July 12, 2019

U.S. Small Cap Value Strategy

Concentrate. Focus Power.

After a trade truce with China, the S&P 500 experienced a relief rally to power the best June performance since 1955 and the best first half performance since 1997. Similarly, it was the best first half performance for the Russell 2000 since 2003.

In 2Q19, the Dow was +3.2%, the S&P 500 was +4.3%, the Nasdaq was +3.9% and the Russell 2000 was +1.7%. Outside of equities, long-term treasuries were +6.0%, gold was +8.8% and WTI Crude Oil was -2.8%.

In 2Q19, 10 of the 11 S&P 500 sectors posted positive returns. The top three sectors were Financials (+7.4%), Materials (+5.7%) and Information Technology (+5.7%). The top three detractors were Energy (-3.7%), Health Care (+0.9%) and Real Estate (+1.6%).

In 2Q19, from a style perspective, large outperformed small (Russell 1000 beat the Russell 2000 by 210 bps), growth outperformed value (Russell 1000 Growth beat the Russell 1000 Value by 80 bps) and high quality (S&P rated B+ or higher) beat low quality (S&P rated B or worse) by 342 bps.

In 2Q19, among small cap value stocks specifically, large (>$1 billion), low P/E, low beta, high ROE, moderate debt-to-capital, high dividend yield and moderate long-term EPS growth companies performed best in the quarter. Industrials (+7.2%), Utilities (+5.3%) and Financials (+5.3%) were the best performing sectors while Energy (-8.6%), Consumer Staples (-8.2%) and Communication Services (-7.5%) were the worst performing sectors in the Russell 2000 Value in the quarter.

In 1984's *The Karate Kid*, Mr. Miyagi (played by the late Pat Morita), is training Daniel LaRusso (played by Ralph Macchio) for the All-Valley Under 18 Karate Championship. After learning the basic punch, Daniel begins showboating. Mr. Miyagi is upset and will have nothing of it. After a quick take down, Mr. Miyagi tells Daniel: "Concentrate. Focus Power." As it relates to equity investing, we couldn't agree more.

The Karate Kid (1984, Columbia Pictures)
https://www.youtube.com/watch?v=bNDC0MZOlEI

The idea of a concentrated portfolio predates *The Karate Kid*. In 1949, in *The Intelligent Investor*, Benjamin Graham suggested that adequate diversification could be obtained with a portfolio of 10 to 30 stocks. In the early 1950's Harry Markowitz presented early frameworks on portfolio risk reduction. In the late 1960's, Evans and Archer followed up on Markowitz's work and suggested a portfolio with as few as 10 stocks had risk, measured by standard deviation, equivalent to the market. In 1973, in a *Random Walk Down Wall Street,* Burton Malkiel suggested a 20 stock portfolio could provide adequate diversification. Modern value investors Warren Buffett and Seth Klarman both manage concentrated portfolios.

We manage a portfolio of 25-35 companies as we feel this provides the appropriate balance of allowing us to invest in our best ideas while providing for the appropriate level of diversification. We feel that investing in a concentrated portfolio is beneficial for several reasons:

1) Increased Knowledge: There is no substitute for knowing your portfolio companies. Having intimate knowledge of a company's industry, competition, management team, operating model, financial statements, etc. not only provides you with great insights into the business, it allows you to make much better investment decisions. Managing a large, diversified portfolio would make it difficult, if not impossible to have this level of detailed insight and knowledge.

2) Higher Returns: We want to invest in and get the "biggest bang for the buck" from our best ideas. Over time we've done this for our clients. But this has worked for other concentrated managers as well. For instance, Emory University did a study that showed that concentrated managers outperformed their diversified counterparts by roughly 4% annualized.

3) Lower Risk: Somewhat surprisingly, we strongly believe managing a concentrated, rather than a diversified, portfolio is actually a risk mitigator, as we know a lot about the 25-35 we have invested in. Over the past three, five and 10 years, our strategy's beta and standard deviation has been lower than our benchmark, the Russell 2000 Value:

	Bernzott Small Cap Value 3 Years	Russell 2000 Value Index 3 Years	Bernzott Small Cap Value 5 Years	Russell 2000 Value Index 5 Years	Bernzott Small Cap Value 10 Years	Russell 2000 Value Index 10 Years
Beta	0.73	1.00	0.78	1.00	0.72	1.00
Standard Deviation	14.6%	17.3%	14.5%	16.4%	13.8%	17.3%

Source: S&P Capital IQ and eVestment Alliance Analytic Services.

