ValueInvestor INSIGHT
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The Leading Authority on Value Investing

Find Your Niche

Michael and Phillip Cook of SouthernSun Asset Management describe why they typically favor niche-y businesses, what tends to be going on that can make an idea interesting to them, how they believe they've improved their investment process over the years, and what they think the market is missing in Watsco, Dycom Industries and U.S. Physical Therapy.

INVESTOR INSIGHT

SouthernSun
Michael Cook (*l*), Phillip Cook (*r*)

While placid markets may suit many investors just fine, most value investors like SouthernSun Asset Management's Michael Cook tend to find them discomfiting. "We want to own businesses we find attractive at the right price – volatility is always helpful in creating that elusive combination."

His ability to find that balance has paid off for SouthernSun's investors. The firm's small/midcap strategy since 1997 has earned a net annualized 11.0%, vs. 9.4% for the Russell 2500 index. In today's more-fickle-than-usual market, Cook and his Co-Chief Investment Officer son Phillip are finding upside in such diverse areas as telecom infrastructure, physical therapy, industrial distribution and animal waste.

You describe your philosophy and process as "leading you" toward high-quality, less-followed businesses. Explain how that happens.

Michael Cook: We focus on smaller-cap businesses that are generally less well-known and maybe don't fit into a typical sell-side sector or category. Beyond that we're looking for companies that are dominant in a particular niche, with the opportunities and financial flexibility to reinvest into the business at attractive returns, and with management teams that are skilled and adaptable in allocating capital. The companies generally generate significant discretionary cash flow – what's left over after maintenance capital spending and dividends – so it obviously matters a great deal who's in charge of deploying that cash. Over time, all this has pointed us toward very good businesses that the market may not be giving the credit they deserve.

Phillip Cook: One of the primary ways we find ideas is in doing our work on something we own or are looking at closely and coming across something else that is interesting. Our largest position today is Darling Ingredients [DAR], which is an idea we first came across years ago while visiting a Smithfield Foods' hog-processing facility. It's not the most pleasant topic, but we're walking through the facility and we start asking questions about how all the waste in the plant is handled. They tell us they use a third party for that, which turned out to be Darling, and we made a note to look into it.

As it turns out, Darling has a lot of the traits we have already been talking about. The business was originally founded in 1882 and the company today collects animal by-products, bakery residual products and used cooking oil and then repurposes this waste into value-added products like collagen, fertilizer, pet food and renewable diesel fuel. It's the only publicly traded player doing what it does – making it harder for the market to value it – and it is multiple times larger than its next biggest competitor.

The CEO, Randall Stuewe, has been in charge since 2003 and has proven to be an excellent steward of capital. There's a long runway of growth here because there are a lot of higher and better uses for the fats, proteins and other byproducts of the rendering process, limited only by the creativity and innovation capability of the company to develop and commercialize them. For decades they've been moving up the value chain in existing areas or opening adjacent markets. With further processing, animal proteins can be sold at significantly higher prices into the aquaculture or pet-food markets than as pig feed. Collagen can be sold at higher prices in products for humans rather than animals. Just recently the company announced it was going to produce sustainable aviation fuel in addition to renewable diesel. They've also expanded internationally, building the same type of footprint in Europe and South America that they have in the U.S.

Despite being a global player generating mid-20% returns on invested capital, this is still a niche-y business that isn't on most people's radar. The market also may get spooked at times by things like a tick up in debt levels from acquisitions or falling prices for diesel fuel – the stock today [at around $67.50] trades at less than 12x forward earnings – but we've seen all that before and the business continues to grow and improve.

We wanted to ask about some relatively recent additions to your portfolio to get a sense of what tends to be going on that makes them become interesting. What caught your eye in decking-company Trex [TREX]?

PC: We've known the company well over time and consider it a very solid business with an ongoing opportunity for its composite decking to take market share from wood decks, which still account for approximately 75% of the North American market. Trex is *the* brand in the composite space, with a great value-for-money case against wood decking that has significantly higher wear and tear, higher maintenance costs and shorter useful lives. They also produce in a cool, sustainable way, recycling things like old grocery-store plastic bags to help build backyard decks.

