January 16, 2020

U.S. Small Cap Value Strategy

Patience is a Virtue (Redux)

The equity markets charged higher in the fourth quarter thanks to an improved economic picture, a dovish Fed and advancement in trade negotiations with China.

In 4Q19, the Dow was +9.0%, the S&P 500 was +9.1%, the Nasdaq was +13.6% and the Russell 2000 was +9.9%. Outside of equities, long-term treasuries were -4.1%, gold was +2.0%, WTI Crude Oil was +12.9% and the CBOE VIX was -15.2%.

In 4Q19, nine of the eleven (11) S&P 500 sectors posted positive returns. The top three sectors were Information Technology (+14.0%), Health Care (+13.9%) and Financials (+9.9%). The top three detractors were Real Estate (-1.3%), Utilities (-0.0%) and Consumer Staples (+2.8%).

In 4Q19, from a style perspective, small outperformed large (Russell 2000 beat the Russell 1000 by 100 bps), growth outperformed value (Russell 1000 Growth beat the Russell 1000 Value by 321 bps) and low quality (S&P rated B or lower) beat high quality (S&P rated B+ or higher) by 453 bps. That said, for all of 2019, high quality outperformed by 176 bps.

In 4Q19, among small cap value stocks specifically, small (<$1 billion market cap.), non-earners, high beta, low ROE, high debt-to-capital and high long-term EPS growth companies performed best in the quarter. The strong showing by non-earners was due in part to the biotech sector, +16% in the quarter.

In the Russell 2000 Value, Information Technology (+21.2%), Health Care (+17.5%) and Materials (+13.5%) were the best performing sectors while Utilities (-1.7%), Communication Services (+2.5%) and Real Estate (+3.3%) were the worst performing sectors in the quarter.

In our first quarter of 2018 quarterly letter we wrote about how patience is an important aspect of our approach to investing. The discussion primarily focused on how we wait for the right time to add new companies to the portfolio. We also discussed our time horizon (3-5 years, often longer) and ultimately selling positions when they reach 100% of our estimate of fair value.

One aspect we did not discuss was having the patience to deal with uncertainty. Investing is inherently an exercise in dealing with uncertainty. A key component of our strategy is attempting to take advantage of some investor's inability or unwillingness to invest in companies dealing with near-term uncertainty. This does not mean that we have a crystal ball or know when a company's performance will improve but we agree with Warren Buffet who once said, "you pay a very high price in the stock market for a cheery consensus."

During the third quarter of 2019 a handful of our portfolio companies experienced some short-term volatility resulting in some stock price weakness. We objectively analyzed the reasons for the stock weakness, spoke with the management teams, and in most cases after believing the reasons for the declines were temporary/transitory we added to positions.

In the fourth quarter of 2019 the results for three companies were particularly positive: On November 11, Open Text (OTEX) announced they were acquiring portfolio company Carbonite (CARB) for a 78% premium. On December 4, portfolio company Verint (VRNT) announced it was splitting into two companies and the stock is up approximately 20% since the announcement. Lastly, on December 7, Francisco Partners and Evergreen Coast Capital Corp. (affiliate of Elliott Management Corp.) announced an acquisition offer for portfolio company LogMeIn (LOGM) for a 25% premium. The conclusion is patience, rather than panic, is a key to successful portfolio management that ultimately can help drive positive portfolio returns.

Please see the “Company Spotlight” below on EPAM Systems (EPAM). With the portfolio trading at a ~20% discount to our estimate of fair value at the end of December 2019, we remain very excited about the portfolio’s return potential.

