

3Q2024 Small Cap Investment Commentary

With the third quarter of 2024 closed, we reflect on the complexities that have shaped the global markets and influenced our investment strategies. SouthernSun Asset Management remains steadfast in our approach, guided by a commitment to financial resilience, rigorous research, and a focus on long-term growth. This quarter presented a mix of challenges and opportunities, driven by ongoing geopolitical uncertainties, economic fluctuations, and the rapid advancement of artificial intelligence (AI). Below is an overview of some key trends we are attempting to navigate strategically in our client portfolios.

Geopolitical Environment and Market Resilience

The global landscape has been marked by heightened geopolitical tensions, including persistent conflicts in key regions and shifting alliances. These factors have disrupted traditional trade routes and investment flows, underscoring the need for a strategy that prioritizes resilience and adaptability. We have seen increasing volatility in markets as geopolitical uncertainties create fluctuations in commodity prices, currency exchange rates, and investment inflows.

Recent shifts in the geopolitical landscape have highlighted the fragility of conventional supply chains and encouraged many governments to provide incentives to support re-shoring, onshoring or near-shoring of manufacturing. In many cases, these developments require substantial infrastructure investment to make them practical. The global infrastructure market is expected to grow at a compound annual growth rate of approximately 7.2% from 2024 to 2030 (according to a report by Future Data Stats), driven by public and private sector investments in modernization and sustainability initiatives. This presents a significant opportunity for investment, particularly as governments worldwide seek to bolster economic resilience through infrastructure spending.

In addition to investment themes around infrastructure, we have also observed the regulatory response to geopolitical shifts, which has created tailwinds for certain industries. As governments respond to geopolitical challenges, new policies often emerge that create opportunities in sectors like energy, technology, health care, and agriculture. Understanding these regulatory changes allows us to anticipate growth in sectors that benefit from policy support.

The importance of resilience in a world marked by uncertainty cannot be overstated. Economist Thomas Sowell once observed, “The march of science and technology does not imply growing intellectual complexity in the lives of most people. It often means the opposite.” This insight reminds us that while the external environment may grow more complex, the fundamental need for resilient strategies remains simple and essential.

Economic Shifts and Interest Rate Considerations

Throughout the third quarter, central banks worldwide have continued to adjust interest rates in response to inflation and economic recovery concerns. These rate changes directly affect borrowing costs, consumer behavior, and business investment decisions. In this environment, focusing on companies with financial flexibility and limited debt reliance has become even more crucial.

The Federal Reserve has maintained its policy rate at a higher level for longer than many market participants expected, and it recently began what is broadly expected to be a long-term period of loosening. If the Fed continues to lower interest rates, we believe businesses will be more willing to invest in capital products and growth projects. The broader industrial sector, for instance, is anticipated to grow by 5.6% annually through 2028 (according to a Grand View Research report), supported by ongoing investments in manufacturing, construction, robotics, and the internet of things (IoT). Not to

mention the momentum behind re-shoring, onshoring, and near-shoring mentioned above. We believe this demand is also mirrored in agriculture-related businesses, where consistent demand for food production and supply chain optimization is expected to maintain steady growth over the next decade.

Regardless of expectations around interest rates, our investment strategy prioritizes businesses with strong balance sheets, stable cash flows and operational flexibility to take advantage of opportunities. The trend towards valuing flexibility over mere efficiency is evident across industries, with companies increasingly adopting strategies to diversify revenue streams and reduce dependency on volatile markets. This shift aligns with our approach of investing in businesses that can adapt to changing economic conditions and emerge stronger from periods of uncertainty. The prioritization of financial stability over rapid growth serves as a safeguard amid unpredictable economic conditions, allowing businesses to weather fluctuations while remaining positioned for long-term gains.

Neil Howe, co-author of *The Fourth Turning*, highlighted the cyclical nature of economic and social challenges, noting, "History is seasonal, and winter is coming." His observation speaks to the inevitability of economic downturns and the necessity of preparing for them through disciplined investment strategies. As we navigate cycles, our focus remains on companies that exhibit resilience and are poised to capitalize on the recovery phases that follow economic "winters."

Embracing Artificial Intelligence and Technological Innovation

Artificial intelligence has become a pivotal force in the modern business landscape, fundamentally transforming industries and reshaping competitive dynamics. By some estimations, the global AI market is projected to grow at an astounding compound annual growth rate of 37.0%+ from 2024 to 2030 (according to a report by Grand View Research), reflecting its widespread adoption across sectors ranging from healthcare and finance to agriculture and manufacturing. We believe businesses integrating AI for operational efficiency and strategic growth should have significant opportunities in the coming years. However, some of the many challenges for traditional businesses are the reluctance to change, fear of human replacement, first mover anxiety, and cost benefit over the near term.

