# 2Q2022 Small Cap Fund Investment Commentary

The second quarter, early on, seemed as though it would ultimately proceed much like the first ended – with an apparent focus on persistent inflation, and thus, a continuation of investment flowing into the most inflation sensitive areas of the market. However, as we neared the end of the quarter and as sentiment shifted to fear of recession (and probably hedge fund profit-taking) the inflation "trade" seemed to be quickly reversed. As the outgoing British PM Boris Johnson suggested regarding party politics, "The herd instinct is strong and when the herd moves, it moves fast…".

The fact remains that, even with the Federal Reserve on the move, the reasons behind our current inflation challenge are wide-ranging, and, we would suggest, much more nuanced than basic supply-demand imbalances. Whether or not demand destruction takes place sooner or later due to monetary tightening, we believe that it would be less than prudent to not recognize that the global economy, and the integrity of the data it produces, has been significantly compromised because of the pandemic shut down and the subsequent philosophies and processes used by governments to "re-open." As the noise in and of the data becomes ever more dissonant – as cost of capital rises and volatility increases, we believe the SouthernSun focus on niche businesses with exceptional balance sheets and seasoned leadership can produce good results.

It could go without saying, but we will say it anyway, we are not in the business of being satisfied with losing money in any period or even losing less than an index or others. Our objective has always been clear and that is to earn our clients 10-12% above inflation per annum over the longer term.[1] Reality dictates that there will be shorter periods of time when that objective is indeed not achieved. To achieve our objective, it has always been important to muffle the noise and focus on individual businesses, their strengths and weaknesses, opportunities and risks and develop a clear understanding of the context within which they are operating.

By and large, we like the businesses that currently make up the portfolio, but we are never fully satisfied. Our balance sheets are generally strong with ample liquidity. With many of our industrial and discretionary businesses having seen tough times before the pandemic (2014-16 Industrial recession followed by 2018 initiation of trade war with China), we are pleased with the operational efficiencies that were introduced during such times and are now demonstrating the resultant benefit. It might be worth noting that such innovation and improvement would have been difficult to impossible had companies gone into those challenging environments overly geared. We believe that with experienced, rightly-fitted management, many of our businesses have an opportunity to excel amid the prospect of a more difficult environment in the days and months ahead.

If broad economic growth does indeed slow and multiples continue to contract, then one can imagine how attractive businesses with reliable mid-single digit organic growth prospects when coupled with well-funded active R&D and targeted bolt-on M&A might become … particularly if the business has a leadership team that recognizes the opportunity but has the discipline to move and prove judiciously. Not only would we characterize most of our current portfolio businesses this way, we would further suggest that our full pipeline of prospective businesses is much the same.

All this said, multiples have come down most certainly, but that does not always translate to undervalue. We would like to submit that valuations remain too high in a large portion of the marketplace, so just as we would hope would be the case with our portfolio company management teams, we will be deliberate as we deploy capital into new ideas. Remember, our goal is to own businesses that can return meaningful value to shareholders over time, not next quarter.
2Q2022 SMID Cap Investment Commentary

According to Iain McGilcrest, author of The Matter with Things, (my summer read), "The wonder of science is not that its clarity reveals how clever we are, but that it reveals, like poetry, a deeper mystery. 'The more we know', writes astrophysicist Marcelo Gleiser, 'the more exposed we are to our own ignorance, and the more we know to ask." Rest assured, we plan to keep asking.

[1] *Such targeted returns are generally aspirational in nature and not necessarily based on any criteria or assumptions.*

## PORTFOLIO UPDATE

The **SouthernSun Small Cap Fund** (Class N) returned -7.68 versus the Russell 2000®, which returned -17.20% and the Russell 2000® Value, which returned -15.28%, during the second quarter of 2022. Over the trailing-twelve-months, the Fund returned approximately -6.68 versus the Russell 2000®, which returned -25.20% and the Russell 2000® Value, which returned -16.28%, over the same period. The Fund has continued to outperform both indexes on a since inception basis. Please note that this Fund has multiple share classes.