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

Performance (periods ending December 31, 2019):

	4Q19	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Gross)	**10.80%**	**26.95%**	**15.55%**	**11.06%**	**13.48%**	**14.10%**	**14.03%**
R2000V	8.49%	22.39%	4.77%	6.99%	10.14%	10.56%	10.15%
R2500V	7.07%	23.57%	6.12%	7.18%	10.56%	11.25%	10.94%
+ / - R2000V	2.31%	4.56%	10.78%	4.07%	3.34%	3.54%	3.88%
+ / - R2500V	3.73%	3.38%	9.43%	3.88%	2.92%	2.85%	3.09%

	4Q19	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Net)	**10.62%**	**26.21%**	**14.91%**	**10.44%**	**12.81%**	**13.38%**	**13.17%**
R2000V	8.49%	22.39%	4.77%	6.99%	10.14%	10.56%	10.15%
R2500V	7.07%	23.57%	6.12%	7.18%	10.56%	11.25%	10.94%
+ / - R2000V	2.13%	3.82%	10.14%	3.45%	2.67%	2.82%	3.02%
+ / - R2500V	3.55%	2.64%	8.79%	3.26%	2.25%	2.13%	2.23%

**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.

4Q 2019 Performance:

The U.S. Small Cap Value composite's 4Q19 return was 10.6% (net) compared to the benchmark Russell 2000 Value's return of 8.5%. In 4Q19, the strategy's 213 bps of outperformance was primarily driven by strength in Information Technology (+343 bps), Industrials (+98 bps) and Consumer Discretionary (+82 bps) offset by underweighting in Financials (-183 bps), Communication Services (-54 bps) and underweighting in Real Estate (-36 bps). The top three contributors were Bottomline Technologies (EPAY), Douglas Dynamics (PLOW) LogMeIn (LOGM). The top three detractors were Mistras (MG), Michaels (MIK) and Cinemark (CNK).

During the quarter we sold one position: Carbonite (CARB). We ended the quarter with 27 positions. We continue to believe the portfolio is well positioned for long-term appreciation with a weighted-average discount to fair value of 20.1% and a weighted average market-capitalization of $3.1 billion at the end of 4Q19.

4Q19: Top 3 Contributors	Ticker	Weight	Return	Contrib.
Bottomline Technologies (de), Inc.	EPAY	3.95%	36.15%	1.29%
Douglas Dynamics, Inc.	PLOW	5.25%	23.98%	1.17%
LogMeIn, Inc.	LOGM	3.70%	20.80%	0.85%

Bottomline Technologies (EPAY): The company kicked off its FY 2020 with strong fiscal Q1 results, which included subscription and transaction ("subs and trans") revenue for Established Products accelerating to +16% (constant currency) vs. +14% in Q4, and in-line with the company's long-term target of 15%-20%. Notably, Paymode-X signed a record 32 new payors, including several large payers that signed on Paymode-X with Visa Payables. Management is confident that this will generate "a strong return in FY21 and beyond...the opportunity in Paymode-X is huge." 50% of businesses are still making >50% of payments by paper check. Digital Banking generated $18 mil in revenue in the quarter; EPAY also has $17 mil of annual subscriptions currently in implementation and not yet live. EPAY won four new Digital Banking deals in Q1, including one major Digital Banking IQ deal. While subs and trans revenue growth was strong, profitability was modestly lower vs. the same period last year (although this was planned), due to investments in product development and sales and marketing, which increased by 1% each, as a percentage of revenue. Management stated that "it's a high return investment." FY 2020 guidance was reiterated. The CEO stated, "Our backlog, pipeline, and predictable business model give us a high degree of confidence in achieving our goals. Our business results and market leadership position us to drive sustained business results and shareholder value for years to come..." The stock "appears" expensive based on this year's multiples due to increased investments as well as the Digital Banking transition that is currently underway. However, looking at normalized free cash flow and based on reasonable assumptions in our DCF model, we believe the stock is significantly undervalued and continue to maintain a full position.

