

SMID Cap 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 SMID Cap Composite returned approximately +30.04% on a gross basis (+29.78% net) versus the Russell 2500®, which returned +26.56% and the Russell 2500® Value, which returned +20.60%, over the same period. On a year-to-date basis, the composite returned approximately -16.76% on a gross basis (-17.08% net) versus the Russell 2500™, which returned -11.05% and the Russell 2500™ Value, which returned -21.18% over the same period. The strategy continues to outperform both indexes on a since inception annualized gross and net basis.

Thor Industries, Inc. (THO), was the leading contributor on an absolute basis in the quarter. **THO**, the world's largest manufacturer of recreational vehicles, benefited from its flexible cost structure and operating model this quarter, generating a profit

despite production interruptions from COVID-19 in both North America and Europe. **THO's** fiscal third quarter ended on April 30; beginning in May, demand for RVs has been strong. There have been numerous articles written about consumers' desire to get away from home after months of quarantine, and they are enthusiastic about RVs because they provide a safe, controlled environment in which to travel, and they are affordable for many Americans. Inventories at **THO** dealers in North America were in good shape after a couple of years of channel inventory reductions, which will probably mean that **THO** production facilities will need to run at higher capacity this summer in order to meet the increase in demand. Data points from publicly traded dealers and others in the industry suggest RV retail sales are up double digits year-over-year so far this summer. If **THO** can avoid further virus-related production disruptions, we believe that the outlook for **THO** is favorable.

Dycom Industries, Inc. (DY), the specialty contractor for telecommunications infrastructure, was another 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 **DY's** crews (typically less than 10 people) 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 **DY** builds and maintains.

The Brink's Co. (BCO), 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 customers make up roughly 45% of **BCO'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 **BCO'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 favorable on the risk/reward as we see a substantial disconnect between current views and intrinsic value.

WestRock Co. (WRK) was another leading detractor on an absolute basis in the quarter. **WRK's** fiscal second quarter,

which ended March 30, results were challenged as lower market prices for their products offset higher containerboard and box volumes. Given the significant impact that the coronavirus has had on the global economy and uncertainty around how quickly the economy will be able to rebound, management announced aggressive actions to provide as much flexibility as possible – including: reducing the dividend, moderating capex, replacing cash incentive compensation and 401(k) contributions with equity, and reducing senior executive and board compensation. While the stock price did not react favorably, we believe these actions will allow the company to pay down debt as it navigates a challenging environment. While broader economic strength should be a tailwind to **WRK**, we believe the company is well positioned to

create shareholder value regardless of the shape of the recovery.

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. The quality of the portfolio is high – particularly when compared to the overall Russell 2500™ and Russell 2500™ Value. 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	Ticker	Average Weighting (%)	Contribution-to Return (bps)	Top Detractors	Ticker	Average Weighting (%)	Contribution-to Return (bps)
Thor Industries, Inc.	THO	4.8	511	The Brink’s Co.	BCO	5.3	-87
Dycom Industries, Inc.	DY	6.2	365	WestRock Co.	WRK	4.2	5
Polaris, Inc.	PII	3.2	230	Molina Healthcare, Inc.	MOH	1.2	33
Extended Stay America, Inc.	STAY	4.9	218	Watsco, Inc.	WSO	2.6	36
Timken Co.	TKR	5.2	212	SEI Investments Co.	SEIC	2.5	52

