1Q2024 U.S. Equity Fund Investment Commentary

Navigating the Complexities of Small and SMID-Cap Equities

In the dynamic world of investment, the landscape of small and SMID-cap equities has become increasingly nuanced and challenging to navigate. With over three decades of experience, SouthernSun Asset Management brings a seasoned perspective to the investment landscape. Founded 35 years ago, our firm has weathered various market cycles and economic challenges, honing our expertise in identifying unique businesses with exceptional leaders driving long-term value. As we assess the opportunities and risks within the segment today, it seems prudent for us to delve deeper into the underlying dynamics shaping these markets. In this quarter's investment outlook, we explore the current scenario, identify opportunities, discuss challenges, and highlight strategies to mitigate risks and capitalize on emerging trends.

We suggest keeping the following in mind as we proceed, "The best we can do is to see the world from as many perspectives as possible." - Iain McGilchrist, The Master, and His Emissary

Understanding the Current Landscape

The past decade has seen small and SMID-cap equities face performance headwinds compared to their larger counterparts. This trend is evident in the relative underperformance of small and SMID-cap indices compared to large-cap indices. Several factors contribute to this disparity, including near-peak margins and significant debt burdens. Many companies within the small and SMID-cap universe are operating at or near peak margins, leaving little room for further improvement and increasing vulnerability to economic downturns or operational challenges. Additionally, the reliance on debt financing for growth and expansion has created or has potential to create financial flexibility challenges, particularly in environments of rising/higher interest rates and economic uncertainty. Finally, asset flows have significantly skewed away from smaller cap stocks pushing multiples lower for much of the sector – accounting for a notable portion of the gap in performance over the past decade when compared with mega caps in particular.

Despite these challenges, or better yet, because of these challenges, we believe this field is ripe for the harvest for a team and process like ours to identify and act on the hidden opportunities within a space of the market increasingly marginalized by both professional and retail investors.

Identifying Opportunities: Where to Focus

1. Time Horizon: In the current market environment characterized by short-termism and heightened volatility, adopting a long-term investment horizon can be advantageous. By focusing on businesses with sustainable competitive advantages and resilient business models, we hope to capitalize on market inefficiencies and generate attractive risk-adjusted returns over time.

2. Generalists: The COVID-19 pandemic has disrupted traditional market dynamics, creating dislocations and opportunities for nimble investors. As businesses adapt to evolving consumer preferences and digital transformation accelerates across sectors and industries, there are opportunities to invest in companies poised to benefit from these structural shifts. Moreover, market volatility has increased, creating opportunities to deploy capital into high-quality businesses trading at discounted valuations.

Challenges Ahead: Navigating the Complexities

While the opportunities in small and SMID-cap equities are compelling, navigating the complexities of this segment comes with its fair share of challenges. Short-term pressures and risk management considerations are among the key challenges faced by investors in this space. McGilchrist's exploration of human cognition serves as a reminder that solutions to complex problems require nuanced approaches that consider the broader context and interplay of a wide range of factors.

What Keeps Us Up at Night: Mitigating Risks and Ensuring Robust Research

As stewards of our clients' capital, we recognize the importance of rigorous research and prudent risk management. The prospect of overlooking critical factors or misjudging management teams is a constant concern. To mitigate these risks, we adhere to the following principles among others:

Thorough Research: Our investment process is grounded in thorough research and analysis. We conduct extensive due diligence on potential investment opportunities, evaluating factors such as competitive positioning, management quality, and financial strength. For thirty-five years we have consciously chosen to invest in less than a few dozen businesses at most at any given time. We have chosen this path for multiple reasons, not the least of which is that it allows our team to have both broad and deep understanding of each business's core capabilities and its competitive landscape.

Active Monitoring: Continuous monitoring of portfolio holdings allows us to identify emerging risks and opportunities proactively. By staying vigilant and responsive to changing market conditions, we can adjust our portfolio positioning accordingly and navigate difficult environments.

