4Q2023 U.S. Equity Fund Investment Commentary

Having written a quarterly/annual commentary for over three decades now one might think that, at some juncture, the process becomes rather mechanical. On the one hand that view would be correct as the structure of these letters, with few exceptions, has followed a familiar pattern for a long time. On the other hand, the possibilities available for the specific subject matter invariably offer up a wide variety of options. In this letter we will begin with a high-level review of our investment performance. We will then highlight some of the more noteworthy conditions impacting our portfolio businesses as well as the marketplace in general and will close by contextualizing 2024 with a particular focus on risks and opportunities.

2023 was quite the seesaw. In total, SouthernSun's U.S. Equity Fund began the year with double-digit returns in January, followed by four months of negative performance associated with the "bad bank blip." Return totals for the months of June and July topped 15% only to see a drawdown of over 15% in the three months following in parallel with the U.S. Treasury route and increased recession fears. The marketplace seemed to shake off those fears in the final two months of the year as our strategies saw gains of around 17%. All in all we were pleased with the performance of our portfolios. However, we believe that the hyperfocus of the marketplace on macro issues in the back half of the year left many of our portfolio businesses underappreciated. On the whole, we saw meaningful fundamental progress made throughout the year, irrespective of the macro ups and downs. The rollercoaster of inflation, fed policy and recession fears, in our opinion, captured investors' attention throughout the year with the picture around those topics not much clearer by year's end than when it had begun.

The year was also marked by a slowing of mergers and acquisitions activity. Although many of our portfolio companies' balance sheets allowed them to continue to be active throughout the year, this was not the case for the broader market it would seem. According to one general market report, deal-making volumes in 2023 dropped to a 10-year low while initial public offering proceeds fell by about one third year over year and all while private equity firms sat on trillions of dollars of "dry powder."

Operational inefficiencies, many associated with post lockdown supply disruptions, were exposed early in the year with inventory destocking becoming a regular topic of discussion with our management teams. While the lockdown pull forward across a number of industries took longer to unwind than many suspected, it appears that the associated inventory correction is closer to an end. With that said, a number of management teams remain trepidatious, with limited visibility going forward. Therefore, this topic will continue to be a line of inquiry as we move through 2024 for some of our businesses.

As we entered 2023, you may recall that we highlighted some of the challenges management teams were facing with regard to labor cost and availability. The narrative for companies was generally around higher wages and labor hording. However, in the last several quarters of the year, our companies' management teams reported hearing the following: "selective head-count reductions", "wage pressure is no longer a headwind," etc. While at the same time, we also heard, "your people are your most valuable asset, so we really want to make sure we take care of our talent for the next growth cycle." The year to come will no doubt be an important test for labor markets.

In 2023, we saw a continuation of on-shoring, re-shoring, and or near-shoring as companies attempted to adapt to security of supply, labor, and technology adoption issues. With the escalation of armed regional conflicts that directly and indirectly impact shipping and supply chains, we expect to see companies continue to aggressively evaluate and adjust their near, intermediate, and long-term strategies in order to ensure competitive advantages.

As we set out on this year's adventure, we suggest a few things to keep an eye on. First, and possibly most obviously, 2024 is replete with important general elections around the globe. According to a recent article in the U.K.'s Guardian newspaper entitled *Democracy's Super Bowl: 40 Elections That Will Shape Global Politics in 2024*, "Casting lots in this multinational, multiparty democratic Super Bowl are some of the most powerful and wealthiest states (the U.S., India, and U.K.), some of the weakest (South Sudan), the most despotic (Russia, Iran), and the most stressed (Taiwan, Ukraine). Some elections will be open, free, and fair, many less so. Some will not be free at all."

