

SECOND QUARTER 2019

After a strong first quarter of 2019, our portfolios continued to perform well in the second quarter. For the second quarter, absolute performance in our Small Cap Strategy Composite was positive, and the strategy outperformed its primary benchmark on a gross and net basis. 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. The smaller capitalization indexes include a number of stocks with negative earnings, and as a whole, the index has higher leverage and lower returns on equity and capital. The Return on Equity (ROE) across our Small Cap Strategy Composite of 10.2% is 67% higher than the ROE of the Russell 2000®. Leverage across our portfolio averages 3.4x (Net Debt/EBITDA) which is 11% lower than the index, and our portfolio is trading at a 35% discount to the adjusted Price to Earnings (P/E) of the index¹. 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 Small Cap Strategy Composite returned approximately +4.20% on a gross basis (+4.00% net*) versus the Russell 2000®, which returned +2.10% and the Russell 2000® Value, which returned +1.37%, over the same period. On a year-to-date basis, the composite returned approximately +23.41% on a gross basis (+22.94% net*) versus the Russell 2000®, which returned +16.98% and the Russell 2000® Value, which returned +13.47% over the same period. The strategy continues to outperform both indexes on a 10-year and since inception annualized gross and net basis.

Dycom Industries, Inc. (DY), the specialty contractor for telecommunications infrastructure, was the leading contributor to performance on an absolute basis in 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. CEO, Steve Nielsen, 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.

Timken Co. (TKR), another leading contributor to performance on an absolute basis in the period, engineers, manufactures and markets bearings, transmissions, gearboxes, chain and related products and aftermarket services. It is a global leader in these businesses. **TKR’s** business continued the strong performance it had in 2018 with another solid result in the first quarter, posting 11% top-line growth, margin expansion, and 34% adjusted EPS growth. Most of **TKR’s** industrial end markets remain healthy and management continues to see growing demand across many industrial sectors. The management team continued with a capital allocation approach thoughtfully balanced between funding organic growth initiatives, bolt-on acquisitions, and value enhancing stock buybacks. As a result of the solid performance and healthy end markets, the company raised guidance for full-year 2019 per share earnings growth.

Encana Corp. (ECA) was the leading detractor from performance on an absolute basis in 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.

Darling Ingredients, Inc. (DAR), a global renderer of animal carcasses and related byproducts into usable feeds, foods and fuels, was another leading detractor to performance on an absolute basis in the period. Volumes were up ~3% year over year, but revenue was down ~5% due to lower finished product pricing. The tough winter, North America flooding, stronger dollar, and tariffs all impacted results negatively. Despite the tough operating environment for Darling’s legacy businesses, Darling’s biodiesel joint venture with

Valero continues to perform as expected and remains on track to achieve full production of 275 million gallons and an average EBITDA contribution of \$1.25 to \$1.40 a gallon during the full year of 2019. Furthermore, the plans to double production capacity to 675 million gallons is on schedule and on budget and is expected to be complete by the end of 2021. Management also reported that the joint venture is in preliminary discussions with Preem, the largest petroleum refinery in Sweden, to analyze the construction and operations of a 265 million gallon renewable diesel unit. Although the discussions are in the early stages, we believe this development is a positive indicator of global demand for low carbon fuel products.

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	Ticker	Average Weighting (%)	Contribution-to Return (bps)	Top Detractors	Ticker	Average Weighting (%)	Contribution-to Return (bps)
Dycom Industries, Inc.	DY	5.9	156	Encana Corp.***	ECA	3.4	-119
Timken Co.	TKR	6.0	103	Darling Ingredients, Inc.	DAR	5.9	-49
Koppers Holdings, Inc.	KOP	5.5	74	Extended Stay America, Inc.	STAY	5.2	-27
Broadridge Financial Solutions, Inc.	BR	3.2	66	Thor Industries, Inc.	THO	3.9	-20
The Brink's Co.	BCO	5.9	50	Trinity Industries, Inc.	TRN	3.7	-13

*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 4 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@southern.sun.com. Source: SouthernSun Asset Management, Advent Portfolio Exchange, FactSet.

***Encana Corporation (ECA) acquired Newfield Exploration Co. (NFX) in February 2019. As a result of the acquisition, SouthernSun now holds shares of ECA.

¹Price to Earnings for the portfolio is calculated as the inverse of the portfolio value weighted average of the constituents' earnings yields. Earnings yield is calculated as the LTM Recurrent Earnings divided by the Market Capitalization, both as defined by Factset. This methodology produces a measure of valuation that is comparable to the methodology used for the P/E of the benchmark. Price to Earnings for the benchmark is calculated as the ratio resulting from the sum of constituent Market Capitalization divided by the sum of constituent LTM Recurrent Earnings as defined by Factset. Return on Equity for the portfolio is calculated as the ratio resulting from the sum of the proportionate ownership of each constituent's LTM Recurrent Earnings (as defined by Factset) divided by the sum of the proportionate ownership of each constituent's Ending Shareholders Equity (as defined by Factset). Proportionate ownership of each constituent's LTM Recurrent Earnings and Ending Equity are calculated using the composite weightings of each constituent. Return on Equity for the benchmark is calculated as the ratio resulting from the sum of constituent LTM Recurrent Earnings divided by the sum of constituent Ending Shareholders Equity, both as defined by Factset. Net Debt to EBITDA for the portfolio is calculated as the ratio resulting from the sum of the proportionate ownership of each constituent's Ending Net Debt (as defined by Factset) divided by the sum of the proportionate ownership of each constituent's LTM EBITDA (as defined by Factset). Proportionate ownership of each constituent's Ending Net Debt and LTM EBITDA are calculated using the composite weightings of each constituent. Companies considered to be in banking, insurance, or other financial industries are not included in this calculation. Net Debt to EBITDA for the benchmark is calculated as the ratio resulting from the sum of constituent Ending Net Debt divided by the sum of constituent LTM EBITDA, both as defined by Factset. Companies considered to be in banking, insurance, or other financial industries are not included in this calculation. Real estate investment trusts (REITs), however, are included.

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SMALL CAP STRATEGY COMPOSITE - ASSET WEIGHTED RETURNS												
Year ¹	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										
2018	-23.04%	-23.66%	-11.01%	-12.86%	N/A ²	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 ²	13.43%	13.16%	12.59%	≤5	\$80	6%	\$1,341
2006	13.16%	12.72%	18.37%	23.48%	N/A ²	13.71%	13.75%	12.33%	≤5	\$59	5%	\$1,100
2005	2.44%	2.16%	4.55%	4.71%	N/A ²	N/A ³	N/A ³	N/A ³	≤5	\$48	7%	\$733
2004	25.84%	25.78%	18.33%	22.25%	N/A ²	N/A ³	N/A ³	N/A ³	≤5	\$20	5%	\$410
2003	14.94%	14.94%	11.62%	13.06%	N/A ²	N/A ³	N/A ³	N/A ³	≤5	<\$1	1%	\$162

¹2003 returns are from inception date of the composite: October 1, 2003. The return numbers are not annualized.

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

³Information 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 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.

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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