SMID Cap Composite Commentary

SouthernSun
30 YEARS | 1989-2019

FIRST QUARTER 2019

After a difficult fourth quarter in 2018, the portfolio rebounded in the first quarter of 2019. The fears that seemed to drive the sell-off in the fourth quarter (the Fed getting aggressive with monetary policy, the US-China trade disputes, weak commodity prices, and the prospect of a global recession) abated. The Fed backed off; there is optimism about the US-China deal; oil prices moved higher, and fears of dramatic and imminent economic slowdown appeared to subside. In our view, the market continues to be driven by sound bites and headlines. What has not changed from SouthernSun's perspective is that business conditions for most of the companies that we own have remained positive. Most delivered good results in the fourth quarter, and they are guiding for revenue and earnings growth in 2019. By and large, we believe that the management teams of our portfolio companies are investing in opportunities to grow and improve their businesses responsibly. In our opinion, the valuations of our portfolio companies remain attractive, and the SMID Cap Composite continues to trade at a discount, currently 35% relative to the Russell 2500 index. Further, the SMID Cap Composite has 33% less leverage than the Russell 2500 with a leverage of 2.4x Net Debt to EBITDA in our portfolio and a Return on Equity (ROE) of 13.8%, 58% higher than the Russell 2500.[1]

For the first quarter of 2019, the SMID Cap composite returned approximately +14.93% on a gross basis (+14.72% net*) versus the Russell 2500™, which returned +15.82%, the Russell MidCap®, which returned +16.54%, and the Russell 2500 Value™ which returned +13.12% over the same period. The composite has outperformed the indexes on a since inception, annualized gross and net basis.

Dycom Industries, Inc. (DY), was the leading detractor from performance on an absolute basis in the period. **DY** is an engineering and construction firm focused on serving telecommunications customers throughout the U.S. and Canada. The company is a market share leader that we believe is poised to capitalize on growing business and consumer demand for bandwidth. Telecommunications companies are making significant infrastructure investments in order to meet the growing demand for data streaming and transmission, and **DY** will deploy the fiber and other 5G equipment for large telecommunications companies. For the fiscal year ended January 2019, **DY** had double digit revenue growth as projects ramped up; however, this was offset by higher costs due to increased complexity of the Verizon 5G project. We believe the Verizon 5G rollout, specifically, is unique and the first of its kind. Changes related to Verizon's design and project prioritization added complexity and cost for **DY**. Management is long-tenured and has experience managing the business in various market conditions. Members of our Investment Team met with Steve Nielsen (CEO) in March. We remain confident in the long-term drivers of their business, Nielsen's track record, and management's capability to manage through the near-term complexities successfully. We added to the position during the period.

Centene Corporation (CNC), another leading detractor from performance on an absolute basis in the period, is a multi-line managed care organization providing Medicaid and other related services through government subsidized programs. **CNC** reported positive fourth quarter results with revenues up 19% and Adjusted EPS up 42%. The company also raised its 2019 guidance and remains confident in its ability to navigate any regulatory environment. Near the end of the quarter, **CNC** announced it will acquire WellCare Health plans (NYSE:WCG) for $17.3B in cash and stock, which created most of the underperformance along with some headlines out of Washington regarding "Medicare for All" and potential changes in who would receive drug rebates. The deal is large, but the management team at **CNC** has a history of successfully acquiring and integrating businesses. Because of the size and scope of this proposed deal, we will be meeting with senior management in St. Louis in April to review the transaction in greater detail.

Clean Harbors, Inc. (CLH), a leading provider of environmental, energy and industrial services throughout North America, was the leading contributor to performance on an absolute basis in the period. Much of **CLH's** business is driven by the need for industrial and energy companies to responsibly dispose of hazardous and non-hazardous waste in accordance with federal, state and local environmental regulations. This is an industry with high barriers to entry. **CLH** finished out a strong year with a positive fourth quarter driven by 35% Adjusted EBITDA growth in the Environmental Services segment as it benefited from a combination of higher-margin waste streams, pricing gains and a good contribution from industrial services. Management's outlook for 2019 is positive, with expectations for continued strength in end markets and earnings growth in the mid-single-digits.