These elections will no doubt shape policies and produce frictions to which companies will need to adapt to and innovate around. As with most politics, the shortsightedness of policy makers creates risks and opportunities. For example, the impact of the farmers' revolt in the Netherlands brought about a dramatic and to many, unexpected, political change. We shall see if the same strategy has a similar impact in Germany and other countries. Additionally, some of the assumptions that seemed, to many, entrenched are being challenged by those who have become dismissed by "master planners." We think it worth following the re-emergence of the Food vs. Fuel debate. As nation states grapple over the need for grid investments when coupled with the growing ecological and economic challenges of aging early alternative energy deployment, it is increasingly likely that assumptions around base load power will remain contentious and divisive internally and externally.
Our outlook for 2024 remains circumspect. The amplification of conflict within and between nation states and coalitions will demand that companies re-think the cost/benefits of many "global footprints," in our opinion. We believe that companies with strong balance sheets, uniquely-fitted, execution-oriented, and adaptive management teams (lateral thinkers), and sustainable value propositions should perform well amid uncertainty and noise. We are generally pleased with the performance of our portfolio companies' management teams for now. It will be important for all of our businesses to take advantage of near-term uncertainty to make long-term, value-enhancing decisions and as important, be efficient with their execution and implementation of their plans.

Finally, we are confident in our team at SouthernSun as we strive for continuous improvement in all aspects of our firm. After 35 years we believe we are the strongest we have ever been, and we are encouraged by the pipeline of prospective portfolio company opportunities we bring forward into 2024.

Thank you for your trust in SouthernSun.

Michael Cook
Founder & Chairman
SouthernSun Asset Management

Phillip Cook
Chief Investment Officer & Managing Partner
SouthernSun Asset Management

PORTFOLIO UPDATE*

The **SouthernSun U.S. Equity Fund** (Class N) returned 7.82% versus the Russell 2500™, which returned 13.35% and the Russell 2500™ Value, which returned 13.76%, during the fourth quarter of 2023. Over the trailing-twelve-months, the Fund returned 18.63% versus the Russell 2500™, which returned 17.42% and the Russell 2500™ Value, which returned 15.98% over the same period. Please note that this Fund has multiple share classes.

Dycom Industries, Inc. (DY), a leading provider of engineering and construction services to the telecommunications and utility industries, was the top performer in the U.S. Equity Fund. Revenues were up 9% as broad-based strength across **DY's** customers offset the lighter (as expected) spending from AT&T and Frontier. The demand outlook for 2024 looks favorable as management indicated they are seeing signs these two customers are increasing their pace of fiber deployment going into next year and expect government funding from the roughly $40 billion BEAD program to start to be deployed. Profit margins have risen over the last several quarters to **Dycom's** historical average, and management is aspiring to expand margins even further as the customer base widens. In our view, Steve Nielsen, CEO, continues to manage the company well and allocate capital effectively while maintaining financial flexibility (ND/EBITDA of 1.9x). As we have stated in past commentary, with only 43% of the homes in the U.S. passed with fiber, we continue to believe there is a long runway for fiber penetration, and **Dycom** is well-positioned to engineer, construct and maintain these fiber networks.

Armstrong World Industries, Inc. (AWI), the leading commercial ceiling tile and grid business in the U.S., was one of the top performers in the U.S. Equity Fund. The company has a relatively diverse end market revenue mix, approximately equal weighted across repair and remodel, major renovation, and new construction markets, and also diversified by industry vertical including office, education, healthcare, et al. Year-to-date through the third quarter of 2023, **Armstrong** has delivered solid results, with mid-single digit revenue growth and margin expansion made possible by strong pricing, partially offset by generally lower volumes. We expect the company to continue to perform well in a lower volume environment, and to perform strongly in the event that demand rises. To learn more about our investment in **Armstrong**, check out the most recent episode of our Scout podcast.

Belden Inc. (BDC), a global supplier of specialty networking solutions, was the bottom performer in the U.S. Equity Fund in the fourth quarter. In our opinion, **Belden** has consistently delivered solid financial results; in fact, prior to the third quarter of 2023, the company had met or exceeded guidance for thirteen quarters in a row. However, in October, management warned investors that they would miss their third quarter revenue guidance primarily because of de-stocking at some of their larger customers. We have seen this de-stocking behavior with several other companies this year. As supply chains have improved in the post-pandemic environment, distributors and end customers no longer feel compelled to hold as much safety stock. Nevertheless, **Belden** was able to deliver profits at the bottom end of their guidance range. In November, Phillip and Mike traveled to Germany to meet with **Belden** at the Smart Production System show in Nuremberg and then to see **Belden's** Customer Innovation Center (CIC) in Stuttgart. We were very impressed with the **Belden** personnel and the meaningful interest in **Belden** products from global partners and customers (including Amazon Web Services and global automobile automobile manufacturers). We believe that **Belden** will continue to benefit from growth in industrial automation, the deployment of 5G, and other applications and environments that have become increasingly dependent on high quality, reliable networks.