Douglas Dynamics (PLOW): PLOW, a leading manufacturer and upfitter of commercial work truck attachments and equipment, continues its achievement of superior execution. After record sales in 2Q19, PLOW produced record net sales again and meaningful year-over-year increases in EPS and EBITDA reflecting positive demand in both the Work Truck Solutions and Work Truck Attachments segments. The Work Truck Solutions segment produced strong performance, with record revenue and Adjusted EBITDA attributable to a combination of increased volumes, improved operational performance, price recovery on higher material costs and greater predictability in Class 8 chassis supply. In Work Truck Attachments, the company reported an 8% increase in net sales, mainly attributable to a strong conclusion to the pre-season shipment period and price recovery on higher material costs. The segment did report Adjusted EBITDA margins were slightly down partially due to costs related to ongoing investments in the business. In November, the Bernzott Capital investment team had an on-site (Milwaukee, Wisconsin) meeting with CEO Bob McCormick, CFO Sarah Lauber, and Director of Operational Excellence Shannon Vlieger. The visit included a plant tour and discussions about the current environment, how to maintain the momentum, and opportunities in the marketplace. Looking forward, the company sees additional opportunities in vertical integration. Considering the company's track record of execution, we are confident any product or company expansion will be accretive to value. Cash flow remains strong, the dividend has been increased 11 times in the last nine years, leverage is reasonable, and opportunities for growth are robust. We maintained our full position.

LogMeIn (LOGM): On December 17, 2019, the company announced that it has entered into an agreement to be acquired by affiliates of Francisco Partners and Evergreen Coast Capital for $86.05 per share in cash. The transaction is expected to close in mid-2020. LOGM does have a 45-day go-shop provision, which permits the company to actively solicit alternative acquisition proposals, and potentially enter negotiations with other parties that make alternative acquisition proposals. While we are pleased with the outcome, we are admittedly disappointed in the acquisition price. The transaction took place at ~17x EPS and 3.3X revenue based on 2020 estimates, multiples that are well below peer comparables and historical transactions in this space.

4Q19: Top 3 Detractors	**Ticker**	**Weight**	**Return**	**Contrib.**
Mistras Group, Inc.	MG	2.87%	-12.20%	-0.60%
The Michaels Companies, Inc.	MIK	2.15%	-17.97%	-0.56%
Cinemark Holdings, Inc.	CNK	3.56%	-11.63%	-0.48%

Mistras (MG): MG, a provider of asset protection solutions, reported 3Q19 results that fell short of consensus expectations and lowered 2019 guidance due to temporary weakness in the Oil & Gas markets as macro concerns and other near-term spending priorities caused MG clients to defer spending in the short-term. 3Q19 revenue +5.5% (constant currency +6.5%): organic +2.1% + acquisitions +4.4% - FX +1.0% = +5.5% reported. Gross Profit was +10.4% and Gross Margin of 30.1% was +130 bps vs. last year. Adjusted EBITDA was +7.5% vs. last year and Adjusted EBITDA margin of 11.7% was +30 bps vs. last year. 2019 guidance was lowered as mentioned above, management stated: "…a note of caution unexpectedly rose" among the company's oil & gas customers related to macroeconomic activity late in 3Q/early 4Q that caused a near-term pushout in demand. Additionally, another issue was some of the company's refinery clients deferred budget spending to International Maritime Organisation (IMO) 2020 marine sector emissions spending instead of to MG project spending, exacerbating the issue. The company expects this to result in a strong 2020 spring season with no impact on the company's long-term outlook or positioning. With the reduction is guidance, the leverage ratio has ticked up to 3.6x 2019E EBITDA. The company's goal is to be at 3.0x by the end of 2020 (which should be partially achievable through growth in EBITDA). 2019E FCF is now projected to be +46% vs. last year. The company will continue to look at small tuck-in opportunities but is focused on debt reduction. We trimmed our position in the quarter.

Michaels (MIK): The company's 3Q19 results came in below expectations, which included SSS -2.1% vs. guidance of flat to +1.0% and consensus +0.5%. About half of that decline reflects the company's transition to focus on core makers. The other half was related to some executional issues, including mixed performance from events, a seasonal transition that was not as smooth as it needed to be, and underperformance in a few specific categories. Sales from michaels.com were up nicely driven by increased traffic and higher conversion rates, with 45% of e-commerce sales and 65% of e-commerce orders fulfilled through buy online, pick up in store ("BOPIS"). From a category perspective, tools and technology, craft storage and fine art supplies performed very well. MIK had solid growth in Halloween, driven by decor and party. The Fall assortment was impacted by seasonal transition challenges noted above. MIK also saw softness in yarn, kids, kids crafts and the ready-made frames. Gross margins were -150bps vs. the same period last year due to higher than expected seasonal discounting and some deleveraging of occupancy and distribution costs given the lower sales in the quarter. Subsequent to the earnings release, the company announced that it has hired Ashley Buchanan as President and CEO. Most recently Buchanan was Chief Merchandising and COO for Walmart U.S. eCommerce. As part of the leadership transition, the company also announced that Denise Paulonis, CFO, has accepted a position at another company and will depart at the end of the company's fiscal year (Jan. 31, 2020). We maintained our position in the quarter.

