REPRINTED FROM MARCH 4, 2019

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Constructing Concentrated Portfolios Through On-the-Ground Research

MICHAEL COOK is the Founder, Chief Executive Officer and Chief Investment Officer of SouthernSun Asset Management. In his over 30 years of experience as a research analyst and portfolio manager, Mr. Cook has developed a unique investment philosophy and process, which serves as the core of the firm's U.S. and global equity strategies. Throughout his career, he has been featured and quoted in *The Wall Street Journal*, *Barron's* and *Bloomberg Markets* magazine and has been a speaker on CNBC, Fox Business News and Bloomberg TV. Mr. Cook attended Covenant College and the OCCA Business Programme, Wycliffe Hall, University of Oxford, and is a member of the CFA Institute.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little about the firm?

Mr. Cook: The firm is celebrating its 30th anniversary. In a lot of ways, we really have not changed our stripes over 30 years in that we look for the same characteristics and businesses that we always have and try to construct a fairly concentrated portfolio that represents what we think over long periods of time are outstanding opportunities to gain value in publicly traded businesses. The business fortunately has adapted over time as well, and we feel like the breadth and depth of the firm is probably indicative of a lot of that adaptation. When it was originally started by myself, it was really the one man in a closet, and it certainly has been an absolute blessing over the past 30 years to watch it grow and to watch more and more people become involved and watch the success.

TWST: Does it have a unique investment philosophy?

Mr. Cook: I'm always a little bit nervous when people start talking about unique investment philosophies because I think we all are unique in some way, shape or form, but I do think our approach is unique. It seems probably more unique today than maybe it was when I began. In a sense, the concentrated nature of our portfolio and our particular focus on small to midsize businesses in the public marketplace were always a bit of our uniqueness because that was not necessarily something that there was an enormous proliferation of when I originally started the firm.

Also, our dedication to on-the-ground research is a big differentiator in my opinion. Frankly, we're a little bit more like a private equity firm that manages public equity. There's an aspect of what we do that really requires us to not only understand the business propositions but also understand how they're executed and by whom at each company. So things move from idea to execution and how we can trace that throughout an organization; that really takes us time on the ground and out in the field, touring plants and facilities, and building relationships with key decision-makers at the companies we're researching or currently invested in.

Evaluating a company is not necessarily something one can simply glean off a computer screen; you can miss so much that way. So I do think that was part of the original intent of our approach that still remains today. And I think to the point of the uniqueness, maybe that makes us even more unique today in this day and age of index funds and artificial intelligence and computer technology, all of which are wonderful things, I might add, for some investors; in a sense, it makes it feel to some people that we're dinosaurs with our approach, but it is interesting that over 30 years, it's worked out quite nicely for us and our clients over the long run.

The last unique feature is that in the very beginning, even after a moderate bit of success as a firm and when we began to be recognized by some people for the quality of research that we do, there was always a question of how much time does it take to really know if you're any good as an investor. I have said this from the beginning: I think it takes a good 50 years to figure out whether you really have a process that can be replicated over time and also is adaptable to a variety of environments. Over the last 30 years, we've certainly seen some really fruitful environments, and we've also seen some really difficult environments. In my opinion, this proved out the point that it just takes decades to know that you have an investment process that works consistently over multiple market cycles and environments.

TWST: You mentioned patience. How important is long-term investment experience, especially right now, as an active manager?

Mr. Cook: That's a great question because I think certainly with the younger people in our firm, who are getting older now that they've all been here around a decade-plus, there can sometimes be confusion between experience and wisdom, and I think it takes both to be a successful investor. We have all been through exciting periods of innovation and disruption like the late 1990s tech bubble and today's bubble to some degree, which create marvelous opportunity for certain investors. But when we're in the midst of such times, there seems to be growing impatience with the old standards that the world has known up until that point. Go all the way back to the steam engine, the building of factories for the first time or mass assembly; all of these things changed the views that everyone had about things and how they were going to be a certain way into perpetuity.

I think the wisdom in the midst of all the experience is that you can't take the most recent events as a standalone and extrapolate those into perpetuity in the investment world either. Yes, in the moment, those recent events may work on your behalf, but unfortunately, they're not placed in the context of a longer history. And I think that's where the recency bias does fall apart. At certain points along the way, the market has its own hubris, like this most recent stretch we've been in with high levels of liquidity and low volatility, which has created a rich environment for passive instruments. The marketplace is lulled into a false sense of security in which everything works together for a time; but when the water gets very murky, as we've seen with recent geopolitical events — anything from the challenges in the U.S. to Brazil to Venezuela to Brexit to the Italian situation to China — things start to unravel.

