

# 1Q2025 Small Cap Investment Commentary

---

Leo Tolstoy once observed, “The two most powerful warriors are patience and time.”

Greetings from Memphis,

As the Mississippi River flows just beyond my window, the record rainfall and storms of the past week are evident with the muddy river raging on the surface. Such conditions highlight the power of the river to one’s eyes, but before long, the surface of this beast will once again appear timid, flowing effortlessly and quietly to the gulf. However, to presume that calm makes it easily navigable would be a grave mistake. Below the quiet surface, the power of the river persists. By analogy, that persistence mirrors what we’ve always sought at SouthernSun Asset Management: small- to medium-sized U.S. companies with the financial backbone, market strongholds, and leadership to endure through the roughest storms and the longest seasons. Today, as we turn the page into Q2 2025, we hope to explore some of our past - not with a fleeting whim, but with conviction forged in decades of data, tempered by experience, and illuminated by a belief that the marketplace may be shifting. We see a select portfolio of fundamentally sound small- to mid-cap U.S. public equities poised to shine over the long-term, a potential born not of blind hope but of a market shedding its excesses, clearing the rubble, and revealing the strength beneath.

For too long, the market has been on a sugar high - a dizzying rush of speculative fervor and loose capital. Like a body bloated on candy, it’s been inflamed, its clarity muddled by the chase for quick, sugary wins. But we believe that high is waning and that we’re stepping into a leaner era, one I’d liken to a carnivore diet - stripped of fluff, fueled by substance, and rooted in what’s healthy and enduring. In this transition, small- and mid-cap businesses with robust fundamentals could emerge as the market’s quiet titans if folks can sweep aside the debris cluttering the road to see their steady, unyielding power. Our journey through decades of market cycles, reflected in our Small and SMID portfolio performance, underpins this belief. Let’s walk that road together, past and present, to understand why.

## **The Long View: A Road Paved with Rubble**

The Russell 2000 Index, born in 1984 (shortly before I began my investment career) by the Frank Russell Company, has been the primary small cap point of reference we’ve been most often measured against since our founding. From its infancy, it’s weathered at least 10 to 12 bear markets - drops of 20% or more from peak to trough - each a testament to the economic cycles, policy pivots, and global shocks that test small caps’ resilience more fiercely than most. To be clear, these aren’t just statistics; they’re chapters in a story of survival and revival. Let’s trace some of these pivotal moments together, overlaying our Small Portfolio’s performance against the Russell 2000 and our SMID Portfolio’s against the Russell 2500, to see how we’ve performed against our benchmarks in turbulent markets and how we’ve honed our strategy over the years to better weather the market’s storms.

- 1990: The Early 1990s Recession

The savings and loan crisis, coupled with high interest rates under Fed Chairman Paul Volcker’s lingering shadow, tipped the U.S. into recession. Small caps, sensitive to credit crunches, felt the squeeze. The Russell 2000 plummeted -19.52% as banks tightened lending and economic growth stalled. Our Small Portfolio, very much in its infancy, posted a far milder decline of -3.94% gross (-5.02% net). As it turned out, this wasn’t luck; it was an early glimpse of our focus on companies with balance sheets that could flex rather than fracture - businesses that didn’t crumble when the financial winds howled.

- 1998: Asian Financial Crisis and Russian Default

A cascade of emerging market turmoil - Thailand’s currency collapse, Indonesia’s unrest, and Russia’s debt default - ignited a global flight to safety. The Russell 2000 slipped -2.56%, a modest dip masking intra-year volatility. Our Small Portfolio

bucked the trend, gaining 4.15% gross (3.45% net), while our SMID Portfolio, fell -2.23% gross (-2.62% net) against the Russell 2500's slight 0.38% rise. What held us up? Companies with pricing power and cash reserves - attributes that shone when panic gripped markets. I vividly recall digging into balance sheets that year, finding firms that didn't need to beg for capital in a storm. That's how our craft is honed - continuously learning at every phase, never satisfied with the status quo, focused on providing high quality returns for our portfolios.

- 2000–2002: The Dot-Com Bust

The tech bubble's burst wasn't just a Silicon Valley story; it rippled through small and SMID caps as growth stocks imploded and a mild recession took hold. The Russell 2000 fell -3.03% in 2000, rose 2.49% in 2001, then plunged -20.48% in 2002 - a 3-year CAGR ("compound annual growth rate") of -7.55%. Our Small Portfolio? 8.68%, 1.65%, and 2.03% (3-year CAGR 4.07%) gross (7.91%, 0.90% and 1.26% net, respectively; net 3-year CAGR 3.31%). The SMID Portfolio outperformed too: 14.15%, 7.19%, and -3.39% (3-year CAGR 5.73%) gross (13.68%, 6.76%, and -3.77% net, respectively; net 3-year CAGR 5.31%), versus the Russell 2500's 4.26%, 1.21%, and -17.80% (-4.63%). While dot-com darlings vaporized, our holdings - specialty manufacturers, regional services - leaned on niche dominance and operational grit. The rubble of overhyped IPOs didn't bury us; it clarified our focus.

