Bernzott
Capital
Advisors

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U.S. Small Cap Value Strategy

Stay the Course

Against a politically charged macro backdrop, the broader market averages held up relatively well and finished flattish for the quarter.

In 3Q19, the Dow was +1.8%, the S&P 500 was +1.7%, the Nasdaq was +0.2% and the Russell 2000 was -2.4%. Outside of equities, long-term treasuries were +7.6%, gold was +5.4%, WTI Crude Oil was -7.5% and the CBOE VIX was +7.7%.

In 3Q19, eight (8) of the 11 S&P 500 sectors posted positive returns led by the bond proxy sectors. The top three sectors were Utilities (+8.4%), Real Estate (+6.9%) and Consumer Staples (+5.4%). The top three detractors were Energy (-7.3%), Health Care (-2.7%) and Materials (-0.7%).

In 3Q19, from a style perspective, large outperformed small (Russell 1000 beat the Russell 2000 by 382 bps), growth outperformed value (Russell 1000 Growth beat the Russell 1000 Value by 13 bps) and high quality (S&P rated B+ or higher) beat low quality (S&P rated B or worse) by 605 bps.

In 3Q19, among small cap value stocks specifically, large (>$1 billion), moderate P/E, low beta, high ROE, high debt-to-capital, high dividend yield and low long-term EPS growth companies performed best in the quarter, likely reflecting the aforementioned investor preference for bond proxy sectors that performed best in the quarter.

In the Russell 2000 Value, Real Estate (+5.7%), Consumer Discretionary (+5.3%) and Consumer Staples (+4.7%) were the best performing sectors while Energy (-21.0%), Health Care (-7.7%) and Communication Services (-5.4%) were the worst performing sectors in the quarter.

The U.S. Small Cap Value strategy trailed the Russell 2000 Value benchmark by 69 bps (net) in 3Q19. However, on a year-to-date basis, the strategy exceeds the benchmark by 126 bps (net). The underperformance in the third quarter was primarily related to specific companies that saw earnings and/or guidance negatively impacted by temporary/transitory issues. When there is a significant disconnect between a company's operating performance and the short-term stock price performance, we will look to add to positions. We did so with four stocks during the quarter and we are evaluating other positions closely and may add to those later in the year.

We don't strive to outperform on a quarterly or even annual basis. We do not make tactical changes to the portfolio that reflect the current environment and/or sentiment. We don't shift the portfolio to sell an out-of-favor industry or buy a suddenly popular stock. While we do at times invest in companies when they are temporarily out of favor, we do not take contrarian positions just for the sake of being contrarian.

We also don't try to time the market. In fact, we believe it is impossible to consistently time the market and a number of academic studies support this notion. Seth Klarman (Baupost Group) perhaps said it best: "We wish we had perfect market timing (as well as the ability to fly). The reality is that no one does or ever will."

Regardless of the market environment, our disciplined investment approach is consistently applied: we own a concentrated portfolio of high quality companies that we purchase at a discount to fair value and hold them over a long-term time horizon. After purchase, portfolio rebalancing is based on company fundamentals and valuation.

We recognize our investment approach will not be in favor each and every quarter, but based on our long-term investment track record, we are confident we can continue to identify attractive investment opportunities, generate alpha and outperform our benchmark over a full investment cycle.

Please see the "Company Spotlight" below on Knowles (KN). Also, please see the write-up below on a new company we added to the portfolio in the quarter – PlayAGS (AGS). With the portfolio trading at a ~26% discount to our estimate of fair value at the end of September 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 September 30, 2019):

	SEP-19	QTD	YTD	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Gross)	**4.29%**	**-1.12%**	**14.58%**	**-8.37%**	**13.38%**	**10.40%**	**13.13%**	**12.83%**	**13.71%**
R2000V	5.13%	-0.57%	12.82%	-8.25%	6.54%	7.17%	9.35%	10.06%	9.89%
R2500V	4.58%	0.13%	15.41%	-4.35%	6.87%	6.98%	10.13%	11.00%	10.75%
+ / - R2000V	-0.84%	-0.54%	1.77%	-0.12%	6.84%	3.23%	3.78%	2.78%	3.82%
+ / - R2500V	-0.29%	-1.25%	-0.83%	-4.02%	6.51%	3.42%	3.00%	1.83%	2.96%

