SouthernSun

1Q 2021 SMID Cap Investment Commentary

In last quarter's letter we touched on the importance, as generalists, of building a broad context in our research over long periods of time. With another quarter in the books, we thought it might be useful to continue to further develop that concept for you.

As a reminder, our fourth quarter and full year 2020 commentary highlighted our use of trade journals, emphasizing their indirect as well as direct research value. By sharing several recent articles and suggesting how certain elements of those articles have relevance well beyond the writer's primary focus our goal, in part, was to help you better understand how insight builds, in method and over time.

This quarter, we hope to feature some of the expected and unexpected benefits we accrue as we vet prospective portfolio companies.

But before we explore that topic, let's briefly cover some of our overarching observations from the first quarter of 2021. The quarter, as expected, included meaningful progress in vaccine rollouts across the US and accelerated reopening in an increasing number of states. Vaccination progress across the globe is uneven at best with some countries seemingly well ahead of others with availability of the vaccine, ability to distribute efficiently and broadly, and willingness of people to participate all factoring into each one's present status. Our portfolio companies, for the most, reported solid first quarter results with largely improved outlooks for the balance of the year.

Under the cover of the virus, we are curious about how little attention is being given to what we might only describe as significant governmental overreach in developed economies that debilitates competition thereby selecting winners that tend to favor consumption (capital destruction) over long term capital formation. We raise the issue if for no other reason than the potential harm eventually levied on small to medium sized businesses as rent seeking monopolies encourage volume and convenience over quality. As disconcerting as this may sound, we recognize at least two things, one, that the outcome is not inevitable, and two, that such conditions in the near to intermediate term may offer exceptional opportunities for small to medium sized businesses that are able to adapt operationally and are forward-thinking about who the customer is and what they need.

Entering the final three quarters of 2021, we believe the market is likely to remain in transitional conflict - large versus small, growth versus value versus momentum, or any combination thereof. The importance of this tension for us is that, as in the past, we believe that these types of transitions are largely an advantage to our portfolio businesses. When our management teams and their colleagues distinguish themselves from their competitors through excellence in execution and delivery of high-quality results, equity sponsorship (their stock price) has historically become more reflective of their fundamental long-term value.

To illustrate, for a moment place your Global Macro hat on and consider the genius of Charles Schultz and, more specifically, his cartoon creation Peanuts. In Charlie Brown's Christmas, Charlie Brown is sat with Lucy at her psychiatry booth. Lucy proceeds to suggest a list of phobias from which Charlie Brown might suffer. Charlie Brown somewhat agrees with most of them, but none really seem to capture his condition until Lucy says, "maybe you have pantophobia" to which Charlie Brown replies, "what is that". Lucy responds with "that's the fear of everything Charlie Brown" to which he shouts, "THAT'S IT".

When a dose of "fear of everything" is coupled with an environment chockfull of distorted values, negative real interest rates, clever financial engineering, and a rapidly evolving philosophy regarding the role of central banking, it is no surprise that we at SouthernSun are finding as many interesting and diverse opportunities now as at any time in our history.

As we mentioned in the beginning, one of the ways we have been able to maintain perspective over time, is through our commitment as generalists to continually challenge our proclivities with broad primary resources and by investigating businesses outside our natural comfort zone. Over the decades we have found that many valuable lines of inquiry for current portfolio companies have been initiated whilst in the process of vetting prospective businesses.

You will likely be aware of how portfolio businesses like Darling Ingredients, Inc. (DAR) and Middleby Corp. (MIDD) came from observations we made during visits to Smithfield Foods, Inc. (SFD) facilities. What you may not appreciate is how often one line of questioning with a prospective company leads us to a new line of questioning or better understanding of an existing portfolio holding. As importantly, they may very well be in altogether separate businesses.

The following are a few brief examples from the first quarter of 2021:

Whilst looking into several specialty material suppliers to the semiconductor industry we were prompted to ask new questions of some of our current specialty chemical companies. We of course needed to better understand the customer (the semiconductor companies) to a degree we had not previously. Questions around the nature of the customer relationship, as evidenced by a direct or an indirect distribution model, as well as the nature of research and development spend and/or customer collaboration pushed us to re-examine the growth profile and runway of our specialty chemical companies.

Recently, we have been evaluating a variety of innovations in the process control, automation, and rapid prototyping business. Although we continue to explore specific opportunities in these areas, part of our education included taking the time to speak with a few of our current portfolio companies regarding their views on the economics and practical applications of some of these new innovations. We were also able to explore their views on the risks and opportunities of in-house implementation of things like prototyping versus outsourcing and learnt that often times a mix of both is possible, even preferable. Overall, we improved our understanding of potential target investments whilst also gaining further insight into current holdings like Polaris Inc. (PII) and Thor Industries, Inc. (THO) amongst others.