- 2007–2009: The Global Financial Crisis

A housing bubble collapse, Lehman Brothers' fall, and a banking crisis plunged the world into recession. The Russell 2000 dropped -1.57% in 2007, -33.79% in 2008, then rebounded 27.17% in 2009 (3-year CAGR -6.07%). Our Small Portfolio: 9.50%, -33.71%, and 33.41% (3-year CAGR 1.07%) gross (9.03%, -34.17%, and 32.35% net, respectively; net 3-year CAGR -1.70%). SMID Portfolio: 12.89%, -36.75%, and a striking 49.73% (3-year CAGR 2.25%) gross (12.40%, -37.03%, and 49.08% net, respectively; net 3-year CAGR 1.81%) versus the Russell 2500's 1.38%, -36.79%, and 34.39% (3-year CAGR -4.86%). We weren't immune to 2008's carnage - few were - but our rebound outpaced the indices. Cash-rich firms with adaptable leaders pulled us through. I remember meeting a CEO in '09 who'd slashed debt pre-crisis; his foresight was our gain. Benjamin Graham once wrote, "In the short run, the market is a voting machine, but in the long run, it is a weighing machine." That crisis weighed our companies' substance, and they held firm. As I wrote in 4Q08, "We believe our traditional, hands-on approach will continue to preserve and grow the funds our clients entrust with us. There is never a time when we are encouraged by losing money. This time is no different in that respect. We do believe that as a result of the events of the past year there may well be a recalibrating of risk and reward in the minds of many (at least for a time) and that our approach to evaluating and valuing companies may well emerge a more sought-after strategy. Irrespective of how the other side of this looks, we remain committed to understanding what our businesses are doing, why they are doing it, and what that may be worth to our clients one day." That conviction, tested in 2008's depths, fueled our 2009 recovery and remains our north star today.

- 2011: The European Debt Crisis

Greece's near-default and Eurozone tremors sparked a risk-off wave. The Russell 2000 fell -4.18%. Our Small Portfolio rose 6.47% gross (5.63% net), and SMID gained 4.86% gross (4.30% net) against the Russell 2500's -2.51%. While markets fretted over sovereign debt, our companies kept delivering. Flexibility mattered more than headlines.

- 2015–2016: Oil Price Collapse and Fed Tightening

Oil prices cratered from \$100 to below \$30, hammering energy-linked small caps, while Fed rate hikes loomed. The Russell 2000 dropped -4.41% in 2015, rallied 21.31% in 2016 (2-year CAGR 7.68%). Our Small Portfolio: -14.61% then 20.77% (2-year CAGR 1.55%) gross (-15.27% and 19.87 net, respectively; net 2-year CAGR 0.78%). SMID: -10.91% and 18.05% (2-year CAGR 2.55%) gross (-11.55% and 17.19% net, respectively; net 2-year CAGR 1.82%) versus the Russell 2500's -2.90% and 17.59% (2-year CAGR 6.85%). We took a hit in '15—specifically, our energy exposure wasn't zero, and the move in petroleum prices had negative implications well beyond the oil patch. Always looking to improve, we turned the pain into learnings, and set in motion a complete review of our risk mitigation process, which culminated in a measurable, comprehensive risk assessment that continues to be improved and implemented today. Further, over the past decade, the evidence suggests clear benefits accrued from the design and adoption of our new and adaptive approach to portfolio risk.

- 2018: Trade War Sell-Off

U.S.-China trade tensions and Fed rate hikes triggered a late-year rout. The Russell 2000 fell -11.01%. Our Small Portfolio dropped -23.04% gross (-23.66% net), SMID -21.14% gross (-21.75% net) - more than the Russell 2500's -10.00%. Volatility bit us hard; some portfolio holdings faced tariff pressures. Yet we held firm, confident the cycle would turn. It is useful to understand that there have been times, all throughout the past thirty-five years and shall be in the future, when the marketplace drops rapidly and then recovers, that our portfolios have both under- and outperformed in the short run during the early days of the market reversal. This, of course, makes sense in that we are not trying to "time" the market; we rather attempt to take full advantage of market dislocation by upgrading the portfolio due to depressed prices in high quality businesses we want to own longer term.

- 2020: The COVID-19 Crash

Pandemic lockdowns sent markets into freefall, followed by a swift rebound as stimulus flowed. The Russell 2000 surged 19.96% for the year after a 30%+ intra-year drop. Our Small Portfolio rose 14.58% gross (13.64% net), SMID 14.99% gross (14.07% net) versus the Russell 2500's 19.99%. We trailed slightly but sidestepped many of the weakest links. This period may be characterized as the genesis of the broad infatuation with the Mag-7.

