

## 2Q2025 U.S. Equity Fund Investment Commentary

Dear Valued Clients and Partners,

As we close out the second quarter of 2025, we find ourselves reflecting on the journey we've shared over the years - decades, for some of you. At SouthernSun Asset Management, our mission has been to dig deep into the businesses we invest in, and to navigate the complexities of markets with discipline, patience, and a steadfast commitment to stewardship of your capital. The world today is as dynamic as ever, with economic currents shifting under the weight of policy changes, global trade tensions, and legislative ambitions. We could spend pages discussing Trade War scenarios, the Big Beautiful Bill (BBB), Fed Policy actions, war in the Middle East, et al. However, as always, we will ground our discussion in what we know, acknowledge what we don't, and share how we are positioning your portfolios to weather the storms and seize the opportunities.

Across dozens of company calls and meetings during the second quarter, a familiar pattern emerged: an atmosphere of cautious optimism, tempered by sobering macroeconomic uncertainties. Demand, though not absent, was often described as "sluggish," "uneven," or "lumpy." Management teams across sectors acknowledged the constraints of inflation, interest rates, and geopolitics—forces far beyond their control yet squarely within their field of influence when it comes to reaction and adaptation.

### **Cost Consciousness & Margin Stewardship**

One of the most consistent themes was a laser focus on operational discipline. Companies have moved from pandemic-era improvisation to a more methodical belt-tightening. From SG&A (Selling, General, and Administrative) reduction to lean manufacturing and strict pricing discipline, margin preservation has become a guiding principle. This is not austerity for its own sake, but rather a measured effort to defend profitability in a world where demand may not be as inelastic as once hoped. In addition, after a roller coaster for supply chains and channel inventory across industries, companies are focused on reducing inventory levels on hand and at dealers/distributors so that they are not caught flat-footed by the possibility of a further slowing in demand.

### **Capital Discipline in Action**

Over and over company leaders articulated a consistent approach to capital allocation. Cash is king again. Investment in technology, R&D (Research and Development), share repurchase programs, steady dividends, and selective M&A (Mergers and Acquisitions) reflect a commitment to shareholder return without abandoning the long-term investment horizon. The volatility year to date has provided an opportunity for several companies to more aggressively utilize existing and initiate new share repurchase programs while M&A activity has taken a bit of a back seat. From where we sit today, we would expect calculated and deliberate M&A to pick up over the coming quarters – several of our businesses would be attractive targets, but we would expect most of our businesses to be the hunter, not the hunted.

### **End-Market Challenges & Strategic Resilience**

The housing sector - especially residential, new construction - continues to feel the bite of higher rates. Yet several of our building products businesses are taking share from smaller competitors through innovation, new product introductions and expanded distribution. Farmers, pressured by commodity prices and rates as well as trade policies, are breaking even and not in a position to invest meaningfully in equipment or infrastructure and systems. This dynamic is weighing on many Ag-related businesses. Yet there was resilience, too: aftermarket services and parts - often the quieter workhorses of the income statement - provided stable, recurring revenue. These segments, while lacking the sizzle of growth narratives, offer the kind of durability we value. The U.S. consumer is feeling pressure but is resilient and likely to welcome some of the tax and other incentives in the BBB.

## **Technology as Enabler, Not Distraction**

Digital transformation showed up across sectors, from AI-powered service enhancements to ERP (Enterprise Resource Planning) system upgrades. These are not moonshot projects. Instead, they are thoughtful integrations that streamline operations, predict demand, and elevate customer experiences. The best management teams are using technology to do more with less—a lesson not just for companies, but for investors, too.

## **Common Risks, Common Sense**

Tariffs, input cost volatility, labor shortages, and rising borrowing costs made frequent appearances in our conversations with management teams. These are not new risks, but their persistence warrants attention. What stood out was not just the presence of these risks, but how management teams are recalibrating their strategies around them. Tariffs in particular have re-emerged as a significant cost driver, prompting companies to explore reshoring, leaner inventories, and domestic sourcing. The impact of the Big Beautiful Bill adds another layer of complexity, particularly as it touches manufacturing, infrastructure, and corporate tax policies. Companies that can remain nimble and capitalize on incentives while insulating themselves from associated costs may emerge with a distinct advantage.