When volatility is raised out of that, then businesses begin to distinguish themselves from one another, even if they are in the same industry or the same sector. That distinguishing then leads people back to thinking about the fundamental characteristics of those businesses, which is a ripe environment for active managers like SouthernSun. February of last year, we saw about a week of volatility that got people a little rocked, but the general confidence was still there that we were on course. Then, from the autumn into December of 2018, we saw a little bit wider of a crack.

Highlights

Michael Cook discusses SouthernSun Asset Management, which is celebrating its 30th anniversary. Mr. Cook constructs concentrated portfolios that focus on small to midsize businesses. He looks for outstanding opportunities to gain value over long periods of time. According to Mr. Cook, one of the firm's big differentiators is its dedication to on-the-ground research. He likens SouthernSun to being like a private equity firm that manages public equity.

Companies discussed: Darling Ingredients (NYSE:DAR); Timken Co. (NYSE:TKR); Brink's Company (NYSE:BCO); Clean Harbors (NYSE:CLH); Amazon.com (NASDAQ:AMZN) and Facebook (NASDAQ:FB).

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I don't know that we're quite to the place yet where people are willing to give up on the marketplace; however, I do believe that we are getting closer to a place where fundamentals matter and businesses will again become cherished because they actually are able to execute. One can only be in a position to take advantage of that as an investor if you have that patience.

TWST: And what about an individual stock? Did you want to talk about one that you find interesting?

Mr. Cook: Last time we talked about **Darling Ingredients** (NYSE:DAR) and **The Timken Company** (NYSE:TKR) — both of which we still like very much and I think continue to execute extremely well. A name that we haven't talked about though is **The Brink's Company** (NYSE:BCO). You probably know them as the armored car or the armored trucks that you've seen in the past, but they're so much more than that today. They're one of the largest providers of logistics and security services for the transport of both cash and valuables around the world.

One of the questions that we hear often is, "Why would a company that moves cash be valuable in a world where we're basically going digital?" Well, interestingly enough, cash in circulation globally continues to grow and has grown about 6% a year for the past several years. There's still an enormous unbanked population in the world. The view that anything related to cash is basically a dying industry is the first assertion that needs to get knocked out when you think about a company like **Brink's**.

The second thing is that with all of the innovation in technology, those new technologies that our more traditional businesses like **Brink's** implement end up economically benefiting our companies over the long term, allowing them to operate more productively at a lower cost over time and more efficiently with a higher degree of reliability. So you take that out and you recognize that cash, and companies like **Brink's** are going to be around for a very long period of time.

In our view, **Brink's** has also made a lot of solid strategic decisions over the last few years as its new management has restructured the company. The old **Brink's** took the notion that we've got to have the biggest, tank-like armored trucks and we've got to have three guards in a truck, so the security level is extremely high; what the new management recognized is that trucks don't need to be all that heavy and every truck doesn't need to have that many guards. The routes can also be different than they had been in the past. So there are an enormous number of places where they can go to save money and improve operational efficiency.

Further, they made a prudent acquisition, in my opinion, of **Dunbar Armored**, which closed in August of last year and is already providing valuable synergies. **Dunbar** facilities are newer and, in certain cases, can accommodate more vehicles and are logistically more sound than some of the legacy **Brink's** facilities. I think that's going to provide them with real opportunities to expand margins over the next three years.

Again, I believe that the marketplace misses some of this simply because they come at it from an incorrect base premise. That's not to say that cash won't disappear eventually. There are businesses like **Brink's** where we wouldn't argue that the core of what they've historically done will likely be something different 50 to 100 years from now. And it may be sooner than that; no one knows.

The breakdown in that thinking today, however, and where **Brink's** gets underpriced is that if you have a business like **Brink's** that has the capacity to consistently generate cash with a highly adaptable, execution-oriented management team, when fundamentals begin to matter again, **Brink's** will be like gleaning out the wheat from the chaff. These other businesses that are selling at 10 to 12 times revenues and don't generate profits, I would contend that they're going to go away as the cost of capital will have gone up and the VC money will have dried up.

1-Year Daily Chart of Brink's Company

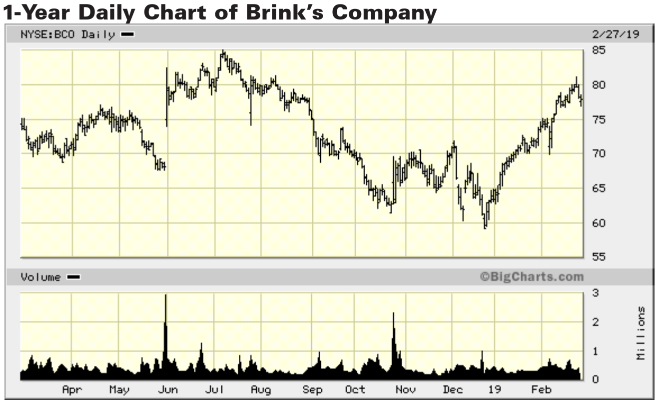

Chart provided by www.BigCharts.com

TWST: Did you want to mention another company?