- 2022: Inflation and Rate Hikes

Aggressive Fed tightening to curb inflation sank the Russell 2000 -20.44%. Our Small Portfolio held near flat at -0.30% gross (-1.02% net), SMID at -3.38% gross (-4.05% net) against the Russell 2500's -18.37%. This wasn't magic; it was discipline - owning companies with pricing power and low leverage, like a manufacturer we've held for years, thriving despite rate pressures. "One other point that might be worth mentioning is that many of our businesses have taken advantage of favorable operating conditions over the past few years to improve productivity and reduce long-term cost. You may recall how we emphasized in previous commentaries the importance of our businesses investing in technology and leading-edge mechanization for times much like these." This foresight, noted in 4Q08, paid dividends in 2022, cushioning us against the storm.

Reflecting on these cycles, we've often said, "We spent the first 15 years in total obscurity. In the midst of it all, we had the opportunity to really hone our craft and begin to understand what makes businesses great over long periods of time." That craft - forged through recessions, crises, and recoveries - sees rubble not as a barrier but a filter. Our long-term performance (SMID Cap Portfolio 11.1% annualized net return since inception; Small Cap Portfolio 10.5% annualized net return since inception), outpacing the indices in periods like 2000-2002, 2011, and 2022, strongly suggests the point: the strong endure. Leo Tolstoy once observed, "The two most powerful warriors are patience and time." We've wielded both, waiting out the market's tempests to harvest the rewards of resilience.

### **The Macro Shift: From Binge to Durable Substance**

The past decade's sugar binge - near-zero rates, stimulus galore, tech rallies - left many high-quality small- to medium-sized companies in the shadow. But by April 2025, the metabolism may finally be shifting. Could a growth-to-value rotation spotlight small and smid caps, as it did post-2002? Possibly, but more importantly, do we have the right businesses in our portfolios - businesses that can thrive amid the uncertainty? That's the carnivore diet - lean, efficient, lasting. As I noted in 4Q09, "policy risk and volatility are classmates," and today's tariff talks, and geopolitical sparks remind us of that truth - yet our focus on adaptable, cash-strong firms helps position us to navigate this uneven terrain.

The road is not clear. Geopolitical sparks could snarl supply chains. The Russell 2000's quality split - exposed in 1990, 2008 - persists. History's drops remind us: small caps feel risk-off moods hard. Yet we hunt outliers - the types of companies that thrived through 1998's chaos or 2020's panic. The proliferation of ETFs and index funds, along with the promised benefit of new technologies, may likely continue to capture a large portion of the equity market capital flows - in and out. To level set expectations we have little to no doubt that our portfolio companies will be subject, warranted or unwarranted, to some of the price volatility we are currently experiencing as a result.

## Three Pillars of Potential:

### *Valuation Opportunity*

This is a tricky one because, for the moment, amid the chaos, it may be challenging to determine the fundamental fallout associated with the new order of things. However, this is also a reason for encouragement. SouthernSun businesses can benefit from their simpler, more direct decision to execution orientation and structure whilst larger and more complex organization will likely struggle to right size until the tide has turned once again. We believe that that the sugar high could be fading, and the value of these quiet performers could be unlocked by a marketplace finally weighing substance over sparkle.

### *Growth Potential*

Our 14.5% and 12.6% Adjusted EPS CAGR over five years isn't a coincidence. Picture a company we've visited, its warehouses humming with automation enhanced over a decade, its management mapping expansion not through debt but through reinvested profits. This is the kind of outfit that thrives when others falter - its growth rooted in operational excellence, not market whims. Such businesses could lead a SSAM-style business renaissance, with earnings power amplified by a leaner economic landscape.

### *Market Dynamics*

Value shifts and M&A could ignite gains. As trade flows reorient - perhaps toward U.S. shores - M&A could surge, with our portfolio companies either as targets or aggressors. This isn't speculation; it's a pattern we've seen before, and we believe it's poised to accelerate as the market clears its excesses.

## **Risks: Eyes on the Horizon**

Volatility's baked in - as we write, the debt and equity markets are in rare territory with intraday moves of 5%-10% in both directions. The tariff announcements and the uncertainty of where they will eventually land, how they will impact capital flows, counterparty risk, inflation spikes or reductions, and rate hikes or cuts all pinch. Let's zero in on tariffs, particularly with China, where tensions in the South China Sea and decades of trade imbalance have boiled over into policy. In the near term - say, the next 6 to 18 months - these tariffs could hit hard. Some of our businesses - even the resilient ones - will face margin pressure as costs rise overnight. Offsetting this isn't simple - supply chains don't pivot on a dime. Green and brownfield manufacturing are not stood up overnight. The Russell 2000, with its heavy exposure to such dynamics, could crater again, as it did in 2018's trade war sell-off.

