SouthernSun

1Q 2021 U.S. Equity Fund Investment Commentary

In last quarter's letter we touched on the importance, as generalists, of building a broad context in our research over long periods of time. With another quarter in the books, we thought it might be useful to continue to further develop that concept for you.

As a reminder, our fourth quarter and full year 2020 commentary highlighted our use of trade journals, emphasizing their indirect as well as direct research value. By sharing several recent articles and suggesting how certain elements of those articles have relevance well beyond the writer's primary focus our goal, in part, was to help you better understand how insight builds, in method and over time.

This quarter, we hope to feature some of the expected and unexpected benefits we accrue as we vet prospective portfolio companies.

But before we explore that topic, let's briefly cover some of our overarching observations from the first quarter of 2021. The quarter, as expected, included meaningful progress in vaccine rollouts across the US and accelerated reopening in an increasing number of states. Vaccination progress across the globe is uneven at best with some countries seemingly well ahead of others with availability of the vaccine, ability to distribute efficiently and broadly, and willingness of people to participate all factoring into each one's present status. Our portfolio companies, for the most, reported solid first quarter results with largely improved outlooks for the balance of the year.

Under the cover of the virus, we are curious about how little attention is being given to what we might only describe as significant governmental overreach in developed economies that debilitates competition thereby selecting winners that tend to favor consumption (capital destruction) over long term capital formation. We raise the issue if for no other reason than the potential harm eventually levied on small to medium sized businesses as rent seeking monopolies encourage volume and convenience over quality. As disconcerting as this may sound, we recognize at least two things, one, that the outcome is not inevitable, and two, that such conditions in the near to intermediate term may offer exceptional opportunities for small to medium sized businesses that are able to adapt operationally and are forward-thinking about who the customer is and what they need.

Entering the final three quarters of 2021, we believe the market is likely to remain in transitional conflict - large versus small, growth versus value versus momentum, or any combination thereof. The importance of this tension for us is that, as in the past, we believe that these types of transitions are largely an advantage to our portfolio businesses. When our management teams and their colleagues distinguish themselves from their competitors through excellence in execution and delivery of high-quality results, equity sponsorship (their stock price) has historically become more reflective of their fundamental long-term value.

To illustrate, for a moment place your Global Macro hat on and consider the genius of Charles Schultz and, more specifically, his cartoon creation Peanuts. In Charlie Brown's Christmas, Charlie Brown is sat with Lucy at her psychiatry booth. Lucy proceeds to suggest a list of phobias from which Charlie Brown might suffer. Charlie Brown somewhat agrees with most of them, but none really seem to capture his condition until Lucy says, "maybe you have pantophobia" to which Charlie Brown replies, "what is that". Lucy responds with "that's the fear of everything Charlie Brown" to which he shouts, "THAT'S IT".

When a dose of "fear of everything" is coupled with an environment chockfull of distorted values, negative real interest rates, clever financial engineering, and a rapidly evolving philosophy regarding the role of central banking, it is no surprise that we at SouthernSun are finding as many interesting and diverse opportunities now as at any time in our history.

As we mentioned in the beginning, one of the ways we have been able to maintain perspective over time, is through our commitment as generalists to continually challenge our proclivities with broad primary resources and by investigating businesses outside our natural comfort zone. Over the decades we have found that many valuable lines of inquiry for current portfolio companies have been initiated whilst in the process of vetting prospective businesses.

You will likely be aware of how portfolio businesses like Darling Ingredients, Inc. (DAR) and Middleby Corp. (MIDD) came from observations we made during visits to Smithfield Foods, Inc. (SFD) facilities. What you may not appreciate is how often one line of questioning with a prospective company leads us to a new line of questioning or better understanding of an existing portfolio holding. As importantly, they may very well be in altogether separate businesses.

The following are a few brief examples from the first quarter of 2021:

Whilst looking into several specialty material suppliers to the semiconductor industry we were prompted to ask new questions of some of our current specialty chemical companies. We of course needed to better understand the customer (the semiconductor companies) to a degree we had not previously. Questions around the nature of the customer relationship, as evidenced by a direct or an indirect distribution model, as well as the nature of research and development spend and/or customer collaboration pushed us to re-examine the growth profile and runway of our specialty chemical companies.

Recently, we have been evaluating a variety of innovations in the process control, automation, and rapid prototyping business. Although we continue to explore specific opportunities in these areas, part of our education included taking the time to speak with a few of our current portfolio companies regarding their views on the economics and practical applications of some of these new innovations. We were also able to explore their views on the risks and opportunities of in-house implementation of things like prototyping versus outsourcing and learnt that often times a mix of both is possible, even preferable. Overall, we improved our understanding of potential target investments whilst also gaining further insight into current holdings like Polaris Inc. (PII) and Thor Industries, Inc. (THO) amongst others.

