SouthernSun

2Q2024 Small Cap Fund Investment Commentary

As we continue to navigate through an increasingly complex and dynamic market environment, we at SouthernSun Asset Management are pleased to share our latest quarterly insights. Our reflections on the current state of the economy and the opportunities ahead are crucial for understanding our long-term approach and the benefits of patience and persistence in investing, particularly in the small and smid-cap space.

Inspiration for this quarter's commentary comes from a recent visit to the gardens of Highgrove House, where a pavilion now stands where a massive Cedar of Lebanon once grew. Nestled in the picturesque countryside of Gloucestershire, Highgrove House stands as a symbol of heritage and sustainability. The estate is renowned for its beautiful gardens, which have been lovingly developed and maintained. Among the many stories these gardens hold, the tale of the Cedar of Lebanon and the oak sapling that emerged from the pavilion is particularly poignant.

This transition from tree to pavilion, where now a towering oak tree rises through the opening in its roof, serves as a powerful metaphor for the long-term thinking essential in investing. The Cedar of Lebanon, known for its longevity and resilience, represents the foundational qualities of patience and endurance. The decision to replace it with a pavilion signifies the strategic shift required to adapt to changing circumstances while maintaining the integrity of long-term goals. And finally, as with the emergence of the oak sapling, it's about planting the seeds today, nurturing them over time, and having the patience and persistence to see them grow into something remarkable.

Investment Philosophy and Current Market Outlook

At SouthernSun, our approach to investing in small-cap companies is deeply rooted in thorough research, strategic patience, and a focus on long-term value. Our founder often emphasizes the importance of patience and persistence in achieving success amidst the unprecedented divergence between SouthernSun-type businesses and large-cap tech stocks. This philosophy is encapsulated in several key principles.

One of the cornerstones of our philosophy is the emphasis on deep research and understanding. We believe in spending significant time and effort to get to know the industries and the people within them. This extensive research helps us uncover unique opportunities that others might overlook. It might take years of getting to know people in a particular industry to find where in the value chain we can invest and truly do well. This meticulous approach is essential for identifying companies with strong fundamentals and management teams that have a long-term perspective on creating shareholder value.

In addition to deep research, patience is a vital component of our investment strategy. Investing in small-cap companies requires patience as these businesses often take time to realize their full potential. Our process is about taking the time to truly understand a company, its industry, supply chain, competition and leadership team. This approach may take years, but we believe it's essential for finding long-term value. This patient approach allows us to hold onto high-conviction positions until the market recognizes their intrinsic value.

Our focus on fundamentals is another key aspect of our philosophy. SouthernSun concentrates on the fundamentals of businesses, looking for unique niches and management teams with a long-term perspective on creating shareholder value. We believe that this focus provides us with the best opportunity to invest in businesses with solid foundations, capable of withstanding market fluctuations and delivering sustainable growth over the long term.

Market volatility, often perceived as a risk, is viewed by us as an opportunity. Volatility is helpful in creating the elusive combination of buying businesses we find attractive at the right price. In other words, market fluctuations can create opportunities to acquire valuable businesses at attractive prices, allowing us to build a portfolio of high-quality companies purchased at favorable valuations. This approach enables us to capitalize on market dislocations – e.g. apathy in one segment of businesses and exuberance in another - and position our portfolio for long-term success.

Current Economic Environment

We believe that the current economic environment is likely experiencing a gradual slowdown. Despite some mega-cap dominated market indices reaching new highs, there are clear signs of economic deceleration. In the second quarter alone, we have spent significant time gathering insights from various regions around the world, including the U.S., Latin America, and Europe. Our observation is that a broader economic slowdown is more consistent now than it was 6 to 12 months ago. This slowdown, while challenging, also presents opportunities for investors with a long-term perspective.

That said, we believe that much of the economic weakness is already priced into small-cap businesses, making their valuation profiles particularly attractive. Furthermore, and more specifically, we believe that a great deal of the economic weakness is priced into our businesses. Therefore, we like the valuation profile, the balance sheets, the opportunities for buying back shares and investing in high return organic growth projects, as well as the opportunity to use balance sheets to buy up cheap assets as they become available. This view underscores the importance of looking beyond short-term market fluctuations and focusing on the intrinsic value of businesses.

