

4Q Market Overview

Global financial markets rallied in 4Q, recovering some of the losses from earlier in the year. The S&P 500's quarterly advance of +7.6% narrowed its loss to -18.1%. The R2000 rose +6.2% in the quarter, lessening its decline to -20.5%. Weakness in technology favorites grabbed headlines all year, and the NASDAQ Composite finished the year down -33.1% with no 4Q bounce. Energy stocks and commodities were standout performers in 2022. Inflation remained elevated, and the FOMC raised its benchmark interest rate by 75bps in December for the fourth time in 2022. The 10-year Treasury yield peaked in October around 4.22% before falling to close roughly flat at 3.87% after starting the year at 1.51%. After the worst three-quarters start for a notional 60/40 portfolio since 1974, it rebounded to close with a loss of -16% for 2022, a historical outlier. Macro factors weighed heavily on stock prices all year, hurting interest sensitive sectors and aiding defensive stocks and dividend payers. A forecast for recession has become consensus, and investors are focused on a potential peak in inflation and Fed pivot to less aggressive monetary policy. In light of anticipated economic weakness, it is somewhat surprising that high yield spreads have not widened more, remaining below highs seen in 2011 and 2016.

Value beat growth for the quarter and trounced growth for the year. In 4Q, the R2000V (+8.4%) beat the R2000G (+4.1%) for the eighth quarter in nine. In the R2000V, cyclicals paced the advance, led by Materials, Energy, and Industrials. Health Care was the laggard.

The S&P 500's forward P/E is now 16.7x, right near its 25-year average of 16.8x. Consensus estimates for forward earnings still call for growth, however, despite continued cost pressures and waning demand. Thus, the P/E may be modestly understated as earnings estimates are likely to fall. Small cap valuations look attractive relative to large caps.

As a bottom-up, fundamental value investor, we seek high quality companies we believe can compound returns over long periods while proving resilient in downturns. 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 skin in the game and a long-term view.

Performance Highlights

Gross of Fees	MRQ	1 Year	3 Years	5 Years	7 Years	10 Years	SI
US Small Cap Value	10.50	-21.35	1.06	4.44	9.39	9.60	12.57
Russell 2000 Value	8.42	-14.48	4.70	4.13	8.23	8.48	9.55
Russell 2500 Value	9.21	-13.08	5.22	4.75	8.26	8.93	10.31
+/- Russell 2000 Value	2.08	-6.87	-3.64	0.31	1.16	1.12	3.02
+/- Russell 2500 Value	1.29	-8.27	-4.16	-0.31	1.13	0.67	2.26

Net of Fees	MRQ	1 Year	3 Years	5 Years	7 Years	10 Years	SI
US Small Cap Value	10.36	-21.75	0.55	3.89	8.81	9.00	11.75
Russell 2000 Value	8.42	-14.48	4.70	4.13	8.23	8.48	9.55
Russell 2500 Value	9.21	-13.08	5.22	4.75	8.26	8.93	10.31
+/- Russell 2000 Value	1.94	-7.27	-4.15	-0.24	0.58	0.52	2.20
+/- Russell 2500 Value	1.15	-8.67	-4.67	-0.86	0.55	0.07	1.44

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

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end please visit www.bernzott.com or call (800) 856-2646. See last page for full GIPS compliant disclosure.



4Q Performance

The portfolio gained +10.4% on a net basis, above the R2000V's advance of +8.4% and the R2500V's rise of +9.2%.

Health Care was the leading contributor to the portfolio's relative returns. Our two holdings performed very well, especially considering Health Care was the R2000V's worst performing sector, falling -4.7%. Halozyme Technologies was the portfolio's leading percentage gainer, +43.9%. Encompass Health, an operator of inpatient rehabilitative facilities, rose +32.1% following a good 3Q earnings report. Real Estate also boosted relative performance due to positive stock selection. Howard Hughes recovered strongly from 3Q's decline, rising +37.9%. Industrials also contributed positively. The portfolio benefited from continued over-allocation to the sector which rebounded.

Materials detracted from relative performance. MP Materials fell -11.2%. Financials weighed on relative performance as both insurance holdings were mediocre performers. Consumer Discretionary detracted, primarily due to omission as Consumer Services (including restaurants) and Retailing both were good gainers for the quarter following prior weakness, and the portfolio had no exposure.

We started the quarter with 34 holdings and ended with 31. The portfolio had a weighted-average discount to fair value of 33% and a \$3.5 billion weighted average market cap.

Top Relative Contributors	Ticker	Weight	Return	Relative Contribution
Halozyme Therapeutics	HALO	4.30%	43.89%	1.31%
Howard Hughes	HHC	3.55%	38.03%	0.96%
Granite Construction	GVA	3.59%	38.74%	0.91%

Halozyme Technologies (HALO): The company continued to post impressive royalty growth led by the subcutaneous forms of Janssen's DARZALEX. Its May acquisition of Antares Pharmaceuticals has been integrated smoothly and product development with its auto-injector technologies is showing promise.

Howard Hughes (HHC): The real estate developer's master planned community results were better than expected amid fears of a housing slowdown, and stabilizing interest rates eased pressure on the stock from earlier in the year. Pershing Square, a significant shareholder, tendered to purchase more shares during the quarter, highlighting value.

