

# Global Opportunities Commentary

## SECOND QUARTER 2020

This quarter, we are pleased to announce that SouthernSun Asset Management will acquire Affiliated Managers Group's interest in our Firm in a transaction funded solely by key employees. This significant milestone means that, for the first time in our proud 31-year history, SouthernSun will be a 100% employee-owned and operated independent Firm. We want to take this opportunity to emphasize how excited we are to invest in the people, processes and infrastructure that will ensure alignment between the Firm's interests and yours.

Our underlying rationale for the decision to reacquire the Firm will sound familiar to those of you who know what we look for when evaluating companies for our investment portfolios. Specifically:

- **Financial Flexibility:** Our 100% cash transaction is debt-free, further strengthens SouthernSun's financial flexibility, and will be immediately accretive to the Firm.
- **Management Adaptability:** Our proven decision makers and seasoned leadership team, who collectively possess an average of 24 years of management experience, have navigated a wide variety of business, marketplace, and economic environments. In other words, we have seen more than most, and we believe that that kind of experience will be rewarded given these volatile and uncertain times.
- **The SouthernSun Niche:** Our enduring strength over the years has been our steadfast commitment to our investment philosophy and process. Our success stems in large part from always knowing who we are, what we do well, and faithfully applying a time-tested discipline.

Perhaps most importantly, we believe this transaction is significant because of the unique convergence between SouthernSun's independent status and the current market dislocation across the Small Cap and SMID Cap investment space. This is a real and meaningful opportunity, and it means we can act - quickly and opportunistically - to make investment decisions that should yield great returns for our clients. And that, more than anything else, is what we wake up every morning to do.

For the second quarter of 2020, the Global Opportunities Composite returned approximately +28.70% on a gross basis (+28.50% net) versus the MSCI AC World Index, which returned +19.22% and the MSCI AC World Small Cap Value, which returned +19.74%, over the same period. On a year-to-date basis, the composite returned approximately -16.16% on a gross basis (-16.43% net) versus the MSCI AC World Index, which returned -6.25% and the MSCI AC World Small Cap Value, which returned -21.84% over the same period.

**Dycom Industries, Inc.**, the specialty contractor for telecommunications infrastructure, was the leading contributor on an absolute basis in the quarter. Although revenues were slightly down, the company effectively managed costs and was able to deliver better than expected margins. The effect of COVID-19 on the business has been minimal so far and most of **Dycom's** crews have been

allowed to continue performing construction, although permitting has been slow in some parts of the country. Major customers have strong, resilient businesses and have indicated that they plan to continue making investments in their networks. We believe the pandemic has reinforced and perhaps accelerated demand for the telecommunications networks that **Dycom** builds and maintains.

**De' Longhi**, another leading contributor on an absolute basis in the quarter, reported solid results with revenue growth of 5% driven by the continued double-digit growth of coffee machine sales. E-commerce sales have been strong and have helped to offset some of the decline in the brick and mortar channel resulting from the COVID-19 pandemic. Although some of the company's manufacturing facilities were shut down late in the quarter due to the pandemic, all facilities are now back up and running at full capacity. The company's strong product lineup, strong brand, net cash balance sheet, and control by the long-term, owner-oriented **De' Longhi** family give us confidence the company is well positioned for the future.

**The Brink's Co.**, the global leader in total cash management, was the leading detractor on an absolute basis in the quarter as the COVID-19 pandemic had a substantial impact on first-quarter results. Retail customer make up roughly 45% of **Brink's** revenues and around half of those are in harder hit businesses such as restaurants and apparel, although the other half provide essential services such as grocery, pharmacy, and gas, which are fairing better. Financial institutions represent another 45% of **Brink's** revenues and these customers have been, for the most part, resilient throughout the pandemic. Although service volumes are expected to be dramatically lower in the second quarter, the company's cost structure is highly variable and recent cost cuts by management are expected to provide significant benefit in the back half of the year. Management believes the company will generate positive free cash flow in 2020 and their strong balance sheet and liquidity will allow them to weather the storm as well as execute on their growth strategies. At recent prices, we continue to be very favorable on the risk/reward as we see a substantial disconnect between current views and intrinsic value.

**JC Decaux**, the number one outdoor advertising company worldwide, had a difficult first quarter as the company's airport and public transportation advertising locations were significantly affected by the decrease in traffic caused by the COVID-19 pandemic. Management expects street furniture and billboard advertising sales to bounce back fairly quickly as people start to move around more freely, although airport and public transport advertising will likely take longer to recover. The company is taking steps to adapt to the environment by reducing headcount, initiating lease re-negotiations, cutting the dividend, and raising one billion euros of long-term debt at attractive rates. However, management is also keeping an eye out for opportunity by announcing a bid for a 23% ownership stake in Clear Media, the largest operator of bus shelter advertising panels China. Although we expect near-term results to

be significantly impacted by the pandemic, we believe the company is well managed, competitively advantaged, and has a long run way to increase profitability by converting static advertisements to digital.

We believe that the market volatility that we have seen in 2020 plays to our strengths. We have been able to take advantage of lower prices by adding to existing high-conviction holdings and initiating new positions at attractive entry points. The research that we had done on new ideas paid off – in that, we were ready to make decisions when prices became attractive. We believe the quality of the portfolio is high. While volatility is likely to continue due to the unstable macro environment, the high quality of the portfolio, along with our strategies’ historical performance coming out of downturns, gives us confidence for the future.

### 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.	6.2	368	The Brink's Co.	5.3	-75
De'Longhi S.p.A.	6.4	317	JC Decaux	0.8	3
Extended Stay America, Inc.	4.8	218	Spectris PLC	3.3	14
Timken Co.	5.3	213	Stella Jones, Inc.	1.2	20
Brenntag AG	4.7	202	Gerresheimer AG	0.8	35

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

## GLOBAL OPPORTUNITIES COMPOSITE

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								
2019	27.08%	26.26%	26.60%	N/A <sup>1</sup>	13.80%	11.22%	≤5	\$122	10%	\$1,252
2018	-12.49%	-13.09%	-9.42%	N/A <sup>1</sup>	12.15%	10.48%	≤5	83.7	6%	\$1,519
2017	18.67%	17.81%	23.97%	N/A <sup>1</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	≤5	87.5	2%	\$4,213
2016	17.27%	16.40%	7.86%	N/A <sup>1</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	≤5	71.1	2%	\$4,187

<sup>1</sup>Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

<sup>2</sup>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, 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 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 \$62,500 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 2019 the MSCI ACWI captured large and mid cap representation across 23 Developed Markets (DM) and 26 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: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, 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.

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