We seek investments in companies that leverage AI not only for cost reduction but also for enhancing product development, customer engagement, and innovation. For example, AI-driven innovations such as precision farming and automated monitoring systems in agriculture help optimize resource usage, increase crop yields, and reduce waste. These advancements align with our commitment to wise stewardship of capital and resources, promoting the efficient use of natural resources while addressing the growing global demand for food. The recent symposium we attended, convened by the University of Memphis' ACRE (The Institute for Agriculture and Conservation Research and Education), highlighted many of the opportunities and challenges faced in our food systems.

The impact of AI extends beyond traditional industries. Niche markets are witnessing a transformation as specialized companies adopt AI to modernize operations and meet evolving consumer preferences. As traditional businesses continue to integrate AI into their workflows, we are committed to identifying investment opportunities that align with these trends.

The role of technology in shaping our future was emphasized at the Alliance for Responsible Citizenship conference in autumn 2023, where leaders discussed the ethical implications and transformative potential of AI. One of our key takeaways from the conference was, "In a world increasingly defined by algorithms and data, our responsibility lies in ensuring technology serves humanity rather than the other way around." This perspective most certainly informs our approach to AI investments internally and with respect to portfolio companies.

Considering Demographic Trends and Shifting Consumer Behaviors

Demographic shifts are also influencing investment strategies across various sectors. The aging population, increasing urbanization, and evolving consumer behaviors are reshaping demand patterns and driving growth in specific industries. The global health care market, for instance, is expected to expand by 6.5% annually through 2030 (according to Future Data Stats), driven by rising health care needs associated with an aging population.

Similarly, the trend of urbanization is fueling demand for infrastructure development, with more than 68% of the world's population projected to live in urban areas by 2050 (according to the United Nations Department of Economic and Social Affairs). This supports our focus on investments in infrastructure and essential services that cater to urban communities and modern living standards. Even if the urbanization trend is less impressive, which it may well be, the types of infrastructure needed both from an urban and a rural perspective are markedly different than in the past. When coupled with already under-investment for decades, decaying legacy infrastructure should provide ample opportunity for meaningful investment returns.

As these demographic trends continue to unfold, we believe we are well-positioned to capitalize on emerging opportunities.

Outlook for the Final Quarter and Beyond

As we move into the final quarter of 2024, SouthernSun remains committed to deep research, adaptability by our team and our portfolio business leaders who steward our client capital, and a long-term growth perspective. We anticipate continued economic fluctuations, particularly with further interest rate adjustments, and will maintain our focus on companies that demonstrate resilience and stability. By remaining close to sectors and regions where underappreciated value can be anticipated or where our investments can withstand geopolitical disruptions, we aim to navigate these challenges effectively.

The expansion of AI's role in shaping the economic fabric will continue offering significant opportunities for businesses that integrate technology to enhance competitiveness and drive growth in shareholder value. We are cautiously optimistic about the potential for AI to unlock new investment possibilities in traditional businesses.

Our approach involves staying well-informed about global events and assessing their implications for the industries and markets in which our companies operate. Simultaneously, we find useful benefit in looking at any macro picture through the lens of our portfolio businesses, as they provide beneficial on-the-ground reality checks to futurist speculation. This proactive stance allows us to make strategic adjustments to our portfolio positioning over time.

Conclusion

The third quarter of 2024 has reinforced the strength of SouthernSun's investment philosophy. We believe now more than ever that finding niche dominant businesses with strong balance sheets and adaptable, shareholder-friendly leadership will prove a winning formula for driving risk-adjusted returns for our clients. By focusing on flexibility, technological innovation and strategic market positioning, we continue to navigate the complexities of the global landscape. Our commitment to thorough research and adaptability has allowed us to protect and grow your investments even in a challenging environment.

Thank you for your continued trust and support. Please reach out if you have any questions or would like to discuss how we can further tailor our insights.



Phillip Cook
Chief Investment Officer & Managing Partner
SouthernSun Asset Management



Michael Cook
Founder & Chairman
SouthernSun Asset Management

During the third quarter of 2024, the Small Cap Strategy Composite returned 10.59% on a gross basis (10.38% net) versus the Russell 2000®, which returned 9.27% and the Russell 2000® Value, which returned 10.15%, over the same period. Over the trailing-twelve-months, the composite returned 25.16% on a gross basis (24.22% net) versus the Russell 2000®, which returned 26.76% and the Russell 2000® Value, which returned 25.88%, over the same period.

