



Jim Dorman, Michael Cook, and Phillip Cook on a plant tour.

Idea Generation At SouthernSun Asset Management

At SouthernSun we tend to make decisions deliberately, with a long-term perspective and with a certain measure of pride in doing them differently from other investment boutiques. We believe that the development of our firm, its strategies, ownership and functional areas over nearly 30 years reflects this. Perhaps nowhere is this more evident than in the process that generates new ideas for our investment portfolios. While the herd may favor stock screening, sell-side recommendations and investment conferences, we prefer a more organic approach. Many of our ideas have originated from the research we do on existing holdings, their suppliers, customers and competitors; from reading a library of trade periodicals that we have built and reviewed regularly over time; attendance at trade shows; and from the emphasis we place on assessing companies' operational management via plant and facility tours.

Maintenance Research

We spend a significant portion of our research time reviewing the companies that we already own, with our focus including a review of each business's capabilities in scale, consolidation, pricing power, innovation, distribution and cost structures. This maintenance research also gives attention to a company's supply chain and occasionally that produces new investment ideas. We have found, over time, that businesses that fit our investment criteria (discretionary cash flow, niche dominance, financial flexibility and strength, and management adaptability) tend to do business with like companies. In 2017 we began adding **Actuant Corp. (ATU)** to our small cap portfolios following a review of long time holding **AGCO Corp.'s (AGCO)** suppliers. **ATU** manufactures and markets power transmission and hydraulic equipment for agricultural machinery and develops similar products for the construction and general industrial markets. Its new management team brings experience in operations that we believe will lead to LEAN implementation, the consolidation of certain facilities and more efficient utilization of its fixed asset base.

Trade Periodicals

We ask many senior leaders at our businesses about the trade journals that they read and have added many of those to our reading lists over time. Our subscriptions include: *Intrafish, Chemical Week, Drovers Daily, Oil World Weekly, Agri Investor, Rubber & Plastics News, World Crane Week, and Platts Steel*. We find this reading useful in understanding businesses from rendering to fluid management to off-road vehicles. This has also led us to sharpen our views on existing holdings and to generate new research ideas. In 2014 we began adding **Murphy USA, Inc. (MUSA)** to our SMID Cap strategy following our reading of an article about the company's recent spin out from **Murphy Oil, Inc. (MUR)**. We liked **MUSA's** base of nearly 1,200 convenience stores in the south and the Midwest which has grown to roughly 1,400 stores, its position as a low-cost fuel supplier, and its focus on return on invested capital as a metric for assessing management's performance. In 2015 we sourced another idea from a journal article, adding **Knowles Corp. (KN)** to our SMID Cap strategy, following its spin out from conglomerate **Dover Corp. (DOV)**. **KN** is a leading provider of microphones and related media solutions to the smartphone and hearing aid industries and its products are gaining traction in Internet of Things (IoT) applications including smart speakers.

Example of how existing holdings lead to new ideas.



Smithfield Foods, Inc.
Slaughterhouse and Meat Processing Plant



Darling Ingredients, Inc. (DAR)
Renewable Diesel Refinery



Middleby Corp. (MIDD)
Conveyor Oven

Plant Tours

We contend that the most distinguishing characteristic of our investment process may be the time we spend assessing a business's operational management, the focus of which is often plant and facility tours. One of the ongoing challenges in investment analysis, we assert, is asking the right questions and better questions of current and prospective holdings. We believe that touring production lines and watching the manufacturing process at work causes us to ask better questions and reveals details of a company's supply chain and distribution network that boardroom meetings and regulatory filings might not expose; and it has led to new idea generation. For a number of years, we held shares of Smithfield Foods, Inc. in our portfolios until the company was purchased by Hong Kong-based WH Group Limited (formerly Shuanghui Group) in 2013. During a circa 2005 plant tour at Smithfield we asked Smithfield how it disposed of hog carcasses and the reply was that it rendered some at a captive facility but that **Darling Ingredients, Inc. (DAR)** handled some of its rendering needs. Thus, began our research on **DAR** which we have owned across our portfolios for the past 12 plus years and continues to create value for customers through investments in renewable fuels, pet food and gelatins production. A couple of years later we returned to Smithfield and toured a production line that pre-cooked bacon. We asked about the ovens used in this process and were told that **Middleby Corp. (MIDD)** manufactured them. Further research led us to a nearly decade-long position in **MIDD**, a leading supplier of equipment to commercial kitchens, fast food and casual dining restaurant groups including McDonald's, Inc. (MCD), YUM Brands, Inc. (YUM), and Darden Corp. (DRI).

