

## 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 SMID Cap 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 SMID Cap Composite of 12.3% is 45% higher than the ROE of the Russell 2500™. Leverage across our portfolio averages 3.1x (Net Debt/EBITDA) which is 16% lower than the index, and our portfolio is trading at a 35% discount to the adjusted Price to Earnings (P/E) of the index<sup>1</sup>. 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 SMID Cap Composite returned approximately +3.50% on a gross basis (+3.30% net\*) versus the Russell 2500™, which returned +2.96% and the Russell Midcap®, which returned +4.13%, over the same period. On a year-to-date basis, the composite returned approximately +18.96% on a gross basis (+18.50% net\*) versus the Russell 2500™, which returned +19.25% and the Russell Midcap®, which returned +21.35% over the same period. The strategy continues to outperform both indexes on a since inception annualized gross and net basis.

**Dycor 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	5.8	154	Encana Corp.***	ECA	3.5	-117
Timken Co.	TKR	5.9	104	Darling Ingredients, Inc.	DAR	6.0	-49
Broadridge Financial Solutions, Inc.	BR	3.5	73	Extended Stay America, Inc.	STAY	5.2	-26
IDEX Corp.	IEX	4.0	55	Thor Industries, Inc.	THO	4.0	-19
The Brink's Co.	BCO	5.9	51	WestRock Co.	WRK	4.2	-14

\*Inception Date of SMID Cap Composite: January 1, 1997. 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](mailto:clientservice@southern.sun.com). Source: SouthernSun Asset Management, Advent Portfolio Exchange, FactSet.

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

<sup>1</sup>Price 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; that includes SEI Investments Co. (SEIC) and First Horizon National Corp (FHN) in the SMID Cap Composite. Real estate investment trusts (REITs), however, are included.

**Important Disclosures:**

- Past performance is not indicative of future results, which may vary.
- The information contained herein may be estimates, are as of the dates indicated, and are subject to change without notice.
- The information contained herein does not constitute an offer, solicitation or recommendation of any transaction in any securities referred to herein.
- Holdings are subject to change and should not be construed as investment advice.
- References to exited positions indicates that the position has been fully liquidated from the portfolio by SouthernSun except in instances, if applicable, where a client has instructed us otherwise.
- 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.
- Any performance composite data utilized herein is used for illustrative purposes only and may not be inclusive of your account or reflective of the performance specific to your account. Moreover, the effect of certain market or conditions may have impacted the performance composite data shown and may differ from the performance of your account.
- Performance data provided herein reflects the reinvestment of dividends and other earnings.
- All information has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed.
- This information is confidential, may not be reproduced or circulated in whole or in part, and is intended for institutional clients, qualified institutional buyers, professional investors or professional clients. Any transmittal of this information to individual clients, without the prior written consent of SouthernSun, is strictly prohibited.

**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 by the Financial Conduct Authority.

**Notice to professional clients in the United Kingdom:**

SouthernSun Asset Management, LLC and its affiliates are permitted to provide advice in the United Kingdom to professional clients only. For this reason, the information contained herein is only permitted for individuals or firms who would fall within the definition of a professional client as defined by the Financial Conduct Authority's rules.

**Notice to wholesale clients in Australia:**

SouthernSun Asset Management, LLC is exempt from the requirement to hold an Australian financial services license by operation of ASIC Class Order 03/1100: US SEC regulated financial service providers.

**Notice to recipients in Canada:**

In reliance on an international adviser exemption, SouthernSun Asset Management, LLC is permitted to provide advice to permitted clients pursuant to the securities laws of the Provinces of Quebec and Saskatchewan, Canada.

**Notice to recipients in Israel:**

The information contained herein is only permitted for individuals who are an "Investor" within the meaning of such term in section 15A(b)(1) of the Israeli Securities Law.

