SouthernSun

1Q 2021 Small 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 Small Cap Strategy Composite returned approximately +18.82% on a gross basis (+18.64% net) versus the Russell 2000®, which returned +12.70% and the Russell 2000® Value, which returned +21.17%, over the same period. Over the trailing-twelve-months, the composite returned approximately +110.00% on a gross basis (+108.42% net) versus the Russell 2000®, which returned +94.85% and the Russell 2000® Value, which returned +97.05% 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.

Polaris, Inc. (PII) was another leading contributor on an absolute basis again this quarter reporting sales of a little over $7 billion for 2020, up 4% from 2019 and up 24% in 4Q20 compared to 4Q19. Earnings per share were up 22% for the year driven by growth in their Off-Road Vehicles segment. With a focus on executing well in recovering end markets, management guided for 13% to 16% sales growth for 2021. We are monitoring their ability to navigate supply chain disruptions, and we are awaiting an announcement regarding their new CEO transition; however, we are comfortable with the interim CEO (former CFO) for the moment. We believe they can continue to capitalize on industry leading market share, their new product development, and strong retail demand.

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 **TMX** to capitalize on their recognized brand and singular focus on pest management.

Broadridge Financial Solutions, Inc. (BR), a leading provider of technology solutions for financial services, has continued to be a top long-term contributor for the strategy, but was relatively flat in 1Q21. In late March, **BR** announced the acquisition of Stockholm-based Itiviti, a global capital markets technology service provider that helps financial institutions consolidate their trading infrastructure. **BR** management has a well-defined intermediate term plan, and we believe they are on a path to deliver on their growth and return targets.

During the first quarter of 2021, we initiated a new position in **Cass Information Systems, Inc. (CASS)**, and fully exited **NIC Inc. (EGOV)** and **Aegion Corp. (AEGN)** in the Small Cap Strategy Composite.

CASS is a leading provider of integrated information and payment management solutions. In addition to being a trusted third-party vendor for multi-national corporations, **CASS** provides commercial banking services through its wholly owned subsidiary, **CASS** Commercial Bank. **CASS** faced unprecedented challenges due to the pandemic in 2020, including historically low interest rates and significantly lower transaction and dollar volumes processed in their largest manufacturing sector. In addition, as facilities were idled, dollar volumes of utility invoices decreased significantly. Despite these challenges, **CASS** continued to grow its client base and invest in technology solutions in order to more efficiently process payments. The company has maintained a strong balance sheet and with approximately $2 billion in assets **CASS** should benefit if interest rates continue to increase. In the meantime, the business is well positioned to continue growing its payments processing business as manufacturing activity picks up and the global economy recovers. We believe **CASS** has multiple paths to create value, and we believe there is significant upside as they do so.

EGOV, a leading digital government solutions and payments company, performed solidly in 2020. As the stock price approached our valuation range, we exited the position during the quarter giving attention to other opportunities competing for capital.

AEGN., a leading provider of infrastructure protection and maintenance solutions, navigated a difficult year remarkably well achieving a 40% increase in operating cash flows over 2019. In February, Aegion entered into a definitive agreement to be acquired for a 28% premium over the 30-day average share price. We exited the position and deployed the capital to other opportunities.

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	5.5	213	Terminix Global Holdings, Inc.**	TMX	3.2	-25
Polaris Inc.	PII	5.3	192	Broadridge Financial Solutions, Inc.	BR	1.2	0
Darling Ingredients, Inc.	DAR	6.4	192	NIC Inc.	EGOV	0.0	1
Extended Stay America, Inc.	STAY	5.4	188	Ingevity Corp.	NGVT	3.9	5
AGCO Corp.	AGCO	4.7	174	Frontdoor, Inc.	FTDR	2.9	22

Inception Date of Small Cap Strategy Composite: October 1, 2003. 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).*

SMALL CAP STRATEGY COMPOSITE

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										
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.

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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. 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. The small 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-capitalization companies may also be more vulnerable to adverse business and economic events than larger companies, and thus, small cap stocks may be more volatile. Small 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.

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.

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