# 3Q2021 SMID Cap Investment Commentary

You may recall the concerns we expressed earlier this year regarding congestion across the value chain. We suggested that it was always going to be a challenge, no matter how technologically advanced things had become, when entire economies are shuttered, partially opened, partially or fully shuttered, then re-opened, etc., it was never just going to be a smooth, upwardly sloping ramp back to "normal." And irrespective of one's vision about the future of commerce - where one might believe that people only leisure and robots do all the work - at this very moment in time, and for now, people (labor) matter. Whatever the reasons for the shortages, whether labor, base commodities, or finished goods, turning off the tap at the source was always going to create a vacuum that disrupts the normal flow of goods and services, and oh by the way, once it does begin to flow, there tends to be lots of sediment that has been trapped in the line for years that must come out first before it runs clear. To continue the analogy, every waterline is not the same length and they have not been maintained to the same standards so the condition they are in before they are shut at the source will create very different outcomes once reopened. Alright, enough with the waterpipes. So, what might this mean to the marketplace in general and then more specifically as it relates to our portfolio companies?

Well, in part, we are seeing many of the natural consequences associated with pent up demand surging whilst suppliers of goods and services try to keep up with limited tools to adapt quickly enough. When coupled with a mostly predictable inflating circle, due in no small part to self-inflicted wounds on the policy front in our opinion, we can expect a widespread belief that, in general, growth expectations will need to come down along with margins. This is inherently going to add to investor nervousness as many companies and the analysts' who follow them revise revenue and earnings projections downward for the near to intermediate term. Equally, increased domestic and global inflation conversation will no doubt help facilitate broader market selling from time to time.

Just consider... what was once wide consensus, even at the fed et al, that this (inflation/supply chain disruption/ labor shortage, etc.) was "transitory" has steadily become a revised consensus that it may be a "longer transition". By the way, whether those who make up the consensus wish to admit it or not, altering the terms essentially permits the purveyor to extend the concept well beyond most accepted historical definitions of "transitory" so as to not be proved wrong at some point in the future. The fact is more likely that no one really knows how long it may take to normalize.

Given the myriad of variables, from the lingering impacts of COVID to the variety of choices being made on how to move forward politically and corporately, one could easily and reasonably posit a wide array of scenarios. For example, when coupled with meaningful numbers of permanent exits from the labor force, if we are in a new commodity inflation super cycle like 2004 and/or if China is slow walking goods to retaliate for aggressive trade policies, we could be in for a very long and painful stretch. Now wait for it, the classic macro caveat, "on-the-other-hand" if herd immunity plus vaccines allow for steady de-bottlenecking of ports via meaningful uptake in over the road transportation and full operational capacity returns to egg, meat, and dairy supply, as well as our industrial supporting cast then it would not be out of reason to suggest that, although not transitory, the system could be operating with adequate levels of efficiency sometime next year. You might guess that although we feel there is some value in laying out a range of outcomes to help set a rational backdrop – we do so with the experience that people and markets are not always rational.

Having read the preceding, you quite possibly came away with the proverbial goose egg or maybe you are more confused than when we began. There is some method to the madness.

When there are strong divergent views about big issues, we have been reasonably successful because we are sorting the headlines through the lens of specific businesses, not the other way around. In truth, in times just like these, we believe our close-to-the-ground research is of significant value in muffling the noise. As we have mentioned in previous quarters, we have been out in the field visiting portfolio companies as well as prospective businesses for the better part of the past twelve months with ever increasing levels of activity this calendar year. Virtually all our portfolio companies are feeling ongoing workforce challenges, to varying degrees, even if only due to continued COVID related concerns. Most have not been immune to supply disruptions but again most, we believe, appear to be adapting reasonably well up to this point. This by no means suggests that there are not wide-spread negative impacts from inflated input costs and transportation bottlenecks. There are and will likely continue for some time. Of note, for decades we have taken a somewhat irksome soapbox stance on security of supply matters across all value chains. It continues to be rather remarkable to us in some ways how variability of technological adoption is so easily ignored, and an almost blind faith based on discrete system sophistication continues to create significant issues.

For us to take advantage of the chaos, it is important for us to understand what specific issues each of our businesses face, where they are impacted the most, and how they are not only mitigating negative influences but identifying and taking advantage of unique opportunities. Just as was the case at the onset of the pandemic and lockdown, we believe the time we have spent face-to-face, over years in many cases, with management teams affords us with excellent contextual insight when internally debating each company's value to your portfolio.

Our new idea pipeline is healthy, and of the companies moving through the due diligence process, we are generally pleased with quality and price. As we continue to seek the very best long term investment opportunities amid a storm that shows little signs of abating soon, we appreciate your confidence in our team.

