

**Part 2A of Form ADV: *Firm Brochure***

**Bernzott Capital Advisors**

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This brochure provides information about the qualifications and business practices of Bernzott Capital Advisors. If you have any questions about the contents of this brochure, please contact us at (805) 389-9445. The information in this brochure has not been approved or verified by the U.S. SEC or by any state securities authority.

Additional information about Bernzott Capital Advisors also is available on the SEC's website at [www.adviserinfo.gov](http://www.adviserinfo.gov).

**Item 2        Material Changes**

There are no changes that we would consider to be material since our last update to this form.

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#### **Item 4            Advisory Business**

We are an independent money manager and have been in business since 1994. The firm is 100% owned by employees and an employee related party. The majority shareholder is Kevin Bernzott, Chairman & CEO.

We provide discretionary investment supervisory services to institutional and private clients with minimum relationship sizes of \$10 million and \$1 million, respectively. We may waive the minimum account size. We manage concentrated portfolios of 20-30 small/mid-cap domestic equities for institutional clients. We manage private client accounts differently, generally in concentrated portfolios of multi-cap domestic equities, depending on client-specific circumstances.

Clients may impose portfolio-specific restrictions by written direction. We employ a “bottoms up” research process to select securities. We do our own homework and do not rely on Wall Street research.

We sub-let office space for a marketing executive in the building of DuckworthMehner Private Wealth Advisors, Inc., located in Costa Mesa, CA, an SEC registered investment adviser firm. DuckworthMehner is a separate and distinct business and is in no way affiliated with Bernzott Capital Advisors. Neither Bernzott Capital nor DuckworthMehner share common members, officers, directors, or owners.

As of December 31, 2011, we manage \$346 million.

#### **Item 5            Fees and Compensation**

We are compensated by a percentage of assets under management. We do not require prepayment of fees. We do not participate in any wrap fee programs. We do not receive or pay fees for any type of referral.

For institutional clients, fees are billed quarterly in arrears on the market value of assets under management at an annual rate of 0.90% of the first \$10 million, 0.80% of the next \$15 million, 0.75% of the next \$25 million and 0.65% of the balance.

For private clients, fees are billed quarterly in arrears on the market value of assets under management at an annual rate of 1% of the first \$2 million, 0.75% of the next \$3 Million, and 0.50% of the balance.

We may negotiate fees different from our fee schedule. We serve certain non-profits at a discount and we reduce or waive fees for employees and related parties.

We generally aggregate separate accounts of a single relationship for billing purposes.

Clients may authorize us to deduct fees from their account or bill them. Clients will also incur brokerage and/or other transaction costs as outlined in Item 12: Brokerage Practices. None of such costs are payable to us.

Similar services may be available from other advisers at lower fees.

## **Item 6            Performance-Based Fees and Side-By-Side Management**

We do not charge performance-based fees.

## **Item 7            Types of Clients**

We serve both institutional and private clients. Clients may include multi-employer (Taft-Hartley), union or governmental employee pension or benefit plans, banks or thrift institutions, investment companies, trusts, estates, charitable organizations or other corporations or entities.

## **Item 8            Methods of Analysis, Investment Strategies and Risk of Loss**

We are a “bottoms up” manager with a long-term horizon. We believe that superior, risk-adjusted returns can be generated by constructing a concentrated portfolio of thoroughly researched companies purchased at appropriate prices. We favor companies with significant recurring revenue, solid operating margins, moderate leverage and strong returns on capital. We have a value orientation and seek to purchase companies at a discount to fair market value.

We construct portfolios without regard to sector weighting. Our process results in comparatively low turnover.

The members of the investment team are generalists. The team actively monitors companies on Buy and Under Consideration lists. Buy and sell decisions are made unanimously by the team. We do not utilize “stop-losses” – in the short-term market prices may be volatile. We will sell if we determine our investment thesis is invalid, fundamentals of a company or industry are deteriorating, the price of a company reaches or exceeds fair value or it becomes over-weighted due to appreciation, or to raise cash for a more compelling opportunity. Buy, sell and fair value targets are evaluated regularly.

### *Material Risks of Bottom-up analysis*

By emphasizing the individual company as opposed to the overall economy or sector, there is a risk that a company could be affected by macro factors or industry dynamics.

Exogenous circumstances may have a material impact on a company regardless of its fundamentals.

#### *Material Risks of Small/Mid-Cap Domestic Equities*

All equities are exposed to a wide variety of material risks and price volatility. We attempt to mitigate risk by investing in companies that have a history of execution and cash generation, are generally industry leaders, have recurring cash flows and returns on capital and long-term track records.

Companies with smaller market capitalization can also be impacted by comparatively low trading volume. We mitigate this risk by selecting companies with trading volume sufficient to buy and sell positions without materially adversely affecting price.

#### **Item 9           Disciplinary Information**

Our firm and employees have never had any legal or disciplinary events related to providing investment advisory services.

#### **Item 10          Other Financial Industry Activities and Affiliations**

We engage in no other financial industry activities and are not affiliated with any broker-dealer, investment company, financial planner, or other investment adviser.

We pay Schmetter & Associates, a third-party institutional marketing firm, for contracted services. They are paid \$20,000 per quarter plus 20-25% of collected revenue from specified institutional clients. They are not a broker/dealer and all fees are paid by us in cash. No additional amount is ever billed to any client as a result of such payments.

We very infrequently, not on more than an occasional basis, provide two private clients with advice concerning the acquisition or disposition of physical real estate for a separately negotiated fee.

