



July 17, 2020

US Small Cap Value Strategy

Markets rallied in 2Q as investors were encouraged by unprecedented Federal Reserve stimulus in response to the pandemic. 2H may see volatility occasioned by unemployment, the upcoming elections, and economic uncertainty.

In 2Q, the Dow was +17.8% (best since 1Q 1987), the S&P 500 was +20.5% (best since 4Q 1998), the Nasdaq was +30.6% (best since 2Q 1999) and the R2000 was +25.4%, (best since 1Q 1991). The US Treasury Bond index was +0.3%, gold was +12.8%, WTI Crude Oil increased +91.7% and the CBOE VIX declined -43.2%.

All 11 S&P 500 sectors posted positive returns. The best performers were Consumer Discretionary (+32.9%), IT (+30.5%) and Energy (+30.5%). The worst were Utilities (+2.7%), Consumer Staples (+8.1%) and Real Estate (+13.2%).

Within the R2000V, Consumer Discretionary (+63.6%), Healthcare (+34.0%) and Materials (+30.0%) did well, while Financials (+9.6%), Communication Services (+9.5%) and Utilities (-4.8%) lagged.

As a bottom-up, fundamental value investor, the first step in our investment process is selecting quality companies using qualitative and quantitative metrics. We're seeking companies with some of these attributes: market leaders; recurring revenue or subscription model providing revenue visibility; high margins; high returns on capital and equity; and financial flexibility.

We will not generally fully participate in a market rally led by lower quality cyclicals, but have historically provided downside protection while performing well both absolutely and relatively over full market cycles.

We appreciate your trust and confidence.

Performance (periods ending June 30, 2020):

	2Q20	YTD	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Gross)	26.80%	-14.58%	-6.41%	6.21%	6.58%	9.18%	12.24%	13.04%
R2000V	18.91%	-23.50%	-17.48%	-4.35%	1.26%	3.98%	7.82%	8.79%
R2500V	20.60%	-21.18%	-15.50%	-2.60%	1.85%	4.74%	8.81%	9.68%
+ / - R2000V	7.89%	8.92%	11.07%	10.56%	5.32%	5.20%	4.42%	4.25%
+ / - R2500V	6.20%	6.60%	9.09%	8.81%	4.73%	4.44%	3.43%	3.36%

	2Q20	YTD	1YR	3YR	5YR	7YR	10YR	SI*
BCA (Net)	26.60%	-14.88%	-6.98%	5.60%	5.98%	8.53%	11.55%	12.18%
R2000V	18.91%	-23.50%	-17.48%	-4.35%	1.26%	3.98%	7.82%	8.79%
R2500V	20.60%	-21.18%	-15.50%	-2.60%	1.85%	4.74%	8.81%	9.68%
+ / - R2000V	7.69%	8.62%	10.50%	9.95%	4.72%	4.55%	3.73%	3.39%
+ / - R2500V	6.00%	6.30%	8.52%	8.20%	4.13%	3.79%	2.74%	2.50%

**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.

2Q Performance:

Our outperformance was primarily driven by IT (+1016 bps), Healthcare (+174 bps) and Financials (+35 bps), offset by underweighting Real Estate (-141 bps), Energy (-98 bps) and Industrials (-57 bps). Top contributors: Cerence (CRNC); Catalent (CTLT); and Bottomline Technologies (EPAY). Top detractors: Douglas Dynamics (PLOW); SP Plus (SP); and BrightView (BV).

We bought Hostess (TWNK) and SPS Commerce (SPSC), and sold Cinemark (CNK), Mistras (MG) and PlayAGS (AGS).

We started the quarter with 27 positions and ended with 26. The portfolio had a weighted-average discount to fair value of 25.2% and a \$3.1 billion weighted average market cap.