Hanesbrands, Inc. (HBI), another leading contributor to performance on an absolute basis in the period, is an apparel company with a portfolio of leading brands in the Innerwear and Activewear spaces. **HBI** designs, manufactures, sources and sells a broad range of basic apparel such as t-shirts, innerwear, casualwear, activewear, socks and hosiery. **HBI** delivered strong cash flow and the highest quarterly organic sales growth in 8 years (constant-currency organic sales increased 6%) driven by activewear and international sales. Margins expanded, and they delivered double-digit operating profit growth, demonstrating the operating leverage in the business. Management used cash from operations to pay down $400 million of debt - significantly deleveraging the business and providing increased financial flexibility.

During the first quarter of 2019 we initiated a position in **SEI Investments Company (SEIC)**, a global provider of investment processing, investment management, and investment operations services, that has a history of organic growth. **SEIC** helps its customers manage money and/or run their money management operations more efficiently and effectively. **SEIC's** business model is largely centered on the earning revenue primarily as a percentage of AUM or AUA. The combination of their business model and end markets provide multiple avenues for growth: they can win new clients, grow with clients as they gain positive fund flows, and benefit along with clients from long-term market appreciation. The company carries excess cash and has no debt. Its recurring revenue business model and history of returning capital to shareholders adds to our confidence in financial flexibility. Founder and CEO, Al West, owns approximately 12% of the company.

Additionally, we completed our exit of **Diebold Nixdorf, Inc. (DBD),** and we exited **Flowserve Corp. (FLS)** during the period. For **DBD**, this was a small weighting in the SMID Cap Composite, and in the midst of a slow turnaround, we reached the conclusion that the long-term business prospects of some of our new and existing portfolio holdings were more promising than **DBD** and elected to sell the position. With regards to **FLS**, we had met with management multiple times since Scott Rowe was named CEO, and we had worked to better understand how we could monitor progress on the "Flowserve 2.0" plan. The plan involves a lot of moving parts, and we believe it will likely involve significant time to implement. While we regard the current management team very highly, we were not been able to gain confidence in the go-forward plan. We spent time in early 2019 reviewing our thesis for **FLS** and ultimately decided to exit the position given other investment opportunities.

In February 2019 **Encana Corp. (ECA)** acquired **Newfield Exploration Co. (NFX)**. As a result of the acquisition, SouthernSun now holds shares of **ECA**. The combined company has a more diversified portfolio (than **NFX**) – with assets in the Permian basin, the Anadarko region, and the Montney play in Canada (among others). We believe that **ECA** brings operational expertise which should lower production costs in the Andarko, and that there are other Selling, General and Administrative Expenses (SG&A) cost synergies with the deal. **ECA** has committed to returning cash to shareholders via stock buybacks and through a higher dividend.

In summary, the majority of the companies in our portfolios are executing on their strategies and reporting positive business conditions. The portfolio continues to trade at attractive valuations, and we like the characteristics (including ROEs and leverage) of the portfolio as a whole.

Top Contributors and Detractors (Preliminary; Absolute Return Basis)**

Top Contributors	Ticker	Average Weighting (%)	Contribution-to Return (bps)	Top Detractors	Ticker	Average Weighting (%)	Contribution-to Return (bps)
Clean Harbors, Inc.	CLH	5.5	220	Dycom Industries, Inc.	DY	5.0	-79
Hanesbrands, Inc.	HBI	4.9	201	Centene Corp.	CNC	5.2	-44
Knowles Corp.	KN	4.3	128	Watsco, Inc.	WSO	0.6	4
Encana Corp.***	ECA	4.3	126	Diebold Nixdorf, Inc.	DBD	0.0	4
The Brink's Co.	BCO	6.3	109	WestRock Co.	WRK	4.3	13

**Net returns are actual and reflect the deduction of management fees. Please see composite performance and disclosures on page 4 for further information. Returns include the reinvestment of all income. Past performance is no guarantee of future results.*

