Quarterly Commentary

Bernzott Capital Advisors
US Small Cap Value
June 2021

Market Overview

Equity markets rose in 2Q. Progress with COVID-19 vaccinations continued and the economic reopening gained steam. Rising oil and housing prices, together with widespread shortages, brought the discussion of inflation to the forefront. Time will tell if the Fed's viewpoint that precursors of inflation are transitory proves accurate. Nevertheless, surprisingly, interest rates fell, with the benchmark 10-year Treasury yield closing at 1.44%, down from 1.74% at the beginning of the quarter, but still above 0.93% where it started the year. Signs of speculation continued with "meme" stocks moving higher.

US large cap stocks outperformed small caps, with the S&P 500 gaining +8.2% compared to the R2000 +4.1%. The R2000V +4.6% beat the Russell 2000 Growth +3.9%, though it ceded much of its prior lead in June. The CBOE VIX settled lower at 15.83, a level which some would suggest implies complacency. High yield spreads were around four-year lows at roughly three percentage points above Treasuries, suggesting the market is factoring in little chance of recession, is risk tolerant, and/or is clamoring for yield. The market's forward P/E multiple is high by historical standards, in part due to low interest rates. Multiples may contract, potentially more than offset by rising earnings. The forward P/E for the R2000V looks more attractive than other style indices, especially the R2000G, as it trades at a lower premium to historical averages and within historical ranges.

Eight of eleven R2000V sectors posted positive returns. Five sectors gained more than the benchmark’s 4.6%: Communications Services +56.1%; Energy +18.8%; Real Estate +7.8%; Information Technology +5.4%; and Consumer Discretionary 5.2%. The other six sectors lagged the benchmark: Materials +4.0%; Health Care +3.8%; Industrials +2.1%; Financials -0.1%; Utilities -1.0%; and Consumer Staples -2.6%.

As a bottom-up, fundamental value investor, the first step in our investment process is selecting high quality companies using qualitative and quantitative metrics. We believe characteristics of a high-quality company include market leadership, recurring revenue or subscription model providing revenue visibility, high margins and operating leverage, high returns on capital, financial flexibility, and a strong management team with a long-term view.

Performance Highlights

Gross of Fees	QTD	1 Year	3 Years	5 Years	7 Years	10 Years	SI
US Small Cap Value	1.53	52.07	13.58	17.10	12.65	13.78	14.31
Russell 2000 Value	4.56	73.28	10.27	13.62	9.26	10.85	10.72
Russell 2500 Value	5.00	63.23	10.60	12.29	8.82	10.93	11.34
+/- Russell 2000 Value	-3.03	-21.20	3.31	3.48	3.39	2.94	3.59
+/- Russell 2500 Value	-3.47	-11.16	2.98	4.81	3.83	2.85	2.97

Net of Fees	QTD	1 Year	3 Years	5 Years	7 Years	10 Years	SI
US Small Cap Value	1.38	51.27	12.95	16.47	12.03	13.11	13.46
Russell 2000 Value	4.56	73.28	10.27	13.62	9.26	10.85	10.72
Russell 2500 Value	5.00	63.23	10.60	12.29	8.82	10.93	11.34
+/- Russell 2000 Value	-3.18	-22.01	2.69	2.86	2.77	2.26	2.74
+/- Russell 2500 Value	-3.62	-11.96	2.36	4.19	3.21	2.18	2.12

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

2Q Performance

Our strategy of investing in high quality, resilient businesses is a winning long-term approach, but it served as a headwind to relative performance. Attributes that performed well were at odds with quality. In a continuation of frustrating trends from 1Q, the market rewarded companies with low returns on capital, low bottom-line profitability, high leverage, and high short interest, among other factors. The portfolio rose +1.5%, trailing the R2000V +4.6% and the R2500V +5.0%. Financials, nearly 15% of the portfolio, was the leading contributor to relative returns driven by stock selection as well as underweighting banks which underperformed after a strong six month run. Health Care, with a relatively small allocation of 5%, contributed positively as both holdings combined for a 17% gain. Consumer Discretionary was the leading detractor. Quotient Technology, a digital marketing company, suffered a decline of over 30%. The absence of traditional retailers in the portfolio also weighed on relative performance, as many stocks in that group continued to bounce with the recovery, though not at the same pace as in 1Q. Industrials detracted, primarily due to several holdings languishing after prior gains. Our single Energy holding, a distributor of transportation fuel, did not keep pace with the sector which posted a strong gain on rising prices.

