

3Q2024 Small Cap Fund 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
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SouthernSun Asset Management



Michael Cook
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The **SouthernSun Small Cap Fund** (Class N) returned 10.30% versus the Russell 2000®, which returned 9.27% and the Russell 2000® Value, which returned 10.15%, during the third quarter of 2024. Over the trailing-twelve-months, the Fund returned 23.65% versus the Russell 2000®, which returned 26.76% and the Russell 2000® Value, which returned 25.88%, over the same period. Please note that this Fund has multiple share classes.

Louisiana-Pacific Corporation (LPX) was the top contributor in the Small Cap Fund 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 Fund. 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 Fund. 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 Fund 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.

FUND PERFORMANCE % ^{1,2} (AS OF 9/30/2024)								
	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	YTD	QTD	MTD
SSSFX (Class N) (%)	10.35 ³	7.23	14.43	10.45	23.65	13.08	10.30	2.88
SSSIX (Class I) (%)	12.53 ⁴	7.50	14.72	10.73	23.98	13.27	10.38	2.91
Russell 2000 (%)	8.82 ³	8.78	9.39	1.84	26.76	11.17	9.27	0.70
Russell 2000 Value (%)	8.38 ³	8.22	9.29	3.77	25.88	9.22	10.15	0.06

SSSFX (Class N) Expense Ratio (Gross/Net): 1.33%/1.33%*

SSSIX (Class I) Expense Ratio (Gross/Net) 1.08%/1.08%*

The performance data shown represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For performance information through the most recent month end, please call 901.341.2700 or visit our website at www.southernSunam.com. From time to time the advisor has waived fees or reimbursed expenses, which may have resulted in higher returns.

*Contractual waivers are in effect through January 31, 2025.

¹One-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. Returns for periods less than one year are not annualized.

²The performance information shown for periods prior to February 16, 2021 is that of the predecessor to the Fund, AMG SouthernSun Small Cap Fund, a series of AMG Funds LLC, which was reorganized into the Fund on February 16, 2021, and was managed by AMG Funds LLC and sub-advised by SouthernSun Asset Management, LLC with the same investment objective and substantially similar investment policies as those of the Fund. The performance information shown for periods prior to March 31, 2014 is that of the predecessor to the Fund, SouthernSun Small Cap Fund, a series of Northern Lights Fund Trust, which was reorganized into the Fund on March 31, 2014, and was managed by SouthernSun Asset Management, LLC with the same investment objective and substantially similar investment policies as those of the Fund.

TOP 10 HOLDINGS ⁵ (AS OF 9/30/2024)		
	TICKER	% OF ASSETS
The Brink's Co.	BCO	6.96
Belden Inc	BDC	6.51
Darling Ingredients Inc.	DAR	6.36
MGP Ingredients Inc	MGPI	6.34
Louisiana-Pacific Corp	LPX	5.96
Enerpac Tool Group	EPAC	5.82
Dycom Industries Inc	DY	5.43
US Physical Therapy Inc	USPH	5.41
Live Oak Bancshares Inc	LOB	4.94
Dorman Products Inc	DORM	4.93
Total		58.67

³Since the inception of the Fund's Class N shares on October 1, 2003.

⁴Since the inception of the Fund's Class I shares on September 30, 2009.

⁵The 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.

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Before investing in any SouthernSun funds, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. The Prospectus and Summary Prospectus contain this and other important information, which is available at www.southernsunam.com/investment-products/. Please read the Prospectus and Summary Prospectus carefully before investing.

The views expressed represent the opinions of SouthernSun Asset Management, LLC, and are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Source: SouthernSun Asset Management, Advent Portfolio Exchange, Morningstar.

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Small-Capitalization Stock Risk— Small capitalization companies in which the Fund may invest may be more vulnerable to adverse business or economic events than larger, more established companies. In particular, small capitalization companies may have limited product lines, markets and financial resources and may depend upon a relatively small management group. Therefore, small capitalization stocks may be more volatile than those of larger companies. Small capitalization stocks may be traded over-the-counter or listed on an exchange

Non-Diversified Fund Risk— The Fund is classified as “non-diversified,” which means it may invest a larger percentage of its assets in a smaller number of issuers than a diversified fund. To the extent that the Fund invests its assets in a smaller number of issuers, the Fund will be more susceptible to negative events affecting those issuers than a diversified fund.

Definitions:

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.

Net interest margin: A measure of the net return on earning assets (investment returns less interest expenses, divided by average earning assets). **Basis points (bps):** a term used in finance to refer to changes in values. One basis point equals 0.01%. **EBITDA:** earnings before interest, taxes, depreciation and amortization. **Net Debt/EBITDA:** this is calculated by taking the Net Debt (total debt – cash & equivalents) divided by the EBITDA. **Net Debt/Adj. EBITDA:** calculated by taking the Net Debt (total debt – cash & equivalents) divided by adjusted EBITDA. **EV/EBITDA:** This is calculated by taking the enterprise value divided by the EBITDA. **Cash flows:** a measure of the amount of cash generated by a company's normal business operations. **Free Cash Flow (FCF):** this is calculated by taking the operating cash flows minus capital expenditures. **Earnings yield:** This is calculated by taking the inverse of the market value (price*common shares outstanding) divided by net income before unusual expense. **Gross margin:** measures a company's gross profit compared to its revenues as a percentage.

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