Cinemark (CNK): CNK, a motion picture exhibition operator, reported mixed 3Q19 results vs. consensus expectations (revenue ahead and EPS below). CNK delivered record revenue in the third quarter and domestic admission was +180 bps better than the industry; CNK has now outperformed the industry in 38 of the last 43 quarters. Concession revenue per patron was +4.5% overall and +9.7% in the U.S. which marks 51 consecutive quarters of concession revenue per patron growth. Offsetting the top line strength was some higher costs. While Adjusted EBITDA was +0.8%, vs. last year, Adjusted EBITDA margin of 20.7% was -170 bps vs. last year as film rental costs were -90 bps (top five films drove 53% of gross results) and new lease accounting rules were in effect (-70 bps). CNK is a very lean organization focused on costs and margins and we fully expect them to continue to focus on delivering industry-leading margins going forward. The company's wildly successful Movie Club now has 850K members who account for over 15% of ticket sales. Leverage is reasonable at less than 1.9x net debt/EBITDA. Capex for 2019 was guided to $300-$325 million but should decline going forward now that the luxury recliner strategic initiative has about reached its end with ~60% of the domestic footprint having recliners by year-end 2019 (highest among U.S. operators). In mid-December 2019, competitor Cineworld (owns Regal), announced it would acquire Canada's Cineplex for $2.1 billion. Valuation is attractive. We added to our position in the quarter.

YTD 2019 Performance:

The U.S. Small Cap Value composite's return for the twelve months ended December 31, 2019 was +26.2% (net) compared to the benchmark Russell 2000 Value's return of +22.4%. The strategy's 382 bps of outperformance was primarily driven by Information Technology (+548 bps), Industrials (+505 bps) and Healthcare (+468 bps) offset by underweighting in Financials (-524 bps), underweighting in Real Estate (-327 bps) and underweighting in Utilities (-136 bps). The top three contributors were Catalent (CTLT), EPAM Systems (EPAM) and Douglas Dynamics (PLOW). The top three detractors were Michaels (MIK), Cloudera (CLDR) and PlayAGS (AGS).

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.

YTD Top 3 Contributors	**Ticker**	**Weight**	**Return**	**Contrib.**
Catalent, Inc.	CTLT	4.84%	80.50%	3.04%
EPAM Systems, Inc.	EPAM	4.54%	82.69%	2.94%
Douglas Dynamics, Inc.	PLOW	4.54%	57.02%	2.42%

Catalent, Inc. (CTLT): CTLT, the leading global provider of advanced dosage delivery technologies and drug development solutions, reported solid fiscal 1Q20 results that beat consensus estimates. The company also reiterated 2020 guidance. 1Q20 revenue +20.5% (but +23% constant currency). Organic revenue increased +11%. 1Q20 Adjusted EBITDA +27.2% vs. last year (+28% constant currency). Adjusted EBITDA margin was 19.1% or +100 bps better than last year. Segment reporting structure was changed, the four segments are now: Softgel and Oral Technologies (40% of 3Q19 revenue), Biologics (28%), Oral and Specialty Delivery (20%) and Clinical Supply Services (13%). Fiscal 2020 guidance was reiterated and shows revenue growth of 10-14% and Adj. EBITDA growth of 17-22% vs. last year. It assumes ~150 bps of Adjusted EBITDA margin expansion. 2020 capex is increasing to ~$320 million (~11% revenue) up from $218 million last year as CTLT increases investments in biologics including gene therapy. CTLT's current leverage is 3.8x 2020E EBITDA. Management believes through FCF generation and growing Adjusted EBITDA the company can naturally delever 0.50x to 0.75x turns a year in the natural course of business. No significant maturities until 2024. Capital allocation will focus on capex to drive organic growth, M&A to supplement organic growth, then share repurchase and debt reduction. In conjunction with the closing of the Paragon deal, CTLT updated its long-term guidance in April/May 2019, and is now targeting annual revenue growth of 6-8% (previous 4-6%) and EBITDA annual growth of 8-11% (previous 6-8%). Management reiterated they are targeting 200 to 300 bps of margin expansion over the next 2-3 years (including fiscal 2020) which implies post-2020 they are looking for another 50-150 bps of margin expansion in 2021 and 2022 or 25-75 per year. We continue to maintain a full position.

