2Q2022 SMID Cap Investment Commentary

The second quarter, early on, seemed as though it would ultimately proceed much like the first ended – with an apparent focus on persistent inflation, and thus, a continuation of investment flowing into the most inflation sensitive areas of the market. However, as we neared the end of the quarter and as sentiment shifted to fear of recession (and probably hedge fund profit-taking) the inflation "trade" seemed to be quickly reversed. As the outgoing British PM Boris Johnson suggested regarding party politics, "The herd instinct is strong and when the herd moves, it moves fast…".

The fact remains that, even with the Federal Reserve on the move, the reasons behind our current inflation challenge are wide-ranging, and, we would suggest, much more nuanced than basic supply-demand imbalances. Whether or not demand destruction takes place sooner or later due to monetary tightening, we believe that it would be less than prudent to not recognize that the global economy, and the integrity of the data it produces, has been significantly compromised because of the pandemic shut down and the subsequent philosophies and processes used by governments to "re-open." As the noise in and of the data becomes ever more dissonant – as cost of capital rises and volatility increases, we believe the SouthernSun focus on niche businesses with exceptional balance sheets and seasoned leadership can produce good results.

It could go without saying, but we will say it anyway, we are not in the business of being satisfied with losing money in any period or even losing less than an index or others. Our objective has always been clear and that is to earn our clients 10-12% above inflation per annum over the longer term.[1] Reality dictates that there will be shorter periods of time when that objective is indeed not achieved. To achieve our objective, it has always been important to muffle the noise and focus on individual businesses, their strengths and weaknesses, opportunities and risks and develop a clear understanding of the context within which they are operating.

By and large, we like the businesses that currently make up the portfolio, but we are never fully satisfied. Our balance sheets are generally strong with ample liquidity. With many of our industrial and discretionary businesses having seen tough times before the pandemic (2014-16 Industrial recession followed by 2018 initiation of trade war with China), we are pleased with the operational efficiencies that were introduced during such times and are now demonstrating the resultant benefit. It might be worth noting that such innovation and improvement would have been difficult to impossible had companies gone into those challenging environments overly geared. We believe that with experienced, rightly-fitted management, many of our businesses have an opportunity to excel amid the prospect of a more difficult environment in the days and months ahead.

If broad economic growth does indeed slow and multiples continue to contract, then one can imagine how attractive businesses with reliable mid-single digit organic growth prospects when coupled with well-funded active R&D and targeted bolt-on M&A might become … particularly if the business has a leadership team that recognizes the opportunity but has the discipline to move and prove judiciously. Not only would we characterize most of our current portfolio businesses this way, we would further suggest that our full pipeline of prospective businesses is much the same.

All this said, multiples have come down most certainly, but that does not always translate to undervalue. We would like to submit that valuations remain too high in a large portion of the marketplace, so just as we would hope would be the case with our portfolio company management teams, we will be deliberate as we deploy capital into new ideas. Remember, our goal is to own businesses that can return meaningful value to shareholders over time, not next quarter.

According to Iain McGilcrest, author of The Matter with Things, (my summer read), "The wonder of science is not that its clarity reveals how clever we are, but that it reveals, like poetry, a deeper mystery. 'The more we know', writes astrophysicist Marcelo Gleiser, 'the more exposed we are to our own ignorance, and the more we know to ask." Rest assured, we plan to keep asking.

[1] *Such targeted returns are generally aspirational in nature and not necessarily based on any criteria or assumptions.*

PORTFOLIO UPDATE

During the second quarter of 2022, the SMID Cap Composite returned approximately -11.18% on a gross basis (-11.35% net*) versus the Russell 2500™, which returned -16.98% and the Russell 2500™ Value, which returned -15.39%, over the same period. Over the trailing-twelve-months, the composite returned approximately -7.42% on a gross basis (-8.12% net*) versus the Russell 2500®, which returned -21.00% and the Russell 2500® Value, which returned -13.19%, over the same period. The strategy continues to outperform both indices on a since inception annualized gross and net basis.

Murphy USA (MUSA), a leading retailer of gasoline and convenience merchandise, was the leading contributor this quarter. In its first quarter earnings, **MUSA** reported strong results, as it continues to benefit from its position as a low-cost, high-volume retailer of fuel. Fuel margins in the c-store industry have shifted higher in recent years, likely due to cost and volume pressures faced by marginal, independent retailers, who as a group comprise a large percentage of domestic fuel marketers. Due to its advantaged locations on Walmart outparcels and its largely small footprint, low labor business model, **MUSA** disproportionately benefits from these higher fuel margins. Other data points, including growing merchandise, and food, and beverage profits and margins continue to suggest **MUSA** is being run efficiently. Management capital allocation remains focused largely on repurchasing shares with excess cash flow – since its spin-off in 2013, **MUSA** management has bought back over 50% of its shares outstanding. We believe **MUSA** retains an advantaged competitive position in the c-store industry, possesses solid long-term economics, and its management continues to both run the business and allocate its cash flows effectively.