But there are also likely upsides to this mix. For example, crude oil prices have recently dipped below \$57 per barrel, a level not seen since early 2021. For the broader U.S. economy, this is a boon - cheaper fuel boosts consumer spending, eases transportation costs, and lifts margins for industries like manufacturing and retail, many of which populate our portfolio. Yet, for drillers and energy-linked small caps, it's a near-term gut punch. While this oil drop fuels economic tailwinds in the short-term, it challenges energy outliers to adapt swiftly - another layer of volatility we're watching closely.

Yet here's where SouthernSun's philosophy shines. Our boots-on-the-ground approach - plant visits, CEO sit-downs, real-time pulse-checking - helps us see beyond the headlines. This isn't guesswork; it's adaptability we've stress-tested since our inception, as we log hundreds of hours at facilities worldwide to gauge cash flow amid chaos. In the intermediate term tariffs could sting, with inflation ticking up as domestic production ramps slowly, and counterparty risk flaring if Chinese partners balk. But we have time-tested reasons to believe our 20-30-name focus endures, targeting companies with the flexibility to pivot.


The longer view, though, is where the real story unfolds. Nothing of value comes without sacrifice - modernity recoils at that notion, craving instant gratification, but we've never shied from the hard road. A reordered marketplace, with trade tilting back to U.S. domestic production, could be transformative. Picture a decade where small caps - our kind, with pricing power and lean balance sheets - become linchpins in a reshored economy. The cost? Near-term pain - volatility, profit dips, sleepless nights. The benefit? Delivering exceptional long-term results for our clients. This isn't fantasy; it's history echoing - post-WWII, post-1980s, when sacrifice birthed strength. Our process - decades of digging into fundamentals, not chasing

trends - positions us to reap those benefits, even if the market can't see it yet.

### **The Carnivore Diet: A Market Reimagined**

We stand in a unique crucible - April 2025's blend of volatility, policy upheaval, and market dislocation is unlike anything in recent memory. Yet beneath this rubble lies an opportunity : the chance to own outstanding businesses at compelling valuations. Clearing the chaos reveals what's lasted - through 1990's crunch, 2008's crash, 2020's chaos - companies built not for the sprint but the marathon. We chase bedrock, not mirages. As I've said, "Maintaining independence and motivating our employees through equity participation strengthens the alignment between the firm and our clients." Turbulent markets favor the lean and strong. Join us with conviction in what endures, for in this reordered world, the patient and disciplined stand to gain the most.

Warm Regards,



Phillip Cook  
Chief Investment Officer & Managing Partner  
SouthernSun Asset Management



Michael Cook  
Founder & Chairman  
SouthernSun Asset Management

### **PORTFOLIO UPDATE\***

---

During the first quarter of 2025, the Small Cap Strategy Composite returned -11.32% on a gross basis (-11.48% net) versus the Russell 2000®, which returned -9.48% and the Russell 2000® Value, which returned -7.74%, over the same period. Over the trailing-twelve-months, the composite returned -12.55% on a gross basis (-13.21% net) versus the Russell 2000®, which returned -4.01% and the Russell 2000® Value, which returned -3.12%, over the same period.

**Energac Tool Group Corporation (EPAC)** was the top contributor in the Small Cap strategy. This management team, led by CEO Paul Sternlieb, has done an excellent job improving profitability since he took the position 4 years ago. Over the past three years, EBITDA per share has grown at a 24% compounded rate. Leadership has begun to put more focus on commercial effectiveness and excellence, and they are beginning to see results, evidenced by recent organic growth. Also, many of **EPAC's** products are used in infrastructure construction, and they are finally beginning to see meaningful project activity in U.S. infrastructure which could help their sales in the coming quarters. In our opinion, the keys to success going forward are continued commercial and operational execution and how they will use the cash generated from this high margin business. The company continues to evaluate bolt-on M&A candidates; but, in the absence of good M&A targets, we will look for continued share buybacks.

**The Timken Company (TKR)**, a global leader in engineered bearings and industrial motion products, was a top contributor in the first quarter. Organic revenue declined 3%, largely due to softer demand in Europe, and adjusted EBITDA fell 9% — a slightly better result than expected, aided by cost-saving initiatives. Demand for **TKR's** wind turbine bearings in China has finally stabilized and changes made to the product to lower cost have helped regain market share and increase profitability. Management remains cautious on the 2025 demand outlook and is proactively targeting approximately \$75 million in cost reductions through workforce adjustments and accelerated footprint optimization. Separately, the company announced that its CEO, who had been in the role for just six months, would be stepping down. Following conversations with the company, we believe the decision was driven by personal reasons rather than performance or strategic misalignment. The former CEO, Rich Kyle, has returned as interim CEO while the board conducts a search for a permanent successor. While near-term challenges persist—including softness in certain end markets, tariff headwinds, and a leadership transition, we believe **TKR** remains a compelling long-term investment. The company's diversified portfolio of niche, market-leading engineered bearings and industrial motion products, solid financial flexibility (net debt/EBITDA of 2x), and attractive valuation at a low double-digit multiple of EPS support our positive outlook.