We started 2Q with 30 positions and ended with 32. The portfolio had a weighted-average discount to fair value of 21% and a $3.4 billion weighted average market cap. We ended 2Q managing $1.27 billion, with $831 million in our US Small Cap Value strategy.

Tob Contributors	Ticker	Weight	Return	Contribution
Callaway Golf	ELY	3.86%	25.91%	0.96%
Inovalon Holdings	INOV	4.00%	18.21%	0.67%
ORBCOMM	ORBC	0.85%	46.22%	0.64%

Callaway Golf (ELY): The company is capitalizing on strong demand for golf equipment and recovering traffic at its recently acquired Topgolf unit. Revenues and profits for Callaway and Topgolf are both expected to surpass 2019 levels.

Inovalon Holdings (INOV): Performance marked the 2nd consecutive quarter as a top contributor. The healthcare cloud software provider reported strong quarterly earnings and held a well-received investor day. Sales momentum continues to accelerate with strength across all lines of business including life sciences, payers, retailers, and providers. Key elements of our investment thesis remain intact, including rising recurring revenue and good profitability metrics.

ORBCOMM (ORBC): The company agreed in April to be acquired by a private equity investment firm for $11.50, a significant premium to prior trading levels. As a result, our investment was sold after a necessarily short holding period (initiated in March 2021) but with a solid profit.

Top Detractors	Ticker	Weight	Return	Contribution
Quotient Technology	QUOT	3.90%	-33.84%	-1.64%
Bottomline Technologies	EPAY	2.39%	-18.05%	-0.47%
Hillenbrand	HI	5.06%	-7.15%	-0.36%

Quotient Technology (QUOT): The company's strong earnings report in May together with conservative full-year guidance implied a disappointing 2H. The stock reacted negatively as the market seemed to take a glass-half-empty interpretation, possibly due in part to the stock's strong performance in the beginning of this year after being a top contributor to the portfolio's results in 1Q. The shift to digital promotions and couponing should prove durable, benefiting the company for several years into the future.

Bottomline Technologies (EPAY): In May, the company introduced FY 2022 (June) guidance for the first time, and it was below analyst expectations. The stock followed earnings forecasts lower. Culprits included continued investments, weighing on margin expansion though EBITDA margins are expected to remain above a healthy 20% level, and likely conservative. This guidance overshadowed some positives, such as a sequential uptick in subscription revenue growth to 14.2% and positive customer additions to its Paymode-X electronic payment platform.

Hillenbrand (HI): The stock's 7% decline in 2Q was amplified in the contribution calculation by its relatively large weight of 5%, which is partly a result of our long holding period of over a decade. After the stock was a leading contributor in 1Q, it cooled off this period despite a good earnings report in May which evidenced healthy backlog, strong cash flow, continuing deleveraging, and good execution managing cost input pressures seen by many.

Portfolio Activity:

- Bought: Adtran (ADTN); Air Transportation Services (ATSG); Granite Construction (GVA); and James River (JRVR).
- Sold: ORBCOMM (ORBC); and Verint Systems (VRNT).

New Positions:

Adtran (ADTN): A leading provider of broadband equipment solutions for high-speed digital communications. The company should benefit from the increasing global demand for broadband connectivity, which has accelerated as a result of the pandemic. There are significant amounts of funding both domestic and abroad supporting a multi-year roll-out of broadband infrastructure which should benefit ADTN in the coming years. Additionally, the potential for a US infrastructure bill passing could be additive to an already robust spending backdrop. Gross margins should benefit as revenue mix improves as a result of their increasing exposure to higher margin software sales. ADTN also has significant operating leverage to an improving environment based on the fixed cost nature of their expenses, which should translate into accelerating earnings growth and robust free cash flow generation.

