SOUTHERNSUN U.S. VALUE FUND

SouthernSun Asset Management
Commentary – Fourth Quarter 2017

The performance of the SouthernSun U.S. Value Fund during the fourth quarter was positive on an absolute basis. The Y Share Class returned +1.51%, the Investor Share Class returned +1.24%, and the Institutional Share Class returned +1.43% on a net basis, while the Russell 2500™ Index returned +5.24% for the period.

While there is nothing magical about the end of the calendar year, it can offer a time for reflection on the events of the previous twelve months. In 2017, the U.S. equity markets continued their march upward led, in part, by outperformance in the technology sector. We continued to engage regularly with our portfolio companies and our observations have led to favorable outlooks for several of our industrial businesses. We have observed customer-led innovation, technology and innovation applied in businesses that have traditionally resisted it, and what should be improving conditions for reinvestment by industrial-related businesses, driven largely by tax reform and accelerated depreciation. We have also noted the organic growth that several of our companies have reported recently, and assert that they are reporting organic growth with both consistency and frequency not seen in our portfolio in several years. Additionally, improving global purchasing manager index metrics and an increase in industrial landfill volumes may bode well for activity at these businesses.

We are pleased with the current positioning of the Fund. Our largest allocation remains in the producer durables sector and we believe that we have emerged from the industrial recession that commenced in late 2014 with the collapse in oil prices and other commodities. We contend that our businesses' financial strength allowed many of them to allocate capital during the trough of their business cycle and that they are now poised to reap the benefits of those investments. We look to construct portfolios of businesses that possess scale, drive consolidation and demonstrate pricing power and believe that the combination of these characteristics along with an industrial recovery positions the Fund's businesses to perform well in the coming year. We believe the new names that we have added recently bring with them proven capabilities in areas such as distribution and brand strength that strengthen the Fund further.

Stock selection in the health care and technology sectors led by **Envision Healthcare Corp. (EVHC)** and **Diebold Nixdorf, Inc. (DBD),** respectively, drove most of the underperformance during the period. This was offset, in part, by an underweight allocation to the financial services sector and an overweight allocation to the consumer discretionary sector.

Envision Healthcare Corp. (EVHC), a leader in the consolidation of ambulatory surgical centers (ASG) and physician practice services (PPS), was the leading detractor from performance on a relative basis in the period. The company was formed from the 2016 merger of **EVHC** and **AmSurg Corp**. with specialties including ophthalmology and orthopedics in its ASC division and radiology, anesthesiology and emergency medicine in the PPS division. During the period, the company reported third quarter earnings that missed estimates and lowered fourth quarter guidance significantly; the stock responded negatively to the news. We sold our position in **EVHC** in November 2017 due primarily to a loss of confidence in management, and turnover in their leadership team. In addition, we believe that we have more compelling opportunities in existing names and within our pipeline of potential investments. We sold our position in **EVHC** in November 2017 due primarily to a loss of confidence in management, and turnover in their leadership team. In addition, we believe that we have more compelling opportunities in existing names and within our pipeline of potential investments.

Diebold Nixdorf, Inc. (DBD), a leading global provider of hardware, software and related services to the banking and retail industries, was another leading detractor from performance on a relative basis in the period. The company manufactures and services automated teller machines (ATM) for banks and point-of-sale systems for retail. **DBD** has been a leader in ATM market share in the U.S. and South America and we believe that its

2016 acquisition of **Wincor Nixdorf** introduced a leadership position in Europe. Its revenue breakdown is approximately 50% servicing, 40% manufacturing and 10% software with roughly 75% from the banking channel and 25% from retail. Approximately 67% of its revenue comes from outside the Americas. We like the recurring revenue aspect of the servicing business where **DBD** possesses the capability to services ATMs manufactured by its competitors. We contend that its management team has significant experience in technology and financial services and has appropriately sized the business through technology implementation and staffing various functions within the business. Members of our investment team visited a German facility that was part of the **Wincor Nixdorf** acquisition during the period and left impressed with the quality of operations and the caliber of management.

Polaris Industries, Inc. (PII) was the leading contributor to performance on a relative basis in the period. **PII** designs, engineers, manufactures and markets snowmobiles, off-road vehicles ("ORV"), motorcycles and other small vehicles in the United States, Canada and Western Europe. We believe that **PII** continues to build on a track record of innovation and market leadership and has demonstrated acumen in capital allocation. **PII** currently maintains a market share in the ORV market of more than twice its nearest competitor, and we believe that the company is on track to achieve its long-term growth and profit improvement goals through organic growth and acquisitions. We remain confident in senior management and believe that the company's historic emphasis on research, development and innovation remains a factor that differentiates **PII** competitively. The positive stock price performance in the period coincided with a quarterly earnings release, which reported double-digit sales growth, market share gains in ORV, and growth in Indian motorcycle sales against the backdrop of weak industry numbers and the continued integration of the Transamerican Parts acquisition. We maintained our position in the stock.

Trinity Industries, Inc. (TRN), a diversified industrial company engaged in the manufacture of rail cars, highway safety products, inland barges, wind towers and the leasing of rail cars, was another leading contributor to performance on a relative basis in the period. **TRN** is a leader in North American rail car production with the ability to shift production between multiple rail car types. We believe that its management team has allocated capital prudently in varying market conditions. In the last year, **TRN** has faced challenges related to general weakness in rail car demand and we believe that it has responded adequately by right-sizing its business, managing its rail car lease fleet and by maintaining liquidity that we contend could be an asset in a continued cyclical trough or should attractive capital allocation opportunities present themselves. We remain impressed with **TRN's** ability to generate higher peak and trough earnings relative to previous cycles and contend that this indicates solid financial footing, an improved competitive position and prudent long-term capital allocation. We like what we assert is **TRN's** continued discipline regarding the valuation of acquisition opportunities and were encouraged by a favorable federal appeals court ruling in late September 2017 involving its highway safety products segment.

While we have paused recently to reflect on the past, we remain excited about the future at SouthernSun. The majority of our investment team has worked together for close to a decade and we believe that this tenure leads to increased collaboration as we manage portfolios and search for new investment ideas. The signs that we have noted of an industrial recovery may provide a tailwind for a fund that has maintained historical overweight allocations to the producer durables sector. We contend that management teams, whether new or tenured, are rightly fitted and meeting the challenges and opportunities facing their businesses. We are also pleased that the intersection of our research and individual company valuations has provided new investment opportunities.

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From time to time the advisor has waived fees or reimbursed expenses, which may have resulted in higher returns.

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The Fund is subject to risks associated with the stocks of small- and mid-capitalization companies. The stocks of small- and mid-capitalization companies often have greater price volatility, lower trading volume and less liquidity than the stocks of larger, more established companies. The Fund is non-diversified and therefore a greater percentage of holdings may be concentrated in a small number of issuers or a single issuer, which can place the Fund at greater risk. The Fund invests in value stocks, which may perform differently from the market as a whole and may be undervalued by the market for a long period of time. Value stocks may underperform growth stocks during given periods.

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Unlike the Fund, the Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500™ Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 2500™ Index is unmanaged, is not available for investment and does not incur expenses.

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