The company was a big pandemic beneficiary as everybody was at home and spending money on their house and property. That was real, but as is often the case the market got ahead of itself and took the stock from around $50 pre-Covid to above $140 in December 2021. Then the economy further opens up, interest rates start rising and the housing market slows down – and the stock falls off a cliff. By December 2022 it's around $40.

That's very much the type of situation that will attract our interest. We think there's a strong long-term story for a market leader like this that is well managed and has plenty of financial flexibility to weather – and maybe take advantage of – the cycle in housing. Taking a longer-term view, when we thought the market had overreacted on the downside we stepped in. We're generally looking to buy a stock when we believe over three to five years we can earn a mid-teens absolute return on it for our clients. The stock [now at around $51.50] has increased somewhat since we bought it, but we think that return profile is still intact.

The stock chart for Live Oak Bancshares [LOB] looks fairly similar to that of Trex. What's behind your recent purchase of it?

PC: We have to believe we're very right about a company's financial flexibility and the adaptability of its management, but while I wouldn't say we're knee-jerk contrarians, we aren't afraid to invest in companies the market turns against. With Live Oak the stock in late 2021 traded in the $90s, but a year later it was around $30.

ON A TYPICAL TARGET:

It's a non-traditional business that's too small and off the radar for the market to pay much attention to.

This is another unique, niche business. Live Oak is the largest originator of small-business loans in the U.S. that are backed by the federal government's Small Business Administration. This is a small but complex segment of the market, requiring significant paperwork and in-depth knowledge of the SBA's programs in order to meet its compliance and loan-guarantee standards. Live Oak doesn't have any branches and has done a good job in leveraging technology to cost-effectively originate, process and monitor its loans.

They tend to focus on lending areas they know well, say veterinary clinics, and pride themselves on partnering with clients to help them improve their businesses. Many relationships start as SBA loans and develop beyond that. Another unique aspect of the company is its Live Oak Ventures unit, which makes investments in early-stage financial or banking-related technologies that management believes have potential and could benefit from Live Oak's experience. As of the end of September, the Ventures business had invested a total of $52 million in 13 businesses, two of which it had exited entirely for total proceeds of $163 million.

Overall this is a non-traditional business that's too small and off the radar for the market to pay much attention to. So

Phillip Cook

Family Ties

While parents may like their children to be interested in what they do for a living, that wasn't universally the case for SouthernSun Asset Management's Michael Cook. "I'm one of four children," says son Phillip, "and I'm the only one that had a lick of interest in business and investing."

That interest turned out to be more than passing. After earning an International Business degree at Auburn University, Phillip spent two years at private-equity firm Trivest Partners and was thinking about a next career step, possibly overseas, when his father asked him to join SouthernSun as it was looking to expand its own international capabilities. Phillip joined the company in 2006, took on more managerial and portfolio-management responsibilities in 2016, and was named Co-Chief Investment Officer of the firm two years ago.

The road to what each describes as their excellent working relationship today wasn't always smooth. "My dad had to learn to let go of things a bit more and I had to learn to be a better listener," says Phillip. "It didn't always make it easier, but I think the family tie and that we were both all-in on making it work long-term was a big factor in it actually working out well."

when the stock fell sharply – we think primarily due to general macroeconomic concerns and to investor interest in fintech falling sharply – we dug in to see if the market might be overreacting. The credit history overall has been exceptional. The capital ratio as of the end of September was over 20% if you look only at the unguaranteed portion of loans and leases. We believe that positions Live Oak well to weather any downturn and we're confident in the ability of management, which collectively owns 25% of the shares. There may be some short-term volatility, but we think we own a high-quality bank with a long runway for growth, which at today's share price [of around $35] offers us a very attractive return profile going forward.

How fertile in general do you find today's environment for your types of ideas?