4) Risk Management: Given we are discussing portfolio management, we thought it would make sense to discuss our view on risk. We view risk as the permanent loss of capital. As such, we want to ensure portfolio companies are trading at a sufficient discount to our estimate of fair value at all times. We therefore have a fair value estimate for each company in the portfolio that is updated no less than quarterly. We initiate positions at 70% (or less) than fair value, trim positions at 90% of fair value and sell positions at 100% of fair value. In addition, we initiate positions at 2-3% position size, increase up to 3-5% position size over time either through appreciation or additional purchases. We start at 2-3% because even though we complete thorough due diligence prior to initiating a position, we are always learning about our portfolio companies, the markets are fickle and we do make mistakes (please see the Cloudera write-up below). Lastly we have a maximum position size of 6%. This is a risk control so that no one position in our portfolio grows to be unusually large.

Please see the "Company Spotlight" below on Mobile Mini (MINI). Also, please see the write-ups below on two new companies we added to the portfolio in the quarter – Inovalon (INOV) and Carbonite (CARB). With the portfolio trading at a ~25% discount to our estimate of fair value at the end of June 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 June 30, 2019):

	QTD	YTD	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Gross)	**1.55%**	**15.80%**	**2.93%**	**15.67%**	**10.10%**	**13.72%**	**14.55%**	**13.91%**
R2000V	1.38%	13.47%	-6.24%	9.81%	5.39%	10.31%	12.40%	10.02%
R2500V	1.89%	15.26%	-1.92%	8.98%	5.55%	11.00%	13.28%	10.86%
+ / - R2000V	0.17%	2.34%	9.17%	5.86%	4.71%	3.41%	2.15%	3.88%
+ / - R2500V	-0.34%	0.54%	4.86%	6.70%	4.55%	2.71%	1.27%	3.05%

	QTD	YTD	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Net)	**1.38%**	**15.42%**	**2.25%**	**15.00%**	**9.45%**	**13.03%**	**13.82%**	**13.04%**
R2000V	1.38%	13.47%	-6.24%	9.81%	5.39%	10.31%	12.40%	10.02%
R2500V	1.89%	15.26%	-1.92%	8.98%	5.55%	11.00%	13.28%	10.86%
+ / - R2000V	0.00%	1.95%	8.49%	5.19%	4.07%	2.72%	1.42%	3.01%
+ / - R2500V	-0.52%	0.16%	4.17%	6.02%	3.91%	2.03%	0.54%	2.18%

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

2Q 2019 Performance:

The U.S. Small Cap Value composite's 2Q19 return was +1.4% (net) compared to the benchmark Russell 2000 Value's return of +1.4%. In 2Q19, the strategy's in-line performance was primarily driven by Healthcare (+217 bps), underweighting in Energy (+48 bps) and Industrials (+29 bps) offset by underweighting in Financials (-123 bps), Information Technology (-97 bps) and underweighting in Utilities (-39 bps). The top three contributors were Catalent (CTLT), Generac (GNRC) and BrightView (BV). The top three detractors were Cloudera (CLDR), Shutterstock (SSTK) and The Michaels Companies (MIK).

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.

During the quarter we added three positions: Carbonite (CARB), Cloudera (CLDR), Inovalon (INOV). In addition, we sold four positions: Cloudera (CLDR), Hill-Rom (HRC), Synopsys (SNPS) and Total Systems Services (TSS). We ended the quarter with 28 positions. We continue to believe the portfolio is well positioned for long-term appreciation with a weighted-average discount to fair value of 24.8% and a weighted average market-capitalization of $2.9 billion at the end of 2Q19.

2Q19: Top 3 Contributors	Ticker	Weight	Return	Contrib.
Catalent, Inc.	CTLT	4.95%	33.58%	1.49%
Generac Holdings Inc.	GNRC	2.96%	35.49%	0.93%
BrightView Holdings, Inc.	BV	3.13%	29.92%	0.82%