***Supplemental information. Composite Top Contributors and Detractors will not include positions added to the portfolio within 30-days prior to the most recent month-end. Additionally, securities held at the request of individual client(s), such as ETF's, have been excluded. The Holdings identified above do not represent all of the securities purchased, sold or recommended for advisory clients. Holdings are subject to change and should not be construed as investment advice. Statements received directly from the account custodian should be regarded as the official record for a client's account. To obtain a complete list of all positions in the strategy and their contribution to the portfolio's performance and an explanation of performance calculation methodology, contact Client Relations at either 901-341-2700 or clientservice@southernsunam.com. Source: SouthernSun Asset Management, Advent Portfolio Exchange, FactSet.*

****Encana Corp. (ECA) acquired Newfield Exploration Co. (NFX) in February 2019. As a result of the acquisition, SouthernSun now holds shares of ECA.*

[1]Price-to-earnings (P/E) for the portfolio is calculated as the inverse of the portfolio value weighted average of the constituents' earnings yields. Earnings yield is calculated as the LTM Recurrent Earnings divided by the Market Capitalization, both as defined by Factset. This methodology produces a measure of valuation that is comparable to the methodology used for the P/E of the benchmark. Price to Earnings for the benchmark is calculated as the ratio resulting from the sum of constituent Market Capitalization divided by the sum of constituent LTM Recurrent Earnings as defined by Factset). Return on Equity (ROE) for the portfolio is calculated as the ratio resulting from the sum of the proportionate ownership of each constituent's LTM Recurrent Earnings (as defined by Factset) divided by the sum of the proportionate ownership of each constituent's Ending Shareholders Equity (as defined by Factset). Proportionate ownership of each constituent's LTM Recurrent Earnings and Ending Equity are calculated using the composite weightings of each constituent. Return on Equity for the benchmark is calculated as the ratio resulting from the sum of constituent LTM Recurrent Earnings divided by the sum of constituent Ending Shareholders Equity, both as defined by Factset. Net Debt/EBITDA for the portfolio is calculated as the ratio resulting from the sum of the proportionate ownership of each constituent's Ending Net Debt (as defined by Factset) divided by the sum of the proportionate ownership of each constituent's LTM EBITDA (as defined by Factset). Proportionate ownership of each constituent's Ending Net Debt and LTM EBITDA are calculated using the composite weightings of each constituent. Companies considered to be in banking, insurance, or other financial industries are not included in this calculation. Net Debt to EBITDA for the benchmark is calculated as the ratio resulting from the sum of constituent Ending Net Debt divided by the sum of constituent LTM EBITDA, both as defined by Factset. Companies considered to be in banking, insurance, or other financial industries are not included in this calculation. Real estate investment trusts (REITs), however, are included.