Finally, as we worked through due diligence on one of our newer holdings, Cass Information Systems, Inc. (CASS), we were challenged to develop a richer understanding of franchise lending. Since this is an important part of another of our current holdings, First Horizon Corp. (FHN), the time spent on CASS supplied us with a variety of useful insights in our quest to better calculate what we believe FHN could be worth.

Hopefully, these short samples provide you with a bit more substance when considering the landscape of our prospective portfolio pipeline. We have long suggested that we look to find only a handful of businesses that are investable each year but the process of finding those few will most often takes down and around the roads less travelled. It is indeed one of the many incredible compensations of having the privilege to do what we do.

PORTFOLIO UPDATE

The SouthernSun U.S. Equity Fund (Class N) returned +19.35% versus the Russell 2500™, which returned +10.93% and the Russell 2500™ Value, which returned +16.83%, during the first quarter of 2021. Over the trailing-twelve-months, the Fund returned approximately +114.47% versus the Russell 2500™, which returned +89.40% and the Russell 2500™ Value, which returned +87.47% over the same period. Please note that this Fund has multiple share classes.

Thor Industries, Inc. (THOR), the world's largest manufacturer of RV's, was the leading contributor on an absolute basis during the period. **THOR** continues to set sales records due to strong consumer demand for RVs. The RV industry is positioned to deliver strong shipment growth for the foreseeable future, due to a combination of continued strong consumer demand as well as the need to replenish dealer inventory. In the quarter ending January 31, 2021, gross profit margins increased by 240 basis points due to an increase in sales volume and a reduction in pricing discounts. In late December, **THOR** acquired luxury RV manufacturer Tiffin Group at an attractive valuation, adding to its leading position in the motorhome segment of the RV market, and extending its long track record of adding value via bolt-on acquisitions.

Extended Stay America, Inc. (STAY) the largest operator of mid-tier extended stay lodging in the United States, was another leading contributor on an absolute basis during the period. A bright spot in a battered hospitality industry, STAY continued to outperform lodging peers by all metrics throughout 2020 with 74% occupancy rates and hotel operating margins of 44%. They most recently unveiled a new brand segmentation strategy that, coupled with recovery in this sector, seemed to provide a clear path to increasing shareholder value for multiple years. For these and several other reasons, we were disappointed to learn of Extended Stay's agreement to be taken private under terms that we believe undervalue the company. Our full letter to clients can be found here.

Terminix Global Holding Inc., (TMX)* a leading provider of residential and commercial pest control, is a relatively new position in the portfolio and was the leading detractor on an absolute basis, down slightly in the first quarter. The company's strategy is to create long-term value through improvements in operations, training, employee retention and the external customer experience. As such, we see significant opportunity for Terminix to capitalize on their recognized brand and singular focus on pest management.

Knowles Corp. (KN), a market leader in audio and precision devices that we exited very early in the quarter. After a challenging 2020, **KN** ended the year in strength surpassing guidance, and we saw a timely exit in favor of other opportunities.

During the first quarter of 2021, we fully exited **Knowles Corp. (KN)**, **Hanesbrands Inc. (HBI), Centene Corp. (CNC)and SEI Investment Co. (SEIC)** in the U.S. Equity Fund.

HBI delivered solid results in 4Q20 surpassing most estimates despite still prevalent COVID headwinds in the US and Europe. Though we expect the new management to focus on long-term growth, they have several challenges to overcome, and we took advantage of recent strength in the share price to exit the position.

CNC, a leading multi-national healthcare company, had a successful 2020 with 49% growth in revenue and 13% growth in earnings per share. Over approximately a decade of owning shares, in which **CNC** has grown dramatically, we believed this was an opportune time to exit the position this quarter.

As a condition of the February 16, 2021 transaction to merge the AMG SouthernSun Funds into the new SouthernSun Fund series of The Advisors' Inner Circle Fund III (the "Trust"), the AMG SouthernSun U.S. Equity Fund (the "Fund") was required to dispose of one of this Fund's holdings in the Fund's portfolio because the issuer of this holding was affiliated with the Trust. Specifically, due to restrictions under the Investment Company Act of 1940 that prohibit the Fund from holding securities issued by the Fund's affiliates, the Fund was required to dispose of the Fund's **SEI Investments Co. (SEIC)** holdings prior to the February 16, 2021 conversion.