Catalent (CTLT): CTLT, the leading global provider of advanced dosage delivery technologies and drug development solutions, reported mixed fiscal 3Q19 results (revenue was 4% below consensus but EPS was 6.5% ahead of consensus) and tightened 2019 guidance (revenue now ~1.5% below prior guidance although earnings guidance was maintained). However, CTLT positively updated long-term guidance (see below). Fiscal 3Q19 organic revenue was +3%. Excluding the ASC 606 accounting change, reporting revenue growth would have been +6%. CTLT has four segments – Softgel Technologies (31% of revenue), Biologics & Specialty Drug Delivery (28%), Oral Drug Delivery (26%) and Clinical Supply Services (13%). CTLT has been investing heavily in growing the biologics businesses and those investments are paying off. 3Q19 Adjusted EBITDA was +11% (+14% constant currency) vs. last year. Adjusted EBITDA margin was 25% or +290 bps vs. last year. Management is now projecting +190 bps of Adjusted EBITDA margin expansion vs. last year. Management also reiterated it is targeting 200 to 300 bps of margin expansion beyond fiscal 2019 in the "next 3 to 4 years" implying 50-75 bps of annual margin expansion. CTLT's current leverage is 3.2X 2019E EBITDA, the lowest it has been since coming public. On a proforma basis, taking into account the Paragon acquisition, leverage is ~4.0x. As is their normal course of business, management will delever to 3.5x within 12-18 months. Capital allocation focus remains first on organic growth followed by strategic M&A. In conjunction with the closing of the Paragon deal, CTLT is updating its long-term guidance, and is now targeting annual revenue growth of 6-8% (previous 4-6%) and EBITDA annual growth of 8-11% (previous 6-8%). The higher mix of Biologics will drive the Adjusted EBITDA growth and also higher Adjusted EBITDA margins as well. More details to come following the Fiscal 4Q19 earnings release. We don't think the market initially priced in the long-term guidance change but with the stock +20% in the two months since the earnings call we think the market has reacted. We maintained our position at the end of the quarter but did trim the position in early 3Q19.

Generac Holdings, Inc. (GNRC): Investors seemingly have finally caught up with the company, who has been reporting lights out results (pun intended) for the last year and a half. Residential sales (46% of total) were +14.4% (vs. +10.3% in 4Q). Awareness for home standby generators ("HSBs") continues to benefit from elevated power outage activity in recent years and remained very strong in 1Q as activations and in-home consultations both paced well ahead of prior year levels. While the market for HSB generators today is >$1bn annually, much room for growth remains as penetration rates are only ~4.5% of single-family unattached houses in the U.S. Each additional 1% of penetration represents ~$2 bil of market opportunity at retail prices. Commercial & Industrial sales (54% of total) were +17% ex-F/X and M&A. Orders and shipments for telecom-related applications continued to accelerate as nearly all of the company's major national customers had various projects underway to strengthen their wireless networks. GNRC is a key supplier of backup power systems to every Tier 1 carrier in the U.S., and with the recent acquisition of Selmec in Mexico, GNRC is now also the #1 backup power for the telecom market in Latin America. EBITDA margins were 18.5%, which was +60bps vs. last year. The improvement was largely driven by favorable operating leverage on higher sales volumes, offset by higher input costs. Management raised its 2019 revenue growth guidance to 5%-9%, up from 3%-5% previously. The balance sheet is in good shape with net debt / EBITDA at 2.15X. We maintained our position during the quarter.

BrightView Holdings, Inc. (BV): BV, the largest provider of commercial landscaping services in the U.S., posted better than expected 2Q19 results and reaffirmed full-year 2019 guidance. Maintenance services revenue (79% of total) was +2.9% Y/Y driven by ongoing acquisition activities but partially offset by managed exits (read: exiting less profitable contacts). Developmental Services revenue (21% of total) was -5.3% Y/Y. New projects early in this calendar year partly offset comparisons with certain large projects from the prior year period. BV was also negatively impacted by particularly wet weather in January and February with nearly half of the working days in the quarter showing at least a partial impact from weather in some important markets. Despite this, management said that based on bookings for the 2H19 they continue to expect to deliver full year positive revenue growth for this segment. Adjusted EBITDA of $61mm was +11.5% Y/Y and Adjusted EBITDA of 10.2% was +150 bps vs. last year. BV management commented this was the result of both exiting low-profitability accounts and managing corporate expenses. Leverage declined from 4.1x in 1Q19 to 3.7x this quarter; it is expected to be <3.5X by the end of the year and should be <3.0x "within the next couple of years." Capex was 3.8% of revenue in 1H19 due to "…the timing of equipment purchases" but should finish the year closer to~2.5% of revenue, in-line with the company's long-term guidance. In regard to M&A, management noted it's still in position to achieve its $75mm guidance for realized revenue for the year. We appreciated the CFO's comment on the earnings call: "…we're running BV to deliver long-term, stable and predictable growth." BV is up strongly since we added it to the portfolio in January 2019. We maintained our position in the quarter.