MC: This type of market is actually quite good for us. Volatility is a positive, increasing the chance a stock gets hated more than it should be. Equally important is the complexity of the business environment. Markets don't like uncertainty and complexity, both of which we'd argue are pretty high today. But if you have a long enough time horizon and are good at identifying businesses that can continue to generate solid discretionary cash flow and are run by management teams who know how to take advantage of uncertainty and complexity, you should be able to put capital productively to work in an environment like today's.

That said, there are things out there that we could imagine taking the market to a dark place for a time. We've been there before and I would say as a result we're probably putting even more emphasis on companies' capacity to weather a really challenging time.

PC: That, and making sure we're absolutely not paying a high price for anything.

Watsco [WSO] is a one-time value investor favorite that we haven't heard much about in recent years. Why do you find it interesting today?

PC: The company is the largest distributor of heating, ventilation and air-conditioning equipment in the U.S., twice the size of its next competitor.

There are a number of positive characteristics to the industry. Big manufacturers like Carrier, Trane and Rheem typically sign perpetual and exclusive contracts for distribution of their products by geographical region, so the big, established players like Watsco rarely lose long-standing relationships. In-place units break and wear out, providing distributors with a significant stream of maintenance and repair revenues and a steady replacement business. Increasingly strict equipment efficiency standards are shortening replacement cycles and driving sales of higher-priced units. Finally, given the size of the equipment and that installation and repair is regulated – unless you're certified to do so, you can't just order an air conditioner online and install it yourself – the threat of competitive disruption is low.

Watsco also benefits from scale advantages. The construction business is a bit archaic in how it operates, but Watsco can invest in technology and systems that simplify and make more efficient for its customers things like ordering, delivery and

INVESTMENT SNAPSHOT

Watsco
(NYSE: WSO)

Business: Distribution of air conditioning, heating and refrigeration equipment and related parts – with special emphasis on Carrier products – to U.S. building contractors.

Share Information (@2/27/23):

Price	**304.99**
52-Week Range	220.68 – 343.85
Dividend Yield	3.3%
Market Cap	$11.05 billion

Financials (TTM):

Revenue	$7.27 billion
Operating Profit Margin	11.1%
Net Profit Margin	8.3%

Valuation Metrics
(@2/27/23):

	WSO	S&P 500
P/E (TTM)	19.8	17.8
Forward P/E (Est.)	22.7	17.9

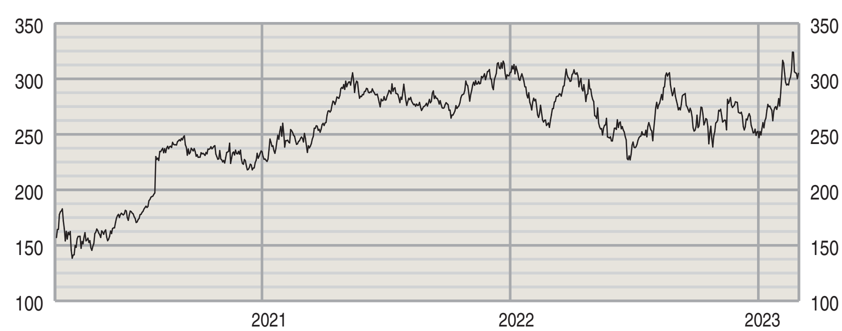
Largest Institutional Owners
(@12/31/22 or latest filing):

Company	% Owned
BlackRock	11.1%
Vanguard Group	8.9%
Baillie Gifford	6.0%
Kayne Anderson Rudnick	4.5%
Charles Schwab Inv Mgmt	3.8%

Short Interest (as of 2/15/23):

Shares Short/Float	11.4%

WSO PRICE HISTORY



THE BOTTOM LINE

While the state of the U.S. housing market appears to worry investors, Phillip Cook believes the company is well positioned to take share in what should over time be a secularly growing end market. He expects as a shareholder to benefit in line with the mid-teens annual growth in free cash flow he believes the company can generate in the medium term.

Sources: Company reports, other publicly available information

inventory management. The company is also well positioned to benefit from further consolidation of what is still a very fragmented industry. One of the few ways a distribution contract in a given geography becomes available is when the existing contract holder is being sold. Because Watsco is a known and respected entity, it's more likely to retain the contract if it's the buyer, and it has a better shot at stealing the business if the buyer is a private-equity firm or otherwise is less established and trusted.