Granite Construction (GVA): The engineering and construction company reported better than expected top and bottom-line results which led to outperformance during the quarter. As legacy contracts roll off the books and backlog of new, more profitable business continues to grow, margins should expand. The pace of new contract awards continues to accelerate as overall funding focused on the improvement in the nation's infrastructure begins to materialize.

Top Relative Detractors	Ticker	Weight	Return	Relative Detraction
BrightView	BV	2.64%	-13.80%	-0.75%
MP Materials	MP	3.05%	-11.20%	-0.58%
James River	JRVR	3.22%	-8.13%	-0.57%

Brightview (BV): The commercial landscaping services provider underperformed as higher fuel and labor costs negatively impacted margins. The company is working to increase pricing by revising contract structure to include CPI escalators as well as through annual contract renewals, however these efforts to restore margins have taken longer than expectations. Modestly worsening leverage ratios may also have played a part in the stock's weakness. As a result, we have reduced our position in this holding.

MP Materials (MP): Despite another quarter in which this rare earth materials company beat quarterly top and bottom-line expectations, the stock underperformed. Negative headlines surrounding near term electric vehicle demand and fears surrounding Covid-19 and China likely led to the underperformance. With a fortress balance sheet, an irreplaceable asset base and strong FCF generation, we believe this company can navigate these short-term headwinds and continue its focus on becoming the only supplier of magnets in the United States.

James River (JRVR): Book value fell, partly due to mark-to-market losses on its fixed income portfolio due to interest rate increases. Gross written premiums were modestly below expectations as the company was rigorous in renewal discipline. Thus, the stock fell modestly. Its core excess and surplus insurance line remains in a strong cycle, positive for future earnings and book value growth, and the stock continues to sell at a significant discount.



2022 Performance

The portfolio fell -21.7% on a net basis, below the R2000V's decline of -14.5% and the R2500V's decline of -13.1%.

Top Relative Contributors	Ticker	Weight	Return	Relative Contribution
Viper Energy	VNOM	4.49%	62.30%	2.42%
Halozyne Therapeutics	HALO	2.41%	46.30%	1.37%
SP Plus	SP	3.20%	22.92%	0.92%

Viper Energy (VNOM): This mineral rights company, possessing a premiere sponsorship with Diamondback Energy, was the top contributor for the year. Buoyed by Diamondback's advantaged assets in the Permian Basin coupled with elevated oil prices, Viper reported strong earnings and FCF generation. This resulted in attractive capital return actions for shareholders through a combination of cash distributions and share repurchases. We expect similar capital return actions to continue as Diamondback remains focused on growing production on Viper's acreage. We believe the stock remains undervalued relative to its FCF generation and capital return growth potential.

SP Plus (SP): The company has achieved a strong profit recovery in its commercial parking and aviation services businesses. New business wins and share gains are being driven by its "Sphere" technology solutions which enable capabilities such as contactless payment and gateless parking, and digital inventory and remote site management. Its debt position has been managed to comfortable levels following the spike due to the 2019 debt-financed Bags acquisition and that deal's unfortunate timing right before the pandemic shutdown. The company has now re-engaged with modest share buyback and M&A programs.

Top Relative Detractors	Ticker	Weight	Return	Relative Detraction
Shutterstock	SSTK	2.69%	-54.64%	-1.71%
Brightview	BV	3.74%	-51.43%	-1.59%
Quotient Technology	QUOT	1.22%	-71.91%	-1.54%

Shutterstock (SSTK): The stock declined as business trends decelerated in ecommerce and Europe (approximately one-third of revenues). Additionally, the CEO left unexpectedly mid-year, and while the transition to his replacement has been orderly, it nevertheless represents a risk factor. There remains the potential for further weakness in its ecommerce and advertising markets as the economy slows. The company's transition from a commoditized and competitive stock imagery provider to a creative tools provider carries risks, and thus we elected to exit the position.

Quotient Technology (QUOT): Execution missteps, including a significant customer loss and an uneven product transition, as well as management changes, have hindered the company's efforts to capture the promise of the shift from paper to digital coupons on a reasonable timeframe. Thus, we exited the position.

Portfolio Activity:

- Bought: There were no new buys during the quarter.
- Sold: Knowles (KN), Upland Software (UPLD), Shutterstock (SSTK).

Sold Investments:

Knowles (KN): The stock fell due to disappointing earnings which had several culprits, including slowing consumer electronics demand, excess inventory, and margin pressure from certain customers. The company embarked on a modest restructuring program, and we exited the position.

Upland Software (UPLD): The company's promising effort to expand its go-to-market approach sputtered, and organic growth disappointed. Margins were depressed by the additional expenses and the timeframe for achieving margin targets became murkier. This uncertainty together with an unexpected capital raise, prompted us to sell.

Bernzott Capital Advisors Update:

We ended 4Q managing \$849 million, with \$527 million in our US Small Cap Value strategy.

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.

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 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 (%)
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	-5.18	-5.71	-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	26.97	26.28	22.39	23.56
2020	30	685.8	670.9	0.5	25.31	26.49	25.40	792.7	1,225.4	86.51	55.96	15.83	15.22	4.63	4.88
2021	35	823.3	795.2	0.3	23.83	25.35	24.49	831.0	1,244.6	98.90	66.14	13.34	12.76	28.27	27.78
2022	31	525.7	496.5	0.2	26.61	27.66	26.84	526.6	848.8	99.83	61.93	-21.35	-21.75	-14.48	-13.08

*Equity product inception: January 1, 1995. 1 The 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 upon request.

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; 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.