**Boot Barn Holdings, Inc. (BOOT)** was the top detractor in the Small Cap strategy after a very strong performance in 2024. In our opinion, **BOOT's** results have been excellent when looking back over longer periods of time. Over the

last 5 years, their EBITDA/share has grown at a 23% CAGR. In our opinion, the stock has been hit hard recently by concerns about the health of the consumer and concerns about rising costs due to tariffs on imports. The company imports approximately 30% of their products from China; however, management expects to be able to offset the impact of tariffs with pricing, and they believe that their competitors will face similar challenges. As we look forward, we believe **BOOT** has a strong market position, robust growth plans for new stores, a track record of improving margins, and a clean balance sheet.

**Live Oak Bancshares, Inc. (LOB)** was a top detractor in the first quarter in the Small Cap strategy. **Live Oak** continues to execute well on its unique approach of lending to small businesses as evidenced by the reported \$1.4 billion of loan originations in the fourth quarter, which was the second highest quarter of originations in the company's history. Management also reported continued strength in the loan pipeline and positive small business sentiment based on both government surveys as well as **Live Oak's** own internal surveys. The stock has been under pressure primarily due to the elevated provision for loan losses that the company has recorded in recent quarters as well as the macro environment and increased probability for a recession in the US. Much of the provision expense relates to loans originated between 2020 and 2022 when interest rates were at historically low levels. The vast majority of **Live Oak's** loans are floating rate, and borrowers have had to absorb the rapid increase in interest rates that occurred primarily during 2023. Approximately 70% of defaults were loans that had interest rate increases of 4% or more since origination. While **Live Oak** may continue to record elevated provision for loan losses for a few more quarters, we believe that recent trends are part of a normal credit cycle and not indicative of lower credit standards. We believe **Live Oak's** differentiated model of leveraging leading edge technology to deliver superior service to small business borrowers will allow it to create significant value to shareholders over the long-term.

During the first quarter of 2025, we fully exited **Polaris Industries, Inc. (PII)**. We initiated two new positions in **Extreme Networks, Inc. (EXTR)** and **Modine Manufacturing Company (MOD)** in the Small Cap Strategy.

We exited our position in **Polaris Industries, Inc. (PII)** in the first quarter. Outsized tariff risk was the key reason for our exit. To put it in perspective, in 2024 **Polaris** generated \$506 million in EBITDA; they currently manufacture approximately \$2 billion of product in Mexico with additional products and parts coming from Asia/China. Although we suspect they will work hard to minimize the impacts and move production around, we cannot clearly quantify the impact at this point. **Polaris** has struggled over the past few years due to slower demand exacerbated by high levels of channel inventory. Consumers have been reluctant to make big-ticket discretionary purchases after the impact that inflation has had on their discretionary income and in this environment of higher interest rates. With the magnitude of **PII's** tariff risk, a balance sheet with less flexibility than we would like, and a weak outlook for consumers, we chose to exit the position and allocate cash to new and existing holdings in the portfolio.

**Extreme Networks, Inc. (EXTR)** was a new addition to the Small Cap strategy in the first quarter of 2025. **Extreme Networks** is one of the top 3 players in the networking industry. While the industry has been dominated by Cisco and Hewlett Packard (HPE), who together have >60% share, both Cisco and HPE have developed their product/architecture with "data-centers" in mind. However, **EXTR** has taken a different tact and developed their architecture with a distributed environment as their target market. We believe **EXTR** has the opportunity to grow revenues in the low double-digit range and disrupt the industry due to product, distribution, and pricing advantages.

**Extreme Networks** believes that they have the best fabric-technology product for distributed networks, and we believe that they are well positioned for growth (especially in some specific market verticals) as customers adopt WiFi 6E and WiFi 7 which add capacity, security and cloud-based services. We believe **EXTR** offers the best technology for college campuses, stadiums, hospitals, trade fairs, and many distributed operational environments such as factories and distribution centers operating a plethora of Internet of Things (IoT) devices related to automation and shop floor applications. **EXTR's** opportunity for growth may also come due to Cisco's and HP's reputedly poor customer service, and because both of the large players are currently distracted by the integration of large acquisitions.

One of **EXTR's** growth strategies is to dis-aggregate hardware sales from service and support relationships. **EXTR** is offering some customers the opportunity to go straight to the manufacturer of network equipment without taking margin for themselves. This can represent big savings for the customer, and **EXTR's** end-game is to win the service and

support business which has high margins and recurring revenues. It is estimated that Cisco and HP earn approximately 60% margins on hardware sales, thus creating an opportunity for **EXTR** to disrupt the industry and offer attractive pricing to customers along with superior customer service.