Louisiana-Pacific Corporation (LPX) was the top contributor in the Small Cap strategy in the third quarter. **LPX** is a market leader in the manufacturing of engineered wood siding and oriented strand board (OSB). The company's siding products have been on a secular growth trend, taking share from other forms of siding in recent years due to a superior value proposition tied to factors such as aesthetics, ease of use, and quality. During the second quarter, **LPX** siding sales performed strongly and management increased 2024 segment guidance. Market data suggests the company is gaining share from vinyl and other siding products in the new builder, repair and remodel, and retail channels, and has a long-term opportunity to continue this trend. The company's OSB assets and leading market position remain an important component of the company's long-term value. The largest use for OSB is sheathing for residential new construction, and thus demand for OSB is correlated with housing starts. OSB prices are largely dependent on supply and demand dynamics within the industry. During the second quarter, prices were relatively strong, which combined with strong operating performance by the company, led to strong profits. Management expects lower prices and thus lower OSB profits in the third quarter. Overall, we believe recent performance underscores the quality of the company's assets and management's skill, and we continue to expect satisfactory long-term results as shareholders.

Boot Barn Holdings, Inc. (BOOT) was a top contributor in the third quarter in the Small Cap strategy. The company reported a strong second quarter with same store sales (SSS) up in all parts of the country and in all product categories, leading management to raise guidance. Sales were up both in-store and on-line while gross margins also increased to 37%. The company opened 11 new stores in the quarter, bringing the total store count to 411; **BOOT** is planning to open 60 new stores in their fiscal 2025, and we believe they have room to double that total store count in the coming years. The company currently has no debt, and they should be able to accomplish their growth objectives with internally generated cash flows (that is, without adding any debt.) We continue to have confidence in management and their ability to execute the strategy to deliver what their customers need and want while growing into new geographies across the U.S.

U.S. Physical Therapy, Inc. (USPH) was the top detractor in the third quarter in the Small Cap strategy. The company reduced guidance, primarily because they are having to spend more on salaries to attract and retain a high-quality workforce. Even though they are continuing to successfully negotiate higher rates with commercial payers, Medicare reimbursements are down again this year. They have now experienced five years of Medicare cuts in a row, in the context of higher inflation. Even with that challenge, we believe management is executing well. They are driving more visits per clinic per day, increasing revenue per visit (even offsetting the mandated Medicare reimbursement cuts), and they have found attractive new businesses to acquire using their best-in-class model for retaining and involving key employees and leaders at the acquired companies. We continue to like **USPH's** market position and value proposition in a highly fragmented industry, and we believe that they can continue to grow both their base physical therapy business and their industrial injury prevention (IIP) business. They reported \$90 million in cash to put to work in acquiring new practices, and that they expect to earn at least a low teen return on those future investments.

Ingevity Corporation (NGVT) was one of the top detractors in the Small Cap strategy in the third quarter. **Ingevity** manufactures specialty chemicals that are used in a wide range of industrial applications and consumer products as well as activated carbon used to reduce gasoline vapor emissions in automobiles. The company is undergoing a strategic shift to reduce its exposure to crude tall oil (CTO), a key raw material in its Performance Chemicals segment. Within the last year, **Ingevity** has announced the closure of two of its three refineries and is consolidating its one remaining facility. In July of this year, the company terminated its final CTO supply agreement, which resulted in a settlement charge of \$100 million. In addition, after the end of Q3, the company announced the departure of John Fortson, CEO, and named Luis Fernandez-Moreno, a long-time board member, as interim CEO. While these changes have created a lot of noise in recent months, we believe that the business will be much better positioned moving forward with a significantly lower

cost structure. Importantly, these strategic decisions have all related to the Performance Chemicals operating segment. The other two operating segments have not been impacted, and while the Advanced Polymer Technologies segment has experienced some headwinds due to broader weakness in industrial end markets, the Performance Materials business continues to benefit from both market and regulatory tailwinds as well operational efficiencies. We continue to assess our position in light of the recent strategic shifts and management changes including ongoing discussions with new and existing leaders.

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 for further information. Returns include the reinvestment of all income. Past performance is no guarantee of future results.