2Q19: Top 3 Detractors	Ticker	Weight	Return	Contrib.
Cloudera, Inc.	CLDR	1.60%	-51.16%	-1.07%
Shutterstock, Inc.	SSTK	4.85%	-15.96%	-0.85%
The Michaels Companies, Inc.	MIK	3.12%	-23.83%	-0.81%

An Investment Mistake

Cloudera (CLDR): After several months of due diligence, in April we initiated a position in the company, which provides an enterprise-grade platform for machine learning and analytics. CLDR had merged with Hortonworks, its largest competitor a few months prior. We were attracted to CLDR's business for a number of reasons, including 1) market leadership (customers include 10/10 top global telecommunications companies, 10/10 top global auto manufacturers, 9/10 top global pharmaceutical companies, 8/10 top technology companies, and 8/10 top banks); 2) significant recurring revenue (>80%); 3) excellent customer retention (122% net dollar retention on an LTM basis); 4) meaningful up-sell opportunity with a diverse customer base (>2,000 customers, including 976 that generate ARR >$100,000 and >120 that generated ARR >$1 mil; 5) significant margin expansion opportunity ($125 mil in cost savings from the merger, providing an immediate +1,300bps upflift, along with a path to 30% operating margins longer term); 6) a pristine balance sheet ($540 mil in cash and no debt); and 7) tenured management with inside ownership, among other reasons. From a valuation perspective, the stock had dropped from $17 to $11 since the merger had been announced. On a normalized basis, we believed that the stock was trading at ~13.5X EV/FCF and a 50%+ discount to peers. The biggest risks that we identified were 1) merger integration; 2) revenue dis-synergies during the integration; 3) and potential for increased competition.

We believed that the merger integration was on track for a number of reasons. On the company's 4Q earnings call, the company explicitly stated, "Merger integration has been very straightforward. In the first two months as a combined entity, most key integration items have been completed. All significant people-related decisions have been implemented. And from an operations perspective, only back-office systems integration and facilities consolidation remain." Later in the call, the company went on to add, "…we are well ahead of schedule in realizing the operational synergies contemplated by the merger. Despite $29 mil in merger-related payments, we celebrated achievement of our operating cash flow goals, delivering positive operating cash flow for the quarter and for the fiscal year a full year ahead of target." The company noted that in 4Q, stand-alone Cloudera subscription revenue was +24% and New Cloudera (Cloudera + Hortonworks) ARR was +24% with 140 new enterprise customers added since the merger was announced. In 2019, Cloudera's #1 competitor was always Hortonworks, and the inverse for Hortonworks, it was Cloudera. As one combined company, it was expected that discounting would likely be less pervasive, sales cycles would be shortened, and that the combined company would achieve scale and leverage with both sales & marketing and R&D.

However, we were stunned by CLDR's 1Q results and commentary, which contradicted many of the things we had heard from the company over the past few months. CLDR highlighted a number of significant bookings headwinds within it's existing customer base that led to a sizable reduction in guidance with annual recurring revenue ("ARR") growth now expected to be 0%-10%, down from 18%-

21% previously. CLDR cited sales disruption from the Cloudera-Hortonworks merger and a "wait and see attitude" to existing customers renewing and/or expanding contracts ahead of the new Cloudera Data Platform Product (the joint Cloudera/Hortonworks solution referred to as "CDP") launching later this year. There ended up being a five-month period between the merger announcement (Oct. 2018) and a finalized product road map (Mar. 2019). Cloudera was at a competitive disadvantage during the period and a number of deals were taken by the public cloud competitors (e.g., Amazon Web Services). CLDR also experienced a higher churn rate in 1Q at ~16% annualized compared to ~10% historically. Salespeople's hands were tied as salespeople were getting trained and also were unable to sell CDP, which is still not available for sale (nor has the pricing been published). Last but not least, CLDR announced that CEO Thomas Reilly will resign at the end of 2Q. The board has formed a search committee to find the company's next executive. Additionally, Co-Founder and Chief Strategy Officer Mike Olson will also retire this summer.

These items collectively were thesis-breaking and we sold our position. It should go without saying that we are very disappointed in the outcome. While perhaps unintended, this situation highlights the strength of one of our risk management practices, which is to initiate a small position (in the case of CLDR it was 2.0%) and to build the position over time. While the mistake in CLDR was painful, the negative impact on investment performance was contained.