Top Contributors	Ticker	Weight	Return	Contrib.
Cerence	CRNC	4.02%	159.94%	4.40%
Catalent	CTLT	4.80%	41.12%	2.45%
Bottomline Technologies	EPAY	4.89%	38.60%	1.83%

Cerence (CRNC): In 1Q, we bought CRNC, a provider of AI-powered virtual assistants and innovations for connected and autonomous vehicles which was spun-off from Nuance Communications last year. CRNC reported a blowout quarter with revenue, operating income and margins, and EPS ahead of guidance and consensus. Revenue was \$87 million vs. top-end guidance of \$82 million, operating margin was 31% vs. top-end guidance of 26%, and EPS was \$0.43 vs. top-end guidance of \$0.31. Total revenue was a quarterly record, up +23% vs. last year. Through 1H, CRNC achieved record bookings, exceeding total bookings for 2019. Leverage is reasonable at ~2X. In July CRNC refinanced its debt with a convertible note offering that lowered pre-tax interest expense by 53% and is accretive to non-GAAP net income by 16%. We trimmed as CRNC became outsized in the portfolio.

Catalent (CTLT): CTLT, a provider of advanced dosage delivery technologies and drug development solutions, reported solid quarterly results and reaffirmed 2020 revenue guidance, but lowered Adjusted EBITDA guidance by ~1.5% on potentially higher costs and lower productivity. Net revenue was +23.2% vs. last year and ahead of consensus estimates. Adjusted EBITDA was \$185.4 million, +20.2% vs. last year. Adjusted EBITDA margin was 24.4% or -60 bps vs. last year due to recent dilutive M&A activity. Proforma leverage was 3.7x net debt/LTM EBITDA. We expect CTLT to delever 0.5x to 0.75x annually over time as EBITDA growth continues. CTLT is well positioned, having virus vaccine manufacturing contracts with J&J, AstraZeneca and Moderna. We trimmed based on valuation and position size.

Bottomline Technologies (EPAY): EPAY enables and simplifies payment solutions for over 1,200 banks and financial institutions. Revenues are recurring and unimpacted by the pandemic, producing consistent strong profitability and cash flow. Subscription revenue, 78% of total, was in-line with guidance and up +16% Y/Y. EPAY added customers in both Paymode-X and its digital banking products and added \$22.8 million of subscription bookings. The competitive landscape is shifting in EPAY's favor, and it benefits from a flight to quality as banks and businesses select trusted vendors with the financial strength to sustain investment in technology. EPAY is in solid financial position with \$182 million in cash and \$120 million available on its credit facility.

Top Detractors	Ticker	Weight	Return	Contrib.
Douglas Dynamics	PLOW	4.84%	0.49%	-0.05%
SP Plus	SP	3.04%	-0.52%	-0.01%
BrightView	BV	3.32%	1.10%	0.10%

Douglas Dynamics (PLOW): PLOW, a manufacturer and upfitter of commercial truck attachments and equipment, reported net sales decreased 27% and gross profit decreased 49% vs. last year. The disappointing results were driven by the second consecutive year of below-average snowfall and continued chassis supply issues. New product launches, including a half-ton V-plow, are well received with orders exceeding expectations. PLOW anticipates "solid overall" 2H performance and remains committed to the dividend. Liquidity increased on strong free cash flow, lower voluntary payment on debt and higher A/R collection. Leverage is 2.5X. PLOW emphasized elements of its long-term strategy including acquisitions, reinvesting in the business, and maintaining employee morale. We added to the position.

SP Plus (SP): SP, a provider of parking management, ground transportation, baggage and ancillary services, reported a slight decline in adjusted gross profit compared to a year ago, and an increase in adjusted EBITDA. Most of SP's revenue derives from service contracts, about half of which are fixed fee. SP curtailed discretionary spending, suspended a stock repurchase program, cut G&A and implemented other cost cutting measures. Hours for the workforce were down ~63% for the most recent pay period. SP upped its existing revolver by \$45 million, and had cash and availability of over \$200 million. We spoke with the CEO in May and he described improving efficiencies and taking market share from weaker competitors failing to meet their obligations. We added to the position.

