April 13, 2018

U.S. Small Cap Value Strategy

Patience is a Virtue

Despite renewed volatility (VIX +80%), in part due to concerns about tariffs and a trade war with China, the broad market averages were little changed at the end of the first quarter: the Dow -2.0%, S&P 500 -0.8%, the Nasdaq +2.6% and the Russell 2000 -0.1%.

From a sector perspective, just two S&P 500 sectors, Information Technology (+3.5%) and Consumer Discretionary (+3.1%), showed positive returns during the quarter. The remaining 10 sectors were negative with the biggest laggards being Consumer Staples (-7.1%) and Telecommunication Services (-7.5%). Gold (+3.2%) and WTI oil (+5.3%) were strong again after last quarter's solid performance, indicative of a rising rate environment.

From a style perspective, small outperformed large (Russell 2000 beat the Russell 1000 by 61 bps in the quarter), growth outperformed value (Russell 1000 Growth beat the Russell 1000 Value by 425 bps in the quarter) and high quality outperformed low quality (S&P high quality stocks rated B+ or higher outperformed low quality stock rated B or worse by 78 bps in the quarter). Within the Russell 2000, highly levered companies underperformed in the quarter, signaling their sensitivity to higher interest rates and widening credit spreads.

Patience is an important aspect of our approach to investing. While our investment process begins with selecting high quality companies, as value investors, we want to purchase an interest in these companies at a significant discount to fair value. Therefore, we will wait patiently for the right opportunities to present themselves in order to buy these companies at the right price.

We did experience some increased volatility in the first quarter of 2018 and the S&P 500 did have its first negative return quarter since 3Q 2015, finishing down -1.2% or -0.8% on a total return basis. However, market volatility alone generally isn't enough to create the attractive buying opportunity we seek, especially for the high quality companies we are looking to purchase. Typically, company-specific issues such as an earnings miss, a near-term execution issue or a business model transition are what cause analysts or investors to become overly negative or to indiscriminately sell in the short-term, which provide long-term investors like us an attractive entry point to initiate a position.

Once we have established our initial position, we monitor the company closely and recalculate fair value on no less than a quarterly basis. Our stated investment horizon is three to five years. That said, as long as the company is continuing to execute and trade at a discount to fair value, we will continue to hold the position. In addition, we will begin to trim the position when it reaches 90% of fair value and exit when it reaches 100% of fair value. We believe this patient approach to initiating, monitoring and ultimately selling a position helps us to maximize returns for our clients.

We thank you for your trust and support and look forward to speaking with you soon.

Performance (periods ending March 31, 2018):

	1Q18	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Gross)	**1.27%**	**21.48%**	**11.31%**	**12.68%**	**13.49%**	**12.62%**	**14.31%**
R2000V	-2.64%	5.13%	7.87%	9.96%	9.42%	8.61%	10.52%
R2500V	-2.65%	5.72%	7.26%	9.88%	9.95%	9.34%	11.29%
+ / - R2000V	3.91%	16.35%	3.44%	2.72%	4.07%	4.01%	3.79%
+ / - R2500V	3.92%	15.76%	4.05%	2.80%	3.54%	3.28%	3.02%

	1Q18	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Net)	**1.10%**	**20.67%**	**10.66%**	**12.00%**	**12.78%**	**11.89%**	**13.42%**
R2000V	-2.64%	5.13%	7.87%	9.96%	9.42%	8.61%	10.52%
R2500V	-2.65%	5.72%	7.26%	9.88%	9.95%	9.34%	11.29%
+ / - R2000V	3.74%	15.54%	2.79%	2.04%	3.36%	3.28%	2.90%
+ / - R2500V	3.75%	14.95%	3.40%	2.12%	2.83%	2.55%	2.13%

**The Bernzott U.S. Small Cap Value strategy inception date is January 1, 1995.*
Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end please visit www.bernzott.com or call (800) 856-2646. See last page for full GIPS compliant disclosure.