<u>Shutterstock, Inc. (SSTK):</u> SSTK reported weaker than expected 1Q results. E-commerce (60% of revenue) continues to perform well and was +11.1% (ex-F/X). The company attributes the growth to improvements in SSTK's technology platform in previous quarters, including enhancements to improve page load speeds, increased functionality on mobile devices and overall user experience improvements through increased website stability. The company also continues to implement marketing strategies to deliver strong ROI with specific focus on increasing conversion rates and customer lifetime value. Paid downloads grew by 8.0% to an all-time high of 47.2 mil. Revenue per download was +2.8% on a constant currency basis. SSTK's library expanded by 39% to >260 mil images, and its video library increased by 44% to >14 mil clips. Enterprise (40% of revenue) remains a relatively weak spot as growth has trended below historical average for the past three quarters. Revenue was +9.3% (+10.4% ex-F/X). In terms of reaccelerating the Enterprise business, SSTK is working on its go-to-market strategy. That includes improving the product, optimizing certain marketing efforts (such as lead flow optimization), scrutinizing the pipeline, and understanding exactly which leads go to the right reps. SSTK is also working on improving its back-end business systems and its product catalog and taking a hard look at the prices and performance of all of its products over time. Profitability was improved with EBITDA +15.4% as margins expanded +120bps to 15.6%. Multiple personnel changes occurred in the quarter. Stan Pavlovsky joined on April 1 as Co-COO and Head of Strategic Operations. On June 25, Co-COO and CFO, Steven Berns announced that he would be leaving the company to pursue other opportunities. Steve Ciardiello, the Company's Chief Accounting Officer (has been with the company since Nov. 2016), will serve as Interim Chief Financial Officer. The balance sheet remains in excellent condition as the company has $182 mil in net cash. Despite the weaker than expected 1Q results, SSTK reiterated full year 2019 guidance. The CEO/founder stated, "We believe the long-term global market opportunity remains strong and I'm confident in our ability to successfully execute our strategy to drive revenue growth, improve margins and increase cash flow to ultimately deliver increased shareholder value." We agree. The stock is significantly undervalued and we maintained our full position.

<u>The Michaels Companies, Inc. (MIK):</u> MIK reported in-line 1Q results. Comparable store sales were -2.5% (ex-F/X) compared to guidance of down low single digits and consensus -1.4%. A decrease in customer transactions was partially offset by an increase in average ticket. During the quarter, MIK successfully exited its 3rd party ecommerce fulfillment provider. Meanwhile, Buy Online Pick-Up in Store ("BOPUS") continues to be a very attractive fulfillment offering; in 1Q 44% of online sales and ~2/3 of online orders were BOPUS. While results were in-line with guidance, the interim CEO stated bluntly, "We are not satisfied." After spending the past 90 days spending time working in stores, interacting with customers, and diving deep into critical parts of the business, such as commerce, merchandising, marketing, sourcing, and talent, the interim CEO stated that he believes that some of MIK's past pricing strategy and customer insights have shown that average customer ratings on value have declined over the last several quarters. This, in conjunction with customer complaints about coupon exclusions and a decline in coupon transactions, compelled the company to dive deeper into the adverse trend. While the company is in the search process for a permanent CEO, the company is not standing still and is addressing these issues. MIK has eliminated its everyday value pricing from all of its stores, which has reduced the number of products excluded from coupons, which is designed to make it less frustrating for customers. The company also launched a new tool to help MIK manage distribution of digital coupons on maximizing the benefits of serialization and limiting coupon abuse. Looking beyond this year, the company is focused on growth in 2020 and beyond. Late in Q4 2018, the company engaged external partners to help create a roadmap for this effort. MIK concluded that its objective to attract both high skilled enthusiast customers and low/no skill novice customers has likely been too broad. Recent research has identified a core group of makers whose participation accounts for >2/3 of all arts and crafts spend, and who importantly indicate a strong desire to make more DIY-related projects. In terms of guidance, 2019 was updated to assume the impact of List 3 tariffs going from 10% to 25% (EBIT reduced by 2.3% at the midpoint). MIK is aggressively working on its mitigation plan, including sourcing options, renegotiating with vendors, product reengineering, and selective price increases. The balance sheet remains in good shape with debt / LTM EBITDA at 3.3X. Late in 2Q, MIK refinanced $510 mil senior notes due next year, pushing the maturity date out to 2027. While business results have been tepid, the stock price decline has been persistent. We have scrutinized this holding in great detail and still believe that the company meets our quality test and that MIK can resume growth once it addresses some transitory issues. We believe the stock remains significantly undervalued and we maintained our existing position.