	SEP-19	QTD	YTD	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Net)	**4.24%**	**-1.26%**	**14.08%**	**-8.94%**	**12.73%**	**9.77%**	**12.46%**	**12.12%**	**12.85%**
R2000V	5.13%	-0.57%	12.82%	-8.25%	6.54%	7.17%	9.35%	10.06%	9.89%
R2500V	4.58%	0.13%	15.41%	-4.35%	6.87%	6.98%	10.13%	11.00%	10.75%
+ / - R2000V	-0.89%	-0.69%	1.26%	-0.69%	6.19%	2.60%	3.10%	2.07%	2.95%
+ / - R2500V	-0.34%	-1.39%	-1.33%	-4.59%	5.86%	2.79%	2.33%	1.12%	2.10%

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

3Q 2019 Performance:

The U.S. Small Cap Value composite's 3Q19 return was -1.3% (net) compared to the benchmark Russell 2000 Value's return of -0.6%. In 3Q19, the strategy's 70 bps of underperformance was primarily driven by Consumer Discretionary (-173 bps), Information Technology (-167 bps) and Materials (-81 bps) offset by Industrials (+207 bps), underweighting in Energy (+158 bps) and Healthcare (+50 bps). The top three contributors were Mobile Mini (MINI), SP Plus (SP) and Douglas Dynamics (PLOW). The top three detractors were Owens-Illinois (OI), PlayAGS (AGS) and Quotient Technology (QUOT).

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 one position: PlayAGS (AGS) and sold one position: Generac (GNRC). 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 26.3% and a weighted average market-capitalization of $2.7 billion at the end of 3Q19.

3Q19: Top 3 Contributors	Ticker	Weight	Return	Contrib.
Mobile Mini, Inc.	MINI	3.22%	22.23%	0.65%
SP Plus Corporation	SP	4.11%	15.87%	0.59%
Douglas Dynamics, Inc.	PLOW	4.56%	12.64%	0.54%

Mobile Mini (MINI): MINI, a leading provider of portable storage and specialty containment solutions, had a couple of things providing a tailwind in 3Q19. Operationally, results were strong with 5.8% year-over-year revenue growth which was all organic. EPS growth was up over 17% year-over-year. Revenue was strong in both divisions with rental revenue growth in Tank & Pump Solutions ("T&P") up 16.3% and Storage Solutions ("SS") rental revenue growth of 7.1%. Rates were healthy with increases of 3.4% in SS and mid-single digit increase for T&P. Adjusted EBITDA margin increased by 270 basis points to 37.9%. Also boosting the stock price was the Reuters report that the activist manager Elliott Management had taken a position in MINI and is supporting a merger with Willscot Corp. (WSC). Elliott is the second activist investor reported to be involved, following previous reports from Reuters that Donerail Group was pushing MINI to explore a sale or other strategic alternatives. We added to our position in 1H19 on price weakness and still believe the stock is materially undervalued despite the recent price increase.

SP Plus (SP): SP Plus Corporation provides parking management, ground transportation, baggage, and other ancillary services to commercial, hospitality, institutional, and aviation clients. The 4Q18 acquisition of Bags, a leading provider of baggage services to airline, airport, hospitality and other industries, is growing in line with expectations and providing a lift to revenue and earnings. The addressable market for Bags is sizable and Bags is the only provider of multi-airline Remote Airline Check-in (RAC) in North America. Regarding the cross selling opportunities between the legacy parking management business and Bags, the company noted it has had several early successes. Big increases in revenue, gross profit and EBITDA (gross profit up 21% and EBITDA up 19% year-over-year), with the big contributor being the addition of Bags. Organic growth was 3%. The continued performance triggered an increase in Adjusted EPS guidance of a nickel. Even though the EBITDA guidance did not change, the company did say, "We expect full-year 2019 EBITDA to come in at the upper-end of our previously provided guidance range." We expect the company to experience success in generating new business in several verticals and will continue to invest to increase market share. Taken together, the drivers of growth for the company should enable it to achieve sustainable gross profit growth of 3% to 4%, which is a nice expansion over the past few years. We maintained our full position in the company.

Douglas Dynamics (PLOW): A very good quarter for PLOW, a leading manufacturer and upfitter of commercial work truck attachments and equipment, as it recorded record second quarter net sales and record net income. The strength in the performance this quarter was driven by ongoing positive demand trends, coupled with strong operational performance, particularly in the Work Truck Solutions segment. In Work Truck Attachments, the company is encouraged by the start of the commercial snow and ice preseason, especially given the fact that this year's snowfall was generally less favorable when compared to 2018. Even with the below-average snowfall, the demand has proven more resilient than expected. Other drivers, such as truck sales and dealer sentiment are generally positive. The company also saw an encouraging contribution from non-truck snow and ice control equipment sales and an expanded parts and accessories offering. The company noted an ongoing uncertainty around tariffs, but the team has a great track record of recouping this inflation in the form of price increases. Cash flow remains strong and the company has raised its dividend 11 times in the last 9 years. Much of the success of PLOW is driven by pure execution, which is where the company excels. We maintained our full position in the company.

