U.S. Value Fund Attribution Commentary

SouthernSun Asset Management

FIRST QUARTER 2018 U.S. VALUE FUND ATTRIBUTION COMMENTARY

We believe that many of our portfolio companies are performing well right now despite market volatility and that their execution and performance creates continued opportunity for value creation. **Darling Ingredients, Inc. (DAR)** continues to move up the value chain through the expansion of both its Diamond Green Diesel joint venture with Valero Energy Corp. and of its wet pet food capacity. **The Brink's Company (BCO)** has reported progress on its sales and fleet initiatives and, we contend, is focusing more attention on logistics improvements on its routes and at its branches that may position the company as a more efficient operator. We are analyzing these and other initiatives at our portfolio companies and assessing their potential to improve the cash flow generating profile of these businesses. Historically, a good deal of our analysis has occurred in the field at company headquarters, their plants and facilities, at trade shows, and at industry conferences, and this continued during the period with research trips to **IDEX Corp. (IEX), Knowles Corp. (KN)** and several other holdings, as well as visits to our office by **Newfield Exploration Company (NFX), Timken Company (TKR)** and **Broadridge Financial Services, Inc. (BR). Flowserve Corp. (FLS)** continues to report progress on the technology and operational initiatives of its Flowserve 2.0 restructuring while **Trinity Industries, Inc. (TRN)** prepares for the announced spin out of its infrastructure products business units into a new publicly-traded company.

We review, continually, the capital allocation programs of our holdings and believe that their management teams display business savvy, prudence and conservatism in their decision-making process. **Thor Industries, Inc. (THO)**, which has operated historically with a debt-free balance sheet, has announced a $40 million manufacturing capacity addition at its flagship Airstream brand during a period when it has consolidated market share and when we believe that a new generation of recreational vehicle enthusiasts is purchasing its products. **NFX** has announced a $4.2 billion capital spending program over the next three years focused on its core holdings in the Anadarko Basin of Oklahoma and has modeled positive free cash flow generation at and below current crude oil prices. Many of our other portfolio holdings have continued to allocate capital in smaller increments to bolt-on acquisitions that complement their ongoing operations, notably **TKR** which has made several acquisitions of product lines along the drive train in the last two years that we believe cleared financial hurdles for accretion, internal rates of return and returns on invested capital.

The performance of the SouthernSun U.S. Value Fund during the first quarter was negative on an absolute basis. The Y Share Class returned -4.70%, the Investor Share Class returned -4.89%, and the Institutional Share Class returned -4.79% on a net basis, while the Russell 2500™ Index returned -0.24% for the period.

Our portfolio struggled from a sector positioning perspective during the period. Our long-term underweights to health care and technology, sector leaders within the Russell 2500™, hurt performance significantly. Our overweight to producer durables also detracted. Additionally, stock selection in the producer durables and consumer discretionary sectors led by **Trinity Industries, Inc. (TRN)** and **Thor Industries, Inc. (THO),** respectively, drove most of the underperformance during the period. This was offset, in part, by stock selection in the financial services and materials and processing sectors, led by **Broadridge Financial Services, Inc. (BR)** and **WestRock Corp. (WRK),** respectively.

Newfield Exploration Company (NFX) was the leading detractor from performance on a relative basis in the period. **NFX** is an independent energy company engaged in the exploration and production of oil and gas mainly in the U.S., but also in the South China Sea. **NFX's** drilling is focused in the U.S., specifically in the geologically favorable STACK and SCOOP plays of the Anadarko Basin in the Mid-Continent region. We believe that the company is disciplined in its capital allocation and generally does not grow production unless that incremental growth clears certain financial hurdles. **NFX** consolidated some of its U.S. operations, recently, and we believe that it maintains a conservatively leveraged balance sheet. We believe the company's assertion that it has a multi-year supply of drilling locations in the Anadarko Basin that should enable its continued growth. In our view, management's track record of selling non-core assets and shifting capital to higher return projects will continue to create value. We contend that recent internal investments combined with asset sales and the purchase of additional STACK acreage have strengthened **NFX's** balance sheet and continued its capital allocation rotation into assets with a higher return profile. The stock traded down during the period, in line with other energy producers, despite an increase in oil prices in recent months. While a production decrease that coincided with new wells coming online, negative news from producers in other parts of the Anadarko Basin, and sentiment regarding the direction of global oil prices may have been contributing factors, we remain pleased with **NFX's** production profile, balance sheet, execution and capital allocation decisions. We added to our position during the period.