As always, thank you for your trust in the SouthernSun team, we are mindful that such trust must be continually earned. We look forward to communicating to you after the finish of the second quarter.

Michael W. Cook
CEO and Chief Investment Officer
SouthernSun Asset Management

FUND PERFORMANCE %[1,2] (AS OF 03/31/2021)							
	SINCE INCEPTION[3]	5 YEAR	3 YEAR	1 YEAR	YTD	QTD	MTD
SSEFX (Class N) (%)	9.78	10.38	12.53	114.47	19.35	19.35	10.20
SSEIX (Class I) (%)	10.06	10.66	12.82	115.04	19.45	19.45	10.25
Russell 2500 (%)	14.14	15.93	15.34	89.40	10.93	10.93	1.64
Russell 2500 Value (%)	12.06	12.15	10.88	87.47	16.83	16.83	4.96

*SSSFX (Class N) Expense Ratio (Gross/Net): 1.48%/1.34%**
*SSSIX (Class I) Expense Ratio (Gross/Net) 1.23%/1.09%**

**Contractual waivers are in effect through February 16, 2022.*
The performance data shown represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For performance information through the most recent month end, please call 901.341.2700 or visit our website at www.southernsunam.com. From time to time the advisor has waived fees or reimbursed expenses, which may have resulted in higher returns.

[1]One-year, three-year, five-year, and since inception returns are annualized averages and do not mean the manager achieved the stated return in each year. Returns for periods less than one year are not annualized.

[2]The performance information shown for periods prior to February 16, 2021 is that of the predecessor to the Fund, AMG SouthernSun U.S. Equity Fund, a series of AMG Funds LLC, which was reorganized into the Fund on February 16, 2021, and was managed by AMG Funds LLC and sub-advised by SouthernSun Asset Management, LLC with the same investment objective and substantially similar investment policies as those of the Fund. The performance information shown for periods prior to March 31, 2014 is that of the predecessor to the Fund, SouthernSun U.S. Equity Fund, a series of Northern Lights Fund Trust, which was reorganized into the Fund on March 31, 2014, and was managed by SouthernSun Asset Management, LLC with the same investment objective and substantially similar investment policies as those of the Fund.

TOP 10 HOLDINGS[4] (AS OF 03/31/2021)		
	TICKER	% OF FUND
The Brink's Co.	BCO	6.81
Darling Ingredients, Inc.	DAR	6.73
Extended Stay America, Inc.	STAY	6.69
Dycom Industries, Inc.	DY	6.37
Thor Industries, Inc.	THO	6.12
Polaris Inc.	PII	5.44
Timken Co.	TKR	5.36
Crane Co.	CR	5.09
Armstrong World Industries, Inc.	AWI	4.72
Broadridge Financial Solutions, Inc.	BR	4.55
Total		57.88

[3]Since the inception of the Fund's share classes on April 10, 2012.

[4]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.

The SouthernSun funds are distributed by SEI Investments Distribution Co. (SIDCO). The Funds are managed by SouthernSun Asset Management, LLC. SIDCO is not affiliated with SouthernSun Asset Management, LLC or any of its affiliates. SIDCO is a member of FINRA/SIPC.

Important Disclosures:

Before investing in any SouthernSun funds, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. The Prospectus and Summary Prospectus contain this and other important information. Please read the Prospectus and Summary Prospectus carefully before investing.

The views expressed represent the opinions of SouthernSun Asset Management, LLC as of December 31, 2020, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

*As of October 2020 ServiceMaster Global Holdings, Inc. (SERV) changed its name to Terminix Global Holdings (TMX).

Source: SouthernSun Asset Management, Advent Portfolio Exchange.

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. All information has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed.

Small- and Mid-Capitalization Companies Risk — The small- and mid-capitalization companies in which the Fund may invest may be more vulnerable to adverse business or economic events than larger, more established companies. In particular, investments in these small- and mid-sized companies may pose additional risks, including liquidity risk, because these companies tend to have limited product lines, markets and financial resources, and may depend upon a relatively small management group. Therefore, small- and mid-cap stocks may be more volatile than those of larger companies. These securities may be traded over-the-counter or listed on an exchange.

Non-Diversified Fund Risk— The Fund is classified as "non-diversified," which means it may invest a larger percentage of its assets in a smaller number of issuers than a diversified fund. To the extent that the Fund invests its assets in a smaller number of issuers, the Fund will be more susceptible to negative events affecting those issuers than a diversified fund.

Regulatory Disclosures:

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