3Q19: Top 3 Detractors	Ticker	Weight	Return	Contrib.
Owens-Illinois, Inc.	OI	2.26%	-40.28%	-1.19%
PlayAGS, Inc.	AGS	1.41%	-49.74%	-1.06%
Quotient Technology Inc.	QUOT	3.19%	-27.28%	-1.03%

Owens-Illinois (OI): OI is the world's largest glass packaging manufacturer with market share over 25%. OI's stock declined 24% following its 10% 2Q19 earnings miss and ~14% 2019 EPS guidance reduction ($0.54 per share) when the company announced earnings in early August. The 2019 EPS guidance reduction was related to three major areas: (1) 37% was related to lower volume growth for the year ($0.20 reduction in EPS); (2) 19% was related to "mix complexity" ($0.10 per share); and (3) 44% was related to "non-operational" items, namely a higher tax rate, a higher F/X assumption and a lower share repurchase assumption ($0.24 per share). OI has responded by hiring a consultant for cost-cutting, working on divestitures and has hired Goldman Sachs for a strategic review of the business. It also lowered its capex forecast for 2019. Activist investor Atlantic Investment Management (owns 3.3% of OI) increased its position by 20% in 2Q19 and OI represents ~24% of Atlantic's portfolio. We feel that OI management is making the right moves operationally and FCF will likely bottom this year and increase next year and going forward. While OI's valuation remains extremely attractive, we are waiting to see if one or more of the above initiatives start to show some tangible results before adding to our position.

PlayAGS (AGS): AGS, which designs and manufactures electronic gaming machines (EGMs), i.e. slot machines, table products and interactive games, saw its stock fell dramatically following the release of its 2Q19 earnings. While 2Q19 revenue was +2.3% vs. last year, 2Q19 earnings missed consensus estimates by over 10% and 2Q19 Adj. EBITDA was -2.5% vs. last year and -10% vs. consensus. In addition, the company lowered 2019 Adjusted EBITDA guidance by ~9%. The primary issue that impacted 2Q19 results and the 2019 guidance reduction is underperformance in EGM Gaming Ops in Oklahoma associated with the rollout of new units on a new cabinet (the Orion Slant). There were some issues with placement of the units and changing of game themes that resulted in a reduction in Revenue Per Day (RPD). Management has fixes in place, but it will take the balance of the year for the changes to be seen in the financial statements. Other issues included a reduction in Interactive segment guidance as well as potential softness related to industry M&A activity and restructuring/cost-cutting. We feel investor's overreacted to what we believe are temporary/transitory/fixable issues that do not reflect the underlying long-term fundamentals of the business. Insiders, including the CFO and Board Members have been buying stock. Valuation remains extremely attractive. We initiated and added to our position in the quarter. *Please see write-up below on AGS.*

Quotient Technology (QUOT): QUOT reported in-line 2Q19 results, but significantly cut full year guidance. The reduced outlook was related to: 1) Product delays - Sponsored Search was up and running almost a full quarter late and Targeted Offers Printed at Checkout will now go live in Q4 instead of Q3; 2) Three of the company's large CPG customers continued to reduce spend on national digital coupons in 2Q19, greater than QUOT had anticipated. These CPGs have decreased total promotion spend across all channels (not just with QUOT) and "out of an abundance of caution" QUOT is reducing guidance to reflect that that trend will continue in 2H 2019; and 3) The specialty retail business (now down to ~5% of revenue) declined faster than anticipated. While there are short-term headwinds, the company's market position and value proposition remain unchanged. QUOT has the largest data platform servicing its marketplace with >76bn annual shopper transactions, which the company can use to drive targeted digital promotions and media. The company also announced that Steven Boal, Founder and Executive Chairman, will return to the role as CEO, replacing Mir Aamir. Boal founded the company in 1998 and had served as the CEO through Sept. 2017. He is the 9th largest shareholder and owns ~$30mm of stock). Scott Raskin (on the Board of Directors since Feb. 2017) will also assume the role of President. Valuation remains very attractive. We continue to maintain a full position and will be attending QUOT's Investor Day in November.