#### **Item 11          Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

We have adopted a written Compliance Manual, a Code of Ethics, and Policies and Procedures to detect and prevent insider trading. All are available to every employee and each attests annually that they have received, understand and will comply. There are provisions for restricting access to files, providing continuing education, restricting and monitoring trading of those securities about which we may have non-public information, requiring related persons to conduct their trading through a specified broker, and

monitoring the securities trading of related persons. We have a Chief Compliance Officer and Assistant Compliance Officer.

Employees may own securities which may also be purchased for clients. When buying or selling securities for employee or related party accounts, we execute these trades last – after all trades in client accounts have been filled.

It is our policy that employees shall not buy or sell securities for their personal account when their decision is substantially derived, in whole or in part, from information obtained by reason of their relation to the firm unless the information is also available to the general public on reasonable inquiry.

We maintain a list of securities holdings for all employees and these holdings, as well as all employee transactions, are regularly reviewed by our Chief Compliance Officer.

We require all employees to act in accordance with laws and regulations governing our business and will discipline or terminate any employee acting otherwise.

Clients or prospective clients may obtain a copy of our code of ethics by contacting us by telephone at (800) 856-2646 or by email at [info@bernzott.com](mailto:info@bernzott.com).

## **Item 12        Brokerage Practices**

We do not use or suggest brokers or direct brokerage in exchange for fees, products, research, services, payments for order flow, rebates, soft dollars or other compensation.

We use or suggest brokers that we reasonably believe will provide best price and execution. We consider reputation, integrity, access, ability, level of communication, responsiveness, block trading capability and established mechanisms to provide best price and execution. We negotiate "execution only" commission rates, typically \$0.02 per share or less, but do not solicit competitive bids and do not necessarily seek the lowest available commission cost.

Clients are entitled to direct their brokerage. A client that directs we use a particular broker must do so in writing and is responsible for negotiating terms, arrangements and commissions with that broker. If a client directs brokerage, we will be unable to aggregate their trades with those of other clients, reducing their chance to participate in block trades and obtain volume discounts and this will impact our ability to obtain best execution. Accounts that direct brokerage may pay higher commission rates. Additionally, trades for directed accounts are generally executed after non-directed accounts which may result in less favorable prices and execution.

We may aggregate trades using our trading software in an attempt to achieve best price and execution. If we aggregate orders, shares are allocated to all accounts served by any given broker at the average price we received on the day and each account pays its own

respective commission costs. Trades for accounts that do not have the required minimum balance for "prime brokerage" or use custodians that charge trade-away fees will not be aggregated with those of other clients that we have the ability to direct to a broker of our choice. These accounts will not receive the same average price as the accounts that were block traded and may have trades executed after those for accounts on which we have brokerage discretion thereby impacting our ability to obtain best execution.

In the event of a partial fill, no related party accounts receive any allocation. We may use our trading software to allocate on a pro rata basis or to allocate "all or none" on a random basis to avoid multiple commission charges that would result from a series of small, partially filled orders. However, if either of those methods would somehow result in clients being disadvantaged, our Chief Compliance Officer or Assistant Compliance Officer may override the software and instruct a manual allocation in a good faith effort to eliminate or mitigate such disadvantage.

We have implemented policies and procedures to monitor best price and execution. Our Chief Compliance Officer or Assistant Compliance Officer reviews a report generated every trading day detailing every executed trade. On that report we document a comparison of the average price we obtained on the day for each security traded with the Volume Weighted Average Price (VWAP). Any material inconsistencies are researched and documented. Additionally, we periodically review broker performance and statistics relative to best price and execution and examine and review commission structures in an effort to obtain competitive pricing for our clients.

### **Item 13          Review of Accounts**

Accounts are subject to continuous monitoring and supervision. There are no specific factors triggering review and no procedure determining the sequence in which accounts are reviewed. Reviews are performed by one of three portfolio managers. The number of accounts each is responsible for depends upon the number of accounts in the firm at any given time and the complexity of maintaining the relationship related to the account.

### **Item 14          Client Referrals and Other Compensation**

We only receive compensation from clients for whom we provide investment advisory services. No one who is not a client provides us any economic benefit.

### **Item 15          Custody**

We do not take possession of client funds or securities. But we are deemed by the SEC to have custody of accounts from which clients have authorized us to deduct management fees.



Each client receives statements from their custodian at least quarterly. Clients also receive quarterly account statements from us and are urged to compare the two.

#### **Item 16      Investment Discretion**

We provide discretionary investment supervisory services. Clients execute a management agreement giving us authority to determine, without obtaining specific client consent, the type and amount of securities bought and sold, the broker used for the transaction and the commission rates paid.

#### **Item 17      Voting Client Securities**

Unless directed otherwise, we vote proxies for all supervised securities pursuant to procedures designed to ensure that we vote considering only the interest of our clients.

We generally vote proxies as recommended by management. But we generally vote against proposals to entrench management or result in egregious compensation and against board nominees who do not have significant share ownership or do not have significant experience related to the business of the company or appear to be otherwise unqualified. We generally vote against shareholder-initiated proposals that appear to be driven by social concerns having little relevance to the business of the company.

We do not vote proxies for unsupervised securities in client portfolios.

Clients may obtain a copy of our proxy voting procedures and information about how we voted their proxies by contacting us by telephone at (800) 856-2646 or by email to [info@bernzott.com](mailto:info@bernzott.com).

#### **Item 18      Financial Information**

We have been profitable since our establishment in 1994. No financial condition exists that is reasonably likely to impair our ability to meet contractual commitments to our clients.