Is the stalled housing market a headwind?

PC: It's not a positive in the near term, but only around 15% of the company's business comes from new builds. Longer-term there's still a significant deficit of housing units in the U.S. that eventually has to resolve itself. So while investors seem quite worried about the housing market, we ultimately expect it to be a tailwind for manufacturers and distributors of HVAC equipment. If in the short term trouble in housing puts competitive distributors under pressure, Watsco – which has zero debt – is likely to capitalize on that. The CEO founder, Albert Nahmad, has run the company for more than 50 years, owns more than 10% of the stock, and has been more than willing in past downturns to invest in the business while others were pulling back.

An additional thing I'd mention about management is the equity compensation plans they've put in place for employees. The stock incentives can be quite generous, but they don't vest for most employees until they're in their 60s. We think that translates consistently into decisions made based on what's going to make the company more valuable 30 years from now rather than next quarter.

Now trading at $305 per share, what upside do you see in the stock?

PC: The long-term upside is predominantly based on our expectation for annual cash flow growth. We think organic revenue growth given the positives in the industry and Watsco's market position can be in the high single digits annually. They've also been consistently able to add another 3-5% per year on top of that from inorganic growth. We expect that to translate over at least the medium term into something close to mid-teens growth per year in free cash flow.

The valuation today is not aggressive, with the stock at 13x EV/EBITDA trading below the historical average. We'll be happy if our returns match the growth we see in cash flow. If the multiple expands to better reflect the quality of the business, all the better.

Describe your broader investment case for telecom-infrastructure company Dycom Industries [DY].

PC: One theme we've been quite interested in is what some people are calling the fourth industrial revolution, driven by automation as well as the onshoring and reshoring of manufacturing that we believe is likely to happen over the coming years. A lot of that is driven by geopolitics, but it's also a result of many companies' experiences through the pandemic, which highlighted the importance of having supplier relationships closer to home.

INVESTMENT SNAPSHOT

Dycom Industries
(NYSE: DY)

Business: Provider of contracted program management, engineering, construction, installation and maintenance services to telecommunications providers and utilities.

Share Information (@2/27/23):

Price	**84.00**
52-Week Range	76.21 – 122.12
Dividend Yield	0.0%
Market Cap	$2.48 billion

Financials (TTM):

Revenue	$3.65 billion
Operating Profit Margin	4.7%
Net Profit Margin	3.2%

Valuation Metrics
(@2/27/23):

	DY	S&P 500
P/E (TTM)	21.4	17.8
Forward P/E (Est.)	18.0	17.9

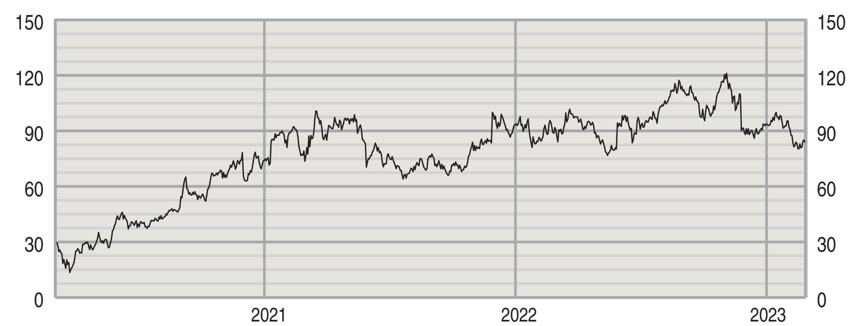
Largest Institutional Owners
(12/31/22 or latest filing):

Company	% Owned
BlackRock	11.2%
Vanguard Group	9.4%
AllianceBernstein	5.8%
Dimensional Fund Adv	3.7%
Principal Global Inv	3.5%

Short Interest (as of 2/15/23):

Shares Short/Float	4.6%

DY PRICE HISTORY



THE BOTTOM LINE

Phillip Cook believes increased spending on building out U.S. telecommunications infrastructure bodes well for the company, which is the only pure-play national competitor focused on building that infrastructure. He expects its low-teens annual growth in free cash flow to translate at least into comparable annual returns for company shareholders.