One of **EXTR's** hallmarks is that they are easy to do business with – especially when compared to Cisco. Many small to mid-size companies outsource their IT services to Managed Service Providers (MSPs). If the MSP is using Cisco products for their customers, the MSP has a complex job of keeping up with Cisco licenses on every piece of equipment, and if the MSP loses a customer, they are still obligated to pay support for that equipment to Cisco. **EXTR** makes this process much easier and much less risky for MSPs, and **EXTR** believes that this important feature of the relationship will allow them to grow revenues in this channel.

Over the past few quarters, **EXTR** has won new business with Kroger, Washington University in St. Louis, the University of Pennsylvania Medical system, John Deere, the Dubai Convention Center, the Minnesota Vikings, and the Bank of Indonesia among others. We will continue to monitor their wins (and losses) in each of the verticals that are important to their success.

**EXTR** has consistently generated cash from operations, and they have a small amount of net debt (\$38 million) as of the end of 2024. We believe that the company can grow the top line in the low double-digits and improve operating margins as they increase the mix of cloud-based, recurring revenues with higher margins.

**Modine Manufacturing Company (MOD)** is an over 100-year-old thermal management company based in Racine, WI. The company started out producing heat exchangers for tractors but quickly expanded into the automotive market and became a major supplier of heat exchangers to leading car manufacturers. As demand for automobiles increased significantly throughout the 20th century, **Modine** expanded operations globally. However, as the automotive market matured and became more competitive, **MOD's** growth slowed, and the company went through numerous restructurings to take cost out of the business. The company attempted to diversify into the HVAC industry by buying Airedale in 2005 and Luvata in 2016, but management lacked a clear strategic vision, and the legacy automotive business continued to attract most of the time and resources.

In December 2020, **MOD's** board decided new leadership was needed and hired Neil Brinker as CEO. Brinker was previously COO at Advanced Energy (AEIS) and had experience working at IDEX Corporation (IEX) and Danaher (DANH) - both high performing industrials (we have been owners of AEIS and IEX and think highly of their business culture). After assessing the business, Brinker decided the company needed to move away from its legacy automotive parts businesses and shift resources into HVAC. He quickly implemented operational changes including reorganizing the business into 6 business units, hiring new general managers, implementing 80/20, and divesting low growth, low-margin automotive businesses. The changes yielded quick results with Adjusted EBITDA rising roughly 80% over three years.

Following the reorganization, the business reports in two segments: Climate Solutions (~58% of EBITDA) and Performance Technologies (~42% of EBITDA). The climate solutions segment designs and manufactures HVAC products such as coils, commercial indoor air quality units, and data center air handlers, chillers, and CDUs. The performance technologies segment includes legacy heat exchanger products for automotive, commercial vehicle, and off-highway applications, as well as smaller, but secularly growing heat exchangers for commercial generators and public transportation electric vehicles.

We attended the company's investor day in late 2024 and were impressed by both the management team's strength and the business outlook, which included a three-year target of nearly doubling Adjusted EBITDA. However, the share price at the time did not meet our return hurdle, so we stayed disciplined. In January, the launch of the DeepSeek R-1 LLM model in China raised concerns about the data center infrastructure required to train AI models, causing a sharp drop in **MOD's** stock price. We reassessed the business and determined that even under a scenario of reduced data center infrastructure demand, **MOD** met our return hurdle, and we purchased shares accordingly.

Inception Date of Small Cap Strategy Composite: October 1, 2003. Returns for the SouthernSun Small Cap Strategy prior to 2003 are for the SouthernSun Small Cap Managed Composite, a non-marketed composite. \*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)\*\*

