet the size parameter for the composite and any new acct under mgmt that has not met the waiting period under mgmt to join the composite. ³ 1995 and 1996 dispersion values are presented as n/a since five or fewer accounts are in the composite for the entire annual periods presented. Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year, and is shown as n/a. ⁴ Presented composite performance prior to October 1, 2006 is based upon equity only returns including allocated cash. Composite performance following October 1, 2006 is based on total account returns. * - To accommodate the needs of our high net worth non-institutional clients, Bernzott Capital Advisors has and will purchase equities across the capitalization spectrum, and not limit those purchases to the small cap universe. Effective October 1, 2010, the composite was redefined to only include those clients with a specific small cap mandate. This redefinition and client accommodation has resulted in a decline of AUM in the US Small Cap Value composite without impacting firm wide AUM.

GIPS Compliance Requirements:

Bernzott Capital Advisors is an equity portfolio investment manager that invests in U.S.-based securities. Bernzott Capital Advisors is defined as an independent investment management firm that is not affiliated with any organization.

The US Small Cap Value Composite includes all fully discretionary portfolios that invest in small capitalization U.S. stocks that are considered to have risk-adjusted returns purchased, at reasonable prices. The composite includes concentrated portfolios of market leading companies with consistent operating performance, significant recurring revenue, solid operating margin, moderate leverage and strong returns on capital. A size parameter of \$250,000 is applied for composite membership. As of October 1, 2006, composite asset performance is derived from total account performance and eligible accounts are added to the composite after accounts are under management for two complete quarters. Prior to October 1, 2006, the composite was constructed from fully discretionary small cap equity only portfolios and fully discretionary small cap equity segment carve outs of accounts included in the firm composite. Prior to October 1, 2006, accounts were included in the composite their first full quarter under management.

The Bernzott's benchmark is the Russell 2000 Value Index (taken from published sources). The Russell 2500 Value Index is provided as a secondary benchmark.

Gross-of-Fees returns reflect only the deduction of trading costs. Net performance returns reflect the deduction from gross performance of all trading costs, actual management fees and embedded fees.

Since January 1, 2005 non-fee-paying accounts represent <1% of the composite assets. For the period Jan. 1, 2004 through Dec. 31, 2004 non-fee-paying accounts represent 1% of the composite assets. For the period Jan. 1, 1998 through Dec. 31, 2003 non-fee-paying accounts represent 2% of the composite assets.

Bernzott performance is stated in US dollars.

Prior to 10/1/06 the annual composite dispersion was an asset-weighted standard deviation calculation for the equity only portion of the account in the composite for the entire year and calculations did not take into account the effect of cash. Following that date, the annual composite dispersion is an asset-weighted standard deviation calculation using total account returns. 1995 and 1996 dispersion values are presented as n/a since five or fewer accounts are in the composite for the entire annual periods presented.

Returns are presented gross and net of management fees and include the reinvestment of all income. Bernzott's standard institutional account fee schedule to-date is 90 bp on the first \$10 million, 80 bp on the next \$15 million, 75 bp on the next \$25 million, and 65 bp on the next \$50 million. Bernzott's standard private client account fee schedule to-date is 100 bp on the first \$2 million, 75 bp on the next \$3 million, 50 bp on the next \$5 million. Actual investment advisory fees incurred by clients may vary.

Bernzott's composite was created July 1, 1999 and composite membership parameters were revised December 1, 2006 effective October 1, 2006.

A complete list of Bernzott's composites is available upon request.

The policies of valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Bernzott does not utilize leverage, derivatives or short positions.

Bernzott does not have any significant company events to disclose.

A size parameter of \$250,000 is applied for composite membership. The minimum account size was implemented January 1, 2001. As of October 1, 2006, composite asset performance is derived from total account performance. Prior to October 1, 2006, the composite was constructed from fully discretionary small cap equity only portfolios and fully discretionary small cap equity segment carve outs of accounts included in the firm composite. Prior to January 1, 2004, the composite was known as the Small/Mid Cap Domestic Equity Composite. There was no change in the investment process as a result of the composite name change. Prior to October 1, 2006, carve-out portfolio segments were included in this composite and cash was allocated to the composite on a set percentage of 5%. As of October 1, 2006, portfolio segments are not included in this composite and all cash and cash equivalents are included in performance.

An account will be removed from the composite membership if a cash outflow reduces the account value below the minimum size parameter. Additional information regarding the treatment of significant cash flows is available upon request.

Supplemental Information - Market Proxy : Russell 2000 Value

* Equity product inception: January 1995		Bernzott						Cumulative				Annualized			
		Annualized Std Dev	R 2000v Annualized Std Dev	Alpha	Beta	R-Squared	Bernzott Gross	Bernzott Net	Russell 2000 V	Russell 2500 V	Bernzott Gross	Bernzott Net	Russell 2000 V	Russell 2500 V	
1 Yr	12/31/14-12/31/15	15.56	12.96	1.84	1.12	0.87	-6.88	-7.44	-7.47	-5.49	-6.88	-7.44	-7.47	-5.49	
2 Yrs	12/31/13-12/31/15	13.19	14.07	1.24	0.83	0.79	-0.65	-1.90	-3.57	1.23	-0.32	-0.95	-1.80	0.61	
3 Yrs	12/31/12-12/31/15	12.79	13.65	2.43	0.84	0.80	33.51	30.98	29.72	34.97	10.11	9.41	9.06	10.51	
5 Yrs	12/31/10-12/31/15	12.95	15.33	5.03	0.77	0.82	70.02	64.52	44.72	55.49	11.20	10.47	7.67	9.23	
7 Yrs	12/31/08-12/31/15	14.82	19.83	5.81	0.69	0.85	158.07	146.11	117.25	147.80	14.50	13.73	11.72	13.84	
10 Yrs	12/31/05-12/31/15	15.72	19.78	3.59	0.73	0.85	115.91	100.99	72.03	87.81	8.00	7.23	5.57	6.51	
15 Yrs	12/31/00-12/31/15	14.26	18.76	5.38	0.65	0.74	381.77	331.88	224.76	252.62	11.05	10.24	8.17	8.76	
20 Yrs (Inception)	01/01/95-12/31/15	13.69	17.48	6.88	0.64	0.85	1367.24	1140.52	639.35	794.80	13.81	12.90	9.97	10.99	

Past performance is not indicative of future results.

Prior to April 2013, Schmetter & Associates, LLC. (S&A) served as an independent institutional sales and marketing representative for Camarillo, California based Bernzott Capital Advisors. S&A continues to receive 20-25% of collected revenue from specified institutional clients. S&A is not a broker/dealer. All fees are paid to S&A by Bernzott Capital in hard dollars. No additional amount is ever billed to any client as a result of such payments.

Bernzott Capital Advisors, 888 West Ventura Blvd., Suite B, Camarillo, CA 93010 (805) 389-9445 fax: (805) 389-9456 web: www.bernzott.com