Focus Areas and Opportunities

In light of current market conditions, we are focusing on several key areas that we believe offer significant growth opportunities. These areas include markets with secular tailwinds such as broadband, power infrastructure, semiconductor and HVAC industries, which are expected to benefit from long-term structural trends. Additionally, we are looking at industries that are currently at depressed or near-trough levels such as chemicals, agriculture, and certain consumer-driven markets. These sectors present potential for recovery and growth as market conditions improve.

Turnaround stories are another area of focus for us. We are particularly interested in companies undergoing operational improvements that drive cash flow growth. By investing in these companies, we aim to capture the value created by their improved operational efficiencies and strategic initiatives.

Businesses with a competitive edge that allows them to gain market share in the current environment are also particularly attractive to us. These companies have unique advantages that enable them to outperform their peers and deliver sustainable growth.

Lastly, we are also interested in companies that are well-positioned to acquire or be acquired due to their attractive valuations and strong financial profiles. These companies represent potential opportunities for strategic acquisitions that can enhance their market position and drive long-term growth.

Conclusion

The story of the pavilion at Highgrove House Gardens is a poignant reminder of the importance of long-term thinking, patience, and persistence in investing. Just as the pavilion replaced the Cedar of Lebanon, strategic adaptation is crucial in investing. Investors must be willing to adjust their strategies based on changing market conditions while maintaining a long-term perspective. Our approach involves continuously seeking new opportunities and adapting to evolving market dynamics without losing sight of long-term goals.

We believe that patience and self-awareness are important virtues in investing. Patience to allow businesses to mature when the marketplace behaves otherwise and self-awareness to recognize we are not going to get every decision right.

By focusing on deep research, patience, and fundamentals, we aim to build a portfolio of high-quality businesses that can withstand market fluctuations and deliver long term value.

Despite current economic challenges and market volatility, we believe our approach demonstrates that we can identify and capitalize on opportunities in an investment universe we have spent 35 years participating in. Our strategy underscores the potential for growth and value creation over time, reinforcing the timeless wisdom of investing with a long-term perspective.

Thank you for your continued trust and partnership. We look forward to navigating the journey ahead together.

Phillip Cook
Chief Investment Officer & Managing Partner
SouthernSun Asset Management

Michael Cook
Founder & Chairman
SouthernSun Asset Management

PORTFOLIO UPDATE*

The **SouthernSun Small Cap Fund** (Class N) returned -3.89% versus the Russell 2000®, which returned -3.28% and the Russell 2000® Value, which returned -3.64%, during the second quarter of 2024. Over the trailing-twelve-months, the Fund returned 3.31% versus the Russell 2000®, which returned 10.06% and the Russell 2000® Value, which returned 10.90%, over the same period. Please note that this Fund has multiple share classes.

Boot Barn Holdings, Inc (BOOT) was the top contributor in the Small Cap Fund for the second quarter. The company sells western and work-related footwear, clothing and accessories through more than 350 Boot Barn stores in the U.S. **BOOT** has plans to expand their store count to approximately 900 stores in the coming years, at the rate of an additional 10-15% new stores per year. In our opinion, management continues to execute the play book well – driving healthy operating margins and returning to positive same-store sales growth after several quarters of declining year over year figures – giving more confidence to future top-line growth. We continue to believe that the company has the ability to grow the top-line, improve margins, and execute their strategy with internally generated cash flows, while maintaining a conservatively levered balance sheet.

Dycom Industries, Inc. (DY), a leading provider of engineering and construction services to the telecommunications and utility industries, was a top contributor in the Small Cap Fund in the second quarter as the company returned to organic growth and delivered continued margin expansion. The demand outlook for fiber construction in urban areas remains strong as carriers continue to generate good returns on their fiber investments. Public funding for fiber through the ARPA, RDOF, and BEAD programs is an additional source of significant demand. Notably, the $40 billion BEAD program is the largest federal broadband program ever in the U.S., and deployment is expected to start in 2025. According to management, the mergers and acquisitions (M&A) environment has improved, and two small acquisitions were completed in the first half of 2024. With Net Debt/EBITDA at 1.6x, we believe **DY** has adequate financial flexibility to take advantage of additional opportunities. Steve Nielsen, CEO, will retire at the end of November, after 25 years leading the company. His successor, Dan Peyovich, was hired as COO in 2021 with succession in mind and has over 20 years of experience in engineering and construction. We plan to meet with Dan over the coming months to discuss his vision for the company. Overall, we believe **DY** is executing well and remains well positioned to capitalize on the strong tailwinds in the industry while maintaining a shareholder friendly capital allocation strategy.

