

2Q2021 SMID Cap Investment Commentary

After what felt like a very short hiatus, the work from home, lockdown mentality seemed to re-emerge as we closed the second quarter of 2021. This was characterized by the marketplace shifting its focus away from the more optimistic view of reopening and back toward the types of businesses that were favored from the second quarter of 2020.

We have suggested since early last year that it should not be surprising to see significant swings in sentiment as markets face on-the-ground realities that are invariably patchy at best. As you may well know, the struggles faced by many of our portfolio business operators often provide us with deeper insight into broader issues such as labor force and supply chain challenges. We highlighted those two realities in our last few communications and remain reasonably convinced that even though some adjustments have been made to each, the situation remains unbalanced.

However, one critical question we can ask from the two observations above is, how suited are our portfolio business leaders to successfully address external challenges? One of the key elements of our investment process has been a consistent ability to successfully evaluate leadership. This skill requires not only experience over a wide range of environments, but also must be accompanied with order and method. For example, we recognize that enumerating an individual's or team's hard and soft skills is only a small portion of discerning proper fit for time and purpose when it comes to corporate leadership.

You often hear us use terms such as adaptability, accountability, and execution-oriented when describing some of the qualities we are attempting to understand in our current and prospective portfolio business leaders. We recognize that these traits, and others, will be required for them to navigate external forces out of their control whilst simultaneously executing a plan that produces long-term shareholder value.

As we evaluate our companies, we must say, that, for the most, our management teams have performed well in our opinion under the extreme conditions of the past fifteen to seventeen months. In fact, part of our rationale for committing capital to specific businesses during some of the darkest days last year was due to our confidence in our business leaders and the process we use to evaluate them over time. It is, as you might think, not unlike how we are judged on our investment decisions, an ever-unfolding journey. That they acted and continue to act as we expect adds value to our overall confidence in their company and furthers not only our confidence in them but, as importantly, in our process. We love the discipline of our management teams in running strong balance sheets and nimble, adaptive organizations and like the opportunities in front of us, as much of the index is over levered and not in a position to respond to unforeseen challenges should they arise or even handle higher interest rates should inflation rise.

We are encouraged that we continue to have a healthy pipeline of new ideas where valuations are attractive in our view. We also have the benefit of evaluating management teams as they continue to traverse a myriad of external challenges. As you will notice, we have been able to add new businesses to the portfolio recently, and we feel confident that there is good opportunity to add more in the second half of the year. We find reason to expect continued volatility with uneven recovery fundamentals, misplaced headlines, difficult evaluation of macro data, the constantly evolving virus/vaccine impact on the market and economies, and short-termism being as strong as ever.

PORTFOLIO UPDATE

During the second quarter of 2021, the SMID Cap Composite returned approximately -0.26% on a gross basis (-0.44% net*) versus the Russell 2500™, which returned +5.44% and the Russell 2500™ Value, which returned +5.00%, over

the same period. Year-to-date, the composite returned approximately +19.31% on a gross basis (+18.85% net*) versus the Russell 2500™, which returned +16.97% and the Russell 2500™ Value, which returned +22.68%, over the same period. The strategy continues to outperform both indexes on a since inception annualized gross and net basis.

Dycom Industries, Inc. (DY) was the leading detractor on an absolute basis for the quarter as early optimism in the year surrounding an infrastructure package gave way to doubts about the scope, timing and even likelihood of such a bill. In the first quarter, we saw a decline in contract revenues accompanying cutbacks from some key customers while bad winter weather and continued covid-related labor shortages effected results negatively. Nevertheless, industry trends requiring greater bandwidth and favoring fiber deployment should provide ample opportunity in our opinion for **DY** to continue working through its extensive backlog and generating solid cash flow in the coming quarters and years. We expect some lumpy quarterly results but believe this experienced management team has set the organization up to drive shareholder value.

THOR Industries, Inc. (THO) was another leading detractor on an absolute basis during the period. **THOR** is the world's largest manufacturer of RV's and continues to set sales records with strong consumer demand, low dealer inventory, and a rapidly growing backlog of orders. In the fiscal quarter ending April 30, 2021, **THOR** produced strong sequential gains in revenues and profits. That said, the stock was hit during the most recent calendar quarter due to supply chain issues that could hinder production levels in the near-term. However, the RV industry continues to see a proliferation of younger, more diverse buyers entering the market, a trend that was accelerated by the pandemic and one that we contend could likely benefit **THOR** for years to come.