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SMID CAP COMPOSITE - ASSET WEIGHTED RETURNS													
Year	SouthernSun		Russell 2500	Russell MidCap	Composite Dispersion	Composite 3-Yr Standard Deviation (%)	Russell 2500 3-Yr Standard Deviation (%)	Russell Mid Cap 3-Yr Standard Deviation (%)	Accounts in Composite (#)	Total Composite Assets ($Mil)	% of Firmwide Assets	Total Firmwide Assets ($Mil)
	Gross	Net										
2018	-21.14%	-21.75%	-10.00%	-9.06%	0.12%	15.24%	14.10%	11.98%	38	$693	46%	$1,519
2017	12.33%	11.46%	16.81%	18.52%	0.17%	13.91%	12.13%	10.36%	70	$2,309	55%	$4,213
2016	18.05%	17.19%	17.59%	13.80%	0.33%	15.13%	13.67%	11.55%	62	$1,242	30%	$4,187
2015	-10.91%	-11.55%	-2.90%	-2.44%	0.27%	15.08%	12.42%	10.85%	77	$1,120	25%	$4,542
2014	2.33%	1.60%	7.07%	13.22%	0.24%	13.56%	11.67%	10.14%	95	$1,186	21%	$5,696
2013	43.17%	42.27%	36.80%	34.76%	0.19%	18.71%	15.63%	14.03%	51	$882	17%	$5,317
2012	19.56%	18.86%	17.88%	17.28%	0.25%	22.89%	18.97%	17.20%	24	$378	14%	$2,615
2011	4.86%	4.30%	-2.51%	-1.55%	0.18%	27.75%	23.40%	21.55%	24	$309	15%	$2,106
2010	43.20%	42.47%	26.71%	25.48%	0.31%	31.58%	26.80%	26.46%	16	$222	11%	$1,974
2009	49.73%	49.08%	34.39%	40.48%	0.00%	28.16%	24.25%	24.22%	7	$142	11%	$1,339
2008	-36.75%	-37.03%	-36.79%	-41.46%	1.28%	22.71%	19.37%	19.36%	6	$105	10%	$1,025
2007	12.89%	12.40%	1.38%	5.60%	0.07%	13.65%	11.52%	9.48%	6	$175	13%	$1,341
2006	15.78%	15.28%	16.17%	15.26%	N/A[1]	14.33%	11.93%	9.62%	≤5	$153	14%	$1,100
2005	2.42%	1.96%	8.11%	12.65%	N/A[1]	16.75%	13.48%	11.22%	≤5	$135	18%	$733
2004	27.64%	27.09%	18.29%	20.22%	N/A[1]	18.51%	16.92%	15.28%	≤5	$133	32%	$410
2003	45.59%	44.97%	45.51%	40.06%	N/A[1]	22.33%	19.93%	18.51%	≤5	$97	60%	$162
2002	-3.39%	-3.77%	-17.80%	-16.18%	N/A[1]	20.97%	21.92%	19.65%	≤5	$39	36%	$107
2001	7.19%	6.76%	1.21%	-5.63%	N/A[1]	20.20%	21.16%	18.35%	≤5	$40	34%	$120
2000	14.15%	13.68%	4.26%	8.26%	N/A[1]	20.55%	22.35%	18.96%	≤5	$38	28%	$137
1999	14.39%	13.92%	24.14%	18.24%	N/A[1]	18.79%	19.46%	17.22%	≤5	$33	23%	$145
1998	-2.23%	-2.62%	0.38%	10.10%	N/A[1]	N/A[2]	N/A[2]	N/A[2]	≤5	$29	21%	$135
1997	27.32%	26.80%	24.36%	29.02%	N/A[1]	N/A[2]	N/A[2]	N/A[2]	≤5	$14	11%	$123

[1] Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
[2] Information is not statistically meaningful due to an insufficient number of periods.

SouthernSun Asset Management, LLC, an SEC registered investment adviser, is a research-driven investment management firm implementing long-only domestic and global equity strategies for institutions and individuals. SouthernSun provides investment advisory services for its clients using a proprietary investment research process based on fundamental analysis and seeks to invest in niche-dominant, attractively-valued companies with financial flexibility and uniquely-fitted management teams.

SouthernSun Asset Management, LLC claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. SouthernSun Asset Management, LLC has been independently verified for the periods January 1, 1990 through December 31, 2018. A copy of the verification report(s) is/are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements for the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Subsequent periods are currently undergoing verification by ACA Performance Services, LLC and, as such, performance may be subject to change.

Performance results shown above are included as part of a complete disclosure presentation. SouthernSun SMID Cap Composite contains fully discretionary equity accounts invested in small cap to mid-cap (SMID cap) securities (defined as equity securities with market capitalizations that are within the range of the Russell 2500 at the time of initial purchase during the most recent 12-month period) and for comparison purposes is measured against the Russell 2500 and Russell MidCap indices. The minimum account size for inclusion into this composite is $1,000,000. Prior to July 1, 2015, the minimum account size for inclusion in this composite was $500,000. Prior to July 1, 2009, the minimum account size for inclusion in this composite was $1,000,000. Composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of 20% or more of the portfolio assets. Prior to April 1, 2004, composite policy required the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of 50% or more of portfolio assets. Additional information regarding the treatment of Significant Cash Flows is available upon request. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Trade date valuation has been used since inception. The U.S. dollar is the currency used to express performance. Returns are stated gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. The management fee schedule is as follows: $0 - $50,000,000 is .90%, $50,000,001 - $100,000,000 is .85%, and above is .75%. This schedule is subject to a $180,000 minimum annual fee. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation of gross returns for accounts in the composite the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The SouthernSun SMID Cap Composite was created January 1, 1997.

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 Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 30% of the total market capitalization of the Russell 1000 companies. Frank Russell Company ("FRC") is the source and owner of the Russell Index Information contained or reflected in this material and all trademarks and copyrights related thereto. The Russell Index Information may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. For more information on either index, please consult Frank Russell Company.

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