VAN HULZEN ASSET MANAGEMENT

Van Hulzen Small Cap Strategy
Introduction & Q2 Commentary

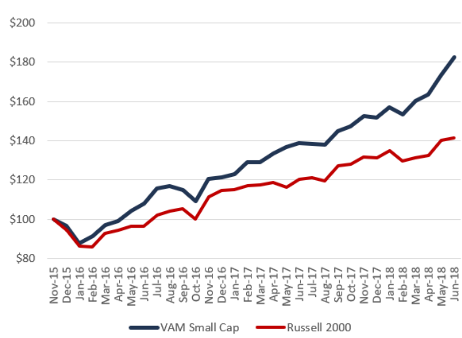
Welcome to the first quarterly commentary for the Van Hulzen Small Cap strategy. For those of you who didn't know (probably most of you), we launched a small cap strategy nearly three years ago in late 2015. We have been managing this strategy in house, with our own 401k plan as well as clients of Van Hulzen Asset Management who expressed early interest. We have performed very well and are now beginning to broaden our distribution efforts.

Some Quick Highlights about this strategy:

- Fundamental stock selection process uses the same framework as our other (large-cap) work
- This framework (HOLT) is ideally suited to finding value in smaller, undiscovered companies
- Results have been GIPS verified as of 12/31/17 (track record is real, not pro forma)
- Strategy has remained fully allocated (90-100%) over the entire track record measurement period and has held a similar risk profile as the benchmark throughout the time horizon

Track Record
We have achieved excellent results thus far, out-performing the Russell 2000 by nearly 12% <u>annually</u> over our first 31 months (41% cumulative outperformance). We have not taken excessive risk in order to achieve these results. Our standard deviation is actually slightly lower than the benchmark.

Performance
Relative To Russell 2000



Performance	Van Hulzen	Russell 2000
1 month	5.6%	0.7%
3 months	14.1%	7.8%
6 months	20.6%	7.7%
Year to date	20.6%	7.7%
Inception	82.8%	41.4%
Annualized	26.3%	14.4%

Risk Statistics *(since inception)*		
Standard Deviation	13.4%	13.6%
Alpha (relative to Russell 2000)	12.1%	
Beta	1.0	
Sharpe Ratio	1.8	

Data through June 30, 2018
Inception date: December 1, 2015
Van Hulzen performance is net of fees

The Van Hulzen small cap strategy has an annual return of +26.3% since inception and has out-performed its primary benchmark (the Russell 2000) by nearly 12% annually over the initial 31 months, at slightly less risk

Approach

The strategy uses a "Growth At A Reasonable *Profile*" approach, which basically means we are not speculative. Just like you've come to expect from us in the large cap space, our focus is on quality first. But in the small cap space, we are just as open to growth and momentum stocks as we are value stocks. A "reasonable profile" means the business must be established and already profitable, earning returns above its cost of capital. Beyond these simple parameters, we look for companies that are leaders in their industries, expanding rapidly (2-3x the market), and consistently beating expectations for growth.

Portfolio Construction

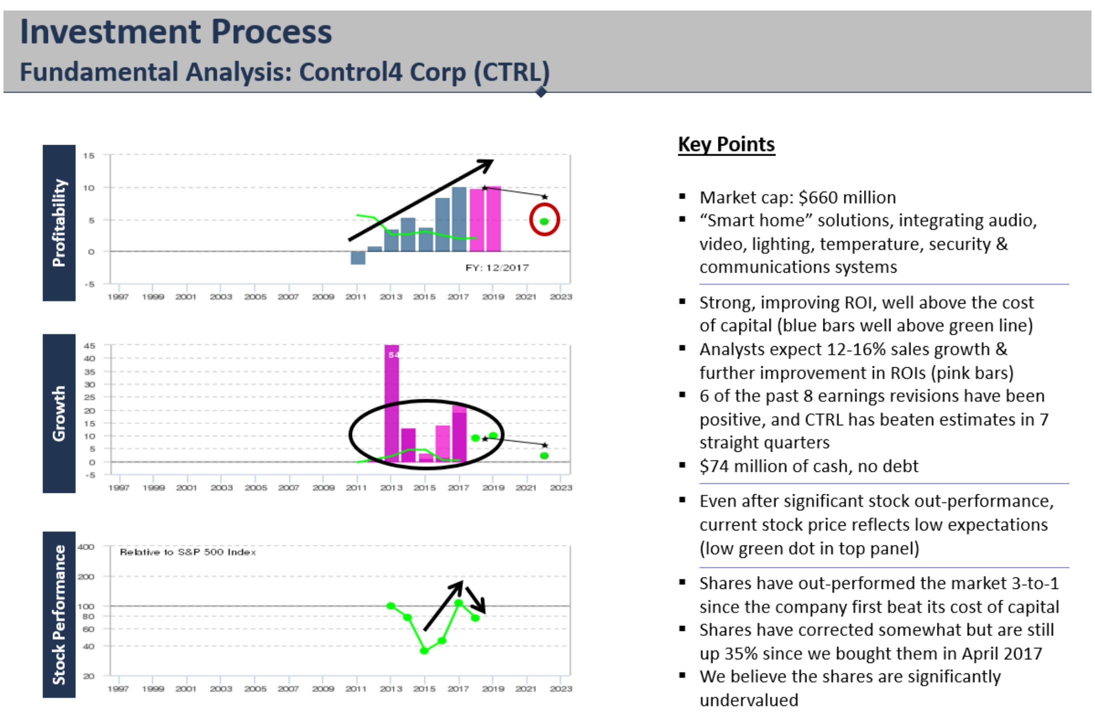
Our strategy is well diversified, with a max position size of 6% and broad representation across sectors. We believe in long term value creation based on a disciplined capital allocation process. A handful of lucky concentrated bets is not the path to achieving long-term goals. We target companies with market caps between $500 million and $3 billion and have a below average portfolio turnover profile.