BrightView (BV): BV, the largest US provider of commercial landscaping and ancillary services, reported results in-line with its April pre-announcement. Total revenue was -6.3% Y/Y. Maintenance Services revenue, 74% of total, was -12.1% Y/Y. Developmental Services revenue, 26% of total, was +15.8% Y/Y on a strong pipeline. Adjusted EBITDA was \$38.9 million vs. \$61.1 million last year. BV has a covenant-lite debt structure and \$231 million of liquidity. We added to the position.

YTD Performance:

Our outperformance was primarily driven by Financials (+1,085 bps), underweighting Real Estate (+323 bps) and Energy (+264 bps), offset by Industrials (-688 bps), Consumer Discretionary (-326 bps) and Communication Services (-210 bps). Top contributors: Cerence (CRNC); Catalent (CTLT); and SPS Commerce (SPSC). The detractors: SP Plus (SP); Cinemark (CNK); and Douglas Dynamics (PLOW).

YTD: Top 3 Contributors	Ticker	Weight	Return	Contrib.
Cerence	CRNC	2.80%	74.29%	2.77%
Catalent	CTLT	5.03%	29.57%	1.78%
SPS Commerce	SPSC	1.34%	63.62%	1.21%

YTD: Top 3 Detractors	Ticker	Weight	Return	Contrib.
SP Plus Corporation	SP	3.68%	-51.20%	-2.90%
Cinemark Holdings - SOLD	CNK	1.42%	-73.22%	-2.84%
Douglas Dynamics	PLOW	5.01%	-35.41%	-2.05%

Portfolio Activity:

- Bought: Hostess Brands (TWNK); and SPS Commerce (SPSC).
- Sold: Cinemark (CNK); Mistras (MG); and PlayAGS (AGS).
- Trimmed: Catalent (CTLT); Cerence (CRNC); EPAM Systems (EPAM); Medpace (MEDP); and SPS Commerce (SPSC).
- Added to: Artisan Partners (APAM); BrightView (BV); Cornerstone OnDemand (CSOD); Douglas Dynamics (PLOW); Hillenbrand (HI); Inovalon (INOV); Knowles (KN); LendingTree (TREE); Mobile Mini (MINI); Quotient Technology (QUOT); ServiceMaster (SERV); SP Plus (SP); and Verint Systems (VRNT).

On March 2, 2020, Mobile Mini (MINI) and WillScot (WSC) announced an all-stock merger. The new company name is WillScot Mobile Mini (WSC) and the merger closed on July 1, 2020. We exchanged our MINI shares for WSC shares.

New Positions:

SPS Commerce (SPSC): Minneapolis-based SPSC sells cloud-based supply chain management software to retailers, grocers, distributors, and logistics providers. Fulfillment, the primary business segment, enables suppliers (e.g., Del Monte Foods, Louis Vuitton, Under Armour, Purple Mattress, Harry's Razors) to communicate electronically with retailers, grocers and distributors. We were attracted 77 consecutive quarters of revenue growth and the clean balance sheet, with \$215 million cash and no debt. 94% of revenue is recurring and derived from >31,000 customers. The market cap is \$2.6 billion.

Hostess Brands (TWNK): Kansas City, MO-based TWNK has a 19% market share in the Sweet Baked Goods category and iconic brands including: Twinkies; Ding Dongs; Donettes; Sno Balls; and Hostess CupCakes. TWNK serves a large, growing market – 95% of adults snack daily, 3-5 times a day on average. TWNK transitioned to a warehouse distribution model five years ago, expanding its distribution and providing compelling unit economics for retailers with fast, scalable in-store merchandising capabilities. TWNK divested in-store bakery operations and completed accretive acquisitions of Cloverhill Voortman. The market cap is \$1.5 billion.

Bernzott Capital Advisors Update:

We ended 2Q managing \$895 million, with \$531 million in our US Small Cap Value strategy.

Past performance is not indicative of future results. Refer to reverse for a full disclosure presentation and complete annualized performance.

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, 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.

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