<u>YTD 2019 Performance:</u>
The U.S. Small Cap Value composite's return for the six months ended June 30, 2019 was +15.4% (net) compared to the benchmark Russell 2000 Value's return of +13.5%. The strategy's 195 bps of outperformance was primarily driven by Healthcare (+361 bps), Information Technology (+348 bps) and Industrials (+154 bps) offset by underweighting in Financials (-329 bps), underweighting in Real Estate (-208 bps) and underweighting in Utilities (-113 bps). The top three contributors were Catalent (CTLT), EPAM Systems, Inc. (EPAM) and Synopsys, Inc. (SNPS). The top three detractors were The Michaels Companies, Inc. (MIK), Cloudera, Inc. (CLDR) and LogMeIn, Inc. (LOGM).

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YTD Top 3 Contributors	Ticker	Weight	Return	Contrib.
Catalent, Inc.	CTLT	4.65%	73.87%	2.75%
EPAM Systems, Inc.	EPAM	4.32%	49.06%	1.80%
Synopsys, Inc.	SNPS	2.80%	49.95%	1.44%

Catalent, Inc. (CTLT): Please see commentary above.

EPAM Systems, Inc. (EPAM): EPAM posted strong 1Q results and reiterated its 2019 guidance, with organic revenue growth expected to be at least 23%. Reported revenue for the quarter was $521 mil vs. guidance of "at least" $518 mil and consensus $519 mil. Revenue was +26% constant currency (with ~200bps coming from M&A), marking the 33rd consecutive quarter of 20%+ organic revenue growth. Revenue growth was strong and broad based. The company stands out from its peers because of its execution, where speed and quality of deliverables are critical - this is a function of thousands of small details, including the ability to orchestrate multifunctional and multi-locational teams while constantly improving productivity and eliminating waste. Revenue growth at the company's top 20 clients was +18%, and +29% for those outside of the top 20. EBIT margins were very strong at 17.1% vs. guidance of 16% - 17%. The company noted that it continues to get price increases at existing customers and has potential opportunities with new customers as well. From a capital allocation standpoint, EPAM plans to continue to invest in the business to support its long term growth, which is expected to continue to be in excess of 20% per year. The balance sheet remains rock solid with net cash at $570 mil. We maintained our position during the quarter.

Synposys, Inc. (SNPS): SNPS, the market leader in Electronic Design Automation (EDA) software with rapidly growing Semiconductor IP and Software Integrity segments, delivered strong Fiscal 2Q19 results that beat expectations and also raised guidance for the year. Overall revenue growth in the quarter was 7.6% vs. last year. Core EDA and IP businesses taken together form the Semiconductor & System Design (SSD) segment which accounts for 90% of revenue. It was +6.2% in the quarter vs. last year vs. a difficult hardware comparison last year. Software Integrity (SI), 10% of revenue, was +22.7% vs. last year. In conjunction with the move to ASC 606, SNPS is now disclosing quarterly backlog; it was $4.3 billion, in-line with 1Q19. The overall Adjusted Operating Margin was 25.1%, +60 bps vs. last year. The SSD Adjusted Operating margin was 26.8% and the SI Adjusted Operating margin was 10.1%. Management is forecasting 200 bps of Adjusted Operating margin expansion in fiscal 2019 (to ~24%) with a target of 26% by 2021. The company continues to target a 16% tax rate, up from 13% last year. SNPS ended the quarter with $631 million in cash (28% onshore) that exceeded the $292 million in debt on its balance sheet by $339 million. For fiscal 2019, the company is forecasting robust operating cash flow of $670-$700 million in fiscal 2019, +58-65% from last year. Capex is expected to be elevated as well at $270 million (up from $99 million last year) due to some one-time projects. Capex is projected to drop by 50% in 2020 (consensus is projecting a drop of 36%). Fiscal 2019E FCF +23-32% vs. last year. SNPS repurchased $400 million worth of stock in fiscal 2018 and $129 million YTD 2019 and has $196 million remaining on its authorization. SNPS reiterated its long-term guidance: mid-to-high single digit revenue growth, double-digit EPS growth, with significant margin expansion driving strong cash flow for further M&A and share repurchases. We trimmed SNPS twice during the quarter in conjunction with portfolio rebalancing activities. Finally, in conjunction with adding Carbonite to the portfolio (see full write-up below) we sold our remaining position in SNPS late in the quarter as it exceeded our fair value estimate.

YTD Top 3 Detractors	Ticker	Weight	Return	Contrib.
The Michaels Companies, Inc.	MIK	3.40%	-35.96%	-1.41%
Cloudera, Inc.	CLDR	0.80%	-51.16%	-1.15%
LogMeIn, Inc.	LOGM	3.96%	-8.93%	-0.35%

The Michaels Companies, Inc. (MIK): Please see commentary above.