EPAM Systems, Inc. (EPAM): The company continues to perform very well and 3Q19 results were very strong with revenue of $588 mil vs. guidance of "at least" $579 mil and consensus $580 mil. Revenue was +27.2% constant (with ~150bps coming from M&A), marking the 35th (consecutive quarter of 20%+ organic revenue growth. EPS was $1.39 (+19% vs. last year) compared to guidance of "at least" $1.32 and consensus $1.34. Once again, revenue growth was strong and broad based as the CEO noted, "we have seen a consistent demand environment". On a constant currency basis, North America (61% of revenue) was +27% and Europe (32% of revenue) was +28%. In terms of verticals, Financial Services was +17%, led by offerings in asset management, payment processing, and insurance. Software+ Engineering growth was +23% and driven by demand for product engineering services. Business Information + Media was +29% driven by demand for data and analytics services. Life Sciences + Healthcare was +50% thanks to demand for services in R&D IT and customer¬ facing solutions and applications. Emerging verticals were +35%, driven primarily by telecommunication and energy clients. Margins were -50bps vs. the same period last year, but that was due to investments in SG&A (18.7% of revenue vs. 18.2% last year) as EPAM "remains focused on building capacity to support our longer-term growth plans." Full year revenue guidance was reiterated, which includes organic revenue growth of at least 24% (with ~100bps coming from M&A). Q4 reported revenue growth is "only" expected to be 22%+ as Q4 2018 was a very tough comparison. Looking ahead to 2020, "we continue to see a strong demand for our services. And right now, we're expecting to continue to see a growth rate in excess of 20% in our fiscal 2020." We continue to maintain a full position.

Douglas Dynamics (KN): Please see commentary above.

YTD Top 4 Detractors	**Ticker**	**Weight**	**Return**	**Contrib.**
The Michaels Companies, Inc.	MIK	2.78%	-40.91%	-1.66%
Cloudera, Inc.	CLDR	0.39%	-51.18%	-1.20%
PlayAGS, Inc.	AGS	0.76%	-41.51%	-0.98%

Michaels (MIK): Please see commentary above.

Cloudera (CLDR): After initiating a position in April 2019, we exited the position two months later after unexpected weak Q1 results broke our investment thesis. The company reduced its annual recurring revenue ("ARR") guidance to +0%-10%, down from 18%-21% previously. The company cited sales disruption from the merger with Hortonworks and a "wait and see attitude" to existing customers renewing and/or expanding contracts ahead of the new Cloudera Data Platform Product launching later this year. Churn rate jumped to ~16% annualized compared to ~10% historically. Additionally, CEO Thomas Reilly stated that he would resign at the end of Q2, along with Co-Founder and Chief Strategy Officer Mike Olson.