YTD 2019 Performance:

The U.S. Small Cap Value composite's return for the nine months ended September 30, 2019 was +14.1% (net) compared to the benchmark Russell 2000 Value's return of +12.1%. The strategy's 126 bps of outperformance was primarily driven by Healthcare (+413 bps), Industrials (+376 bps) and Information Technology (+168 bps) offset by underweighting in Financials (-317 bps), underweighting in Real Estate (-277 bps) and underweighting in Utilities (-142 bps). The top three contributors were Catalent (CTLT), EPAM Systems (EPAM) and Knowles (KN). The top three detractors were Owens-Illinois (OI), PlayAGS (AGS) and Cloudera (CLDR).

YTD Top 3 Contributors	Ticker	Weight	Return	Contrib.
Catalent, Inc.	CTLT	4.89%	52.80%	2.05%
EPAM Systems, Inc.	EPAM	4.46%	56.97%	2.04%
Knowles Corporation	KN	3.97%	52.69%	1.70%

Catalent, Inc. (CTLT): CTLT, the leading global provider of advanced dosage delivery technologies and drug development solutions, reported solid fiscal 4Q19 results that beat consensus estimates and provided in-line to slightly better-than-expected 2020 guidance. 4Q19 revenue +5.9% (but +8.3% constant currency). Excluding the required ASC 606 accounting change, reported revenue growth would have been +11%. Organic revenue increased +4%. Fiscal 4Q19 Adjusted EBITDA +9.9% vs. last year (+11.1% constant currency). Adjusted EBITDA margin was 27.5% or +100 bps better than last year. For Fiscal 2019, CTLT achieved +140 bps of margin expansion. Management reiterated they are targeting 200 to 300 bps of margin expansion over the next 2-3 years (including fiscal 2020). CTLT's current leverage is 4.2x 2020E EBITDA, proforma for the Paragon deal. Management believes through FCF generation and growing Adj. 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%) as the higher mix of Biologics will drive the Adjusted EBITDA growth and also higher Adjusted EBITDA margins. CTLT continues to execute at a high level. We trimmed the stock in the quarter as it had become and outsized position.

EPAM Systems, Inc. (EPAM): EPAM posted strong 2Q19 results and raised its full year guidance. Revenue was +25.1% constant currency (with ~80bps coming from M&A), marking the 34th consecutive quarter of 20%+ organic revenue growth. The company continues to reinvest in the business, but still expanded EBIT margins +60bps, which helped drive EPS +27% Y/Y. Once again, revenue growth was strong and broad based with all geographies reporting constant currency revenue growth >20%+. Growth YTD reflects EPAM's positioning in the markets it serve, which continue to transform at extremely fast pace. Disruption is occurring across every industry, driven by the impacts of new technologies from one side; and very dynamic changes in the competitive landscape, led by digitally native companies separated by different speeds and levels from another. These trends have and will continue to create opportunities for EPAM, who is very well positioned to continue to serve its clients and offer solutions to solve its clients' increasingly complex business challenges. The balance sheet remains rock solid with ~$13/sh in net cash (~7% of mkt. cap). We continue to maintain a full position.

Knowles (KN): KN posted 2Q19 results that were well ahead of the Street. The Audio segment (78% of revenue | 71% of EBIT) was +5% Y/Y due to increased shipments of MEMS mics in the Ear and IoT markets, which will likely represent ~30% of mic sales in 2019, up from management's initial estimate of ~25%. KN noted strong growth in Apple's non-mobile platforms (e.g., AirPods). Sales to Chinese OEMs were modestly lower Y/Y as the region is experiencing a fair amount of volatility, although KN still expects modest growth for the full year due to increased content per device. In microphones for the ear, trends remain strong as customers add more mics and transition to digital solutions. In IoT, KN is pursuing input opportunities across TVs, Bluetooth speakers and numerous other connected devices. Precision Devices (22% of revenue | 29% of EBIT) was +24% Y/Y (+18% organic) marking the sixth consecutive quarter of record revenue. KN is continuing to see strong sales growth from its high-performance capacitors and millimeter wave RF solutions for a diverse set of end markets (most notably in defense, medical, and telecom end markets). KN is seeing initial orders for 5G millimeter wave base stations, which should serve as a very large growth opportunity over the next several years (although timing/linearity remain uncertain). Management updated its revenue guidance, stating that it expects low to mid-single-digit revenue growth vs. previous commentary of "revenue growth for the full year 2019" (and the Street's estimate of ~4.4% revenue growth). We continue to maintain a full position. Please see the "Company Spotlight" section in this letter for more details about the company.