Air Transportation Services (ATSG): Demand for the company's leased air freighters for time-definite transportation networks has been jumpstarted in recent years by e-commerce growth. The company's order book is its strongest ever, with contract terms lengthening in some cases. This provides excellent long-term visibility with a more stable earnings profile than other transportation companies. The prospects for significant cash flow growth are bright. The company operates roughly half of Amazon's freighters, and Amazon owns 19.5% of the company. DHL is also a significant, long-term customer. The Department of Defense is the company's largest customer, as ATSG handles both passengers and freight for the military. This business, along with a smaller passenger charter operation, should stabilize in 2021 after pandemic-induced weakness, and shift to a tailwind in 2022. ATSG trades at just 7x EV/EBITDA and offers attractive upside potential.

Granite Construction (GVA): A heavy civil construction company involved in building roads, bridges, water and public infrastructure projects. Unlike many peers, the company is vertically integrated, processing aggregates for asphalt and other construction materials. In today's tight supply environment, vertical integration should convey a competitive advantage regarding supply availability and cost. The company should benefit from a positive multi-year funding backdrop driven by the need to upgrade and improve deteriorating and aging infrastructure. California, where the company generates 35% of revenues and maintains leading market share, is in the early stages of a $54 billion program to fix roads, freeways and bridges across the state. The passage of a federal infrastructure bill would add support to funding levels. Margins are poised to inflect higher as the company rolls off large, low margin projects, and emphasizes smaller, higher return contracts. This should equate to mid-teens EBITDA margins and stronger earnings and free cash flow generation going forward.

James River (JRVR): Owns and operates a group of specialty insurance and reinsurance companies. The vast majority of premiums are originated by the company's US excess and surplus lines market and nearly all of the premiums are casualty insurance and reinsurance. In 2013, JRVR began insuring rideshare business including Uber which grew to a substantial percentage of the total gross written premium by 2019. JRVR ceased underwriting this business line and placed it in runoff at the end of 2019 following disappointing performance and a desire to refocus on its core E&S business. Paid and incurred loss emergence remained elevated in 2020 and after a change to its reserving methodology JRVR significantly strengthened its reserves by $170 million in 1Q which we believe is now adequate to cover future losses. With the commercial auto distraction behind them, we expect investor attention to turn to JRVR's strong, core business trends and for shares to trade in-line with similar, high-performing peers.

Sold Investments:

ORBCOMM (ORBC): See **Top Contributors** above.

Verint Systems (VRNT): Initiated in January 2014, we exited with an absolute and relative gain. The company is progressing in its business model transition to subscription-based sales, and took a step toward shareholder value enhancement with its spin-off of Cognyte Software earlier this year. We sold those shares in 1Q. As the share price approached fair value, we sold VRNT which also reduced the portfolio's exposure to the Software sector, where we remain overweight.

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, 2019. 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, 2019.
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 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
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	41	$585.8	$558.8	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%
2020	30	$685.8	$670.9	0.5%	25.31%	26.49%	25.40%	$792.7	$1225.4	86.51%	55.96%	15.82%	15.82%	4.63%	4.88%

*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.

Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. .The Russell 2000 index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the US equity universe. It includes those Russell 2500™ companies that are considered more value oriented relative to the overall market as defined by Russell's leading style methodology.

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 uponrequest.

Past performance is not indicative of future results. The statements contained herein are solely based upon the opinions of Bernzott Capital Advisors and the data available at the time of publication of this report, and there is no assurance that any predicted results will actually occur. This material is not investment advice. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of the investment. Bernzott reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the composite characteristics discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable.

Prior to April 2013, Schmetter & Associates, LLC. (S&A) served as an independent institutional sales and marketing representative for Bernzott Capital Advisors. S&A continues to receive 20-25% of collected revenue from specified institutional clients. S&A is not a broker/dealer. BCA currently employs two business development professionals. This professionals receive a % of collected revenue from specified institutional clients. All fees paid by Bernzott Capital are in hard dollars. No additional amount is ever billed to any client as a result of such payments.

Bernzott Capital Advisors is a registered investment adviser, registered with the SEC. Registration does not imply a certain level of skill or training. More information about the adviser, including the investment strategies, fees and objectives are more fully described in the firm's Form ADV Part 2, which is available upon request by calling (800) 856-2646, or can be found by visiting www.bernzott.com.