SMID CAP COMPOSITE - ASSET WEIGHTED RETURNS												
Year	SouthernSun		Russell 2500	Russell MidCap	Composite Dispersion	Composite 3-Yr Standard Deviation (%)	Russell 2500 3-Yr Standard Deviation (%)	Russell Mid Cap 3-Yr Standard Deviation (%)	Accounts in Composite (#)	Total Composite Assets (\$Mil)	% of Firmwide Assets	Total Firmwide Assets (\$Mil)
	Gross	Net										
2018	-21.14%	-21.75%	-10.00%	-9.06%	0.12%	15.24%	14.10%	11.98%	38	\$693	46%	\$1,519
2017	12.33%	11.46%	16.81%	18.52%	0.17%	13.91%	12.13%	10.36%	70	\$2,309	55%	\$4,213
2016	18.05%	17.19%	17.59%	13.80%	0.33%	15.13%	13.67%	11.55%	62	\$1,242	30%	\$4,187
2015	-10.91%	-11.55%	-2.90%	-2.44%	0.27%	15.08%	12.42%	10.85%	77	\$1,120	25%	\$4,542
2014	2.33%	1.60%	7.07%	13.22%	0.24%	13.56%	11.67%	10.14%	95	\$1,186	21%	\$5,696
2013	43.17%	42.27%	36.80%	34.76%	0.19%	18.71%	15.63%	14.03%	51	\$882	17%	\$5,317
2012	19.56%	18.86%	17.88%	17.28%	0.25%	22.89%	18.97%	17.20%	24	\$378	14%	\$2,615
2011	4.86%	4.30%	-2.51%	-1.55%	0.18%	27.75%	23.40%	21.55%	24	\$309	15%	\$2,106
2010	43.20%	42.47%	26.71%	25.48%	0.31%	31.58%	26.80%	26.46%	16	\$222	11%	\$1,974
2009	49.73%	49.08%	34.39%	40.48%	0.00%	28.16%	24.25%	24.22%	7	\$142	11%	\$1,339
2008	-36.75%	-37.03%	-36.79%	-41.46%	1.28%	22.71%	19.37%	19.36%	6	\$105	10%	\$1,025
2007	12.89%	12.40%	1.38%	5.60%	0.07%	13.65%	11.52%	9.48%	6	\$175	13%	\$1,341
2006	15.78%	15.28%	16.17%	15.26%	N/A <sup>1</sup>	14.33%	11.93%	9.62%	≤5	\$153	14%	\$1,100
2005	2.42%	1.96%	8.11%	12.65%	N/A <sup>1</sup>	16.75%	13.48%	11.22%	≤5	\$135	18%	\$733
2004	27.64%	27.09%	18.29%	20.22%	N/A <sup>1</sup>	18.51%	16.92%	15.28%	≤5	\$133	32%	\$410
2003	45.59%	44.97%	45.51%	40.06%	N/A <sup>1</sup>	22.33%	19.93%	18.51%	≤5	\$97	60%	\$162
2002	-3.39%	-3.77%	-17.80%	-16.18%	N/A <sup>1</sup>	20.97%	21.92%	19.65%	≤5	\$39	36%	\$107
2001	7.19%	6.76%	1.21%	-5.63%	N/A <sup>1</sup>	20.20%	21.16%	18.35%	≤5	\$40	34%	\$120
2000	14.15%	13.68%	4.26%	8.26%	N/A <sup>1</sup>	20.55%	22.35%	18.96%	≤5	\$38	28%	\$137
1999	14.39%	13.92%	24.14%	18.24%	N/A <sup>1</sup>	18.79%	19.46%	17.22%	≤5	\$33	23%	\$145
1998	-2.23%	-2.62%	0.38%	10.10%	N/A <sup>1</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	≤5	\$29	21%	\$135
1997	27.32%	26.80%	24.36%	29.02%	N/A <sup>1</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	≤5	\$14	11%	\$123

<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, 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. SouthernSun SMID Cap Composite contains fully discretionary equity accounts invested in small cap to mid-cap (SMID cap) securities (defined as equity securities with market capitalizations that are within the range of the Russell 2500 at the time of initial purchase during the most recent 12-month period) and for comparison purposes is measured against the Russell 2500 and Russell MidCap indices. The minimum account size for inclusion into this composite is \$1,000,000. Prior to July 1, 2015, the minimum account size for inclusion in this composite was \$500,000. Prior to July 1, 2009, the minimum account size for inclusion in this composite was \$1,000,000. Composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of 20% or more of the portfolio assets. Prior to April 1, 2004, composite policy required the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of 50% or more of portfolio assets. 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. Trade date valuation has been used since inception. 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. The management fee schedule is as follows: \$0 - \$50,000,000 is .90%, \$50,000,001 - \$100,000,000 is .85%, and above is .75%. This schedule is subject to a \$180,000 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. 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 SMID Cap Composite was created January 1, 1997.

The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000 Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 30% of the total market capitalization of the Russell 1000 companies. 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 Frank Russell Company.

**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.

© 2019 SouthernSun Asset Management, LLC. All Rights Reserved.