Balancing Fundamentals & Technicals

Fundamentals come first. Always. But we also incorporate technical analysis into our investment process, to provide key downside/support levels and also to provide confirmation of buy/sell signals. Small-cap stocks can be volatile and technical analysis provides information into position sizing, entry and exit decisions and can trigger due diligence reviews.

We'd like to use two of our portfolio holdings (CTRL, a current holding, and SAM, a recent sell) to demonstrate our balanced investment approach:

Control4 (CTRL) is a "smart home" solution provider that has provided us with a 60% return since inception but that we believe is still significantly undervalued. It is a very profitable business and is growing 12-16%. With a market cap of just $660 million, we believe it is an ideal takeover candidate.

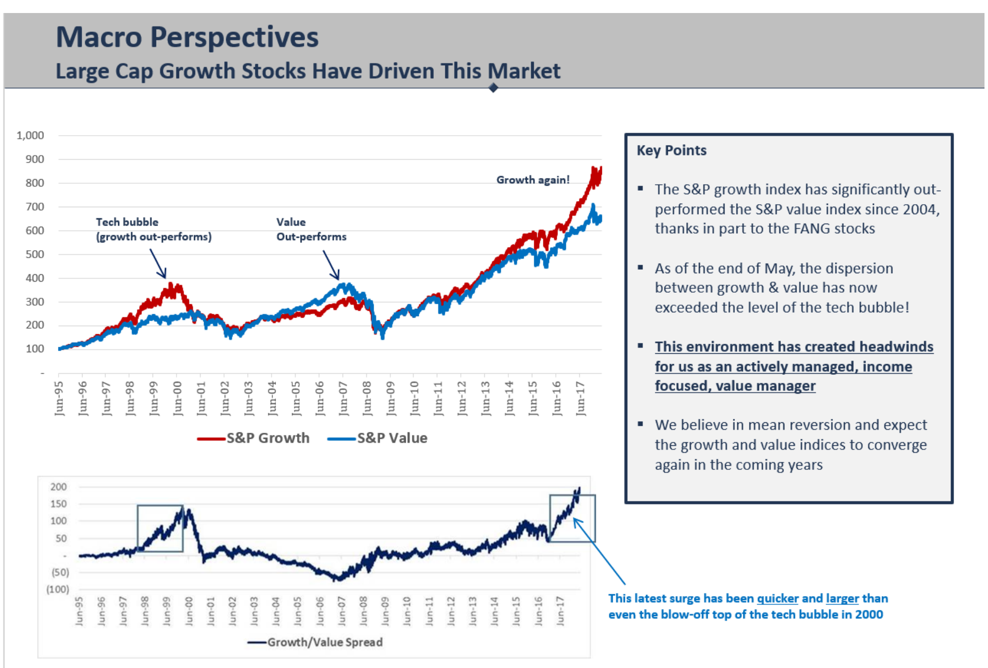


Boston Beer (SAM) is a more widely known example. SAM was the original pioneer in the craft beer industry and enjoyed strong investor support until 2015. The stock fell out of favor when the craft beer craze spread wildly across the US, with new brewers coming out of the woodwork. SAM showed up on our screens as fundamentally cheap back in 2016. But we watched the stock for nearly a year, waiting for it to break out of its technical downtrend, thus "confirming" the buying opportunity and avoiding a "bear value trap". We took profits 10 months later, when it was no longer fundamentally attractive.