In many ways, the mood of these calls reminded us of the quiet strength we seek in our portfolio holdings. These are companies that acknowledge uncertainty, prepare deliberately, and execute steadily. They are not guided by quarterly whims, but by enduring principles.

Tariffs and the Big Beautiful Bill are creating winners and losers, but they're also reminding us of the power of adaptability, particularly for small to medium-sized companies with minimal leverage, whose lean structures and nimbleness allow them to pivot swiftly in turbulent times. The volatility of CPI (Consumer Price Index) revisions—driven by methodological tweaks and data collection challenges—further underscores the need to look beyond government metrics and focus on real-world insights from the businesses we own.

We know tariffs are raising some costs and reshaping trade, but we do not know how far they'll extend or how quickly companies will adapt. We know the BBB promises transformative investment, but we do not know its true economic impact and the timing associated with its rollout. What we do know is that your trust in us drives everything we do. We are committed to navigating these uncertainties with the same discipline and care that have defined SouthernSun since 1989.

Thank you for your continued partnership. As always, our door is open for your questions, concerns, or just a good chat about markets and life.

Warm Regards,



Phillip Cook  
Chief Investment Officer & Managing Partner  
SouthernSun Asset Management



Michael Cook  
Founder & Chairman  
SouthernSun Asset Management

The **SouthernSun U.S. Equity Fund** (Class N) returned 9.94% versus the Russell 2500™, which returned 8.59% and the Russell 2500™ Value, which returned 7.29%, during the second quarter of 2025. Over the trailing-twelve-months, the Fund returned 1.19% versus the Russell 2500™, which returned 9.91% and the Russell 2500™ Value, which returned 10.47% over the same period. Please note that this Fund has multiple share classes.

**APi Group Corporation (APG)**, a leading provider of fire and life safety, security, elevator and escalator, and specialty services, was the top contributor in the U.S. Equity Fund this quarter. The core Safety Services segment delivered strong results, with organic revenue growth of 6% and Adjusted EBITDA growth of 21%. Organic growth was driven by continued execution of the inspection-first strategy, while margins expanded due to improvements in the international business (Chubb, acquired in 2022) and the shift to higher margin inspection and service work. In contrast, the smaller Specialty Services segment remained weak and was further impacted by adverse weather during the quarter. However, backlog grew approximately 7%, and management anticipates a return to organic growth next quarter.

We attended the Investor Day in New York this May, where management laid out ambitious plans to scale the business to over \$10 billion in revenue and \$1.6 billion in Adjusted EBITDA by 2028. While these are lofty targets, we believe the company has meaningful organic and inorganic growth opportunities, and we have strong confidence in the leadership of CEO Russ Becker and his team to execute on this vision.

**Boot Barn Holdings, Inc. (BOOT)** was a top contributor in the U.S. Equity Fund in the second quarter. After a pullback in the first quarter which we believe was due to concerns about the cost of tariffs and weakening consumer confidence, **BOOT** recovered nicely after reporting their fiscal 4th quarter and full year (2025) results. For the full year, sales were up 14.6%, and same store sales increased 5.5%. (In the current quarter, they report that same store sales are up approximately 9%). They opened 60 new stores last year, bringing their total store count to 459, and they plan on continuing to open new stores at a rate of approximately 15% new floor space per year. They shared the tariff mitigation plan which includes meaningful supply chain moves away from China in the coming quarters. All in all, the **BOOT** thesis remains intact: growth through new stores and same store sales; growth in their higher margin proprietary brands; and their balance sheet is in excellent shape with no net debt.