Thor Industries, Inc. (THO), another leading detractor from performance on a relative basis in the period, is currently a market share leader in the U.S. recreational vehicle (RV) industry with roughly 50% share in towable RVs and 35% share in motor homes. We believe that its flexible manufacturing model and commitment to maintaining a de-levered balance sheet have contributed to its generation of cash flow and positive earnings every year since its founding in 1980 and to its ability to allocate capital through a range of economic conditions during that time. Recently, **THO** announced the funding of additional manufacturing capacity which we believe reflects its leading market position, customer demand and its ability to consolidate market share. We contend that RV demand remains consistent and that the company is diligent at tracking dealer inventory levels. We believe that attractive demographics and elevated consumer confidence may increase demand for recreational vehicles and that towable RVs' lower price point may sustain demand in economic downturns and periods of higher energy prices. In our opinion, **THO's** balance sheet should also enable the business to withstand adverse conditions better than competitors, many of whom lack the same financial flexibility. We are also pleased that recent federal tax legislation should reduce the company's tax rate from in excess of 30% to an estimated 24%.

Broadridge Financial Solutions, Inc. (BR) was the leading contributor to performance on a relative basis in the period. It is a leading global provider of investor communications and technology-driven solutions to banks, broker-dealers, mutual funds and corporate issuers. **BR** is the former brokerage services division of ADP, LLC, was spun out in 2007, and since then has grown primarily through internal technological advances and select tuck-in acquisitions, distinguishing it further from its competitors. **BR's** cash flow generation has proven consistent over time. Its customers are primarily U.S. financial services companies and it enjoys market share exceeding 70% in both the U.S. and Europe. **BR** continues to target accretive acquisitions, with a clear strategic fit and a compelling growth profile. Its cash flows have been consistent enough to support this growth as well as regular dividend increases over time. We believe that recent results have been driven, in part, by event-driven activity, cost management, and favorable foreign currency movements. Our recent discussions with management have covered opportunities in wealth management and the potential to capitalize on the movement of technology and operations from banks and brokerages to third-party providers. We believe that key hires may further support the extension of relationships with certain key customers. We trimmed our position on strength during the period.

Centene Corporation (CNC), a multi-line managed care organization providing Medicaid and other related services through government subsidized programs, was another leading contributor to performance on a relative basis in the period. The company's record of growth includes moving from managing health care programs for nine states in 2011 to 29 states in 2018 including the big four: California, Texas, Florida and New York. We contend that the **CNC** continued to generate consistent levels of discretionary cash flow during the last year and that the stock is valued attractively versus those cash flows. We believe that the 2015 HealthNet acquisition provided **CNC** entry to the large and potentially lucrative California market and adds to its competencies in non-Medicaid programs, where existing customers have expressed further interest in its capabilities. Additionally, we assert that **CNC's** investments in people and technology have contributed positively to its growth, the execution of its strategy, and driven lower costs through more preventative care and less expensive outcomes. During 2017, the company announced the acquisition of Fidelis Care. We believe that this deal is attractive because it is accretive to earnings from the outset, it adds to **CNC's** scale and provides it entry to New York State, the country's second leading Medicaid market. We believe this transaction will close during the second quarter of 2018. During the period, the company announced several other acquisitions and partnerships which we assert contribute further to its scale, consolidation and value creation. We contend that **CNC** continues to capitalize on existing opportunities in Medicaid and Medicare management for state governments while exploring relationship extensions in areas such as the delivery of health care solutions to corrections facilities. We believe that **CNC** has strong prospects for growth over the long term and that it provides high quality, affordable solutions to its customers in the health care sector.

We continue to focus on the consistent application of our investment process and philosophy. This includes investing in high quality businesses trading at attractive valuations based on our proprietary research. We believe that it also encompasses a robust risk management process, focused on individual companies as well as aggregate risk across the portfolio. While our focus is on the quality of and execution at each company, we also seek to understand the macroeconomic and geopolitical environment in which we invest. We assert that our team approach to investing, with a focus on critical thinking and collaboration, supports this effort and has contributed to the generation of excess returns over time.

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