Mr. Cook: Another business in a completely different vein is **Clean Harbors** (NYSE:CLH). They are a leading provider of environmental, energy and industrial services in North America. It's not a business that tends to draw a lot of positive attention. The waste world — the environmental services world — is certainly not one that can beat its drum alongside the **Amazons** (NASDAQ:AMZN) and the **Facebooks** (NASDAQ:FB), but it's a very necessary business. And it's become much more complex over time.

As one might imagine, the regulatory environment, and rightly so, has become much more strenuous. There are really high barriers to entry. **Clean Harbors** actually just built a new incinerator. These are things that don't happen within quarter centuries. So the ability to do that is important. But to be able to do it within the regulatory framework that is becoming much more stringent is also impressive.

And again, we would say that's a good thing from an investment perspective. But if you think about it from a manufacturing perspective, from an energy production standpoint across North America, then you recognize that most businesses within those spaces have value chain issues. So from their input of the base materials all the way to whatever their value-added material might be, there are things that come out of that process that have to be handled in a particular way.

And I think that the thing that we appreciate about what **Clean Harbors** has been able to do with the disposal of hazardous and nonhazardous waste from the industrial complex, plus all the way from industrial parts washing to recycling the motor oils into high-quality base and blended lubricant oils, is something that is only going to become more important as we think about environmental issues and as we think about the changes in manufacturing and the processes around the energy complex. So I think that, again, it's an important, necessary business.

This business is still led by its Founder, and they have a fantastic senior management team. We've spent more than our fair share in either expansion space or new space of these processing centers and

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In my opinion, there won't be an uptake in certain technologies, and I can tell you there's a whole wide range because I spend probably 10 times more time than people would ever think trying to understand some of the really core bits of artificial intelligence and of how algorithms are impacting technology. In my opinion, some technologies tend to over-promise and under-deliver. Any one of us who walks around with a mobile phone knows that. You get to places where you can't even use it.

So the fact is, some of the technology, yes, it will have a great uptake, but it may be in certain pockets. When that happens, when the money dries up and it begins to focus on the things that have a long-term economic tail to them, then these companies that can consistently generate cash, like **Brink's**, will now have time on their side to adapt and actually move into services and manufacturing that allows them to own the market to a greater degree.

With **Brink's**, we like their leadership team, their vision and their aggressiveness in the sense that they're not willing to lever the business, which I think is important in this day and age, but at the same time, **Brink's** management also has a recognition that they do have to adapt. In that adaptation, I believe they can stay true to their value proposition, which is security and safety in the movement of valuables. Irrespective of what that might be, I would contend that there's going to be opportunity for businesses that can generate cash internally and then reallocate it. And once the point in time comes where the marketplace then begins to shut down the capital into what has seemed like a limitless wave across index funds, VC funds and private equity, it will be an opportunity for traditional businesses like **Brink's** to shine again.

1-Year Daily Chart of Clean Harbors

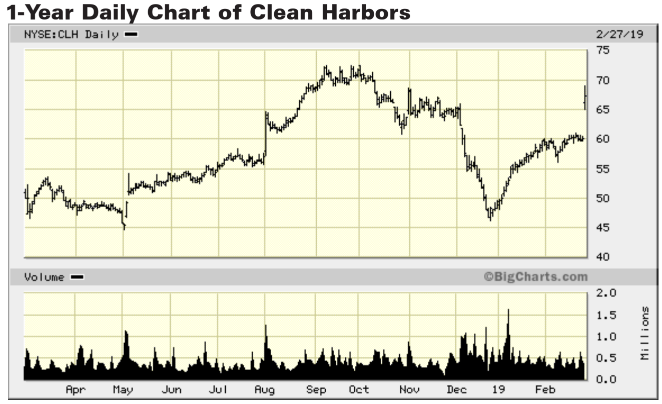

Chart provided by www.BigCharts.com

service centers. What we recognize is they have a very efficient process of knowing when and where to add capacity and what the opportunity set is. And at the same time, they've targeted and largely completed taking out approximately $200 million in costs. So a cost-reduction plan in the midst of actually bringing a new incinerator online, which is not a small thing, is pretty impressive.

We believe their capacity to execute all the way throughout the management part of the business, through the engineering process and down to the actual work force gives them a distinct advantage in an era where, again, I don't believe you have a lot of young folks coming out of the tech centers that are saying, "Wow, we really would love to build a waste incinerator." Again, I don't think everybody wakes up in the morning and thinks a business like **Clean Harbors** would be a great business. But it is one that's invaluable. It's necessary.