Sources: Company reports, other publicly available information

Dycom would be a significant beneficiary of that trend. Companies like Comcast and AT&T outsource to it the building and maintenance of all aspects of telecom infrastructure, including laying fiber, constructing cell towers and upgrading existing equipment. They're doing the actual work of connecting the country through higher-speed and more reliable telecommunication networks. You can't have automated factories in regions of the country where land, labor and costs of doing business are lower without modern connectivity. You can't upgrade home-broadband networks to fiber or wireless networks to 5G without building the necessary infrastructure.

There's also a lot of government money behind all this. The infrastructure bill passed in the United States last year has specific carveouts – the spending for which hasn't really started – focused on providing broadband infrastructure. Other programs in the U.S. like RDOF [the Rural Digital Opportunity Fund] promote rural deployment of fiber. We think Dycom stands to incrementally benefit from all this spending because it's the only pure-play national competitor, making it a better choice for a Comcast or AT&T that operates on a national basis, wants a supplier 100% focused on telecom, and doesn't want to have to deal with multiple local contractors.

We've talked about the attention we put on management, which in Dycom's case has been in place for a long time – Steven Nielsen has been President and CEO since March 1999 – and we think has done an excellent job in driving margin expansion and being very disciplined in allocating capital. They can drive the sell side crazy sometimes because they don't manage to next quarter's earnings, but they've continued to reinvest in the business while also opportunistically returning capital to shareholders. They do it in chunks when the stock gets relatively beaten up, but they've reduced the share count by 25% over the past 15 years.

How inexpensive do you consider the shares, trading recently at $84?

PC: Our model is built on 10% or so annual revenue growth over the next few years as incremental infrastructure spending kicks in, which combined with some operating leverage can drive annual free cash flow growth in the low-teens. If we get no multiple expansion from today that would be a solid return, but we think there's a good argument that the multiple should expand as well due to the better growth profile of the business.

The balance sheet is not an issue – accounts receivable is actually greater than net debt right now – which allows management to be opportunistic in allocating capital, either in making bolt-on acquisitions or continuing to buy back stock.

From telecom to healthcare, why are you high on the prospects for U.S. Physical Therapy [USPH]?

PC: There's a thematic element to this idea as well. For some time now we've been looking in healthcare for companies particularly well situated to the ongoing trend toward value-based care, which essentially means anything that can drive better health outcomes at lower cost to the system. It's not a controversial notion

INVESTMENT SNAPSHOT

U.S. Physical Therapy
(NYSE: USPH)

Business: Owns and operates 650 outpatient physical therapy clinics in the U.S. that provide care primarily for orthopedic-related problems and sports-related injuries.

Share Information (@2/27/23):

Price	**99.77**
52-Week Range	73.30 – 131.50
Dividend Yield	1.7%
Market Cap	$1.30 billion

Financials (TTM):

Revenue	$547.6 million
Operating Profit Margin	12.0%
Net Profit Margin	5.9%

Valuation Metrics
(@2/27/23):

	USPH	S&P 500
P/E (TTM)	44.3	17.8
Forward P/E (Est.)	38.1	17.9

Largest Institutional Owners
(@12/31/22 or latest filing):

Company	% Owned
BlackRock	16.0%
Kayne Anderson Rudnick	11.8%
T. Rowe Price	7.3%
Vanguard Group	7.1%
Eaton Vance	5.0%

Short Interest (as of 2/15/23):

Shares Short/Float	5.2%

USPH PRICE HISTORY

THE BOTTOM LINE

The company should benefit from demographic tailwinds, the ongoing trend toward more value-based healthcare, and as a consolidator in a still-fragmented market, says Phillip Cook. While the stock has moved up of late, he is still expecting to earn at least a 10% annual return – driven by free-cash-flow growth – on the shares from the current price.

Sources: Company reports, other publicly available information

– patients and payers should be all for it – but there are many entrenched interests that can work against its implementation.