**Watsco, Inc. (WSO)**, the largest distributor of air conditioning, heating, and refrigeration products in North America, was the top detractor in the second quarter after being a top contributor last quarter. First-quarter results, which are seasonally slow, were mixed: strength in the core residential replacement market (up 10%) was overshadowed by softness in international markets (~9% of sales), new housing, and timing headwinds related to the transition to A2L refrigerants. Importantly, management indicated a strong start to the summer selling season and expects the ongoing shift to higher-priced A2L equipment to provide a meaningful revenue tailwind over the next couple of quarters. They also reiterated a long-term gross margin target of 30% (versus 27% in 2024) and continue to invest in technology and process improvements to support this goal. With no debt and \$432 million in cash and short-term investments, **WSO** has ample flexibility to pursue acquisitions in the highly fragmented \$74 billion North American HVAC/R distribution market. We continue to believe **WSO** has a long runway for organic and inorganic growth, an owner-oriented culture and competitive advantages that increase with scale.

**The Boston Beer Company, Inc. (SAM)** was a detractor this quarter. During the quarter, the broader beer industry experienced slower-than-expected sales, weighing on sentiment across alcohol-related stocks. Against this backdrop, sales of Twisted Tea, **SAM's** largest brand, slowed, while Truly continued to underperform. That said, brands like Angry Orchard, Dogfish Head, and newer offerings such as Hard Mountain Dew and Sun Cruiser grew year-over-year. Given its outsized share of the current portfolio, Twisted Tea's performance will likely determine the trajectory of **SAM's** near-term results. We were pleased with the company's reported first quarter results, which showed shipments rising and gross margins reaching their highest quarterly level in several years. Medium-term shipments growth will depend on industry demand trends and **SAM's** ability to execute brand-level initiatives to gain market share. Management sees further opportunities to improve margins through operational efficiencies, even without volume growth. While near-term industry trends remain challenged, we continue to believe that the "beyond beer" sector where Boston Beer is focused offers long-term growth

potential and attractive economics. **SAM** is well-positioned to compete with a strong balance sheet, established brands, solid cash flow, a growing innovation pipeline, nationwide distribution, and a proven, shareholder-aligned management team. We believe these advantages will support long-term value creation for patient investors.

During the second quarter of 2025, we initiated one new position in **MSA Safety, Inc. (MSA)** in the U.S. Equity Fund.

**MSA Safety, Inc. (MSA).** MSA's core business provides critical safety solutions for workers across various industries, including construction, oil and gas, fire service, and general industry. Their product portfolio includes gas detection instruments, fall protection equipment, head protection, and respiratory protective devices. They focus on delivering innovative technologies and connected safety solutions, ensuring worker safety and regulatory compliance in hazardous environments. **MSA Safety** holds strong market positions across its major product categories, driven by its reputation for quality, reliability, and innovation.

**MSA** has been a long-standing leader in firefighter safety equipment. They are well known for their self-Contained-breathing-apparatus (SCBA). This is a market where brand recognition, and reliability are incredibly important. The SCBAs are also used in hazardous industrial environments. **MSA's** focus on advanced filtration technologies and user comfort contributes to its strong market presence.

**MSA** is also a leading provider of fixed and portable gas detection instruments. Their products cater to diverse industries, from oil and gas to wastewater treatment, where monitoring hazardous gases is crucial. They have a significant market share due to their robust and accurate sensors, as well as their growing connected safety solutions that allow for remote monitoring and data analysis.

Other safety equipment includes products for Fall Protection including a comprehensive range of products, including harnesses, lanyards, and anchorage systems. They hold a prominent position, particularly in construction and industrial settings, where worker safety at heights is paramount. **MSA's** emphasis on ergonomic design and durable materials strengthens its competitive edge. For head protection, they have a helmet offering and they have a strong market position due to the quality and durability of their products. Overall, **MSA's** market leadership stems from its commitment to providing high-quality, reliable safety solutions that meet the evolving needs of its customers. Their focus on innovation, particularly in connected safety technologies, further solidifies their position in these critical markets.

We believe that two of their markets are poised for growth over the next 5 years: 1) Firefighter SCBAs should benefit from a wave of replacements, and **MSA's** leading technology. We believe that their biggest competitor, 3M, has not invested adequately in product improvements, and **MSA's** product is superior. 2) We also believe that customers in the portable gas detection market are adopting new "connected" technology and the market is changing in favor of MSA. An interesting development in this market is that they sell the equipment, and then have a recurring revenue stream for the connectivity software which could drive margins higher.