Dycom Industries, Inc. (DY), a leading provider of engineering and construction services to the telecommunications and utility industries, is another leading contributor this quarter. The company reported 20% topline growth driven by strong demand from large customers such as AT&T, Lumen, and Frontier. Although these customers had previously announced their plans for large, multi-year fiber investments, we were pleased to see evidence of the spending start to show up in **Dycom**'s results. Higher fuel prices were a slight headwind to margins; however, Adjusted EBITDA was still up 43%. We expect margins to expand in the coming quarters as **DY** gets favorable pricing on new contracts due to a tight labor market. We believe demand for fiber deployment will continue to be strong from the company's larger customers as well as increasingly from rural utility customers as federal broadband investment dollars make their way through the system. We believe **Dycom** is well positioned to take advantage of this infrastructure investment cycle.

After a strong start to the year, **Darling Ingredients (DAR)**, a leader in renewable energy and sustainable food and feed ingredients, was the leading detractor this quarter. The company delivered record results for the first quarter achieving a combined Adjusted EBITDA of $330.7 million with the Feed Segment leading the year-over-year increase due to high raw material volumes, escalating fat prices, and robust global demand for protein and pet food. **Darling** completed its $1.1 billion acquisition of Valley Proteins in early May and within days announced it had entered into a definitive agreement to purchase Brazil's largest independent rendering company, FASA Group, for approximately $560 million. The deal is set to close by the end of 2022 and adds 14 more rendering plants plus 2 currently under construction, further enlarging Darling's ability to meet ever-increasing demand for green energy. The company is guiding full year 2022 combined adjusted EBITDA at $1.55-$1.6 billion, with Global Ingredients exceeding $1 billion in EBITDA and **Darling**'s share of Diamond Green Diesel estimated at $468.8 million, assuming 750 million gallons of renewable diesel at $1.25 per gallon EBITDA. While we can't be sure, one might deduce that the recent pullback in the share price is correlated highly with the pullback in commodities in recent weeks. We would like to point out that **Darling** is a market share leader selling niche, value-added products to customers who have few alternatives to **Darling**'s ingredients and products, and we expect the company to weather any commodity volatility from a position of strength.

AGCO Corporation (AGCO), a leading global manufacturer and distributor of agricultural equipment and solutions, was another leading detractor this quarter despite record net sales of $2.7 billion, an increase of 12.9% compared to the first quarter of 2021, and supported by an increase in sales in all four geographic regions. Though the company expects continued headwinds from higher material costs, they have so far been able to offset rising costs with their pricing strategy. At a recent Sustainable Technology event in Germany, **AGCO** highlighted their plans for growth including the globalization of their Fendt line of products, organic growth in their Precision Ag offerings, and growing their aftermarket service and parts business. We believe the company's ability and commitment to produce smart and sustainable products to meet the needs of farmers around the world will allow them to weather macroeconomic headwinds as they produce returns for shareholders. While the stock has been hit with the recent pullback in commodity prices, we expect farmer income and subsequent demand for equipment to be strong this year, and likely next year, with dealer inventory at relatively low levels and solid order boards in key regions. We spent time with management in recent weeks and continue to believe this team is well suited for the current challenges and opportunities.

During the second quarter of 2022, we fully exited **LHC Group, Inc. (LHCG)**.

We exited **LHC Group, Inc. (LHCG)**, a leading Home Health and Hospice provider in the U.S., this quarter after they announced that they have agreed to be acquired by a division of UnitedHealth. It was a top contributor for the quarter, and we believed that we'd realized the maximum value of the holding and, to avoid risk of regulations hindering the merger negotiations, we decided to exit and redeploy the capital.

Until next quarter thank you for your confidence in our firm and best wishes.

Michael Cook
CEO and Co-Chief Investment Officer
SouthernSun Asset Management

Phillip Cook
Co-Chief Investment Officer and Principal
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)
Murphy USA, Inc.	MUSA	5.6	76	Darling Ingredients, Inc.	DAR	7.2	-182
Dycom Industries, Inc.	DY	5.8	5	AGCO Corporation	AGCO	4.5	-147
LHC Group, Inc.	LHCG	0.3	-2	Univar Solutions, Inc.	UNVR	5.5	-138
IDEX Corporation	IEX	3.8	-17	Watsco, Inc.	WSO	4.5	-103
Thor Industries, Inc.	THO	4.6	-18	Crane Holdings, Co.	CR	4.8	-96

*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.*

***Source: SouthernSun Asset Management, Advent Portfolio Exchange, Factset PA. 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.*

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										
2021	23.90%	22.96%	18.18%	27.78%	0.17%	25.59%	22.48%	24.15%	7	$131	13%	$1,016
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.

SouthernSun Asset Management, LLC, an SEC registered investment adviser, is a research-driven investment management firm implementing long-only domestic and global equity strategies for institutions and individuals. SouthernSun provides investment advisory services for its clients using a proprietary investment research process based on fundamental analysis and seeks to invest in niche-dominant, attractively-valued companies with financial flexibility and uniquely-fitted management teams.

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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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