

# Global Opportunities Commentary

## FOURTH QUARTER 2019

From a performance standpoint, a strong fourth quarter capped off a good year for absolute and relative performance in all three of SouthernSun's investment strategies. In our view, most of the companies in the portfolio have been executing very well. The quality of the portfolio is high across many metrics: cash flow yield, earnings yield, dividend yield, ROE, ROA, ROC, and leverage. Our management teams see opportunities for growth, and they have opportunities to invest their capital at attractive rates of return. Our opinion is that the passive funds include a lot of companies that are not profitable and are not generating cash; passive vehicle valuations are high, and we believe that this is a great time to own a highly selective, concentrated portfolio of attractively valued businesses that can create value for shareholders over the long-run. We would not suggest that the SouthernSun products' investment performance will be a "straight line" with strong absolute and relative performance every quarter – but, we do believe that in the long-run, a portfolio of high quality businesses that can earn good rates of return on their capital is an attractive way to invest.

For the fourth quarter of 2019, the Global Opportunities Composite returned approximately +15.61% on a gross basis (+15.43% net) versus the MSCI ACWI, which returned +8.95%, and the MSCI ACWI Small Cap Value, which returned +9.22 over the same period. On a year-to-date basis, the composite returned approximately +27.08% on a gross basis (+26.26% net) versus the MSCI ACWI, which returned +26.60%, and the MSCI ACWI Small Cap Value, which returned +21.09% over the same period.

**Darling Ingredients Inc. (DAR)**, a global leader in creating sustainable food, feed and fuel ingredients from edible and inedible bio-nutrients, was the leading contributor on an absolute basis in the period. The blenders tax credit for biodiesel and renewable diesel was reinstated on December 19th, 2019, resulting in \$1/gallon credit for 2018, 2019 and 2020 and dropping to \$.80, \$.60, and \$.40/gallon for 2021, 2022 and 2023, respectively. By our estimates (based on historical and planned Diamond Green Diesel (DGD) biodiesel production) these credits have the potential to add ~\$800 million of value to **DAR** through the period. The company also announced that DGD is exploring a potential 400 million gallon renewable diesel plant at Valero's refinery in Port Arthur, TX. If approved, construction would begin in 2021 with expected operations commencing in 2024; this added capacity would result in a total annual production capacity of 1.1 billion gallons at DGD.

**Centene Corp. (CNC)**, another leading contributor on an absolute basis, executed well in the quarter with revenues up 17% driven by strength across the business. In our view, **CNC** continues to execute and plan well despite a lot of negativity toward healthcare regulation. Although uncertainties continue to exist concerning the future of government sponsored healthcare, we believe the likely path forward remains the same as managed care services offered by the private sector continue to provide significant

value. Furthermore, we believe the competitive dynamics in the industry are favorable, and **CNC** remains well positioned to benefit.

**Dycom Industries, Inc. (DY)**, the specialty contractor for telecommunications infrastructure, was the leading detractor on an absolute basis in the period. Although demand for **DY's** services continues to be strong (\$1.5 billion in backlog was booked after quarter end), the complexity of new 5G projects has led to some cost over-runs. We believe the majority of these cost issues have been with one customer (Verizon) and that new contracts have been re-priced to compensate for increased complexity. Better pricing, along with recently implemented systems to aid productivity should benefit margins in the future. We remain confident that the veteran management team, led by Steve Nielsen, will drive profitability in order to fully capitalize on strong demand for services.

**Bangkok Bank (BBL)**, one of the largest banks in Thailand, was another leading detractor on an absolute basis in the period as the stock sold off following the announcement of a \$2.7 billion acquisition of Indonesia's Bank Permata. Permata is roughly 10% the size of **BBL** and appears to be well-capitalized with strong operating/credit ratios. The acquisition will provide **BBL** access to an Indonesian market in which **BBL** sees strong long-term growth prospects. In our view, the acquisition is not particularly high-risk, and we do not view it as transformational in nature.