Boston Beer Company, Inc. (SAM), a leading provider of alcohol beverages, was one of the bottom performers in the U.S. Equity Fund. The company reported slight net revenue growth for the third quarter of 2023, led by strong growth in the Twisted Tea brand, offset by declines in the Truly brand. **SAM** continues to extend existing brands (e.g. the continued national rollout of Twisted Tea Light), replace struggling flavors (e.g. increasing the shelf and marketing presence of Truly's more popular, lighter flavors) and launch new brands that we believe will produce good, though uneven, results over the long term. For the second quarter in a row, margins expanded, as the company benefited from operational margin improvement initiatives, as well as deflation in freight costs. Management is steering a multi-year effort to enhance the efficiency of its operations that we believe is likely to produce sustainable margin improvement. **SAM** has a strong balance sheet, with net cash, and management is directing excess cash flow toward share repurchases. Overall, we remain confident management's efforts to grow the brands, improve the efficiency of operations, and allocate the company's capital will reward investors over time.

During the third quarter of 2023, we initiated a new position in **Floor & Décor Holdings (FND)** in the U.S. Equity Fund.

We added **Floor & Décor Holdings (FND)** late in the third quarter. **FND** is a specialty retailer of hard surface flooring operating 207 warehouse format stores across the U.S. The stores are large (avg. ~78k sq ft) and offer a variety of in-stock hard-surface flooring, including tile, wood, laminate, vinyl, and natural stone along with decorative accessories and wall tile, installation materials, and adjacent product categories. Customers include professional flooring installers (40% of sales) and homeowners (60%) primarily doing residential repair and remodel projects. **FND** directly sources its products from over 240 vendors in over 24 countries, enabling it to eliminate middlemen such as agent/brokers, importers, and distributors. We believe this direct sourcing model gives the company a cost advantage over its competitors and allows it to offer customers the lowest prices in the industry. **FND** is also able to offer the largest selection of in-stock flooring in the industry because its stores are significantly larger than its competitors. This differentiated value proposition has enabled **FND** to consistently take market share from both home improvement centers (~30% of the market) and independent specialty retailers (~60% of the market).

The management team, led by Tom Taylor, CEO, has a strong track record of successfully opening more than 170 new stores over the last decade, with plans to eventually reach 500. Stores typically generate 50% cash on cash returns by year 3, meaning each new store should create significant value for shareholders. The balance sheet is strong with Net Debt/EBITDA at 0.3x (2.7x including lease liabilities), and management has the flexibility to generate additional free cash flow if needed by slowing the pace of store count growth.

In summary, we believe **FND** will execute its new store strategy over the next decade, resulting in ~5x increase in earnings per share, significant free cash flow available to be distributed to shareholders, and a total shareholder return in the teens.

FUND PERFORMANCE %[1,2] (AS OF 12/31/2023)								
	SINCE INCEPTION[3]	10 YEAR	5 YEAR	3 YEAR	1 YEAR	YTD	QTD	MTD
SSEFX (Class N) (%)	8.82	6.22	15.55	11.54	18.63	18.63	7.82	10.24
SSEIX (Class I) (%)	9.09	6.48	15.82	11.79	18.86	18.86	7.85	10.27
Russell 2500 (%)	10.85	8.36	11.67	4.24	17.42	17.42	13.35	10.72
Russell 2500 Value (%)	10.01	7.42	10.79	8.81	15.98	15.98	13.76	10.49

SSEFX (Class N) Expense Ratio (Gross/Net): 1.50%/1.34%*

SSEIX (Class I) Expense Ratio (Gross/Net) 1.25%/1.09%*

The performance data shown represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For performance information through the most recent month end, please call 901.341.2700 or visit our website at www.southernsunam.com. From time to time the advisor has waived fees or reimbursed expenses, which may have resulted in higher returns.