YTD Top 3 Detractors	Ticker	Weight	Return	Contrib.
Owens-Illinois, Inc.	OI	2.96%	-39.84%	-1.22%
PlayAGS, Inc.	AGS	0.48%	-49.74%	-1.14%
Cloudera, Inc.	CLDR	0.52%	-51.18%	-1.03%

Owens-Illinois (OI): Please see commentary above.

PlayAGS (AGS): Please see commentary above.

Cloudera (CLDR): After initiating a position in April 2019, we exited the position two months later after unexpected weak 1Q19 results that 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 2Q, along with Co-Founder and Chief Strategy Officer Mike Olson.

3Q 2019 Portfolio Activity:

- Initiated one (1) position: PlayAGS (AGS).
- Sold one (1) position: Generac (GNRC).
- Trimmed four (4) positions: Catalent (CTLT), Generac (GNRC), Gentex (GNTX) and Mistras (MG).
- Added to six (6) positions: Bottomline Technology (EPAY), Carbonite (CARB), Hillenbrand (HI), LogMeIn (LOGM), PlayAGS (AGS) and Verint Systems (VRNT).

New Position

PlayAGS (AGS) – $371 million M/C based in Las Vegas, NV. Designs and manufactures electronic gaming machines (EGMs), i.e. slot machines (accounting for a majority of revenue), table products and interactive games. EGMs focus on the "core gambler" through both software algorithms and cabinet design. Result is "win per day" that is 1.5x house average for casino-owned games (July 2019, Eilers-Fantini survey). Experienced management team led by CEO Dave Lopez, previously COO ShuffleMaster (acquired by Bally, itself acquired by Scientific Games - SGMS) and CEO at Everi Holdings (EVRI). Company has augmented organic growth with selective M&A in order to scale up. Revenue growth LTM 17% with 70% recurring revenue. Ship share is growing, currently 6% LTM vs. < 1% just two years ago and 2.9% market share, +50 bps from last year. Adjusted EBITDA margin is ~47%. Competitive market but casino operators like MGM and Caesar's are increasingly willing to look at and buy and/or lease from smaller, more innovative suppliers like AGS and not just rely on the largest suppliers like IGT, Aristocrat, Scientific Games and Konami; according to SunTrust, North American ship share for these four suppliers has declined from 97% in 2008 to ~80% in 2017. We initiated the position in July 2019 and added to the position in September 2019. *Please see additional commentary on AGS above.*

Sold Position

Generac (GNRC) - we exited our position in the stock during the quarter due to valuation. We had first bought GNRC in March 2015 because we were attracted to the company's dominant market share (75%) in the domestic home standby ("HSB") market, strong EBITDA margins (~25%), historical track record, favorable tailwinds (e.g., aging electrical grid, which was driving increased power interruptions) and valuation (~14X FCF at the time), among other things. The opportunity to invest in the stock was largely due to a lull in hurricane activity (Florida went ~12 years without a major hurricane, the longest stretch on record since 1871), which had stalled the company's growth. Hurricane activity is important, as it drives awareness for the HSB category. As we had hypothesized, hurricane activity and as other power outage events eventually normalized and GNRC's financial prospects and stock price soared higher. We initiated our position at $49, added at $39 and again at $29 (most recently in August 2015) and sold our final shares at ~$81 in September following the stocks +62% run-up this year. We are pleased that this investment generated $17mm in realized gains for our clients.

Company Spotlight: Knowles (KN)

Originally founded in 1946 and based in Itasca, IL (~30 miles west of Chicago), Knowles is a market leader and global provider of advanced micro-acoustic, audio processing, and precision device solutions. The company's audio segment products (~75% of revenue) include microphones and balanced armature speakers, audio processors, and software and algorithms used in applications that serve the mobile, ear, and Internet of Things ("IoT") markets. KN's solutions go into smartphones, smart speakers (e.g., Amazon Echo), headsets/earbuds (e.g., AirPods), and hearing aids, among other consumer-related products.

The Precision Device segment (~25% of revenue) specializes in the design and delivery of highly engineered capacitors and radio frequency ("RF") devices for technically demanding applications. KN's products are used in applications including power supplies, radar, medical implants, and satellites, serving the industrial, defense, aerospace, medical, telecommunications, and automotive markets.