We believe that in 2019 the market began to recognize the fundamental strength and quality of a few companies that we own, and that going forward each of our companies and the portfolio as a whole is positioned well to generate long-term value for clients. We will continue to search for and invest in high quality, attractively valued companies that generate cash and invest their capital well, and we will monitor risks at the holding level and across the portfolio. We have faithfully and consistently executed our Investment Philosophy and Process for more than 30 years. Our experienced Investment Team has an average length of service at SouthernSun of more than 11 years, and we look forward to continuing to deliver returns for our clients.

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

Top Contributors	Average Weighting (%)	Contribution-to Return (bps)	Top Detractors	Average Weighting (%)	Contribution-to Return (bps)
Darling Ingredients, Inc.	6.4	268	Dycom Industries, Inc.	6.1	-52
Centene Corp.	5.4	216	Bangkok Bank	3.6	-30
Timken Co.	5.6	159	Encana Corp.**	2.3	3
Bakkafrost P/F	6.1	147	AGCO Corp.	4.4	11
Koppers Holdings, Inc.	4.9	137	Extended Stay America, Inc.	4.9	16

Net returns are actual and reflect the deduction of management fees. Please see composite performance and disclosures on page 3 for further information. Returns include the reinvestment of all income. Past performance is no guarantee of future results. The iShares MSCI ACWI ETF may or may not be a comprehensive representation of the MSCI ACWI benchmark and is utilized for illustrative purposes only. The iShares MSCI ACWI ETF fund shares are not sponsored, endorsed, issued said or promoted by MSCI.

\*\*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 ETFs, 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@southernSun.com. \*\*Encana Corporation (ECA) acquired Newfield Exploration Co. (NFX) in February 2019. As a result of the acquisition, SouthernSun now holds shares of ECA. Source: SouthernSun Asset Management, Advent Portfolio Exchange, FactSet.

## GLOBAL OPPORTUNITIES COMPOSITE

GLOBAL OPPORTUNITIES COMPOSITE - ASSET WEIGHTED RETURNS										
Year	SouthernSun		MSCI AC World Total Return Net	Composite Dispersion	Composite 3-Yr Standard Deviation (%)	MSCI AC World TR 3-Yr Standard Deviation (%)	Accounts in Composite (#)	Total Composite Assets (\$Mil)	% of Firmwide Assets	Total Firmwide Assets (\$Mil)
	Gross	Net								
2019 <sup>3</sup>	27.08%	26.26%	26.60%	N/A <sup>1</sup>	13.80%	11.22%	≤5	\$122	10%	\$1,252
2018	-12.49%	-13.09%	-9.42%	N/A <sup>1</sup>	12.15%	10.48%	≤5	83.7	6%	\$1,519
2017	18.67%	17.81%	23.97%	N/A <sup>1</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	≤5	87.5	2%	\$4,213
2016	17.27%	16.40%	7.86%	N/A <sup>1</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	≤5	71.1	2%	\$4,187

<sup>1</sup>Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

<sup>2</sup>Information is not statistically meaningful due to an insufficient number of periods.

<sup>3</sup>Gross and net returns for 2019 are preliminary and are subject to change.

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, 2019. 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. The SouthernSun Global Opportunities Composite contains fully discretionary equity accounts invested in an active global equity portfolio that aims to deliver long-term capital appreciation by investing in a portfolio of US and non-US companies (with a market capitalization of at least \$100 million at initial purchase). The minimum account size for inclusion in this composite is \$100,000. The composite policy requires the temporary removal of any portfolio falling below the minimum account size in value. 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. The U.S. dollar is the currency used to express performance. Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Withholding taxes may vary according to the investor's domicile. The exchange rate source may differ among the accounts and benchmark in the composite. The MSCI AC World Index (net) uses withholding tax rates applicable to Luxembourg holding companies. Returns are stated gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using model management fees for illustrative purposes as the current accounts in the composite are subject to management fees that are less than the firm's stated fee schedule. The model management fee, which reflects the firm's stated fee schedule, is as follows: 1.25% on all amounts. This is subject to \$125,000 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. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The SouthernSun Global Opportunities Composite was created January 1, 2016 and represents performance calculated on a daily basis.

The MSCI ACWI Index (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of December 2019 the MSCI ACWI captured large and mid cap representation across 23 Developed Markets (DM) and 26 Emerging Markets (EM) countries. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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