Finally, as we worked through due diligence on one of our newer holdings, Cass Information Systems, Inc. (CASS), we were challenged to develop a richer understanding of franchise lending. Since this is an important part of another of our current holdings, First Horizon Corp. (FHN), the time spent on CASS supplied us with a variety of useful insights in our quest to better calculate what we believe FHN could be worth.

Hopefully, these short samples provide you with a bit more substance when considering the landscape of our prospective portfolio pipeline. We have long suggested that we look to find only a handful of businesses that are investable each year but the process of finding those few will most often takes down and around the roads less travelled. It is indeed one of the many incredible compensations of having the privilege to do what we do.

PORTFOLIO UPDATE

During the first quarter of 2021, the SMID Cap Composite returned approximately +19.62% on a gross basis (+19.38% net) versus the Russell 2500™, which returned +10.93% and the Russell 2500™ Value, which returned +16.83%, over the same period. Over the trailing-twelve-months, the composite returned approximately +114.89% on a gross basis (+113.13% net) versus the Russell 2500™, which returned +89.40% and the Russell 2500™ Value, which returned +87.47% over the same period. The strategy continues to outperform both indexes on a since inception annualized gross and net basis.

Thor Industries, Inc. (THOR), the world's largest manufacturer of RV's, was the leading contributor on an absolute basis during the period. **THOR** continues to set sales records due to strong consumer demand for RVs. The RV industry is positioned to deliver strong shipment growth for the foreseeable future, due to a combination of continued strong consumer demand as well as the need to replenish dealer inventory. In the quarter ending January 31, 2021, gross profit margins increased by 240 basis points due to an increase in sales volume and a reduction in pricing discounts. In late December, **THOR** acquired luxury RV manufacturer Tiffin Group at an attractive valuation, adding to its leading position in the motorhome segment of the RV market, and extending its long track record of adding value via bolt-on acquisitions.

Extended Stay America, Inc. (STAY) the largest operator of mid-tier extended stay lodging in the United States, was another leading contributor on an absolute basis during the period. A bright spot in a battered hospitality industry, STAY continued to outperform lodging peers by all metrics throughout 2020 with 74% occupancy rates and hotel operating margins of 44%. They most recently unveiled a new brand segmentation strategy that, coupled with recovery in this sector, seemed to provide a clear path to increasing shareholder value for multiple years. For these and several other reasons, we were disappointed to learn of Extended Stay's agreement to be taken private under terms that we believe undervalue the company. Our full letter to clients can be found here.

Terminix Global Holding Inc., (TMX) a leading provider of residential and commercial pest control, is a relatively new position in the portfolio and was the leading detractor on an absolute basis, down slightly in the first quarter. The company's strategy is to create long-term value through improvements in operations, training, employee retention and the external customer experience. As such, we see significant opportunity for Terminix to capitalize on their recognized brand and singular focus on pest management.

Knowles Corp. (KN), a market leader in audio and precision devices that we exited very early in the quarter. After a challenging 2020, **KN** ended the year in strength surpassing guidance, and we saw a timely exit in favor of other opportunities.

During the first quarter of 2021, we fully exited **Knowles Corp. (KN)**, **Hanesbrands Inc. (HBI),** and **Centene Corp. (CNC)** in the SMID Cap Composite.

HBI delivered solid results in 4Q20 surpassing most estimates despite still prevalent COVID headwinds in the US and Europe. Though we expect the new management to focus on long-term growth, they have several challenges to overcome, and we took advantage of recent strength in the share price to exit the position.

CNC, a leading multi-national healthcare company, had a successful 2020 with 49% growth in revenue and 13% growth in earnings per share. Over approximately a decade of owning shares, in which **CNC** has grown dramatically, we believed this was an opportune time to exit the position this quarter.

As always, thank you for your trust in the SouthernSun team, we are mindful that such trust must be continually earned. We look forward to communicating to you after the finish of the second quarter.