PlayAGS (AGS): AGS, which designs and manufactures electronic gaming machines (EGMs), i.e. slot machines, table products and interactive games, announced record 3Q19 quarterly revenue of $79.4 million, +5.2% vs. last year, fueled by strong EGM sales (1,391 +4% vs. last year), record Table segment performance and the closing of the Integrity acquisition. Recurring revenue (+4%) was 66% of total revenue in the quarter. Adjusted EBITDA increased 9.5% to $36.8 million and Adjusted EBITDA margin was 46.3%, +190 bps vs. last year. Within the EGM sales, the Orion Portrait cabinet accounted for 57% of sold units. The Orion Upright cabinet was launched and accounted for 21% of sales. The latter helped to drive overall Domestic ASP +2.4% YoY to $18,476. Domestic ship share increased to 7% (+100 bps from 2Q19) and market share increased to 3.1% (+50 bps from 3Q18). They were able to secure 8% of the floor at the new Hard Rock, Sacramento property. Total EGM installed base increase 13% to 27,392 including the Integrity acquisition. Game performance continues to be strong with AGS as a supplier indexing at 1.4x house average per Eilers-Fantini. Rakin' Backon and Fu Nan Fu Nu are both top 25 core games from AGS studios, averaging 2.02x and 1.69x house average respectively. Domestic Revenue Per Day (RPD), negatively impacted by the Integrity acquisition as well as other factors related to the Oklahoma installed base, declined 6.1% from $20.95 to $19.68. Domestic RPD excluding Integrity declined 2.2% from $27.14 to $26.55. This decline is attributable to Oklahoma (see below). Outside of Oklahoma and normalized for the Texas and VLT removals, Domestic RPD was +5% YoY due to growth in recurring footprint in markets such as Washington, Wisconsin and Texas. AGS is aggressively dealing with the challenges they face in the Oklahoma market. These were related to product rollout and analytics issues that negatively impacted RPD performance in the state. In addition, the Oklahoma market is very competitive with one of the highest levels of premium product share levels in the country. AGS has changed management, added additional resources to more closely analyze real-time information and respond to changes in the marketplace more quickly in addition to launching new premium products into the market next year such as the Orion Rise and the Orion 49C (both were shown and received positively at the G2E conference in October 2019). 2019 guidance was reiterated. The new AGS products unveiled at the G2E conference were impressive – for instance the Starwall (launching late 2020) won silver medal for Best Slot Product and ranked fourth as best new premium lease product in the Eiler-Fantini survey. Leverage is 3.6x net debt/2019E EBITDA. In January 2020, the Bernzott Capital investment team met with CFO Kimo Akiona and CMO/IR Julia Boguslawski and the company appears on track following the 2Q19 earnings miss/guidance reduction. Valuation remains attractive. We added to our position in the quarter.

4Q 2019 Portfolio Activity:

- Sold one (1) position: Carbonite (CARB).
- Trimmed (1) position: Mistras (MG).
- Added to eight (8) positions: Bottomline Technology (EPAY), Cinemark (CNK), Compass Minerals (CMP), Hillenbrand (HI), LogMeIn (LOGM), Mobile Mini (MINI), PlayAGS (AGS) and Quotient Technology (QUOT).

Sold Position

Carbonite (CARB) - On November 11, 2019, the company announced that it has entered into an agreement to be acquired by OpenText (OTEX) for $23.00 per share in cash. While we are pleased with the outcome, we are admittedly disappointed in the acquisition price. The transaction took place at ~3X revenue and 10X EBITDA, multiples that are well below peer comparables and historical transactions in this space. Moreover, in a subsequent 14D filing, CARB disclosed that in February/March 2019, a company had offered to buy CARB for $32 to $35 per share in cash. However, at the end of March 2019, the Board "unanimously determined that proposal did not present a compelling opportunity for Carbonite's stockholders."

Company Spotlight: EPAM Systems (EPAM)

Founded in by 1993 and based in Newton, PA, EPAM is a leading global provider of software product development and digital platform engineering services. The company has a strong culture with exceptional talent (EPAM hires a large amount of graduates from top engineering schools in Central and Eastern Europe) that has enabled the company to develop best-in-class expertise in software development, mobile applications, testing, cognitive computing, advanced analytics, and ecommerce. In total, EPAM has >31,000 engineers, designers, and consultants. 61% of revenue is derived from companies domiciled in North America, 32% from Europe, and 7% from other geographies. The company has tremendous customer relationships, including five of the top 10 largest investment banks, the largest on line travel agency, the largest global hospitality company, the top four broadcast networks, and nine of the top 10 pharma companies. In total, EPAM has 120 of the Fortune Global 2000 companies as customers, including Adidas, Barclays, Coca Cola. Expedia, Google, Oracle, SAP, and UBS, among others. EPAM has a loyal client base, with an average of 11 years with its top 10 clients. The business tends to be sticky and EPAM has >90% recurring revenue from clients who have been with them for more than one year. The company has successfully expanded these relationship over time as well, with >100 customers each contributing $5 mil in revenue, up from 19 in 2012. EPAM has a long and consistent track record, having grown at ~27% revenue CAGR over the past five years (almost all organic) and revenue growth >20% for 35 consecutive quarters.