Armstrong World Industries, Inc. (AWI), a leader in commercial and residential ceilings, was the leading contributor on an absolute basis this quarter leaning on the strength of recovering markets with pent-up building demand. The company continues to guide for 10-13% annual sales year-over-year with daily shipping rates above 2019 levels and increasing sequentially for the past 3 quarters. With acquisitions from 2020 adding \$17 million in sales and the positive momentum of economic recovery, we believe that **AWI** is poised to produce a year of strong results.

Univar Solutions, Inc. (UNVR) is another leading contributor on an absolute basis during the period. **UNVR** is a global chemical and ingredient distributor and provider of value-added services, produced strong results in their first quarter of 2021 with \$66.2 million in net income compared to \$55.9 million in the first quarter of 2020. In addition to improving their profitability even in a difficult supply chain environment, **UNVR** has made significant progress on the integration of a large acquisition (Nexeo), and they have completed the implementation of SAP in the U.S. Management is committed to hitting important financial targets over the next two years, including reducing Net Debt/EBITDA to 2.8x by the end of 2021, and improving EBITDA margins to 9% by end of 2022. We have gained confidence in management's ability to execute, and we are pleased with the track that the company is on to improve results for shareholders.

During the second quarter of 2021, we fully exited **Extended Stay America, Inc. (STAY)** and we initiated a new position in **CMC Materials, Inc. (CCMP)** in the SMID Cap Composite.

This quarter we exited **Extended Stay America, Inc. (STAY)**, the largest operator of mid-tier extended stay lodging in the United States, after the company agreed to be taken private under terms that we believe undervalued the company. After public criticism of the transaction from several investors (including SouthernSun), the offer price was increased from \$19.50 to \$20.50, which ultimately was approved by a majority of shareholders. While we were still not satisfied with the result, we were proud of our efforts to maximize value for our clients.

We initiated a position in **CMC Materials, Inc. (CCMP)**, a niche dominant supplier of critical consumable materials used in the highly complex process of semiconductor manufacturing. **CCMP** has been working collaboratively with

several of the leading semiconductor manufacturers for many years helping to drive technological advancement and increase manufacturing yields. The company also has a smaller business that manufactures chemicals used to speed up the flow of oil in pipelines; this business was impacted in the first quarter by lower demand for oil due to the pandemic. The weakness in the pipeline business likely contributed to the stock pulling back in the second quarter, giving us an opportunity to acquire shares at a slightly better valuation. Over the long-term, we believe the continued digitization of the global economy will drive strong organic growth for the company's products and that the economics associated with this growth will create value for shareholders.

As always, thank you for your confidence in SouthernSun. It is because of you that we are here.



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



Phillip Cook
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SouthernSun Asset Management

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)
Armstrong World Industries, Inc.	AWI	5.1	87	Dycom Industries, Inc.	DY	5.8	-123
Univar Solutions USA, Inc.	UNVR	5.0	55	Thor Industries, Inc.	THO	5.8	-90
Watsco, Inc.	WSO	4.2	42	Darling Ingredients, Inc.	DAR	6.6	-56
Clean Harbors, Inc.	CLH	3.1	34	Murphy USA, Inc.	MUSA	3.1	-25
Molina Healthcare, Inc.	MOH	3.5	27	CMC Materials, Inc.	CCMP	1.4	-24

*Inception Date of SMID Cap Composite: January 1, 1997. *Net returns are actual and reflect the deduction of management fees. Supplemental information. 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.*

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

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										
2020	14.99%	14.07%	19.99%	4.88%	0.18%	27.21%	24.21%	25.05%	9	\$237	26%	\$904
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.

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Subsequent periods are currently undergoing verification by ACA Performance Services 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. Prior to June 2009, the composite was known as the SouthernSun Mid Cap Composite. However, despite the name change, the investment strategy has remained the same. Prior to December 2006, the composite was known as the CMT Mid Cap Composite. Prior to September 30, 2014, the market cap range was \$1 billion and \$8 billion. 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. A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are 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; provided that in the case of any mutual funds, gross returns reflect the market value of the account. If mutual funds accounts are within the composite, only the management fee is applied. No daily fund accruals are recorded. 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. Beginning October 1, 2019, a significant number of accounts in the composite are custodied with a broker that does not charge trading expenses. Accounts custodied with other brokers may incur trading expenses which may reduce returns. The CIT fee schedule for the Founders Share Class is 0.65% and for the Class 1 is 0.80%. 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 gross returns and the benchmark returns over the preceding 36-month period. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The SouthernSun SMID Cap Composite was created January 1, 1997. The inception date of the SouthernSun SMID Cap Composite is 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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