Physical therapy lines up well with value-based care. Why have – and pay for – an expensive surgery when in many cases physical therapy can alleviate or solve the problem as well as or better than surgery can? It obviously isn't always the better choice, but from both a patient and payer standpoint we generally expect it to increasingly be the preferred first option. If you've had surgery, a considered physical-therapy program also often improves ultimate treatment success rates.

The physical-therapy industry in the U.S. is fragmented, with no player having more than 10% market share. USPT operates 650 or so clinics in 40 states, putting them #2 behind ATI Physical Therapy [ATIP], the other big pure-play public competitor. Demographics are a tailwind, both from an aging population that is having knees and hips replaced, and also from a younger population that is more active in ways that unfortunately result in greater risk of musculoskeletal injuries.

What sets the company apart is that it was started by and continues to be run by actual physical therapists. The patient is top-of-mind in the company culture and serving patients well is at the heart of the economic model. We consider that a significant advantage in competing for acquisitions, which often are of small local players with a few locations that were started by local physical therapists. The company has an excellent track record in integrating acquisitions, which are paid for with internally generated cash flow and which usually lock in existing management with healthy ownership stakes and incentives based on profitable growth.

How are you looking at valuation from today's share price of just under $100?

MC: The stock is up about 25% from our average price, so the mid-teens annual return we were modeling for the shares – driven primarily by a comparable level of annual free cash flow growth – is now closer to 10%.

One key issue that could provide upside to that is if growth is higher than we've forecasted because private-equity buyers are forced to be less aggressive on the prices they're willing to pay as interest rates have risen. Deals that USPT has passed on due to price would be more doable, accelerating growth and, through scale advantages, likely translating into higher profitability.

You've written about the need to continuously improve your investing process over time. Talk about some of the improvements you've made that have had the most impact.

PC: We went through a rough performance period starting in late 2014 when oil prices collapsed. That sent energy stocks into the dumps, but it also set off a recession in the U.S. industrial economy while the rest of the economy held up well. It was unusual for industrials to be so uniquely impacted, and while we owned only one oil-and-gas company, our bent toward industrial businesses left us pretty exposed.

In broadly reassessing how we did things, a few changes came out of that. One was to increase the transparency within the team around our research. Now everyone has access to everyone else's work. If you want to understand my model and the detailed assumptions I'm making, you can easily call it up. We needed to build in the research team a more collaborative culture of trust, and a key way to do that was to make everything more transparent. I think that's changed how we work together in a positive way and has helped our decision-making, from due diligence through to managing the portfolio.

Another thing that became clear is that we didn't have a great handle across the portfolio on what our exposures were. In the specific case, we had far more exposure to energy than we thought we did. A company like Polaris, which makes off-road vehicles, wasn't an energy company but was selling heavily to oil and gas companies and also selling meaningful volumes to individuals who benefitted from the oil boom. There were third-party systems out there, but we ended up building our own system for better breaking down businesses by end market and then aggregating all that at the portfolio level. Now we have a much better sense of our exposure to energy, or to housing, or to automotive – not to trigger any particular trades, but to trigger a discussion. "We've never had X% of the portfolio tied to the auto market. Do we want that?" That's been an important risk-management tool for us.

We've also formalized what we call our Bad Outcome Avoidance process. Every company in the portfolio is tracked in real time against a number of triggers we believe can potentially lead to bad outcomes. A big M&A deal announcement. Changes in debt leverage. A change in management. Changes beyond a certain level in the stock price, up or down. Whenever a trigger is hit, the entire team knows and we immediately have a review and discussion about it. In the past each analyst might have different triggers at different levels for what deserved to be reviewed. We'll never do away with bad outcomes, but by standardizing the process and making it more transparent we believe we've reduced both the number and severity of bad outcomes. We talked earlier about today's market – this is something that's likely to be particularly important in the current environment. VII