And I do believe it's in that space where when you have an industrial recession like we had in 2014 and 2015, they're going to struggle from a marketplace-perception standpoint because they can be tied to those areas: energy, industrial, production. If you go into an industrial recession and have a commodity collapse, a business like **Clean Harbors** can become very unpopular very fast in the short term. But we should focus on the fact that they have gone through the cost-reduction plans and have brought a new incinerator online in that period. So from that point to today, I think it shows a lot about the quality of the leadership in the business.

prefer normal volatility, not the abnormal lack of volatility that we've had. And certainly, again, on the other side, an oversized amount of volatility in short periods of time.

You asked about experience; an observation of mine over really the last 30 years, almost 40 years, has been that even great business managers have real difficulty managing erratic swings in the costs of their inputs. They can manage slow increases, they can manage slow decreases and their selling price is on the flip side. But it's when it becomes very erratic that it becomes problematic. Now sometimes obviously that is definitionally within that framework. But if we think about it as sort of the wave action, the breathing action of a marketplace, then there is an element of volatility in it.

We've been absent of that in a lot of respects for a fairly long period of time. And so that doesn't provide us with the real fertile soil. So back to the point, which is not to mistake that the volatility is helpful; it can reprice things that we've been looking at for a long time that were too expensive and now come into a range where they're more attractive for us. But it doesn't necessarily mean that we're going to reap a great reward out of it immediately.

What we would hope for is actually just a return to more normal volatility where we get volatility on a regular basis. We would prefer to have some of that because it does open up opportunity where the marketplace doesn't act in lockstep, and at some point, it does begin to make distinction of businesses from one another. We've finally had

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As you probably remember, there are three legs to our stool. A business has to have the financial flexibility internally, not relying upon external sources. It has to have a management team that has vision and has adaptability but also is very execution-oriented. And then finally, a business has to have a particular niche.

Our businesses like **Clean Harbors** and **Brink's** can be misunderstood and unpopular for long periods of time. But when investors begin to understand **Brink's** and **Clean Harbors'** sustainability and the quality of their cash-generating capabilities, they tend to pile in reasonably fast. And so that's usually when we're getting the value that we've hoped for in our investments.

TWST: From what I understand, SouthernSun is a bottom-up, highly concentrated active manager. How are you taking advantage of the recent market volatility?

Mr. Cook: When there's volatility, first and foremost, it gives us opportunity to own the things that we know and we like. We get to own more of it at lower prices. I think you know that just because prices go down doesn't mean valuations are better. But for us, certainly following the industrial recession and commodity price collapse in 2014 and 2015, the volatility just hasn't been there in the market. So it has made it more complicated for an active manager like us.

And certainly, that's where our patience comes in. We have had to wait on things where the marketplace was just too overly enthusiastic about a trend that was going to be easy money in perpetuity, perfect environment, full employment, no trade hiccups, no tariff issues, and now some of that has come under question along with some other issues. We can take advantage of that. I think the key for us is reminding people that, yes, we would say, almost without reservation, we would

opportunity throughout December and into January and have added to some positions that we really like as well as add some new businesses along the way.

TWST: Is there anything we didn't talk about that you care to mention about the firm or about some trends out there?

Mr. Cook: It's important for us to maintain balance and how we think about the public marketplace. People have asked me, "What's changed over the last 30 years in terms of managing small to medium-sized publicly traded businesses?" The changes have been dramatic in some ways, and they've been fundamentally not overwhelming in other ways.

I'd say part of the real challenge has been with the proliferation of exchange-traded funds and the timing in which they've been introduced with massive availability of liquidity; that is something that will likely need to have a correction at some point. I couldn't even begin to tell you what that looks like. But I do think that there will be some pretty scary moments for some folks along the way when that does occur.

I also ponder the dominance of new issues from technologically driven companies versus traditional bricks-and-mortar companies lately. I'm not sure what it will look like if we ever get back to a place where you're having more basic businesses floated publicly again on a regular basis.

Finally, I do think that the volatility piece, back to your question earlier, probably is something that is worth keeping an eye on and may present a moment where there are exceptional opportunities. It will look different from what we've seen in the past. I believe that while we'll be looking for things that are similar to the

GFC or the dot-com bubble burst or Asian contagion or whatever it may be from history, the crack won't look just like that this time around. And it doesn't necessarily have to be a massive burst or break. We're simply due some sort of recession.

I think that these are things that are out there. We're not going to go forever without one. I'm sure you remember times when people have said, "These are the best times. It's never going to change. We finally figured this all out." Well, we haven't. So that's where we look for opportunity.

And the good news is, we only need one or two new investment ideas a year. Because of the concentration of our portfolio and our patience, we're afforded the real benefit of not having to churn over ideas and get caught up in short-term, popular trends. And I think that when that point in time comes where there's the confusion and the doubt and the fear, our approach really pays off as it has throughout the last 30 years.

TWST: Thank you. (ES)

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