These practices are the primary source of our idea generation. Our assessment of discretionary cash flow, niche dominance, financial flexibility and management adaptability was developed by our founder Michael Cook prior to the inception of SouthernSun and he and our investment team continue to implement it and source ideas as he has for over 30 years. We believe that this is a disciplined, repeatable process that has generated excess return over the long term and that we will continue to generate new investment ideas via the same, albeit, slightly unorthodox process that has served us throughout the history of the firm.

These holdings were derived and discovered by implementing the idea generation methods described in the commentary (i.e. maintenance research, trade periodicals, and plant tours). The holdings discussed in the commentary have been visited at the company's office, an Investor Day or at SouthernSun within the trailing-six-months and are not representative of all of the securities purchased, sold, or recommended for advisory clients. It should not be assumed that an investment in the securities identified has or will be profitable. Actual holdings will vary for each client, and there is no guarantee that a particular client's account will hold any or all of the securities listed. Past performance does not guarantee future results.

Important Disclosures:

•Past performance is not indicative of future results, which may vary. | The information contained herein may be estimates, are as of the dates indicated, and are subject to change without notice. | The information contained herein does not constitute an offer, solicitation or recommendation of any transaction in any securities referred to herein. | Holdings are subject to change and should not be construed as investment advice. | References to exited positions indicates that the position has been fully liquidated from the portfolio by SouthernSun except in instances, if applicable, where a client has instructed us otherwise. | Statements received directly from the account custodian should be regarded as the official record for a client's account | This information is being furnished to you for informational purposes only and should not be solely relied upon when making an investment decision. | Any performance composite data utilized herein is used for illustrative purposes only and may not be inclusive of your account or reflective of the performance specific to your account. Moreover, the effect of certain market or conditions may have impacted the performance composite data shown and may differ from the performance of your account. | Performance data provided herein reflects the reinvestment of dividends and other earnings. | Periods of performance presented herein may not be comprehensive and may also under-represent certain periods of underperformance. | All information has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. | This information is confidential, may not be reproduced or circulated in whole or in part, and is intended for institutional clients, qualified institutional buyers, professional investors or professional clients. Any transmittal of this information to individual clients, without the prior written consent of SouthernSun, is strictly prohibited.

Regulatory Disclosures:

This material is provided for informational purposes only and is only directed at persons who may lawfully receive it. You should satisfy yourself that you are lawfully permitted to receive this. This material is not intended to be relied upon as a forecast or research and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy nor is it investment advice. Past performance is not a reliable indicator of future performance. SouthernSun Asset Management, LLC is registered with the United States Securities and Exchange Commission ("SEC") as an investment adviser and also serves as investment manager to SouthernSun Value Fund plc, an umbrella-type open-ended investment company authorized by the Central Bank of Ireland as an undertaking for collective investment in transferable securities. Southern Asset Management (UK) Ltd., a subsidiary of SouthernSun Asset Management LLC, is a UK domiciled limited company that is authorized by the Financial Conduct Authority.

Notice to professional clients in the United Kingdom:

SouthernSun Asset Management, LLC and its affiliates are permitted to provide advice in the United Kingdom to professional clients only. For this reason, the information contained herein is only permitted for individuals or firms who would fall within the definition of a professional client as defined by the Financial Conduct Authority's rules.

Notice to wholesale clients in Australia:

SouthernSun Asset Management, LLC is exempt from the requirement to hold an Australian financial services license by operation of ASIC Class Order 03/1100: US SEC regulated financial service providers.

Notice to recipients in Canada:

In reliance on an international adviser exemption, SouthernSun Asset Management, LLC is permitted to provide advice to permitted clients pursuant to the securities laws of the Provinces of Quebec and Saskatchewan, Canada.

Notice to recipients in Israel:

The information contained herein is only permitted for individuals who are an "Investor" within the meaning of such term in section 15A(b)(1) of the Israeli Securities Law.

© 2018 SouthernSun Asset Management, LLC. All Rights Reserved.