1Q 2018 Performance:

The U.S. Small Cap Value composite's 1Q18 return was +1.1% (net) compared to the benchmark Russell 2000 Value's return of -2.6%. In 1Q18, the strategy's +374 bps of outperformance was primarily driven by strength in Information Technology (+157 bps), Consumer Discretionary (+102 bps) and underweighting in Real Estate (+84 bps), offset in part by weakness in Financials (-59 bps), Materials (-53 bps) and Healthcare (-38 bps). The top three contributors were Mobile Mini (MINI), Callaway Golf (ELY) and Bottomline Technologies (EPAY). The top three detractors were Compass Minerals (CMP), The Michaels Companies (MIK) and Mistras Group (MG). We did not initiate any new positions in the quarter. We ended the quarter with 25 positions. We continue to believe the portfolio is well positioned for long-term appreciation with a weighted-average discount to fair value of 17.4% at the end of 1Q18.

1Q18: Top 3 Contributors	Ticker	Weight	Return	Contrib.
Mobile Mini, Inc.	MINI	3.89%	26.77%	0.87%
Callaway Golf Company	ELY	4.26%	17.51%	0.69%
Bottomline Technologies (de), Inc.	EPAY	5.81%	11.76%	0.65%

Mobile Mini (MINI): Portable storage solution provider MINI had a very good quarter with an 11.0% year-over-year increase in Storage Solutions rental revenues, 14.2% increase in year-over-year Tank & Pump Solutions rental revenue growth, increased total Storage Solutions average units on rent by 5.3% year-over-year and an increase in Storage Solutions rental rates by 4.2% year-over-year, with rates on new rentals up 5.1%. The demand across business segments was strong as CEO Olsson noted, "The construction segment experienced healthy levels of demand, which is expected to continue. The retail business is stable, as our customer base is primarily free-standing retail stores and not mall-based stores. The industrial segment has begun to improve and trend in a more positive direction." Margins took a slight hit due to a variable comp increase, yet a strong top-line contributed to increasing cash flow, which allowed for a 10% dividend increase. MINI enjoys many attributes we consider when we define quality: dominant market position with pricing power, compelling economics, and a diversified customer base producing consistent cash flows. As MINI is approaching our current estimate of fair value we trimmed the position in the quarter.

Callaway Golf (ELY): ELY posted strong 4Q17 results, which capped off an outstanding 2017. For the year, revenue (including the OGIO and TravisMathew acquisitions), was +20%. Organic growth was primarily driven by the company's woods category (largely due to the introduction of the EPIC line), which had revenue growth of 43%. The company exceeded $1 bil in revenue for the first time since 2008. Full year EBITDA was +72% and diluted EPS was +121%. On a market share basis, ELY has the #1 driver and the #1 club brand in the U.S., U.K., Europe, and Japan. In the irons category, the company has had the #1 brand in the U.S. every month for 35 consecutive months. OGIO and TravisMathew are both "meeting or beating [management's] expectations" and should provide incremental growth and profitability in the years to come. Turning to 2018, things continue to look outstanding from a product standpoint. The "hero" of the club lineup is the new Rogue family of woods and irons. The woods build on ELY's Jailbreak Technology, extending into fairways and hybrids for the first time, and also improving the driver. In the ball category, the company is introducing an entirely new line of Chrome Soft golf balls, all featuring a new and larger graphene-infused core. In conjunction with this, ELY looks to be taking some price increases as well ($45/dozen vs. $40 previously). Brand momentum is strong, customers' response to new products has been very positive, the balance sheet is clean (no net debt), and the investment in Top Golf continues to look like a tremendous asset. We continue to maintain a full position.

Bottomline Technologies (EPAY): EPAY continues to demonstrate excellent momentum in its three core businesses. In fiscal 2Q18, subscription and transaction revenue (66% of total revenue) was +14% Y/Y. EPAY signed a record 31 new payers on its Paymode-X network (after a record 29 last quarter); the expected revenue from these signings is also a record. New customers were broad in nature. EPAY also added eight Digital Banking wins, including two new significant customers. The implementation process is complex and lengthy, which delays the booking of revenue from an accounting standpoint. However, these platforms typically have replacement cycles of 7 to 10 years (or even more), meaning these new engagements result in extraordinarily sticky customer relationships and long-term revenue streams. EPAY has $14 mil of annual subscription revenue in the process of being implemented, which is sizable considering that 2018 guidance for digital banking subscription revenue is $61 mil. In terms of legal spend management, the company added five new insurers to its platform, including two PARTNERSELECT wins. The company updated its FY18 guidance (ending June 30, 2018). Total revenue was raised by ~$10 mil. Operating income and EBITDA were also raised. The midpoint of EPS was raised by 7.5%. In terms of FY19, the CEO reiterated once again, "we've set and committed to an FY19 target of $300 mil in subs and transaction revenue and $100 mil in EBITDA…we're on track to meet or exceed those targets." The stock remains undervalued, even after a strong performance in 2017. However, we did trim our position slightly as it had become outsized position. It remains our largest position.