10 Year price chart. Source: TD Ameritrade ThinkPipes

Growth versus Value

As you may know, large cap growth stocks have significantly out-performed large cap value stocks over the past five years. This has been driven largely by a handful of "Big Tech" names and has been reported widely by us in our covered call commentaries. See below.



But what may surprise you is that this phenonium is **not** present in the small cap space. Small cap value has actually out-performed small cap growth over the past 5 years. One important difference between the Russell and the S&P, of course, is the weightings of tech versus financials (S&P tech 24% vs Russell 18%; S&P financials 15% vs Russell 18%). But while these weightings clearly affect index attribution, we do not believe they affect the growth/value spread itself.

Russell 2000 Value Index (green & red) vs Russell 2000 Growth Index (purple)

We consider our strategy a "core" strategy, which can take advantage of high quality opportunities in the value space as well as the growth space.

Quarterly Results & Attribution

We delivered strong results in Q2, with a net return of 14.1% versus 7.8% for the Russell. Year to date, we are +20.6% (net) versus +7.7% for the Russell. By the end of Q2, we had jumped from #2 to #1 relative to the 23 Morningstar funds (Small Cap Core) that we benchmark against. Please let us know if you'd like more information on this peer group.

There was very broad participation within the portfolio in Q2. The top five performers (listed below) included one tech name, one consumer staple, one consumer discretionary, and two healthcare names.

Biggest Gainers This Quarter		Biggest Losers This Quarter	
AAOI - bought late 17, added in Q1	72.7%	LOGM	-10.4%
SAM - sold in Q2, 90% gain	59.0%	LDL	-9.5%
FIVE - trimmed, 160% gain	39.0%	EZPW	-8.7%
LHCG	39.0%	BRSS	-6.1%
BEAT	32.6%	SFM	-6.0%

As always, we have reviewed our winners and losers, particularly scrutinizing our losers. We believe all of our holdings are long term value creators and are on solid ground. LOGM, our biggest loser from Q2, has had some acquisition integration issues but has already rebounded 8% in the first half of July.

A few trades worth reporting for 2018 are the sale of three of our long-term holdings that had become too large (with respect to market cap) to keep in our small cap portfolio. Veeva Systems (VEEV), Match Group (MTCH) and Paycom (PAYC) now have market caps greater than $5 billion and have graduated to mid-cap land. It's a little sad as these are great companies whose business models we believe in. But I suppose it's kind of like sending your kids off to college.

Hopefully these stocks will continue to succeed and grow and won't come back to live with us again, as college grads sometimes do. But you never know. Successful turnaround stories can be a big contributor to out-performance too!

Top Ten Holdings

Our top 10 holdings currently include four tech names, two financials, three healthcare names, and a consumer discretionary name. The median market cap is $1.2 billion.

Portfolio Highlights

Top 10 Holdings (as of 6/30/18)

Company	Business description	Weight	Mkt Cap ($mm)
Applied Optoelectronics (AAOI)	Fiber-optic networking	5.3%	899
Farmer's National (FMNB)	Regional bank	5.0%	457
BofI Holdings (BOFI)	Consumer banking	4.9%	2,620
Five Below (FIVE)	Discount retailer	4.1%	5,501
CalAMP (CAMP)	Wireless technology for autos	4.1%	812
ZIX Corporation (ZIXI)	Email encryption services	3.8%	298
Supernus Pharma (SUPN)	Specialty pharma (CNS)	3.8%	2,689
LHC Group (LHCG)	Medicare home health svcs	3.6%	1,567
Control4 Corp (CTRL)	Smart home/IoT technology	3.3%	662
Merit Medical Systems (MMSI)	Cardiovascular devices	3.3%	2,779

Conclusion

We believe there continues to be a nice opportunity to create value in the small cap space. With mostly US sales and nice tax cut tailwinds, we believe this category will continue to out-perform large caps and global stocks. Small caps should also be largely immune to trade war issues.

We also believe our rigorous approach to stock selection and strong track record of alpha generation make us an attractive allocation for clients. It's not hard to find small cap managers who are willing to speculate, but we believe quality always wins in the end.

It is worth mentioning that US small-cap is notorious for having good managers who are "closed" to new investors and average / weak managers who are open to new investors. This has always been the case with small-cap equities. Our strategy will also have limits on what can be managed. It is not a problem now, but every small-cap manager must face the decision of when to close the strategy to protect the integrity of the portfolio.

Please feel free to reach out to us with any questions or to schedule a call.

Sincerely

Van Hulzen Asset Management
Small Cap Investment Committee