Mike attended the National Firefighters convention in April, and was able to spend time with the CEO, who we believe is a credible and good leader who is excited about the prospects for the business. Management believes that there are M&A opportunities in the gas detection side of the business. While 2025 will be a tough year for top-line comps because of a 1-time USAF order, and an impending standard change from the NA Fire Protection Association (NFPA) ... both, should all set up for a cleaner 2026.

**MSA's** balance sheet is solid, with  $ND/EBITDA = 0.7$ . The business throws off cash, and management believes that they can invest \$1.5B in the next 5 years to deploy to M&A (or potentially buy back stock).

We believe that we entered at an attractive point. The stock was down meaningfully in the last year and YTD, and it is trading at the lowest EV/EBITDA multiple since 2017 (under 13).

FUND PERFORMANCE % <sup>1,2</sup> (AS OF 6/30/2025)								
	SINCE INCEPTION <sup>3</sup>	10 YEAR	5 YEAR	3 YEAR	1 YEAR	YTD	QTD	MTD
SSEFX (Class N) (%)	8.23	6.30	15.16	10.53	1.19	0.08	9.94	4.14
SSEIX (Class I) (%)	8.50	6.56	15.44	10.80	1.48	0.16	9.94	4.22
Russell 2500 (%)	10.55	8.39	11.44	11.31	9.91	0.44	8.59	4.61
Russell 2500 Value (%)	9.78	7.73	13.96	10.69	10.47	1.03	7.29	4.52

SSEFX (Class N) Expense Ratio (Gross/Net): 1.41%/1.34%\*

SSEIX (Class I) Expense Ratio (Gross/Net) 1.16%/1.09%\*

**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](http://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, 2026.

<sup>1</sup>One-year, three-year, five-year, and ten-year 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.

<sup>2</sup>The performance information shown for periods prior to February 16, 2021 is that of the predecessor to the Fund, AMG SouthernSun U.S. Equity 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 U.S. Equity 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 <sup>4</sup> (AS OF 6/30/2025)		
	TICKER	% OF ASSETS
Broadridge Financial Solutions, Inc.	BR	6.80
Darling Ingredients Inc.	DAR	6.59
APi Group	APG	6.00
US Physical Therapy Inc	USPH	5.59
Boot Barn Holdings Inc	BOOT	5.20
Generac Holdings Inc	GNRC	5.14
The Brink's Co.	BCO	5.12
Belden Inc	BDC	4.87
Louisiana-Pacific Corp	LPX	4.82
Valmont Industries Inc	VMI	4.62
Total		54.75

<sup>3</sup>Since the inception of the Fund's share classes on April 10, 2012.

<sup>4</sup>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.

The SouthernSun funds are distributed by SEI Investments Distribution Co. (SIDCO). The Funds are managed by SouthernSun Asset Management, LLC. SIDCO is not affiliated with SouthernSun Asset Management, LLC or any of its affiliates. SIDCO is a member of FINRA/SIPC.



## Important Information:

**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/](http://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.

Statements received directly from the account custodian should be regarded as the official record for a client's account. This information is being furnished to you for informational purposes only and should not be solely relied upon when making an investment decision. All information has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed.

**Small- and Mid-Capitalization Companies Risk** — The small- and mid-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, investments in these small- and mid-sized companies may pose additional risks, including liquidity risk, because these companies tend to have limited product lines, markets and financial resources, and may depend upon a relatively small management group. Therefore, small- and mid-cap stocks may be more volatile than those of larger companies. These securities 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 2500 Index** measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as “smid” cap. The Russell 2500 Index is a subset of the Russell 3000 Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The **Russell 2500 Value Index** measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies that are considered more value oriented relative to the overall market as defined by Russell's leading style methodology. Frank Russell Company (“FRC”) is the source and owner of the Russell Index Information contained or reflected in this material and all trademarks and copyrights related thereto. The Russell Index Information may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. For more information on either index, please consult Frank Russell Company.

**Cash on cash returns:** Annual pre-tax cash flow divided by total cash invested. **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. **Return on invested capital (ROIC)** is the rate of return earned by a company from reinvesting the funds contributed by its capital providers.

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