1Q18: Top 3 Detractors	Ticker	Weight	Return	Contrib.
Compass Minerals International, Inc.	CMP	4.03%	-15.58%	-0.67%
The Michaels Companies, Inc.	MIK	3.24%	-18.65%	-0.62%
Mistras Group, Inc.	MG	2.42%	-19.39%	-0.53%

Compass Minerals (CMP): Compass Minerals International (CMP): This has been a challenging year for CMP. For two years in a row, snowfall in the regions where CMP dominates has been very weak. For 2017, the beginning of the year volume estimate of total salt was 11.8 to 12.6 million tons. The year ended at 10.6 million tons. Price also slipped 1%, partly due to the weak demand. The current winter season has seen an above-average level of snowfall, but the leftover inventories as a result of the balmy winter last year puts pressure on volumes this year. Plant nutrition has fared a bit better as North America Plant Nutrition grew in both volume and price. South America Plant Nutrition grew revenue +10% with volume +6% and price +3%. CMP has done an excellent job with cost-cutting and controlling the variables while the weather and farm economies continue to fluctuate. The Goderich mine transition is already delivering benefits and is expected to deliver $30 million in run rate savings by the end of 2018 assuming average winter weather. The corporate cost saving plan remains on track and has delivered $12 million in savings to date, with the balance of the $20 million goal of savings to be expected in 2018. CMP possesses irreplaceable assets and it has done a good job investing in the future to contain costs and increase cash flow. We believe long-term investors will be rewarded for patience as we look past short-term events and typical weather fluctuations.

The Michaels Companies (MIK): MIK posted in-line 4Q17 results with revenue +3.5% (excluding a 53rd week). SSS were +2.5%, driven by increases in both average ticket and transactions. Custom framing was slightly positive during the quarter thanks to some changes made in 3Q17. Meanwhile, sales from michaels.com were strong, nearly doubles the level of online sales last year, thanks to higher traffic, higher conversion rates, and higher order value. While top-line results were solid, unplanned expenses negatively impacted operating profits. MIK's third-party fulfillment provider struggled to meet planned customer demand. This caused many online orders to be fulfilled across multiple fulfillment methods, leading to an unexpected increase in split shipments, which drove higher than expected fulfillment costs. MIK was already in the process of in-sourcing ecommerce fulfillment, but given these challenges, the company is now accelerating its efforts to become full insourced by 2019. In addition to that, higher than expected supply chain costs persisted from tight domestic trucking capacity. Somewhat offsetting these operational headwinds is additional sourcing benefit; in 2017, MIK generated $46 mil in savings and product costs efforts. Also, MIK announced it will close 94 of its 97 Aaron Brothers locations. The company plans to leverage the 70-year old brand as a store-within-a-store concept for custom framing at Michael's locations. 2018 guidance for the year disappointed the Street, although largely on the EPS line, which reflects additional investments that the company is planning to make this year, along with elevated expenses related to freight and ecommerce fulfillment that will carry over into this year. MIK plans to proactively reinvest ~1/3 of the benefit it expects from the reduction in corporate tax rates, something that will hurt margins near term. Moreover, capex is expected to be up ~$40 mil (+30% Y/Y). The balance sheet is in great shape with net debt / LTM EBITDA at 2.6X and the company has $350 mil remaining under its current repurchase authorization. Valuation is attractive and we added to our position in the quarter.