**MGP Ingredients, Inc. (MGPI) (6.05%),** a leading provider of distilled spirits, branded spirits, and food ingredient solutions, was the leading contributor this quarter and reported strong first quarter results in early May with all three segments outperforming expectations. Consolidated sales were $195.2 million, an 80.2% increase from the first quarter 2021, and gross profit was a record $71.8 million, a 122% increase compared to the first quarter of 2021. Customer demand for **MGPI**'s products is strong across segments evidenced in part by a 44.4% increase in brown goods sales in the company's Distilling Solutions segment and a 44.5% increase in American whiskey sales in the company's Branded Spirits segment. Furthermore, the company has announced 3 expansionary projects to help meet growing demand, including a new barrel warehouse in Williamstown, KY, as well as a facility expansion and new warehouse in Bardstown, KY, at Lux Row Distillers, acquired by **MGPI** in April of 2021. We believe that management has done an admirable job of diversifying the business away from commodity distilling into higher margin, consumer-oriented markets, and we believe the investments management is making now will position the business for continued growth in each of its three segments.

**Dorman Products, Inc. (DORM) (5.29%)**, a leading supplier of replacement parts in the automotive aftermarket industry, was another leading contributor this quarter with record net sales of $401.6 million for the quarter, up 39% compared to the first quarter of 2021, and up 21%, excluding net sales growth from their successful Dayton Parts acquisition. The integration of the Dayton Parts acquisition, which was completed in August 2021, remains on schedule, and Dayton's first quarter results exceeded the company's expectations. While the company has handled the current inflationary environment well through the implementation of cost-saving measures and price increases, management expects to continue facing inflationary pressures, global transportation and logistics constraints, and labor challenges. Over the longer term, we believe that the aftermarket auto parts industry is countercyclical, and that demand may actually increase during an economic downturn. In the meantime, with net debt to trailing 12-months EBITDA of 0.8x (as of 3/31/22), we believe management has plenty of capability to make additional acquisitions and a track record of prudently allocating capital to generate attractive shareholder returns.

After a strong start to the year, **Darling Ingredients (DAR) (6.18%)**, a leader in renewable energy and sustainable food and feed ingredients, was the leading detractor this quarter. The company delivered record results for the first quarter achieving a combined Adjusted EBITDA of $330.7 million with the Feed Segment leading the year-over-year increase due to high raw material volumes, escalating fat prices, and robust global demand for protein and pet food. **Darling** completed its $1.1 billion acquisition of Valley Proteins in early May and within days announced it had entered into a definitive agreement to purchase Brazil's largest independent rendering company, FASA Group, for approximately $560 million. The deal is set to close by the end of 2022 and adds 14 more rendering plants plus 2 currently under construction, further enlarging **Darling'**s ability to meet ever-increasing demand for green energy. The company is guiding full year 2022 combined adjusted EBITDA at $1.55-$1.6 billion, with Global Ingredients exceeding $1 billion in EBITDA and **Darling**'s share of Diamond Green Diesel estimated at $468.8 million, assuming 750 million gallons of renewable diesel at $1.25 per gallon EBITDA. While we can't be sure, one might deduce that the recent pullback in the share price is correlated highly with the pullback in commodities in recent weeks. We would like to point out that **Darling** is a market share leader selling niche, value-added products to customers who have few alternatives to **Darling**'s ingredients and products, and we expect the company to weather any commodity volatility from a position of strength.

**AGCO Corporation (AGCO) (4.07%)**, a leading global manufacturer and distributor of agricultural equipment and solutions, was another leading detractor this quarter despite record net sales of $2.7 billion, an increase of 12.9% compared to the first quarter of 2021, and supported by an increase in sales in all four geographic regions. Though the company expects continued headwinds from higher material costs, they have so far been able to offset rising costs with their pricing strategy. At a recent Sustainable Technology event in Germany, **AGCO** highlighted their plans for growth including the globalization of their Fendt

line of products, organic growth in their Precision Ag offerings, and growing their aftermarket service and parts business. We believe the company's ability and commitment to produce smart and sustainable products to meet the needs of farmers around the world will allow them to weather macroeconomic headwinds as they produce returns for shareholders. While the stock has been hit with the recent pullback in commodity prices, we expect farmer income and subsequent demand for equipment to be strong this year, and likely next year, with dealer inventory at relatively low levels and solid order boards in key regions. We spent time with management in recent weeks and continue to believe this team is well suited for the current challenges and opportunities.