Conclusion: Navigating the Future of Small and SMID-Cap Investing

In conclusion, the landscape of small and SMID-cap equities presents both opportunities and challenges for investors. While the relative underperformance of these segments has created attractive valuations, navigating the complexities of this market requires discipline, diligence, and a long-term perspective. By focusing on high-quality businesses with sustainable competitive advantages, maintaining robust risk management practices, and conducting thorough research, we believe we can position our clients' capital to benefit from emerging trends and generate potentially attractive risk-adjusted returns over time. As we navigate the future of small and SMID-cap investing, SouthernSun Asset Management remains committed to our clients' long-term success and strives to deliver superior outcomes through prudent stewardship and strategic decision-making, recognizing that the best approach to understanding the world is to see it from as many perspectives as possible.

Phillip Cook
Chief Investment Officer & Managing Partner
SouthernSun Asset Management

Michael Cook
Founder & Chairman
SouthernSun Asset Management

The **SouthernSun U.S. Equity Fund** (Class N) returned 7.87% versus the Russell 2500™, which returned 6.92% and the Russell 2500™ Value, which returned 6.07%, during the first quarter of 2024. Over the trailing-twelve-months, the Fund returned 21.18% versus the Russell 2500™, which returned 21.43% and the Russell 2500™ Value, which returned 21.33% 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 contributor in the U.S. Equity Fund in the first quarter. Although results were slightly below management expectations due to severe winter weather, two large customers (AT&T and Frontier) returned to sequential growth, and management expects this trend to continue in 2024. More broadly, the demand for fiber construction over the next few years continues to look bright as both private and public capital enters the industry. Private equity continues to make investment in fiber assets via various channels, and the open access business model has emerged as a viable alternative to carrier owned networks. Some large carriers have even indicated they are willing to partner to build fiber networks, e.g., AT&T's joint venture with Blackrock in 2022, and recent rumors of a T-Mobile joint venture with Lumos Networks. Beyond private investment, there is significant public funding committed to fiber through the ARPA, RDOF, and BEAD programs. Although the $40 billion BEAD program has progressed slower than initially expected, management now expects deployments to begin in 2025. We expect this program to be a multi-year tailwind to the industry. Profitability at **DY** has increased over the last few quarters, and we believe there is further room for margin expansion by leveraging SG&A expenses as revenue grows. Management continues to operate the company well and allocate capital effectively while maintaining financial flexibility (Net Debt/Adj. EBITDA of 1.4x, the lowest level in over 10 years). 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 **DY** is well-positioned to engineer, construct and maintain these fiber networks.

Boot Barn Holdings, Inc. (BOOT) is the largest retailer of western and work-related footwear, apparel, and accessories in the United States with more than 380 stores in 44 states, and an e-commerce channel consisting of bootbarn.com, sheplers.com and countryoutfitter.com. **BOOT** was one of the top contributors in the U.S. Equity Fund in the first quarter. We believe management has a sensible and achievable plan to expand their store count to approximately 900 stores over the next several years and believe they can do this without adding leverage to the balance sheet. Gross margin was up 180 bps in the most recent quarter, as they increased the mix of higher-margin proprietary brands. We continue to like the long-term growth and profitability prospects for **BOOT** and believe that the management team is well qualified to execute their strategy.

