

SMID Cap 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 SMID Cap Composite returned approximately +13.32% on a gross basis (+13.10% net) versus the Russell 2500™, which returned +8.54%, the Russell Midcap®, which returned +7.06%, and the Russell 2500™ Value which returned +7.07, over the same period. On a year-to-date basis, the composite returned approximately +31.64% on a gross basis (+30.63% net) versus the Russell 2500™, which returned +27.77%, the Russell Midcap®, which returned +30.54%, and the Russell 2500™ Value, which returned +23.56% over the same period. The strategy continues to outperform the indexes on a since inception annualized gross and net basis.

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.

Hanesbrand, Inc. (HBI), another leading detractor on an absolute basis in the period, had results that were in-line with management guidance and the mid-point of guidance for the full-year was raised. However, the stock was weak as U.S. innerwear sales were slightly lower than street estimates as well as gross margin. Despite solid results in the Activewear and International businesses, we believe U.S. innerwear is dominating the narrative along with continued concern about bricks & mortar retail for the longer term. Management continues to highlight the diversification of the business, with notable international growth and strong performance from the Champion brand. Leverage continues to come down (Net Debt/EBITDA 3.3 vs 3.8 last year) and management is committed to 2.9x at year end. In our view, the valuation remains attractive at ~8x 2019 free cash flow guidance and a 4% dividend yield.

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	Ticker	Average Weighting (%)	Contribution-to Return (bps)	Top Detractors	Ticker	Average Weighting (%)	Contribution-to Return (bps)
Darling Ingredients, Inc.	DAR	6.4	263	Dycom Industries, Inc.	DY	6.0	-52
Centene Corp.	CNC	5.4	213	Hanesbrands, Inc.	HBI	4.8	-8
Timken Co.	TKR	5.7	165	Broadridge Financial Solutions, Inc.	BR	3.1	-1
Thor Industries, Inc.	THO	4.1	123	Encana Corp.**	ECA	2.2	3
WestRock Co.	WRK	4.9	92	First Horizon National Corp.	FHN	3.2	10

Inception Date of SMID Cap Composite: January 1, 1997. 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.

**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.*

SMID CAP COMPOSITE

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										
2019 ³	31.64%	30.63%	27.77%	30.54%	0.89%	17.10%	14.58%	12.89%	10	\$340	27%	\$1,252
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

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

²Information is not statistically meaningful due to an insufficient number of periods.

³Gross 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. 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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