Global Opportunities Commentary

SOUTHERNSUN
30 YEARS | 1989-2019

SECOND QUARTER 2019

After a strong first quarter of 2019, our portfolios continued to perform well in the second quarter. However, it was a bit of a "roller coaster" on a month-by-month basis as equity markets continued to rise in April, but then dropped in May due to the escalating trade tensions between the U.S. and China, which renewed concerns about slowing global growth as a result of a potentially protracted trade war. Markets ended the quarter on a more positive note, which was, in our opinion, driven mainly by an expectation that the Fed will cut rates to respond to slowing growth in Europe and emerging markets. In June, market sentiment seemed to improve after the U.S. and China agreed to resume trade discussions and put further tariff increases on hold (for now). While all of that creates an "interesting" macroeconomic and market backdrop, what matters most to us is that the majority of our portfolio companies continue to report positive business conditions, and they continue to deploy capital into their businesses to grow and improve profitability and cash flow. Most of our companies continue to report year over year revenue growth and earnings growth, and their performance drove portfolio returns in the quarter.

We continue to believe that this is a market environment in which investors should care about what stocks they own versus owning an index that has risen at least partly, in our opinion, due to continued flows into passive investment vehicles. We stand by our view that in the long run, quality matters; cash flow matters; balance sheets matter; and, the capability of management teams to allocate capital to earn strong returns matters to individual stock and portfolio performance.

For the second quarter of 2019, the Global Opportunities Composite returned approximately +1.33% on a gross basis (+1.15% net*) versus the MSCI ACWI, which returned +3.61% over the same period. On a year-to-date basis, the composite returned approximately +15.46% on a gross basis (+15.08% net*) versus the MSCI ACWI, which returned +16.23% over the same period.

Pendragon PLC, the UK automotive retailer, was the leading detractor from performance on an absolute basis in the period. Poor operational execution and a difficult economic environment in the UK in the used car business and management turnover added to the challenges of a weak UK car market. UK new car registrations were down 3.1% YTD through May and the used car market had significant declines in used cars valuations. Management expects losses in the first half of the year but expect to return to profitability in the second half of the year. Despite the challenges in other parts of the business, the Software and Leasing businesses are performing in-line with expectations.

Encana Corp. (ECA) was another leading detractor from performance on an absolute basis during the period. **ECA** is an energy company engaged in the exploration and production of oil and gas in the U.S. and Canada. **ECA's** drilling includes the geologically favorable STACK and SCOOP plays of the Anadarko Basin in the Mid-Continent region, the Permian basin, and the Montney play in Canada (among others). Oil prices were volatile in the second quarter, dropping from a high of around $66 in April to a low of around $51 in June, before rallying back to almost $60 to end the quarter. Operationally, **ECA** is ahead of schedule with their integration of Newfield Exploration Co. and have increased their G&A synergy targets and met their well cost savings targets. Proforma 1Q production from the core growth assets grew more than 20% from the comparable period in 2018 and averaged 443,000 barrels of oil equivalent per day. Management has focused capital investment on the three core growth assets – the Permian, Anadarko, and Montney, which together constitute ~75% of capital investments and are expected to generate ~15% liquids growth at high returns. Management is confident in their execution and continue to buy back shares, recently reporting that 10% of shares outstanding had been repurchased year to date.

Dycom Industries, Inc. (DY), the specialty contractor for telecommunications infrastructure, was the leading contributor to performance on an absolute basis during the period. The company reported double-digit top line growth driven primarily by higher sales to AT&T, Verizon, and CenturyLink. As expected, profit margins continued to be pressured by costs related to managing the complexities of Verizon's 5G rollout. Steve Nielsen, CEO, and his team are taking steps to utilize new systems and processes that will help manage this project and similar projects like it more efficiently in the future. Total backlog was up 20% year over year, indicating continued strong demand for **DY's** services.