Mistras Group (MG): Despite revealing the loss of a large customer in a “challenged region,” MG is forecasting 2% to 4% revenue growth and 22% to 30% EBITDA growth in 2018. Excluding the lost customer, the services business should be +10% and international should also be +10% including growth from key customer Safran. MG acquired West Penn for $74 million at the end of December 2017 and noted they have an active acquisition pipeline. Free cash flow should improve nearly 40% this year. Management remains focused on “repositioning, investment and cost reduction” but with stable oil prices and positive organic growth, management is clearly excited about the long-term outlook for the business. We added to the position in the quarter.

1Q 2018 Portfolio Activity:

- Trimmed two (2) positions: Bottomline Technologies (EPAY) and Mobile Mini (MINI).
- Added to three (3) positions: Artisan Partners (APAM), The Michaels Companies (MIK) and Mistras Group (MG).

Bernzott Organization Update:

Bernzott Capital Advisors ended 1Q 2018 managing $850 million with $513 million in our U.S. Small Cap Value strategy.

Thank you for your continued interest and support.

Explanation of Equity Performance
Performance Footnote Disclosure - 1Q2018

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 December 31, 2016. 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 December 31, 2016.
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 end4	Composite Dispersion %	Composite 3 Yr Standard Deviation	Russell 2000 Value 3 Yr Standard Deviation	Russell 2500 Value 3 Yr Standard Deviation	Total US Small Cap Value Assets1 ($ 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
2008	320	$ 344.9	n/a	4.8%	17.23	19.41	18.54	$ 405.1	$ 405.1	85.1 %	85.1 %	**-21.33%**	**-21.85%**	**-28.92%**	**-31.99%**
2009	278	$ 442.5	n/a	5.8%	20.03	25.98	24.96	$ 481.8	$ 481.8	91.8 %	91.8 %	**25.32%**	**24.41%**	**20.58%**	**27.68%**
2010	94 *	$ 302.0 *	n/a	1.2%	20.85	28.77	27.53	$ 319.7	$ 470.8	94.4 %	64.2 %	**21.13%**	**20.23%**	**24.50%**	**24.82%**
2011	80	$ 195.2	n/a	1.3%	17.95	26.42	24.57	$ 198.0	$ 372.0	98.6 %	52.5 %	**9.02%**	**8.24%**	**-5.50%**	**-3.36%**
2012	34	$ 169.2	n/a	1.0%	14.41	20.17	18.67	$ 192.0	$ 395.2	88.1 %	42.8 %	**16.81%**	**16.04%**	**18.05%**	**19.21%**
2013	35	$ 237.4	n/a	0.8%	12.52	16.05	15.29	$ 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	12.98	11.14	$ 274.7	$ 528.7	98.2 %	51.0%	**6.69%**	**5.98%**	**4.22%**	**7.11%**
2015	38	$ 259.7	n/a	0.5%	12.80	13.65	12.19	$339.8	$577.2	75.9 %	44.7%	**-6.91%**	**-7.46%**	**-7.47%**	**-5.49%**
2016	35	$ 385.3	n/a	0.3%	13.34	15.72	13.36	$405.9	$655.3	93.8%	58.1%	**17.65%**	**16.97%**	**31.74%**	**25.2%**
2017	36	$404.2	n/a	0.2%	12.70	14.20	11.98	$512.7	$854.4	78.9%	47.3%	**28.21%**	**27.41%**	**7.84%**	**10.36%**

*Equity product inception: January 1, 1995. 1The 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 account under management that has not met the waiting period to join the composite.2 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.

For institutional client accounts in the US Small Cap Value strategy, the management fee schedule is as follows: 0.90% on the first $10 Million; 0.80% on the next $15 Million; 0.75% on the next $25 Million and 0.65% on the balance.

For private client accounts, the management fee schedule is as follows: 1% on the first $2 Million; 0.75% on the next $3 Million; 0.50% on the balance.

Special circumstances unique to a specific client may result in the negotiation of fees different than those set forth herein. We generally aggregate separate accounts of a single relationship for billing purposes. We may serve certain non-profits qualified under Section 501(c)3 IRC at a discount and we waive fees for employees and related parties.

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.

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. BCA currently employs two individuals responsible for business development. They receive a % of collected revenue from specified institutional clients. All fees paid by Bernzott Capital are in hard dollars. No additional amount is ever billed to any client as a result of such payments.

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