Michael W. Cook
CEO and Chief Investment Officer
SouthernSun Asset Management

Top Contributors and Detractors (Preliminary; Absolute Return Basis)*

Top Contributors	Ticker	Average Weighting (%)	Contribution-to Return (bps)	Top Detractors	Ticker	Average Weighting (%)	Contribution-to Return (bps)
Thor Industries, Inc.	THO	5.7	219	Terminix Global Holdings, Inc**	TMX	3.6	-27
Extended Stay America, Inc	STAY	5.6	196	Knowles Corp.	KN	0.2	5
Darling Ingredients, Inc.	DAR	6.5	192	Broadridge Financial Solutions, Inc.	BR	3.5	9
Polaris Inc.	PII	5.1	185	IDEX Corp.	IEX	2.2	13
AGCO Corp.	AGCO	4.7	176	SEI Investments Co.	SEIC	2.4	13

Inception Date of SMID Cap Composite: January 1, 1997. Net returns are actual and reflect the deduction of management fees. Supplemental information. Please see composite performance and disclosures on page 4 for further information. Returns include the reinvestment of all income. Past performance is no guarantee of future results.

**Composite Top Contributors and Detractors will not include positions added to the portfolio within 30-days prior to the most recent month-end. Additionally, securities held at the request of individual client(s), such as ETF's, have been excluded. The Holdings identified above do not represent all of the securities purchased, sold or recommended for advisory clients. Holdings are subject to change and should not be construed as investment advice. Statements received directly from the account custodian should be regarded as the official record for a client's account. To obtain a complete list of all positions in the strategy and their contribution to the portfolio's performance and an explanation of performance calculation methodology, contact Client Relations at either 901-341-2700 or clientservice@southernsunam.com. Source: SouthernSun Asset Management, Advent Portfolio Exchange, FactSet. **As of October 2020 ServiceMaster Global Holdings, Inc. (SERV) changed its name to Terminix Global Holdings (TMX).*

SMID CAP COMPOSITE

SMID CAP COMPOSITE - ASSET WEIGHTED RETURNS												
Year	SouthernSun		Russell 2500	Russell 2500 Value	Composite Dispersion	Composite 3-Yr Standard Deviation (%)	Russell 2500 3-Yr Standard Deviation (%)	Russell 2500 Value 3-Yr Standard Deviation (%)	Accounts in Composite (#)	Total Composite Assets ($Mil)	% of Firmwide Assets	Total Firmwide Assets ($Mil)
	Gross	Net										
2020	14.99%	14.07%	19.99%	4.88%	0.18%	27.21%	24.21%	25.05%	9	$237	26%	$904
2019	31.64%	30.63%	27.77%	23.56%	0.89%	17.10%	14.58%	14.23%	10	$340	27%	$1,252
2018	-21.14%	-21.75%	-10.00%	-12.36%	0.12%	15.24%	14.10%	13.58%	38	$693	46%	$1,519
2017	12.33%	11.46%	16.81%	10.36%	0.17%	13.91%	12.13%	11.81%	70	$2,309	55%	$4,213
2016	18.05%	17.19%	17.59%	25.20%	0.33%	15.13%	13.67%	13.17%	62	$1,242	30%	$4,187
2015	-10.91%	-11.55%	-2.90%	-5.49%	0.27%	15.08%	12.42%	12.02%	77	$1,120	25%	$4,542
2014	2.33%	1.60%	7.07%	7.11%	0.24%	13.56%	11.67%	11.25%	95	$1,186	21%	$5,696
2013	43.17%	42.27%	36.80%	33.32%	0.19%	18.71%	15.63%	15.07%	51	$882	17%	$5,317
2012	19.56%	18.86%	17.88%	19.21%	0.25%	22.89%	18.97%	18.41%	24	$378	14%	$2,615
2011	4.86%	4.30%	-2.51%	-3.36%	0.18%	27.75%	23.40%	24.23%	24	$309	15%	$2,106
2010	43.20%	42.47%	26.71%	24.82%	0.31%	31.58%	26.80%	26.97%	16	$222	11%	$1,974
2009	49.73%	49.08%	34.39%	27.68%	0.00%	28.16%	24.25%	24.61%	7	$142	11%	$1,339
2008	-36.75%	-37.03%	-36.79%	-31.99%	1.28%	22.71%	19.37%	18.38%	6	$105	10%	$1,025
2007	12.89%	12.40%	1.38%	-7.27%	0.07%	13.65%	11.52%	11.03%	6	$175	13%	$1,341
2006	15.78%	15.28%	16.17%	20.18%	N/A[1]	14.33%	11.93%	10.85%	≤5	$153	14%	$1,100
2005	2.42%	1.96%	8.11%	7.74%	N/A[1]	16.75%	13.48%	12.81%	≤5	$135	18%	$733
2004	27.64%	27.09%	18.29%	21.58%	N/A[1]	18.51%	16.92%	15.68%	≤5	$133	32%	$410
2003	45.59%	44.97%	45.51%	44.93%	N/A[1]	22.33%	19.93%	16.97%	≤5	$97	60%	$162
2002	-3.39%	-3.77%	-17.80%	-9.87%	N/A[1]	20.97%	21.92%	16.27%	≤5	$39	36%	$107
2001	7.19%	6.76%	1.21%	9.74%	N/A[1]	20.20%	21.16%	14.62%	≤5	$40	34%	$120
2000	14.15%	13.68%	4.26%	20.79%	N/A[1]	20.55%	22.35%	16.55%	≤5	$38	28%	$137
1999	14.39%	13.92%	24.14%	1.49%	N/A[1]	18.79%	19.46%	16.14%	≤5	$33	23%	$145
1998	-2.23%	-2.62%	0.38%	-1.92%	N/A[1]	N/A[2]	N/A[2]	N/A[2]	≤5	$29	21%	$135
1997	27.32%	26.80%	24.36%	33.09%	N/A[1]	N/A[2]	N/A[2]	N/A[2]	≤5	$14	11%	$123