During the second quarter of 2022, we fully exited **Traeger, Inc. (TBT) (0%)**, **Koppers, Inc. (KOP) (0%)**, and **Sanderson Farms, Inc. (SAFM) (0%)**. We initiated a new position in **Boston Beer Company, Inc. (SAM) (2.57%)** in the Small Cap Fund.

We exited our position in **Traeger, Inc. (COOK)** in the second quarter. Despite our short holding period, we chose to exit our starter position in **Traeger, Inc.** in the second quarter at a loss. The sharp change in the economic environment since early in the year changed our view of the risk profile of the investment. While we believed the shares were attractively valued when we purchased and they have gotten considerably cheaper, our conviction in the investment has weakened relative to our other holdings and our solid list of potential investments. Ultimately, our conviction in this investment failed to meet our threshold for adding more capital. Rather than hold a small position, we elected to exit in order to redeploy the capital and focus our collective time and energy on our other investment alternatives.

We exited our position in **Koppers (KOP)** in the second quarter. **Koppers** has been a long-term holding of SouthernSun. **Koppers** provides critical products and services whose demand we can see far out into the future, owns a strong competitive position as a result of reliably serving its customer base for decades, and is run by a prudent management team. Our thesis has primarily been driven by these characteristics as well as significant opportunity for value creation in growing higher value-added products and services while de-emphasizing lower value products. Management has indeed strengthened the business with major actions in recent years – right-sizing capacity in its CMC segment, buying the Osmose Performance Chemicals business, and tightly managing a stretched capital structure inherited from its prior private equity owner. Despite these efforts, we have seen very little value created for shareholders and see future actions as being less clear in their ability to drive returns without taking unwanted risks. As with other investment decisions we make, we weighed our conviction in **Koppers** against our other alternatives and determined that we would rather concentrate this capital into other investments.

We exited our long-held position in **Sanderson Farms (SAFM)** in June. We initiated our original position in **Sanderson Farms** in May of 2011 at just under $48 per share. Prior to taking an initial position, we had been monitoring the business for some time. Based on our decades of studying the ag and protein industries and our time around this particular business, we believed that **Sanderson Farms** was a high-quality company with a unique low-cost position in chicken processing and an excellent organizational culture led by Joe Sanderson. Over the course of our holding period, management executed a consistent strategy of building new processing plants to meet growing customer demand while maintaining a nearly debt-free balance sheet. For many years, **Sanderson Farms** was the only industry participant to add new processing capacity, and the company was able to gain market share as demand for chicken continued to grow. **Sanderson Farms** agreed to be acquired in August of 2021, and the transaction was expected to close during the first half of 2022. As the stock price approached the agreed upon purchase price, we took the opportunity to exit the position. We believe the transaction price represents a fair value for shareholders.

We initiated a position in **The Boston Beer Company (SAM)** in the first quarter. It comes as a surprise to those less familiar with the business that Samuel Adams craft beer, the flagship brand of **SAM**, makes up less than 15% of total company revenues. Other noteworthy brands in the portfolio include Truly hard seltzer, Twisted Tea, Angry Orchard hard cider, and Dogfish Head. By far, the most important brands to **SAM** today in terms of sales contribution are Truly hard seltzer and Twisted Tea. Twisted Tea, which management indicated will surpass $500 million in sales in 2021, has been an under-the-radar success story since **Boston Beer** created it 20 years ago — it is today the largest flavored malt beverage (FMB) brand in the U.S. and commands around 90% of the "hard tea" category, with a growth profile still in the double digits. Truly holds a strong #2 position to White Claw in hard seltzer, a category that now makes up approximately 10%-11% of total beer sales domestically. The hard seltzer category underwent a well-documented reset in its growth rate starting last summer that created a large downturn in