*Contractual waivers are in effect through January 31, 2024.

[1]One-year, three-year, five-year, and since inception returns are annualized averages and do not mean the manager achieved the stated return in each year. Returns for periods less than one year are not annualized.

[2]The performance information shown for periods prior to February 16, 2021 is that of the predecessor to the Fund, AMG SouthernSun U.S. Equity Fund, a series of AMG Funds LLC, which was reorganized into the Fund on February 16, 2021, and was managed by AMG Funds LLC and sub-advised by SouthernSun Asset Management, LLC with the same investment objective and substantially similar investment policies as those of the Fund. The performance information shown for periods prior to March 31, 2014 is that of the predecessor to the Fund, SouthernSun U.S. Equity Fund, a series of Northern Lights Fund Trust, which was reorganized into the Fund on March 31, 2014, and was managed by SouthernSun Asset Management, LLC with the same investment objective and substantially similar investment policies as those of the Fund.

TOP 10 HOLDINGS[4] (AS OF 12/31/2023)		
	TICKER	% OF ASSETS
Dycom Industries Inc	DY	7.37
Darling Ingredients Inc.	DAR	6.81
Broadridge Financial Solutions, Inc.	BR	6.65
Watsco Inc	WSO	5.32
MGP Ingredients Inc	MGPI	5.26
Louisiana-Pacific Corp	LPX	4.99
Boot Barn Holdings Inc	BOOT	4.82
US Physical Therapy Inc	USPH	4.74
AGCO Corp.	AGCO	4.66
The Brink's Co.	BCO	4.66
Total		55.29

[3]Since the inception of the Fund's share classes on April 10, 2012.

[4]The Holdings identified above do not represent all of the securities purchased, sold or recommended for advisory clients. Holdings are subject to change and should not be construed as investment advice.

The SouthernSun funds are distributed by SEI Investments Distribution Co. (SIDCO). The Funds are managed by SouthernSun Asset Management, LLC. SIDCO is not affiliated with SouthernSun Asset Management, LLC or any of its affiliates. SIDCO is a member of FINRA/SIPC.

Important Information:

Before investing in any SouthernSun funds, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. The Prospectus and Summary Prospectus contain this and other important information, which is available at www.southernsunam.com/investment-products/. Please read the Prospectus and Summary Prospectus carefully before investing.

The views expressed represent the opinions of SouthernSun Asset Management, LLC as of December 31, 2023, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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

Statements received directly from the account custodian should be regarded as the official record for a client's account. This information is being furnished to you for informational purposes only and should not be solely relied upon when making an investment decision. All information has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed.

Small- and Mid-Capitalization Companies Risk — The small- and mid-capitalization companies in which the Fund may invest may be more vulnerable to adverse business or economic events than larger, more established companies. In particular, investments in these small- and mid-sized companies may pose additional risks, including liquidity risk, because these companies tend to have limited product lines, markets and financial resources, and may depend upon a relatively small management group. Therefore, small- and mid-cap stocks may be more volatile than those of larger companies. These securities may be traded over-the-counter or listed on an exchange.

Non-Diversified Fund Risk— The Fund is classified as "non-diversified," which means it may invest a larger percentage of its assets in a smaller number of issuers than a diversified fund. To the extent that the Fund invests its assets in a smaller number of issuers, the Fund will be more susceptible to negative events affecting those issuers than a diversified fund.

Definitions:

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.

Cash on cash returns: Annual pre-tax cash flow divided by total cash invested. **Basis points (bps):** a term used in finance to refer to changes in values. One basis point equals 0.01%**.** **EBITDA:** earnings before interest, taxes, depreciation and amortization. **Net Debt/EBITDA:** this is calculated by taking the Net Debt (total debt – cash & equivalents) divided by the EBITDA. **EV/EBITDA:** This is calculated by taking the enterprise value divided by the EBITDA. **Free Cash Flow (FCF):** this is calculated by taking the operating cash flows minus capital expenditures. **Earnings Yield:** This is calculated by taking the inverse of the market value (price*common shares outstanding) divided by net income before unusual expense.

Regulatory Disclosures:

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