[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.

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Subsequent periods are currently undergoing verification by ACA Performance Services and, as such, performance may be subject to change.

Performance results shown above are included as part of a complete disclosure presentation. SouthernSun SMID Cap Composite contains fully discretionary equity accounts invested in small cap to mid-cap (SMID cap) securities (defined as equity securities with market capitalizations that are within the range of the Russell 2500 at the time of initial purchase during the most recent 12-month period) and for comparison purposes is measured against the Russell 2500 and Russell 2500 Value indices. The SMID cap strategy will generally invest a larger percentage of its assets in a small number of securities (20-30 securities) and business sectors, which may make the strategy more volatile and subject to greater risk than a more diversified strategy. Small and mid-capitalization companies may also be more vulnerable to adverse business and economic events than larger companies, and thus, small cap and mid-cap stocks may also be more difficult to sell at the time and price desired due to liquidity constraints, which could have a negative effect on performance. Prior to June 2009, the composite was known as the SouthernSun Mid Cap Composite. However, despite the name change, the investment strategy has remained the same. Prior to December 2006, the composite was known as the CMT Mid Cap Composite. Prior to September 30, 2014, the market cap range was $1 billion and $8 billion. The minimum account size for inclusion into this composite is $1,000,000. Prior to July 1, 2015, the minimum account size for inclusion in this composite was $500,000. Prior to July 1, 2009, the minimum account size for inclusion in this composite was $1,000,000. Composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of 20% or more of the portfolio assets. Prior to April 1, 2004, composite policy required the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of 50% or more of portfolio assets. Additional information regarding the treatment of Significant Cash Flows is available upon request. A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Trade date valuation has been used since inception. The U.S. dollar is the currency used to express performance. Returns are stated gross and net of management fees and include the reinvestment of all income; provided that in the case of any mutual funds, gross returns reflect the market value of the account. If mutual funds accounts are within the composite, only the management fee is applied. No daily fund accruals are recorded. Net of fee performance was calculated using actual management fees. The management fee schedule is as follows: $0 - $50,000,000 is .90%, $50,000,001 - $100,000,000 is .85%, and above is .75%. This schedule is subject to a $45,000 minimum annual fee. Actual investment advisory fees incurred by clients may vary. Beginning October 1, 2019, a significant number of accounts in the composite are custodied with a broker that does not charge trading expenses. Accounts custodied with other brokers may incur trading expenses which may reduce returns. The CIT fee schedule for the Founders Share Class is 0.65% and for the Class 1 is 0.80%. The annual composite dispersion presented is an asset-weighted standard deviation of gross returns for accounts in the composite the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns and the benchmark returns over the preceding 36-month period. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The SouthernSun SMID Cap Composite was created January 1, 1997. The inception date of the SouthernSun SMID Cap Composite is January 1, 1997. As of February 1, 2020, the firm substituted retroactively the Russell 2500 Value index in place of the Russell Midcap index as a secondary benchmark for the SouthernSun SMID Cap Composite. The cause for such a change is that SouthernSun believes that the Russell 2500 Value index is more representative of the firm's SMID Cap strategy, historically and on a go-forward basis.

The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000 Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies that are considered more value oriented relative to the overall market as defined by Russell's leading style methodology. Frank Russell Company ("FRC") is the source and owner of the Russell Index Information contained or reflected in this material and all trademarks and copyrights related thereto. The Russell Index Information may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. For more information on either index, please consult Frank Russell Company.

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901.341.2700 | clientservice@southernsunam.com | 240 Madison Avenue, Suite 800, Memphis, TN 38103