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

SMID CAP COMPOSITE

SMID CAP COMPOSITE - ASSET WEIGHTED RETURNS												
Year	SouthernSun		Russell 2500	Russell 2500 Value	Composite Dispersion	Composite 3-Yr Standard Deviation (%)	Russell 2500 3-Yr Standard Deviation (%)	Russell 2500 Value 3-Yr Standard Deviation (%)	Accounts in Composite (#)	Total Composite Assets (\$Mil)	% of Firmwide Assets	Total Firmwide Assets (\$Mil)
	Gross	Net										
2019	31.64%	30.63%	27.77%	23.56%	0.89%	17.10%	14.58%	14.23%	10	\$340	27%	\$1,252
2018	-21.14%	-21.75%	-10.00%	-12.36%	0.12%	15.24%	14.10%	13.58%	38	\$693	46%	\$1,519
2017	12.33%	11.46%	16.81%	10.36%	0.17%	13.91%	12.13%	11.81%	70	\$2,309	55%	\$4,213
2016	18.05%	17.19%	17.59%	25.20%	0.33%	15.13%	13.67%	13.17%	62	\$1,242	30%	\$4,187
2015	-10.91%	-11.55%	-2.90%	-5.49%	0.27%	15.08%	12.42%	12.02%	77	\$1,120	25%	\$4,542
2014	2.33%	1.60%	7.07%	7.11%	0.24%	13.56%	11.67%	11.25%	95	\$1,186	21%	\$5,696
2013	43.17%	42.27%	36.80%	33.32%	0.19%	18.71%	15.63%	15.07%	51	\$882	17%	\$5,317
2012	19.56%	18.86%	17.88%	19.21%	0.25%	22.89%	18.97%	18.41%	24	\$378	14%	\$2,615
2011	4.86%	4.30%	-2.51%	-3.36%	0.18%	27.75%	23.40%	24.23%	24	\$309	15%	\$2,106
2010	43.20%	42.47%	26.71%	24.82%	0.31%	31.58%	26.80%	26.97%	16	\$222	11%	\$1,974
2009	49.73%	49.08%	34.39%	27.68%	0.00%	28.16%	24.25%	24.61%	7	\$142	11%	\$1,339
2008	-36.75%	-37.03%	-36.79%	-31.99%	1.28%	22.71%	19.37%	18.38%	6	\$105	10%	\$1,025
2007	12.89%	12.40%	1.38%	-7.27%	0.07%	13.65%	11.52%	11.03%	6	\$175	13%	\$1,341
2006	15.78%	15.28%	16.17%	20.18%	N/A ¹	14.33%	11.93%	10.85%	<5	\$153	14%	\$1,100
2005	2.42%	1.96%	8.11%	7.74%	N/A ¹	16.75%	13.48%	12.81%	<5	\$135	18%	\$733
2004	27.64%	27.09%	18.29%	21.58%	N/A ¹	18.51%	16.92%	15.68%	<5	\$133	32%	\$410
2003	45.59%	44.97%	45.51%	44.93%	N/A ¹	22.33%	19.93%	16.97%	<5	\$97	60%	\$162
2002	-3.39%	-3.77%	-17.80%	-9.87%	N/A ¹	20.97%	21.92%	16.27%	<5	\$39	36%	\$107
2001	7.19%	6.76%	1.21%	9.74%	N/A ¹	20.20%	21.16%	14.62%	<5	\$40	34%	\$120
2000	14.15%	13.68%	4.26%	20.79%	N/A ¹	20.55%	22.35%	16.55%	<5	\$38	28%	\$137
1999	14.39%	13.92%	24.14%	1.49%	N/A ¹	18.79%	19.46%	16.14%	<5	\$33	23%	\$145
1998	-2.23%	-2.62%	0.38%	-1.92%	N/A ¹	N/A ²	N/A ²	N/A ²	<5	\$29	21%	\$135
1997	27.32%	26.80%	24.36%	33.09%	N/A ¹	N/A ²	N/A ²	N/A ²	<5	\$14	11%	\$123

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

²Information 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. 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 2500 Value 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 \$45,000 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. As of February 1, 2020, the firm substituted retroactively the Russell 2500 Value index in place of the Russell Midcap index as a secondary benchmark for the SouthernSun SMID Cap Composite. The cause for such a change is that SouthernSun believes that the Russell 2500 Value index is more representative of the firm's SMID Cap strategy, historically and on a go-forward basis.

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 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies that are considered more value oriented relative to the overall market as defined by Russell's leading style methodology. 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.

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