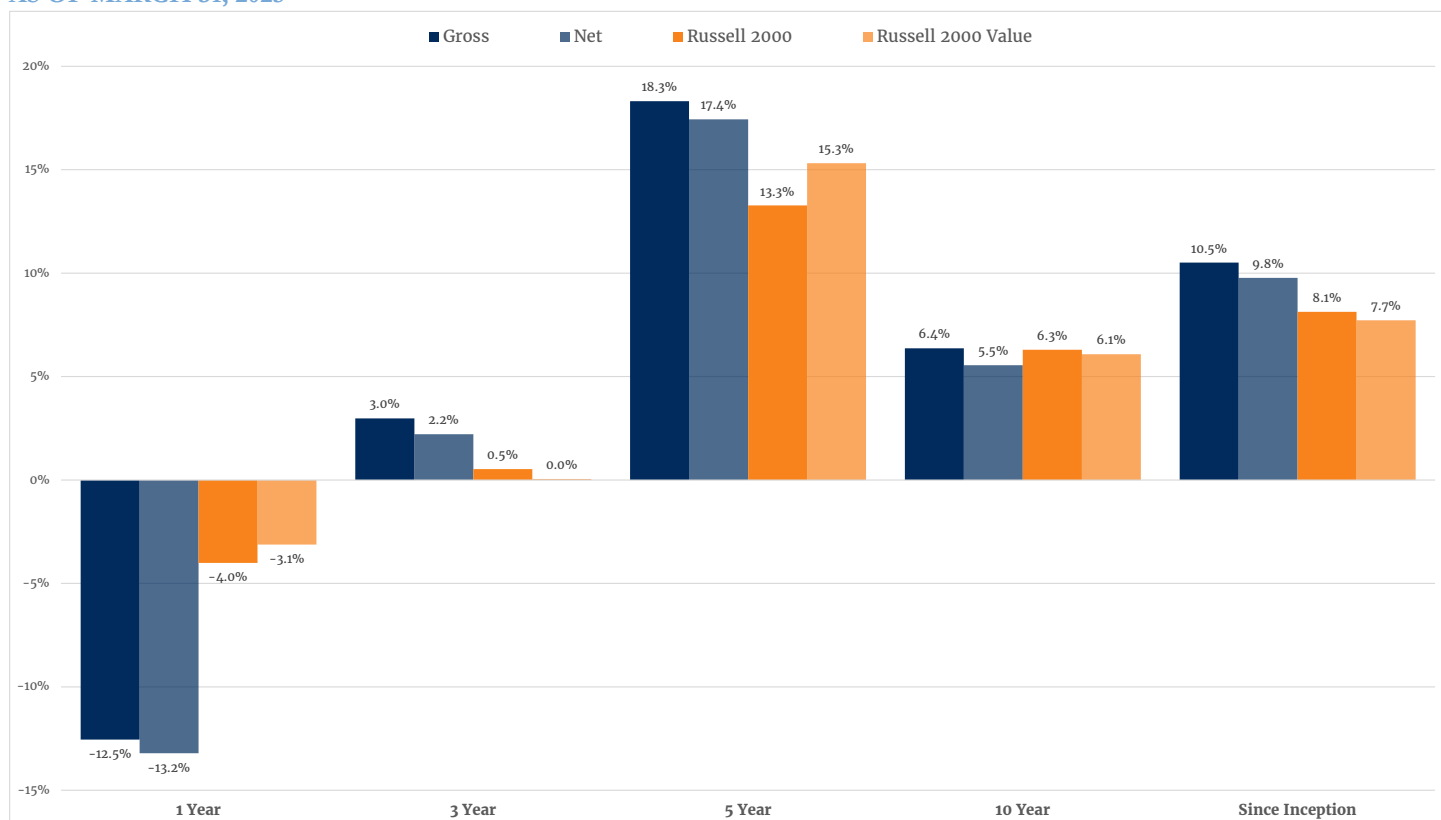
AS OF MARCH 31, 2025

Top Contributors	Ticker	Average Weighting (%)	Contribution-to Return (bps)	Top Detractors	Ticker	Average Weighting (%)	Contribution-to Return (bps)
Enerpac Tool Group Corp	EPAC	5.6	37	Boot Barn Holdings, Inc.	BOOT	5.3	-154
Timken Company	TKR	4.8	-2	Live Oak Bancshares, Inc.	LOB	4.4	-152
Armstrong World Industries, Inc.	AWI	4.4	-7	U.S. Physical Therapy, Inc.	USPH	6.0	-110
AGCO Corporation	AGCO	5.2	-11	Boston Beer Company, Inc.	SAM	3.6	-79
Ingevity Corporation	NGVT	3.7	-18	Oxford Industries, Inc.	OXM	3.1	-74

\*\*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.

## Small Cap Annualized Performance

AS OF MARCH 31, 2025



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 GIPS presentations.



## SMALL CAP STRATEGY COMPOSITE

SMALL CAP STRATEGY COMPOSITE - ASSET WEIGHTED RETURNS												
Year <sup>1</sup>	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										
2024	5.53%	4.73%	11.54%	8.05%	0.22%	23.74%	23.30%	23.44%	10	\$571	68%	\$835
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 <sup>2</sup>	15.93%	15.79%	15.76%	≤5	\$342	23%	\$1,519
2017	19.58%	18.60%	14.65%	7.84%	0.20%	15.70%	13.91%	13.97%	6	\$605	14%	\$4,213
2016	20.77%	19.87%	21.31%	31.74%	0.63%	16.61%	15.76%	15.50%	6	\$547	13%	\$4,187
2015	-14.61%	-15.27%	-4.41%	-7.47%	0.59%	16.80%	13.96%	13.46%	6	\$540	12%	\$4,542
2014	-3.26%	-3.95%	4.89%	4.22%	0.05%	14.25%	13.12%	12.79%	6	\$921	16%	\$5,696
2013	43.95%	42.81%	38.82%	34.52%	0.56%	19.17%	16.45%	15.82%	6	\$1,103	21%	\$5,317
2012	20.70%	19.79%	16.35%	18.05%	0.26%	23.98%	20.20%	19.89%	6	\$584	22%	\$2,615
2011	6.47%	5.63%	-4.18%	-5.50%	0.99%	30.96%	24.99%	26.05%	6	\$365	17%	\$2,106
2010	51.09%	49.86%	26.85%	24.50%	0.50%	33.66%	27.69%	28.37%	6	\$250	13%	\$1,974
2009	33.41%	32.35%	27.17%	20.58%	1.26%	29.89%	24.83%	25.62%	6	\$149	11%	\$1,339
2008	-33.71%	-34.17%	-33.79%	-28.92%	1.31%	21.92%	19.85%	19.14%	6	\$107	10%	\$1,025
2007	9.50%	9.03%	-1.57%	-9.78%	N/A <sup>2</sup>	13.43%	13.16%	12.59%	≤5	\$80	6%	\$1,341
2006	13.16%	12.72%	18.37%	23.48%	N/A <sup>2</sup>	13.71%	13.75%	12.33%	≤5	\$59	5%	\$1,100
2005	2.44%	2.16%	4.55%	4.71%	N/A <sup>2</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	≤5	\$48	7%	\$733
2004	25.84%	25.78%	18.33%	22.25%	N/A <sup>2</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	≤5	\$20	5%	\$410
2003	14.94%	14.94%	11.62%	13.06%	N/A <sup>2</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	≤5	<\$1	1%	\$162