Top Contributors and Detractors (Absolute Return Basis)**

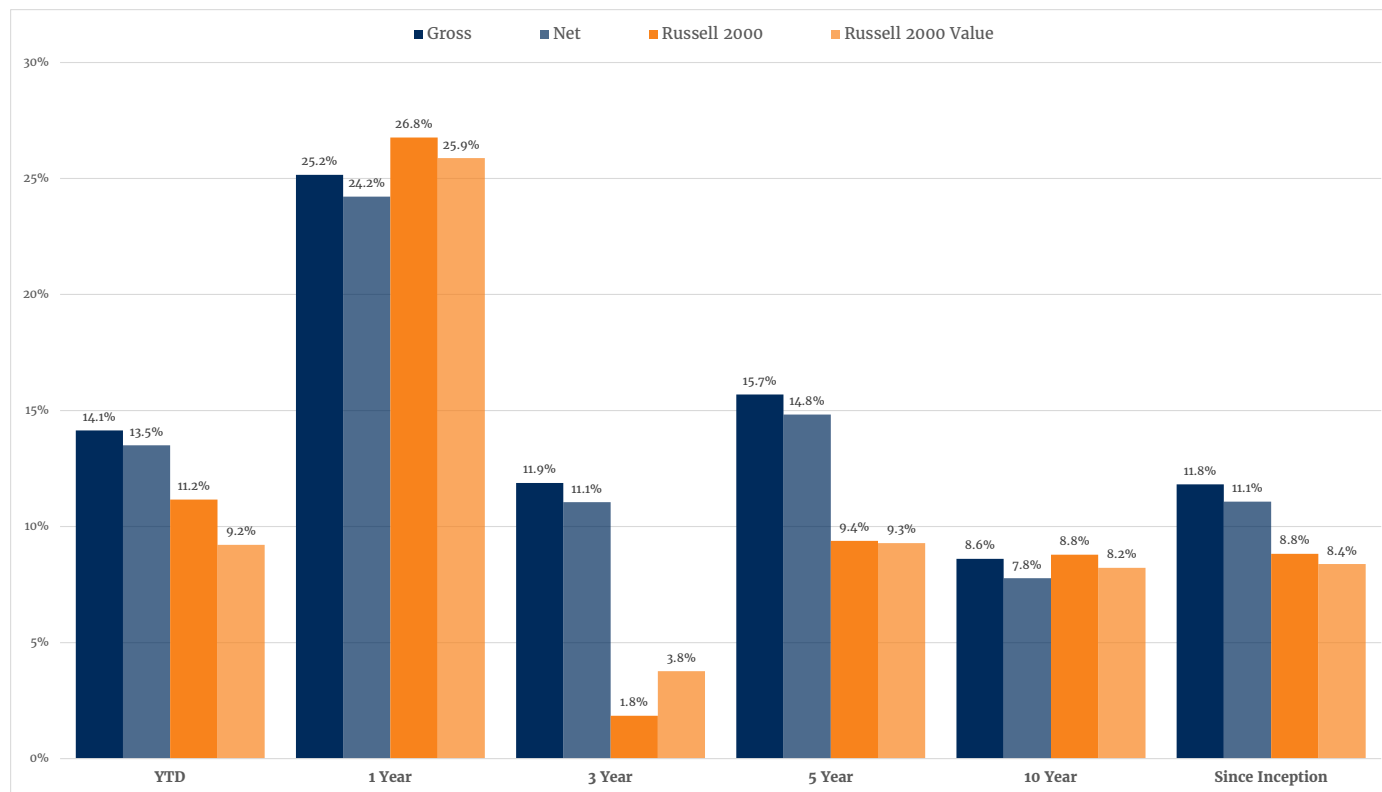
AS OF SEPTEMBER 30, 2024

Top Contributors	Ticker	Average Weighting (%)	Contribution-to Return (bps)	Top Detractors	Ticker	Average Weighting (%)	Contribution-to Return (bps)
Louisiana-Pacific Corporation	LPX	5.4	153	U.S. Physical Therapy, Inc.	USPH	5.4	-45
Boot Barn Holdings, Inc.	BOOT	5.3	150	Ingevity Corporation	NGVT	3.2	-44
Live Oak Bancshares, Inc.	LOB	4.6	147	Boston Beer Company, Inc.	SAM	4.2	-37
Belden Inc.	BDC	5.7	134	Stepan Co	SCL	3.2	-22
Dorman Products, Inc.	DORM	4.8	108	AGCO Corporation	AGCO	4.5	0

**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@southern.sunam.com.

Small Cap Annualized Performance

AS OF SEPTEMBER 30, 2024



Inception Date of Small Cap Strategy: October 1, 2003. Source: SouthernSun Asset Management, Advent Portfolio Exchange. Past performance is not indicative of future results, which may vary. As with any investment strategy there is potential for profit as well as the possibility of loss. The information presented is provided for informational purposes, reflects the performance of the strategy over the periods indicated, and should not be considered in isolation when making an investment decision. Returns are stated gross and net of management fees and include the reinvestment of dividends and other earnings. 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. Periods less than one year are not annualized. Net returns are actual and reflect the deduction of management fees. Supplemental Information: Please see required performance and disclosures for further information, including the firm's GPS presentations.

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										
2023	13.93%	13.09%	16.93%	14.65%	0.14%	21.53%	21.11%	21.75%	11	\$691	76%	\$906
2022	-0.30%	-1.02%	-20.44%	-14.48%	0.06%	26.46%	26.02%	27.27%	15	\$727	81%	\$899
2021	23.40%	22.54%	14.82%	28.27%	0.09%	25.14%	23.35%	25.00%	14	\$754	74%	\$1,016
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%	14.63%	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

¹2003 returns are from inception date of the composite: October 1, 2003. The return numbers are not annualized. ²Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. ³Information 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. 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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