Localiza Rent A Car S.A., the largest rental car company in Brazil, was another leading contributor during the period. The company continues to invest in growing the rental fleet and the number of vehicles in their fleet increased by 28% year-over-year to 247,623 at the end of Q1. First quarter results reflected the benefit of this investment with revenues up 25% year-over-year driven by car rental volume growth of 26% and fleet volume growth of 23%. Pricing was only slightly down in both car rental and fleet rental. Performance in the used car division was also strong with revenues up 43% driven by a 45% increase in used car sale volumes. The strong top line growth translated into solid profitability with EBITDA up 25% and net income up 23%. The board approved a buyback of 50 million shares (~6% of shares outstanding) in June.

During the second quarter of 2019, we initiated two new positions in **Klabin SA** and **Marel hf**. **Klabin SA** was founded in 1899 by the Klabin family as an importer of stationery and paper products in Brazil. **Klabin SA** engages in the manufacture of paper and board for packaging, corrugated board packaging, and industrial bags. **Klabin SA** operates 17 plants in 8 states throughout Brazil and 1 plant in Argentina. The company is the largest producer of packaging paper in Brazil with approximately 40% share of the kraftliner market and 50% share of the coated paperboard market. Given its proximity to some of the most productive forests in the world, we believe **Klabin SA** has cost advantage over other global paper and packaging companies. The business is vertically integrated with the ability to produce pulp, kraftliner and corrugated packaging for either domestic or export markets. We believe **Klabin SA's** natural resource advantage and its production flexibility will allow the company to capitalize on growing global demand for pulp, paper and packaging. The CEO, Fabio Schvartsman, has been with **Klabin SA** since 2011 and has worked his way up through the business before being appointed CEO in March 2017. The eighth generation of the Klabin family maintains control of the board and majority of the outstanding shares. **Marel hf** is a global leader by market share in the protein processing equipment and services industry, serving poultry, meat and fish processors. Protein processing as an industry continues to have significant opportunity to enhance efficiency, sustainability, and traceability, and **Marel hf** has proven its ability to meet this need for processors via consistent introduction of new products and services, fueled by an organizational emphasis on research & development. In addition to an organic growth opportunity, we see in **Marel hf** an opportunity for additional bolt-on acquisitions in the fragmented protein processing equipment market. Current management's track record demonstrates capital markets savvy, operating proficiency, and shareholder orientation (e.g. CEO Arni Oddur Thordarson is a 15+ year holder of a significant amount of **Marel hf** stock).

We are pleased with the portfolios' performance year-to-date. In our opinion, each portfolio is made up of high-quality companies trading at attractive valuations. We believe that we are still in a market that is under-valuing high quality companies with strong and consistent cash flows. While the overall market and passive index vehicles have done well this year, we believe long-term that investors will be well served by selectively owning shares of the right companies. We will continue our long-term approach focused on valuations and the strength of each business in terms of their market position, financial flexibility, and management strength, as we have done for the past thirty years under the leadership of Founder and CEO/CIO, Michael Cook.

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

Top Contributors	Average Weighting (%)	Contribution-to Return (bps)	Top Detractors	Average Weighting (%)	Contribution-to Return (bps)
Dycom Industries, Inc.	5.9	153	Pendragon PLC	3.4	-175
Localiza Rent a Car S.A.	3.9	94	Encana Corp.***	3.4	-118
Bakkafrost P/F	6.2	84	De'Longhi S.p.A	3.8	-95
Koppers Holdings, Inc.	5.0	72	Bunzl PLC	3.5	-73
Timken Co.	3.2	54	Darling Ingredients, Inc.	5.9	-49

**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. 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 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.*

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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								
2018	-12.49%	-13.09%	-9.42%	N/A[1]	12.15%	10.48%	≤5	83.7	6%	$1,519
2017	18.67%	17.81%	23.97%	N/A[1]	N/A[2]	N/A[2]	≤5	87.5	2%	$4,213
2016	17.27%	16.40%	7.86%	N/A[1]	N/A[2]	N/A[2]	≤5	71.1	2%	$4,187

[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. 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 lesser 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 2018 the MSCI ACWI captured large and mid cap representation across 23 Developed Markets (DM) and 24 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: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

Past performance is no guarantee of future results. As with any investment strategy, there is a potential for profit as well as the possibility of loss. Individual investor results will vary. Performance results may be materially affected by market and economic conditions.