## PORTFOLIO UPDATE

During the third quarter of 2021, the SMID Cap Composite returned approximately -3.31% on a gross basis (-3.49% net*) versus the Russell 2500™, which returned -2.68% and the Russell 2500™ Value, which returned -2.07%, over the same period. Year-to-date, the composite returned approximately +15.37% on a gross basis (+14.71% net*) versus the Russell 2500™, which returned +13.83% and the Russell 2500™ Value, which returned +20.14%, over the same period. The strategy continues to outperform both indexes on a since inception annualized gross and net basis.

**The Brink's Co. (BCO)**, the world's largest cash management company, was the leading detractor on an absolute basis this quarter despite delivering solid results the first half of 2021. Even with the continued effects of shutdowns due to the Delta variant, the company's Q2 2021 revenue was up 27% compared to Q2 2020. Their operating margin was up 51% from $73 million in Q2 2020 to $111 million in Q2 2021 as the company benefitted from sustained cost reductions. U.S. cash processed for **BCO** was up 17% in Q2 2021 compared to Q2 2020, and up 19% when comparing Q2 2021 vs. Q2 2019. The stock price was impacted in the quarter by the company's pre-announcement that labor shortages and COVID-related shutdowns would impact Q3 and Q4 results more than previously expected. We spent time in Dallas with management during the quarter, and, with the short-term issues aside, we contend that **BCO** has a strong core business that is poised to generate substantial cash in the near and intermediate term as economies around the globe reopen. We believe this, coupled with Brink's Strategy 2.0 focusing on digital solutions appealing to a large unreached retail space, creates a strong case for seeing long-term value generation.

**Timken Co. (TKR)**, a leading global manufacturer of highly engineered bearings and mechanical power transmission components, was another leading detractor on an absolute basis this quarter. After setting a record for both sales and earnings per share in the second quarter, the company lowered full year guidance on a pre-release in September due to supply chain disruptions as well as continued inflationary pressures. Despite these near-term supply-side impacts, management believes underlying demand will continue to remain strong throughout the rest of 2021 and into 2022.

One notable source of demand is the secularly growing solar and wind energy markets, which are expected to grow at high single digits over the next decade. The higher bearing and power transmission content per megawatt for wind and solar compared to fossil energy should provide a nice tailwind for **TKR's** bearings and drives. Financial flexibility remains solid with Net Debt/EBITDA of 1.7x as of 6/30/2021, which should allow the company to continue deploying discretionary cash flow to organic growth opportunities, bolt-on acquisitions, and share repurchases in our opinion.

**Murphy USA, Inc. (MUSA)**, a leading retailer of gasoline and convenience merchandise, was the leading contributor on an absolute basis this quarter. The company continues to earn outsized fuel margins as it benefits from its low-cost, high-volume business model. In the environment created by the pandemic, competitors with lower fuel volumes and store traffic and higher embedded labor costs are forced to price at higher margins in order to support profits. As a result of being relatively less impacted by these headwinds, **MUSA** gets to benefit from these higher margins at a disproportionate rate. Owing to these trends, 2020 was a windfall year for **MUSA's** profits, and so far, 2021 is more of the same. Management continues to re-deploy profits into store expansion and renovation and an aggressive share repurchase pace -- share count is down ~9% year-over-year as of June 30.

**Thor Industries, Inc. (THO)** is another leading contributor on an absolute basis this quarter. **THO,** the world's largest manufacturer of RVs, completed a record year in the fiscal year ended July 2021, with earnings per share of $11.85, far exceeding the former earnings per share record of $8.14 set in fiscal year 2018. Immediately subsequent to quarter end, **THO** completed the $750 million "bolt-on" acquisition of Airxcel, a leading RV OEM and aftermarket supplier. **THO** management has a long track record of adding value via bolt-on acquisitions, and the company was in a good position to complete this acquisition with its strong FY21 cash flow and a modestly levered balance sheet, even after giving effect to the acquisition. We expect **THO** to post continued strong business performance in the near term, driven by both consumer demand and dealer inventory replenishment, and to prioritize debt paydown, consistent with its historic capital allocation priorities.

As always,

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 | 4.5 | 101 | The Brink's Co. | BCO | 6.3 | -114 |
| Thor Industries, Inc. | THO | 6.5 | 59 | Timken Co. | TKR | 4.9 | -97 |
| Darling Ingredients, Inc. | DAR | 7.0 | 47 | CMC Materials, Inc. | CCMP | 3.4 | -66 |
| Clean Harbors, Inc. | CLH | 3.0 | 32 | Polaris, Inc. | PII | 5.2 | -64 |
| Molina Healthcare, Inc. | MOH | 3.5 | 28 | Armstrong World Industries, Inc. | AWI | 5.2 | -56 |

*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. 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 | | | | | | | | | | |
| 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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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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