Cloudera, Inc. (CLDR): Please see commentary above.

LogMeIn, Inc. (LOGM): LOGM posted better than expected 1Q results and ever so slightly inched up 2019 full year guidance. Revenue was $308 mil compared to guidance of $304-$306 mil and consensus $306 mil. EBITDA was $97 mil compared to guidance of $94-$96 mil and consensus $95 mil. Unified communications and collaboration ("UCC") revenue was -2% on a pro forma basis. Management still believes that UCC performance will begin to improve in H2 2019 as it benefits from the newly launched GoToConnect and GoToRoom products. The new products, along with investments in the GoTo brand and sales capacity, are expected to drive improvements in future performance. Within UCC, Jive was +33% to $30 mil in revenue; the offering is already benefitting from the GoToConnect bundle. Identity and access ("IDaaS") was +11%. LastPass had continued strong growth. The segment's 1Q performance was also helped out by good renewal performance in the remote access business. Customer engagement and support ("CES") revenue was flat Y/Y, which was in-line with management's expectations. LOGM sees meaningful opportunity for Bold360 ai as digital engagement evolves and companies adopt artificial intelligence-based solutions to deliver better customer experience. "Growth products" accounted for 22% of revenue in the quarter, up from 20% as of 4Q. Management believes that these products remains on track to represent 25% of total company revenue by the end of the year. Retention rates for the company overall were ~80%, with GoToMeeting having retention rates higher than that. While the investments have just begun, in March the LOGM launched its unified product of GoTo and UCC offerings, including complete and unified capabilities for voice, meetings, rooms and webinars. In conjunction with that, LOGM introduced GoToRoom, which leverages a new hardware partnership with Polycom to deliver a simple and fast conference room solution. LOGM also announced GoToConnect, which combines the power and reliability of Jive's cloud telephony platform with GoToMeeting's web, audio and video conferencing capabilities. These integrated solutions have already led to expansive deals and higher win rates; In fact, in 1Q, LOGM closed its largest Jive deal ever, thanks to this new bundle offering. Adjusted EBITDA margins were 31.4%, which was -500bps Y/Y, and compared to guidance of ~31%. The decline was telegraphed last quarter and reflective of the investments that the company has begun to undertake. LOGM repurchased 714k shares of stock for $58 mil (avg. $81.23/sh.) and paid $17 mil in common stock dividends. The balance sheet remains in great shape with leverage <0.5X. The stock remains significantly undervalued and we maintained our existing position.

2Q 2019 Portfolio Activity:

- Initiated three (3) positions: Carbonite (CARB), Cloudera (CLDR) and Inovalon (INOV).
- Sold four (4) positions: Cloudera (CLDR), Hill-Rom (HRC), Synopsys (SNPS) and Total System Services (TSS).
- Trimmed three (3) positions: Medpace (MEDP), Synopsys (SNPS) and Verint Systems (VRNT).
- Added to three (3) positions: Bottomline Technologies (EPAY), Mistras Group (MG) and Mobile Mini (MINI).

New Positions

Inovalon (INOV): $2.3 bil M/C – Based in Bowie, MD (20 miles east of Washington DC and 30 miles south of Baltimore) and founded in 1998, the company provides a technology platform that enables healthcare organizations to implement highly sophisticated value-based initiatives in very large scale. At the core of value-based initiatives is the need to aggregate and analyze data, garner meaningful insight from the results, and use these insights to drive material change to outcomes and economics. Market leader as customer base includes 24 of the top 25 U.S. Health plans, 22 out of the top 25 global pharma companies, and >50,000 U.S. provider sites. Blue Chip customer base includes Athem Blue Cross Blue Shield, United Healthcare, Kaiser Permanente, Aetna, CVS, Walgreens, Pfizer, Lilly, GSK, and Medtronic, among others. Nearly 100% of revenue is subscription based, with average contract length ~3 years, and net dollar retention >100%. The company has a (growing) proprietary data set of 43 bil medical events from 264 mil unique patients, >900,000 physicians, and 455,000 clinical facilities. Low capital intensity business and strong EBITDA margins (~30%) with room for improvement. The founder/CEO owns 36% of the stock worth ~$600 mil. We initiated the position in April 2019 with the stock trading at an attractive discount to our assessment of fair value.