While the past results have been impressive, the company's future looks bright as well. EPAM should continue to benefit from very large markets with secular tailwinds. IDC estimates that product engineering services and operational technology services will grow from $117 bil in 2018 to $219 bil by 2023 (13.3% CAGR). Operating margins have been consistently in the 16%-17% range, as EPAM continues to (re)invest heavily in its business to take advantage of growth opportunities and to maintain/extend its competitive position. Even with those investments, the company generates significant cash and the balance sheet is in pristine condition with >$800 mil in net cash. The company is led by Founder/CEO, Arkadiy "Ark" Dobkin, who is the 8th largest shareholder and owns >$400 mil in stock.

We had initially identified EPAM in early 2017 after being impressed with the company after seeing the Founder/CEO present at an investor conference. At the time, the company is what we would refer to as a "mispriced, steady performer" as the stock price had been largely unchanged over the previous 18 months, despite what appeared to be strong operating performance over that time. Valuation was very reasonable at ~17x EV/FCF and we were to initiate a position with the stock trading at ~35% discount to our estimate of fair value using conservative assumptions. Since we initiated a position in April 2017, the company has executed exceptionally well and the stock has responded, up +200% since our initial purchase (vs. +10% for the Russell 2000 Value Index). On a multiples basis, the stock now appears expensive at ~37X EV/FCF. However, continuing to use reasonable assumptions in our DCF model, we believe that the stock is modestly undervalued and we continue to maintain a full position.

Bernzott Organization Update:
Bernzott Capital Advisors ended 4Q 2019 managing $1.045 billion with $617 million in our U.S. Small Cap Value strategy.

Thank you for your trust and support.

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, 2018. 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, 2018.
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 %	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[1] ($ 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
2010	94*	$302.0*	$275.7	1.2%	20.55%	28.01%	26.97%	$319.7	$470.8	94.46%	64.15%	21.13%	20.23%	24.50%	24.82%
2011	81	$195.6	$178.7	1.3%	17.70%	26.19%	24.23%	$198.0	$372.0	98.79%	52.58%	9.02%	8.24%	-5.50%	-3.36%
2012	39	$170.9	$159.7	1.0%	14.21%	20.15%	18.41%	$192.0	$395.2	89.01%	43.24%	16.81%	16.04%	18.05%	19.21%
2013	35	$237.4	$222.3	0.8%	12.33%	16.32%	15.08%	$267.0	$513.6	88.91%	46.22%	34.38%	33.53%	34.52%	33.33%
2014	35	$269.1	$260.0	0.4%	10.25%	12.77%	11.25%	$274.7	$528.7	97.96%	50.90%	6.73%	6.06%	4.22%	7.11%
2015	37	$257.9	$246.5	0.5%	12.62%	13.11%	12.03%	$339.9	$577.2	75.88%	44.68%	-6.91%	-7.46%	-7.47%	-5.49%
2016	34	$385.3	$365.7	0.3%	13.16%	15.38%	13.17%	$405.9	$655.3	94.92%	58.80%	17.62%	16.99%	31.74%	25.20%
2017	37	$404.5	$385.3	0.2%	12.47%	13.97%	11.81%	$512.7	$854.4	78.90%	47.34%	28.18%	27.54%	7.84%	10.36%
2018	42	$444.1	$421.3	0.3%	13.41%	15.76%	13.58%	$470.0	$793.8	94.49%	55.95%	-5.15%	-5.68%	-12.86%	-12.35%
2019	38	$569.2	$543.3	1.3%	15.14%	15.90%	14.43%	$618.2	$1,046.4	92.07%	54.39%	26.95%	26.21%	22.39%	23.56%

*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 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 one individual responsible for business development. This individual receives 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.