We first became aware of KN in Feb. 2014, when the company was spun out of Dover Corporation (NYSE: DOV). At that time, we identified KN as a high quality business, due to 1) market leadership with 50%+ share in MEMS microphones (shipped ~1.5bn units in 2014 vs. ~250mm for the #2 supplier), along with being the #1 global supplier in hearing aid solutions; 2) strong intellectual property (>500 patents issued along with $80mm+ in R&D spend, the latter of which was more than all of its competitors combined); and 3) unmatched scale and capacity (KN had spent $200mm over the past two years to add ~1 billion units of annual capacity, something that would takes years for competitors to replicate).

At the time of the spin-off, the business was attractive, but the valuation was not. However, the company eventually stumbled in Fall 2014, when the company's MEMS microphones were temporary placed on hold due to a low level defect that was discovered during the ramp up of the microphone product. KN identified that the root cause was a design issue with its third-party application-specific integrated circuit ("ASIC") for the iPhone 6, which was only noticeable in "extreme" situations. The stock dropped significantly, as Apple (NASDAQ: AAPL) was a 25% customer at the time.

After conducting additional research and having multiple calls with the company, we concluded that this issue would impact KN's short-term financials, but should not have an effect on that long-standing customer relationship or the long-term fundamentals of the business. Content for each individual product (e.g., iPhone 6, Samsung Galaxy Note 4, HTC One, etc.) is custom and product specific, which mean that the issue with the iPhone was isolated and would not negatively impact other products. Moreover, KN was still shipping products to Apple on other platforms (e.g., tablets, iPhone 5S, headphones), and was still actively engaged in the design and development of next generation products for Apple (Sept. 2015 and Sept. 2016 launches). We believed that Apple could temporarily get the capacity it needed from other suppliers, but that ultimately it would take many years, at best, to try to replace the capacity that KN had historically provided.

Lastly, we believed that KN was much more than an outsourced component supplier for Apple. KN had a close relationship that enabled it to develop critical expertise regarding its customer's requirements and needs; KN works with its customers collaboratively to design differentiated products that are used to enhance the end users' acoustic interface with the mobile devices and to ensure performance in mission critical applications.

Our conclusions turned out to be true, but not before our patience and discipline were tested. Our initial 2.0% position was at a purchase price of ~$20. KN was one of our worst performers in 2015 (-43%) and 2017 (-13%, when the R2000V was +27%). The stock price stubbornly did not move in lock-step with the company's operational performance or our estimate of fair value, and we added to our position over time (as recently as ~$14 in Dec. 2017).

While investors shunned the stock for some time, what we saw was a great business getting even stronger. The company made sound strategic improvements over that period: 1) acquiring Audience in 2015, which brought KN essential digital signal processing and algorithm capabilities; 2) divesting the low-margin speaker and receiver product line in 2016 (and thus allowing KN to focus and invest significantly in its core MEMS mic businesses; 3) divesting the timing device business in 2017; and 4) making a series of small, but highly accretive acquisitions in the Precision Devices business. Collectively, these actions expanded KN's TAM by >$1bn, improved gross margins from 29% to 40%, reduced leverage from 2.5X to 1.0X, and diversified the business that had previously generated 51% of revenue from mobile devices down to 35%.

In addition to this, competition has waned, pricing has improved and the company's market position and prospects are better than ever. We recently attended the company's Analyst Day in New York City, where KN shared its financial targets, which include mid-to-high single digit revenue growth, 42%+ gross margins (vs. ~40% today) and 20%+ EBIT margins (vs. ~15.5% today). KN should benefit from favorable end market tailwinds over the next 3-4 years. For the audio business, voice is being embraced as a primary user interface across consumer electronic devices. Voice assistants are proliferating throughout a variety of applications, including mobile phones, headsets, smart speakers, and household appliances. Consumers want to engage with technology through natural, spoken commands, across the mobile, ear, and IoT markets, and OEMs are racing to develop and deploy the technology to enable it. Additionally within the hearing aid market, sales are largely driven by aging demographics, healthcare spending, increasing affluence in emerging markets, and government subsidies. For the Precision Devices business, the company's differentiated high performance capacitors and RF Filtering products are benefitting from major capital investments in telecom infrastructure (e.g., 5G) and growth in the electric vehicle market.

As of Oct. 10, 2019, the stock was trading at $20.48, which is +53% for the year, making KN one of the top contributors to our 2019 YTD performance. Our patience and discipline has rewarded our clients, whose realized/unrealized gains are ~$5 million. We believe that the stock is still undervalued and we continue to maintain a full position.

Bernzott Organization Update:
Bernzott Capital Advisors ended 3Q 2019 managing $921 million with $560 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 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
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.