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SMALL CAP STRATEGY COMPOSITE – ANNUALIZED RETURNS as of 12/31/2022			
	1 Year	5 Year	10 Year
Small Cap Strategy Composite Gross	-0.30%	8.21%	11.43%
Small Cap Strategy Composite Net	-1.02%	7.38%	10.70%
Russell 2000	-20.44%	4.13%	9.01%
Russell 2000 Value	-14.48%	4.13%	8.46%

SMID CAP COMPOSITE – ANNUALIZED RETURNS as of 12/31/2022			
	1 Year	5 Year	10 Year
SMID Cap Composite Gross	-3.38%	7.40%	9.48%
SMID Cap Composite Net	-4.05%	6.59%	8.67%
Russell 2500	-18.37%	5.89%	10.03%
Russell 2500 Value	-13.08%	4.75%	8.93%

SOUTHERNSUN
ASSET MANAGEMENT

SouthernSun Small Cap Strategy Composite
Asset Weighted Returns

SMALL CAP STRATEGY COMPOSITE - ASSET WEIGHTED RETURNS													
Year[1]	SouthernSun		Russell 2000	Russell 2000 Value	Composite Dispersion	Composite 3-Yr Standard Deviation (%)	Russell 2000 3-Yr Standard Deviation (%)	Russell 2000 Value 3-Yr Standard Deviation	Accounts in Composite (#)	Total Composite Assets ($Mil)	% of Firmwide Assets	Total Firmwide Assets ($Mil)
	Gross	Net										
2022	-0.30%	-1.02%	-20.44%	-14.48%	0.06%	26.46%	26.02%	27.27%	15	$727	81%	$899
2021	23.40%	22.54%	14.82%	28.27%	0.09%	25.14%	23.35%	25.00%	14	$754	74%	$1,016
2020	14.58%	13.64%	19.96%	4.63%	0.71%	27.37%	25.27%	26.12%	13	$616	68%	$904
2019	36.76%	35.69%	25.52%	22.39%	0.28%	18.46%	15.71%	15.68%	13	$562	45%	$1,252
2018	-23.04%	-23.66%	-11.01%	-12.86%	N/A[2]	15.93%	15.79%	15.76%	≤5	$342	23%	$1,519
2017	19.58%	18.60%	14.65%	7.84%	0.20%	15.70%	13.91%	13.97%	6	$605	14%	$4,213
2016	20.77%	19.87%	21.31%	31.74%	0.63%	16.61%	15.76%	15.50%	6	$547	13%	$4,187
2015	-14.61%	-15.27%	-4.41%	-7.47%	0.59%	16.80%	13.96%	13.46%	6	$540	12%	$4,542
2014	-3.26%	-3.95%	4.89%	4.22%	0.05%	14.25%	13.12%	12.79%	6	$921	16%	$5,696
2013	43.95%	42.81%	38.82%	34.52%	0.56%	19.17%	16.45%	15.82%	6	$1,103	21%	$5,317
2012	20.70%	19.79%	16.35%	18.05%	0.26%	23.98%	20.20%	19.89%	6	$584	22%	$2,615
2011	6.47%	5.63%	-4.18%	-5.50%	0.99%	30.96%	24.99%	26.05%	6	$365	17%	$2,106
2010	51.09%	49.86%	26.85%	24.50%	0.50%	33.66%	27.69%	28.37%	6	$250	13%	$1,974
2009	33.41%	32.35%	27.17%	20.58%	1.26%	29.89%	24.83%	25.62%	6	$149	11%	$1,339
2008	-33.71%	-34.17%	-33.79%	-28.92%	1.31%	21.92%	19.85%	19.14%	6	$107	10%	$1,025
2007	9.50%	9.03%	-1.57%	-9.78%	N/A[2]	13.43%	13.16%	12.59%	≤5	$80	6%	$1,341
2006	13.16%	12.72%	18.37%	23.48%	N/A[2]	13.71%	13.75%	12.33%	≤5	$59	5%	$1,100
2005	2.44%	2.16%	4.55%	4.71%	N/A[2]	N/A[3]	N/A[3]	N/A[3]	≤5	$48	7%	$733
2004	25.84%	25.78%	18.33%	22.25%	N/A[2]	N/A[3]	N/A[3]	N/A[3]	≤5	$20	5%	$410
2003	14.94%	14.94%	11.62%	13.06%	N/A[2]	N/A[3]	N/A[3]	N/A[3]	≤5	<$1	1%	$162

[1] 2003 returns are from inception date of the composite: October 1, 2003. The return numbers are not annualized.
[2] Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
[3] Information is not statistically meaningful due to an insufficient number of periods.