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

SouthernSun Asset Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. SouthernSun Asset Management, LLC has been independently verified for the periods January 1, 1990 through December 31, 2024. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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.

**Past performance is no guarantee of future results.** As with any investment strategy, there is a potential for profit as well as the possibility of loss. Individual investor results will vary. Performance results may be materially affected by market and economic conditions.

**Important Disclosures:**

- The information provided and views expressed herein do not constitute a recommendation or investment advice of any kind nor are they an offer or solicitation to buy or sell any securities or to adopt any investment strategies or financial products. This material is not intended to be relied upon as a forecast or research in any way and should not be solely relied upon when making an investment decision.
- This material is provided solely for informational purposes and on the understanding that the recipient has sufficient knowledge and experience to be able to understand and make their own evaluations of the proposals and services described herein, any risks associated therewith, and any related legal, tax, accounting, or other material considerations. To the extent that the reader has any questions about the applicability of any specific issue discussed above to their specific portfolio or situation, they are encouraged to contact or consult with the professional advisor of their choosing.
- All investments involve risk, including possible loss of principal.
- There is no guarantee that the investment objectives will be achieved. Moreover, past performance is not a guarantee or indicator of future results, which may vary.
- Except where otherwise indicated, the information contained in this presentation is based on matters as they exist as of the date of preparation of such material and not as of the date of distribution or any future date. Recipients should not rely on this material in making any future investment decision.
- Certain information contained herein constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results, or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance, or a representation as to the future.
- Securities identified herein may not have been purchased, sold, or recommended to all advisory clients and do not represent all of the securities purchased, sold, or recommended to advisory clients.
- It should not be assumed that any of the securities or investment decisions identified herein were or will prove to be profitable, or that recommendations made in the future will be profitable or will equal the performance of the securities discussed herein. Specific investment advice references provided herein are for illustrative purposes only and are not necessarily representative of investments that will be made in the future.
- References to exited positions indicates that the position has been fully liquidated from the portfolio by SouthernSun except in instances, if applicable, where a client has instructed us otherwise.
- If applicable, any statements received directly from the account custodian should be regarded as the official record for a client’s account.
- Opinions and commentary do not take into account the investment objectives or financial situation of any particular investor or class of investors. Investors will need to consider their own circumstances before making an investment decision.
- Holdings are subject to change and should not be construed as investment advice.
- Any performance composite data utilized herein is used for illustrative purposes only and may not be inclusive of your account or reflective of the performance specific to your account. Moreover, the effect of certain markets or conditions may have impacted the performance composite data shown and may differ from the performance of your account.
- Performance data provided herein reflects the reinvestment of dividends and other earnings.
- Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. Investors cannot invest directly in an index. Comparisons to indexes have limitations because indexes have volatility and other material characteristics that may differ from the investment strategy. For example, the investment strategy typically holds substantially fewer securities than are contained in an index.
- Certain information contained herein has been obtained from third-party sources and such information has not been independently verified by SouthernSun. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by SouthernSun or any other person. While such sources are believed to be reliable, SouthernSun does not assume any responsibility for the accuracy or completeness of such information. SouthernSun does not undertake any obligation to update the information contained herein as of any future date. SouthernSun cannot be held responsible for any direct or incidental loss incurred by applying any of the information presented.
- The information herein is considered confidential, is the property of SouthernSun Asset Management LLC, and should not be copied, distributed, published, or reproduced in whole or in part without the express, written permission of SouthernSun.
- This material is only directed to persons that may lawfully receive it. You should satisfy yourself that you are lawfully permitted to receive this.

**Regulatory Disclosures:**

SouthernSun Asset Management, LLC is registered with the United States Securities and Exchange Commission (“SEC”) as an investment adviser. SEC registration does not imply a certain level of skill or training.

© 2025 SouthernSun Asset Management, LLC. All Rights Reserved.