MGP Ingredients Inc. (MGPI), a leading provider of distilled spirits, branded spirits and food ingredient solutions, was the top detractor in the U.S. Equity Fund in the first quarter. During the quarter, **MGPI** reported strong fourth quarter results including gross margin expansion in all three of its business segments, and sales of brown goods were up 26% in 2023. Management noted that 2023 new distillate sales outpaced aged distillate sales for the first time since 2020, and they expect this trend to continue. New distillate carries a lower gross margin profile than aged, but customers contract for new distillate volumes for several years as opposed to aged distillate, which is primarily sold in the spot market. Management believes the shift to more new distillate sales will provide greater visibility into cash flows and lower the risk profile of the distilling solutions segment. However, the market seemed to react negatively to this news based on the slightly lower gross margin expectations. We recently visited with Brandon Gall, CFO, and Chief Commercial Officer, Amel Pasagic, at the company's Lux Row Distillery in Bardstown, KY, to discuss **MGPI's** path to continued margin expansion for the overall business. We believe the company has ample opportunity to grow both the top line and margins, as the team continues to build out the portfolio of premium, super premium and ultra premium products in its branded spirits segment. Additionally, while the ingredient solutions segment is a smaller piece of the overall business, we believe the company is poised to grow sales of specialty wheat proteins and starches as it ramps up production at its recently completed texturized protein production facility in Atchison, KS. We expect 2024 to be another year of investment as the company builds new warehouses to support growth in both the distilling solutions and branded spirits segments. These investments are supported by strong cash generated by the business, and we believe they will produce even stronger cash flow in 2025 and beyond.

The Boston Beer Company, Inc. (SAM), a leading provider of alcohol beverages, was one of the top detractors in the U.S. Equity Fund in the first quarter. The company reported a modest revenue decline (on a comparable basis) for 2023, with strong growth in the Twisted Tea brand offset by declines in the Truly brand. Margins expanded during the year, including in the fourth quarter, as the company benefited from operational margin improvement initiatives, as well as deflation in freight costs. The company expects slight sales growth at the midpoint of its guidance and continued margin expansion in 2024. Concurrent with its fourth quarter earnings announcement, the company announced the retirement of CEO Dave Burwick and his replacement with former Nike executive and current **SAM** board member Michael Spillane. We expect no change in the company's strategy or its capital allocation from this leadership change. In the near term, we believe the company will remain focused on sustaining Twisted Tea's growth, turning Truly volume trends, improving operations to enhance gross margins, and thus providing more funds to invest in its core assets as a company – its brands and its sales force. Overall, we remain confident management's efforts and investments are likely to produce profitable growth that will reward investors over time.

FUND PERFORMANCE %[1,2] (AS OF 3/31/2024)

	SINCE INCEPTION[3]	10 YEAR	5 YEAR	3 YEAR	1 YEAR	YTD	QTD	MTD
SSEFX (Class N) (%)	9.31	6.89	14.04	7.83	21.18	7.87	7.87	5.62
SSEIX (Class I) (%)	9.59	7.16	14.34	8.11	21.43	7.97	7.97	5.63
Russell 2500 (%)	11.23	8.84	9.90	2.97	21.43	6.92	6.92	4.13
Russell 2500 Value (%)	10.34	7.68	9.38	5.36	21.33	6.07	6.07	4.93

SSEFX (Class N) Expense Ratio (Gross/Net): 1.40%/1.34%*

SSEIX (Class I) Expense Ratio (Gross/Net) 1.15%/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, 2025.

[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 3/31/2024)

	TICKER	% OF ASSETS
Dycom Industries Inc	DY	7.05
Darling Ingredients Inc.	DAR	6.66
Boot Barn Holdings Inc	BOOT	6.01
Broadridge Financial Solutions, Inc.	BR	5.75
Louisiana-Pacific Corp	LPX	5.47
US Physical Therapy Inc	USPH	5.31
MGP Ingredients Inc	MGPI	5.02
Watsco Inc	WSO	4.97
Belden Inc	BDC	4.95
The Boston Beer Co Inc	SAM	4.79
Total		55.97

[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 March 31, 2024, 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. **Net Debt/Adj. EBITDA:** calculated by taking the Net Debt (total debt – cash & equivalents) divided by adjusted EBITDA. **EV/EBITDA:** This is calculated by taking the enterprise value divided by the EBITDA. **Cash flows:** a measure of the amount of cash generated by a company's normal business operations. **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. **Gross margin:** measures a company's gross profit compared to its revenues as a percentage.

Regulatory Disclosures:

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