

## Small 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 Small Cap Strategy Composite returned approximately +13.05% on a gross basis (+12.83% net) versus the Russell 2000®, which returned +9.94% and the Russell 2000® Value, which returned +8.49%, over the same period. On a year-to-date basis, the composite returned approximately +36.76% on a gross basis (+35.69% net) versus the Russell 2000®, which returned +25.52% and the Russell 2000® Value, which returned +22.39% over the same period. The strategy continues to outperform both indexes on a 10-year and 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.

**Timken Co. (TKR)**, a leading global manufacturer of highly engineered bearings and mechanical power transmission components, was another leading contributor on an absolute basis in the period. The company continued to generate record levels of profit aided by strong results from recently acquired businesses.

Due to softness in its North American markets (specifically off-highway and heavy-truck), management tempered expectations for next quarter as they expect some inventory corrections among distributors but are optimistic there will be a bounce going into 2020. The recent progress on the U.S.-China front is, in our view, constructive for business confidence and investment and believe this news was an additional tailwind to the stock over the period.

**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.

**Broadridge Financial Solutions, Inc. (BR)**, the leading provider of investor communications, technology-driven solutions, and data and analytics to the financial services industry, was another leading detractor on an absolute basis in the period. Results were largely within management expectations with difficult event-driven year-over-year comparisons but record closed sales. The company is seeing strong sales momentum across multiple product lines with notable wins at a major European bank and an increase in governance services provided to a major asset manager. M&A activity has increased in the past few months as **BR** looks to grow globally and broaden capabilities into new asset classes, including ETFs and cryptocurrencies. Management remains optimistic about this year and the future as they see long-term tailwinds for their value proposition in the markets they serve.

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	264	Dycom Industries, Inc.	DY	6.1	-53
Timken Co.	TKR	5.8	166	Broadridge Financial Solutions, Inc.	BR	2.4	-1
Koppers Holdings, Inc.	KOP	5.2	152	Encana Corp.**	ECA	2.3	3
Thor Industries, Inc.	THO	4.2	133	AGCO Corp.	AGCO	4.3	11
Murphy USA, Inc.	MUSA	2.6	104	Belden, Inc.	BDC	4.5	15

*Inception Date of Small Cap Strategy Composite: October 1, 2003. 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 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@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.*

## SMALL CAP STRATEGY COMPOSITE

SMALL CAP STRATEGY COMPOSITE - ASSET WEIGHTED RETURNS												
Year <sup>1</sup>	SouthernSun		Russell 2000	Russell 2000 Value	Composite Dispersion	Composite 3-Yr Standard Deviation (%)	Russell 2000 3-Yr Standard Deviation (%)	Russell 2000 Value 3-Yr Standard Deviation	Accounts in Composite (#)	Total Composite Assets (\$Mil)	% of Firmwide Assets	Total Firmwide Assets (\$Mil)
	Gross	Net										
2019 <sup>4</sup>	36.76%	35.69%	25.52%	22.39%	0.28%	18.46%	15.71%	15.68%	13	\$562	45%	\$1,252
2018	-23.04%	-23.66%	-11.01%	-12.86%	N/A <sup>2</sup>	15.93%	15.79%	15.76%	≤5	\$342	23%	\$1,519
2017	19.58%	18.60%	14.65%	7.84%	0.20%	15.70%	13.91%	13.97%	6	\$605	14%	\$4,213
2016	20.77%	19.87%	21.31%	31.74%	0.63%	16.61%	15.76%	15.50%	6	\$547	13%	\$4,187
2015	-14.61%	-15.27%	-4.41%	-7.47%	0.59%	16.80%	13.96%	13.46%	6	\$540	12%	\$4,542
2014	-3.26%	-3.95%	4.89%	4.22%	0.05%	14.25%	13.12%	12.79%	6	\$921	16%	\$5,696
2013	43.95%	42.81%	38.82%	34.52%	0.56%	19.17%	16.45%	15.82%	6	\$1,103	21%	\$5,317
2012	20.70%	19.79%	16.35%	18.05%	0.26%	23.98%	20.20%	19.89%	6	\$584	22%	\$2,615
2011	6.47%	5.63%	-4.18%	-5.50%	0.99%	30.96%	24.99%	26.05%	6	\$365	17%	\$2,106
2010	51.09%	49.86%	26.85%	24.50%	0.50%	33.66%	27.69%	28.37%	6	\$250	13%	\$1,974
2009	33.41%	32.35%	27.17%	20.58%	1.26%	29.89%	24.83%	25.62%	6	\$149	11%	\$1,339
2008	-33.71%	-34.17%	-33.79%	-28.92%	1.31%	21.92%	19.85%	19.14%	6	\$107	10%	\$1,025
2007	9.50%	9.03%	-1.57%	-9.78%	N/A <sup>2</sup>	13.43%	13.16%	12.59%	≤5	\$80	6%	\$1,341
2006	13.16%	12.72%	18.37%	23.48%	N/A <sup>2</sup>	13.71%	13.75%	12.33%	≤5	\$59	5%	\$1,100
2005	2.44%	2.16%	4.55%	4.71%	N/A <sup>2</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	≤5	\$48	7%	\$733
2004	25.84%	25.78%	18.33%	22.25%	N/A <sup>2</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	≤5	\$20	5%	\$410
2003	14.94%	14.94%	11.62%	13.06%	N/A <sup>2</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	≤5	<\$1	1%	\$162

<sup>1</sup>2003 returns are from inception date of the composite: October 1, 2003. The return numbers are not annualized.

<sup>2</sup>Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

<sup>3</sup>Information is not statistically meaningful due to an insufficient number of periods.

<sup>4</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 Small Cap Strategy Composite generally contains fully discretionary accounts invested in small cap securities (defined as equity securities with market capitalizations that are within the range of the Russell 2000 Index or the MSCI USA Small Cap Index at the time of initial purchase during the most recent 12-month period, based on month-end data) and for comparison purposes is measured against the Russell 2000 and Russell 2000 Value indices. The minimum asset level to be included in this composite is \$1,000,000. Additionally, this composite does not include accounts that are overly restrictive with regard to 1) a new range for small cap securities (that are, at purchase, normally within a similar range to that of the maximum and minimum of the Russell 2000 Index on a trailing 12-month basis; and 2) maximum cash level restrictions. Any other guidelines that the chief investment officer feels are overly constraining for the management of a discretionary account will also be taken into consideration when eliminating accounts for inclusion in the Small Cap Strategy Composite. Prior to January 1, 2017, the composite did not adhere to a significant cash flow policy. From January 1, 2017 to February 6, 2017, accounts were removed when experiencing a significant cash flow. As of February 7, 2017, the composite did not adhere to a significant cash flow policy. 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. 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, provided that the performance returns for the initial account in the composite were only calculated on a gross basis from October 2003 to October 2004. The management fee schedule is as follows: \$0 - \$50,000,000 is 1.00%, \$50,000,001 - \$100,000,000 is 0.95%, \$100,000,001 and above is 0.90%. This schedule is subject to a \$200,000 minimum annual fee. A management fee was not applied, however, to the sole SouthernSun Small Cap Strategy account in 2003. 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 Small Cap Strategy Composite was created January 1, 2017. The inception date of the SouthernSun Small Cap Strategy Composite is October 1, 2003. As of August 1, 2019, the SouthernSun Small Cap Strategy Composite was re-defined to include accounts with slight restrictions in market cap guidelines. Due to market conditions and trends, these restrictions have dwindled over time and become more in line with the composite's intended strategy and holdings.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. 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 FRC.

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