Carbonite (CARB): $880 mil M/C – Based in Boston, MA and founded in 2005, the company provides backup, disaster recovery, and endpoint security solutions for small and medium size business ("SMBs"). Carbonite has >100,000 customers and Webroot (acquired March 26, 2019) has >300,000 customers. Has >700 bil files under protection, has recovered >60 bil files, backing up >160 petabytes of data. ~90% of revenue is recurring in nature and annual retention rates are in the mid-80s, which is best in class for an SMB-focused solution provider. Webroot acquisition could provide meaningful revenue synergies as CARB primarily sells its products through ~10,000 value-added resellers ("VARs") and Webroot primarily sells through ~14,000 managed service providers ("MSPs"). Strong EBITDA margins (~27%) with room for expansion and very low capital intensity (~4% of revenue). Opportunities to grow via increased demand for cloud-based backup/disaster rover and endpoint solutions, cross-sell/up-sell, and international expansion. We initiated the position in June 2019 with the stock trading at an attractive discount to our assessment of fair value.

Company Spotlight: Mobile Mini (MINI)

Founded in 1983 and headquartered in Phoenix, Arizona, Mobile Mini, Inc. provides portable storage and specialty containment solutions. It offers various portable storage and office products, such as steel storage containers and steel ground level offices. Customer include retailers, construction companies, industrial manufacturers and governments who use MINI products in a range of storage applications. The company also offers a range of specialty containment equipment and services comprising steel tanks, stainless steel tank trailers, and pumps and filtration equipment, as well as roll-off, vacuum, and dewatering boxes.

Mobile Mini's business model is compelling: The steel storage containers (which make up 80 percent of the fleet) have a useful life of 30 years, minimal maintenance requirements, and a payback period of only 2.3 years. The longest payback period of any of the fleet is 4.3 years, which is for the liquid storage tanks. But with a useful life of 25 years, even the longer payback period economics remains very robust.

The first step in our investment process is to ensure we are considering a high quality company. Some of the attributes we consider include market leadership, recurring revenue, pricing power, high margins and financial flexibility. MINI checks all of these boxes. The mobile storage industry is fragmented and MINI is the market leader, estimated to be more than 10 times larger than its closest competitor. The company's footprint is diversified by geography, customer and product type with a network of 154 locations across three countries. The recurring revenue model is supported by the relatively inexpensive cost to customers of having a storage unit available on a monthly basis ($114 per month on average). Additionally, the diversification of its end markets (35% construction, 26% industrial/commercial, 24% retail/consumer, 6% government, 9% other) provides strong cash flow during all phases of the economic cycle. Margins are consistently high; current adjusted LTM EBITDA margins are 37.3%. MINI has been able to consistently raise prices and targets annual price increases of 2-3% per year. Lastly, MINI remains financially flexible with continued deleveraging, a strong balance sheet, thoughtful M&A and a current dividend yield of over 3%.

Our relationship with MINI goes back over 10 years as we bought and sold MINI prior to our current holding. We sold the position in 1Q14 based on valuation, not due to any discomfort with the business model. We were given the opportunity to add MINI to the portfolio again in 2016 after the price dropped due to some perceived slowing growth. The price for MINI has declined over the last 12 months to a level which we believe is not reflective of the current business or its potential. We recently had a face-to-face meeting with the CEO-elect Kelly Williams (tenure starts October 1, 2019) who presently serves as the Chief Operating Officer. Mr. Williams has been with MINI since July 2013. We asked Mr. Williams why there appears to be a disconnect between the current stock price and the operational performance of the company. He pointed to a need to improve communication with the investment community, but the biggest factor in his estimation is the sale of MINI stock by one of its largest institutional shareholders that recently underwent a portfolio manager change.

We own MINI because of its simple business model, leading market position, high margins, shareholder friendly capital allocation and plan for continued success. While we are disappointed that the price has dropped materially in the last 12 months, we believe the shares are trading at a significant discount to fair value, and as the large shareholder exits the name, the price will stabilize and increase in concert with the success of the company. We added to our position in the most recent quarter and look forward to owning MINI in the years to come.

Bernzott Organization Update:

Bernzott Capital Advisors ended 2Q 2019 managing $915 million with $550 million in our U.S. Small Cap Value strategy.

Thank you for your trust and support.

Explanation of Equity Performance

Performance Footnote Disclosure

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, 2017. 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, 2017.
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
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%**
2018	40	$443.6	n/a	0.3%	13.60	16.00	13.77	$469.4	$792.1	94.5%	56%	**-5.11%**	**-5.74%**	**-12.86%**	**-12.36%**

*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 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.

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