SOUTHERNSUN

Small Cap Strategy Composite Commentary

THIRD QUARTER 2019

While equity markets were volatile in August and September, our portfolio companies, on the whole, continue to see opportunities for organic growth and margin improvement. While the market seemed to be focused on headlines surrounding China/US Trade, Fed actions, Hyped/Failed IPOs, our management teams remain focused on new product introductions, R&D / Innovation, sales strategies, operational excellence and productivity along with selective and disciplined M&A. We believe that shareholder value is built over time through the incorporation of technology into new products/services, by improving cost structures, by optimizing supply chains, and by targeting new applications for new end-markets, etc. Disciplined capital allocation continues to be a key requirement for our team as we watch so many companies and market participants add to record levels of leverage and chase record high valuations. We believe the quarterly results of our portfolio companies demonstrate solid progress toward building long-term value, and we believe the opportunity for price appreciation from this point forward is significant.

At a higher level, we have seen a return to volatility and some small movements from Growth to Value - shifts which could certainly add a tailwind to the market recognizing the quality/valuations in our portfolios. We believe the increased volatility creates opportunity for stock pickers and a view toward fundamentals is always supportive of our approach.

For the third quarter of 2019, the Small Cap Strategy Composite returned approximately -1.98% on a gross basis (-2.18% net*) versus the Russell 2000®, which returned -2.40% and the Russell 2000® Value, which returned -0.57%, over the same period. On a year-to-date basis, the composite returned approximately +20.97% on a gross basis (+20.26% net*) versus the Russell 2000®, which returned +14.18% and the Russell 2000® Value, which returned +12.82% over the same period. The strategy continues to outperform both indexes on a 10-year and since inception annualized gross and net basis.

Aegion Corp. (AEGN), specializes in the infrastructure protection, maintenance, and rehabilitation for structures and pipe systems in a variety of industries including wastewater, water, energy, mining, and refining, was the leading contributor on an absolute basis in the period. All operating segments outperformed expectations and the benefits of a multi-year restructuring effort, which is now nearing completion, looks to be in-sight for 2020. We believe the realigned company is streamlined, more integrated and focused around the company's core capabilities. Backlog remains healthy and the sales funnel appears to have momentum going into next year, which includes the award of the two Tite Liner system contracts in the Middle East. Management is focused on capturing additional opportunities in the Middle East, where they see a robust project funnel over the next several years as national energy companies look to increase production through multiple major onshore and offshore gas and oil field development and expansion projects. In addition to the international projects, the company is seeing growth in U.S. state water projects, specifically drinking water projects. Management also announced longer-term financial targets that included driving double digit growth in earnings and greater capital efficiency.

Sanderson Farms (SAFM), the third largest poultry processor in the U.S., was another leading contributor on an absolute basis in the period as better chicken prices and lower feed costs resulted in gross margin expansion. Lower advertising and training spending also benefited the bottom line. In our opinion, the company's plans to expand processing capacity are on-track, with the newest processing plant in Tyler, TX ramping up. Once this plant is fully online, the company will have capacity to process roughly 5.2 billion pounds annually, up from approximately 4.6 billion currently. **SAFM** is the only chicken processor to have added significant capacity since the 2008-2009 global financial crisis. In the last three to five years, they have opened three new complexes, in Palestine and St. Paul's and now in Tyler, TX. As one of the industry's most efficient producers, run by a veteran management team, we believe the company is well positioned to continue to capture share of the market.

Timken Co. (TKR), which designs, engineers, manufactures and markets bearings, transmissions, gearboxes, chain and related products and aftermarket services, was the leading detractor to performance on an absolute basis in the period. **TKR** reported solid operational results with 2% organic and 11% acquisitive topline growth along with significant margin expansion, but the stock declined after management lowered full-year guidance due to softening off-highway and heavy truck markets. Localized weakness in these end markets appeared to overshadow the continued strength in other end markets such as solar, wind, marine, aerospace, and rail. Management highlighted that even after lowering guidance, they are on-track to reach an all-time high in earnings per share for the year. In the short-term, **TKR's** varied end markets will invariably go through ups and downs, however, over the long-term, we believe the company's excellent competitive positioning is set up for continued success.

Dycom Industries (DY), the specialty contractor for telecommunications infrastructure, was another leading detractor on an absolute basis in the period. The company reported double digit revenue growth, and EBITDA margins increased from 8.8% last quarter to 11.3% this quarter. A modification to the terms of the Verizon contract benefitted margins and is a positive sign for the profitability of the program and any similar programs in the future. **DY's** top 5 customers make up approximately 79% of their revenue, and revenues with those customers grew 12.7% organically. Major industry participants continue to construct or upgrade significant wireline networks across broad sections of the U.S and we believe long-term trends in data usage continue to provide strong tailwinds to **DY's** business.

During the third quarter of 2019, we fully exited one position in the Small Cap Strategy Composite, **Federal Signal Corp. (FSS)**, after the stock reached its target price range.

The Investment Team continues to travel a great deal to meet with management teams of current and prospective holdings. We believe that our companies continue to demonstrate the niche dominance, financial flexibility and management adaptability that we value in our portfolio holdings and that technical innovation, capital allocation and balance sheet strength support this. Given where we are in the current market cycle, we believe we are entering a phase in which investors will be rewarded by allocating to managers whose portfolios are comprised of high-quality companies trading at attractive valuations. We believe we are well positioned for this type of environment.

Our investment strategy is differentiated by our "private-equity-like approach" to owning small and mid-cap public companies. By that, we mean that we are making long-term investments in businesses, instead of making short-term "bets" on stocks. Our portfolio's long-term absolute and relative outperformance on a since inception basis versus its peer benchmarks is driven by our in-depth knowledge of our companies. This gives us a competitive advantage when selecting securities and managing our portfolio. We get to know our companies intimately through a research process that involves regular communication with senior management, repeated on-site tours of facilities and discussions with a company's suppliers, customers and competitors. We are differentiated by the amount of time we devote to field work, traveling to and spending time with our companies. This intensive process has been in place since the inception of our firm and it fosters a culture of deliberate buying and selling of shares of businesses.

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)
Aegion Corp.	AEGN	4.1	63	Timken Co.	TKR	5.6	-88
Sanderson Farms, Inc.	SAFM	4.8	52	Dycom Industries, Inc.	DY	6.1	-80
Clean Harbors, Inc.	CLH	5.1	43	Extended Stay America, Inc.	STAY	5.1	-65
Stepan Co.	SCL	3.1	18	Actuant Corp.	ATU	4.3	-44
The Brink's Co.	BCO	5.8	17	Belden, Inc.	BDC	4.2	-30

**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@southernsunam.com. Source: SouthernSun Asset Management, Advent Portfolio Exchange, FactSet.*

SMALL CAP STRATEGY COMPOSITE

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

[1]2003 returns are from inception date of the composite: October 1, 2003. The return numbers are not annualized.
[2]Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
[3]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 June 30, 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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