SMALL CAP STRATEGY COMPOSITE - ANNUALIZED RETURNS as of 12/31/2022			
	1 Year	5 Year	10 Year
Small Cap Strategy Composite Gross	-0.30%	8.21%	11.43%
Small Cap Strategy Composite Net	-1.02%	7.38%	10.70%
Russell 2000	-20.44%	4.13%	9.01%
Russell 2000 Value	-14.48%	4.13%	8.46%

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, 2022. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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. The SouthernSun Small Cap Strategy Composite contains fully discretionary equity accounts invested in small cap securities (defined as equity securities with market capitalizations that are within the range of the Russell 2000 Index at the time of initial purchase during the most recent 12-month period, based on month-end data) and for comparison purposes is measured against the Russell 2000 and Russell 2000 Value indices. As of March 10, 2017, the minimum asset level to be included in this composite is $1,000,000. As of August 1, 2019, the SouthernSun Small Cap Strategy Composite added new accounts from the SouthernSun Small Cap Managed Composite due to the reduced number of different securities between the two composites. In general, when an account meets a composite's inclusion criteria for a full month, it will enter that composite as of the beginning of the following month. Similarly, if an account no longer meets a composite's inclusion criteria for a full month, then it will be removed from that composite at the beginning of the following month. Our firm-wide disclosure policy states that "If two or more portfolio holdings are absent relative to the firm's model portfolio for that strategy, as a result of client restrictions" then it's removed from that individual composite. Additionally, this composite does not include accounts that are overly restrictive with regard to 1) a new range for small cap securities (that are, at purchase, normally within a similar range to that of the maximum and minimum of the Russell 2000 Index on a trailing 12-month basis; and 2) maximum cash level restrictions. Any other guidelines that the chief investment officer feels are overly constraining for the management of a discretionary account will also be taken into consideration when eliminating accounts for inclusion in the Small Cap Strategy composite. Prior to January 1, 2017, the composite did not adhere to a significant cash flow policy. From January 1, 2017 to February 6, 2017, accounts were removed when experiencing a significant cash flow. From February 7, 2017 to February 2, 2022 the composite does not adhere to a significant cash flow policy. As of February 2, 2022, the 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. 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. 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, provided that the performance returns for the initial account in the composite were only calculated on a gross basis from October 2003 to October 2004. The management fee schedule is as follows: $0 - $50,000,000 is 1.00%, $50,000,001 - $100,000,000 is 0.95%, $100,000,001 and above is 0.90%. This schedule is subject to a $50,000 minimum annual fee. A management fee was not applied, however, to the sole SouthernSun Small Cap Strategy account in 2003. 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 0.70% and for the Class 1 is 0.85%. 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 Small Cap Strategy Composite was created January 1, 2017. The inception date of the SouthernSun Small Cap Strategy Composite is October 1, 2003.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. 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 FRC.

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.

SouthernSun 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										
2022	-3.38%	-4.05%	-18.37%	-13.08%	0.02%	27.12%	25.16%	26.46%	7	$136	15%	$899
2021	23.90%	22.96%	18.18%	27.78%	0.17%	25.59%	22.48%	24.15%	7	$131	13%	$1,016
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

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

[2] Information is not statistically meaningful due to an insufficient number of periods.

SMID CAP COMPOSITE - ANNUALIZED RETURNS as of 12/31/2022

	1 Year	5 Year	10 Year
SMID Cap Composite Gross	-3.38%	7.40%	9.48%
SMID Cap Composite Net	-4.05%	6.59%	8.67%
Russell 2500	-18.37%	5.89%	10.03%
Russell 2500 Value	-13.08%	4.75%	8.93%

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, 2022. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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.

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.