Darling Ingredients Inc (DAR) is the largest publicly traded company turning edible by-products and food waste into sustainable products and a leading producer of renewable energy. **DAR** was the top detractor in the Small Cap Fund in the second quarter. The stock has struggled after a difficult reset period in the third quarter of last year, as fears regarding new industry supply of renewable diesel and the lack of government support have increased. Over time and through thoughtful leadership and capital allocation, the company has built a vertically integrated growth engine with attractive returns on capital while consolidating the industry and driving innovation. After a strong year of EBITDA growth in 2023, we expect 2024 to be an important year of transition before growth resumes over the next 2-3 years, as recent M&A and growth capex drive deleveraging and free cash flow. The company is currently constructing sustainable aviation fuel (SAF) capacity expected to come online in 4Q24 and is evaluating further SAF expansion for the future, as growth and incentives in that market provide significant margin expansion and return on investment. The valuation is compelling, in our opinion, based on multiple scenarios and valuation methodologies. We spent time with local leadership in Brazil during the second quarter – reviewing significant investments that have been made over recent years as well as touring important production facilities. Brazil is the most important international market for **Darling** where they have consolidated the industry and enjoy very strong market share. While these investments have put some strain on the balance sheet in the near term, we believe the growth in cash flow and return on invested capital will deliver improved stock performance in the years ahead.

U.S. Physical Therapy, Inc. (USPH) was one of the top detractors in the Small Cap Fund in the second quarter. The company is a national operator of outpatient physical therapy clinics and a provider of industrial injury prevention services. Founded in 1990, they operate 683 outpatient physical therapy clinics in 43 states. Adjusted EBITDA was down in the most recent quarter due to lower reimbursements from Medicare, which represents approximately 30% of their revenue base. However, the company continues to offset the lower Medicare reimbursements with positive negotiations with commercial insurance payers, and they continue to make bolt-on acquisitions for new clinics and their industrial injury prevention business. We continue to have confidence in the management team and the long-term prospects for growth and improving financial performance in the business.

FUND PERFORMANCE %[1,2] (AS OF 6/30/2024)

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	YTD	QTD	MTD
SSSFX (Class N) (%)	9.96[3]	5.04	11.69	5.74	3.31	2.53	-3.89	-3.68
SSSIX (Class I) (%)	12.00[4]	5.30	11.95	6.00	3.54	2.62	-3.85	-3.69
Russell 2000 (%)	8.46[3]	7.00	6.94	-2.58	10.06	1.73	-3.28	-0.93
Russell 2000 Value (%)	7.98[3]	6.23	7.07	-0.53	10.90	-0.85	-3.64	-1.69

SSSFX (Class N) Expense Ratio (Gross/Net): 1.33%/1.33%*
SSSIX (Class I) Expense Ratio (Gross/Net) 1.08%/1.08%*

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, ten-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 Small Cap 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 Small Cap 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[5] (AS OF 6/30/2024)

	TICKER	% OF ASSETS
Dycom Industries Inc	DY	6.30
MGP Ingredients Inc	MGPI	6.10
Enerpac Tool Group	EPAC	6.03
Boot Barn Holdings Inc	BOOT	5.77
Darling Ingredients Inc.	DAR	5.63
Belden Inc	BDC	5.62
The Brink's Co.	BCO	5.46
US Physical Therapy Inc	USPH	5.29
The Boston Beer Co Inc	SAM	4.94
Louisiana-Pacific Corp	LPX	4.92
Total		56.06

[3]Since the inception of the Fund's Class N shares on October 1, 2003.

[4]Since the inception of the Fund's Class I shares on September 30, 2009.

[5]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 June 30, 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-Capitalization Stock Risk— Small 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, small capitalization companies may have limited product lines, markets and financial resources and may depend upon a relatively small management group. Therefore, small capitalization stocks may be more volatile than those of larger companies. Small capitalization stocks 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 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.

Net interest margin: A measure of the net return on earning assets (investment returns less interest expenses, divided by average earning assets). **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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