**SAM**'s stock price and gave us the opportunity to initiate a position at what we believe is an attractive price. The company created Truly around 5 years ago and in 2021 its sales approximated $1 billion — a remarkable growth story. Going forward, we believe Truly and the hard seltzer category are here to stay, but our thesis is predicated more broadly on **SAM**'s culture of growth and innovation complemented by one of the industry's leading sales organizations that allows the company's innovations to efficiently get to market and to national scale. Overall, **SAM** owns around 4% market share of the total beer industry, but a higher share of around 26% in the "Beyond Beer" category that includes hard seltzer, flavored malt beverages, and hard ciders. We expect its share of both total beer and Beyond Beer to grow over the coming years, fueled by both existing and new to market brands. We also expect **SAM** to participate in the "convergence" trend beginning to blur lines between beer and liquor and between the alcohol and non-alcohol beverage categories, as evidenced by their recently announced partnerships with Beam Suntory for canned cocktails and with Pepsi for the Hard Mountain Dew product. We have spent several quarters working on our research of **SAM** and leveraged learnings from our other Small Cap beverage business, MGP Ingredients, as well as traveling to trade shows, visiting with other industry participants, etc. We admire **SAM**'s founder-led management team, appreciate their fiscal discipline (as partly exemplified by a debt-free balance sheet), and lastly, we believe their culture of innovation will drive shareholder value for years to come.

Until next quarter thank you for your confidence in our firm and best wishes.

Michael Cook
CEO and Co-Chief Investment Officer
SouthernSun Asset Management

Phillip Cook
Co-Chief Investment Officer and Principal
SouthernSun Asset Management

FUND PERFORMANCE %[1,2] (AS OF 6/30/2022)

| | SINCE INCEPTION | 10 YEAR | 5 YEAR | 3 YEAR | 1 YEAR | YTD | QTD | MTD |
|---|---|---|---|---|---|---|---|---|
| SSSFX (Class N) (%) | 9.69[3] | 8.92 | 6.44 | 11.11 | -6.68 | -10.39 | -7.68 | -7.26 |
| SSSIX (Class I) (%) | 11.87[4] | 9.19 | 6.7 | 11.38 | -6.43 | -10.28 | -7.63 | -7.25 |
| Russell 2000 (%) | 9.94[3] | 9.35 | 5.17 | 4.21 | -25.2 | -23.43 | -17.2 | -8.22 |
| Russell 2000 Value (%) | 9.38[3] | 9.05 | 4.89 | 6.18 | -16.28 | -17.31 | -15.28 | -9.88 |

*SSSFX (Class N) Expense Ratio (Gross/Net): 1.30%/1.30%**
*SSSIX (Class I) Expense Ratio (Gross/Net) 1.04%/1.04%**

***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.***

TOP 10 HOLDINGS[5] (AS OF 6/30/2022)

| | TICKER | % OF ASSETS |
|---|---|---|
| Dycom Industries Inc | DY | 6.73 |
| Darling Ingredients Inc. | DAR | 6.18 |
| MGP Ingredients Inc | MGPI | 6.05 |
| The Brink's Co. | BCO | 5.37 |
| Stepan Co | SCL | 5.35 |
| Dorman Products Inc | DORM | 5.29 |
| Timken Co. | TKR | 5.06 |
| Murphy USA Inc. | MUSA | 4.86 |
| Polaris Inc. | PII | 4.85 |
| Enerpac Tool Group | EPAC | 4.81 |
| Total | | 54.55 |

**Contractual waivers are in effect through January 31, 2023.*
*[1]One-year, three-year, five-year, ten-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 Small Cap 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 Small Cap 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.*

*[3]Since the inception of the Fund's Class N shares on October 1, 2003.*

*[4]Since the inception of the Fund's Class I shares on September 9, 2009.*

*[5]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, which is available at www.southernsunam.com. Please read the Prospectus and Summary Prospectus carefully before investing.*

The views expressed represent the opinions of SouthernSun Asset Management, LLC as of June 30, 2022, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Source: SouthernSun Asset Management, Advent Portfolio Exchange, Morningstar.

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-Capitalization Stock Risk— Small 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, small capitalization companies may have limited product lines, markets and financial resources and may depend upon a relatively small management group. Therefore, small capitalization stocks may be more volatile than those of larger companies. Small capitalization stocks 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:

This material is provided for informational purposes only and is only directed at persons who may lawfully receive it. You should satisfy yourself that you are lawfully permitted to receive this. This material is not intended to be relied upon as a forecast or research and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy nor is it investment advice. Past performance is not a reliable indicator of future performance.

SouthernSun Asset Management, LLC is registered with the United States Securities and Exchange Commission ("SEC") as an investment adviser. SouthernSun Asset Management (UK) Ltd., a subsidiary of SouthernSun Asset Management LLC, is a UK domiciled limited company that is authorized and regulated by the Financial Conduct Authority.