

Small-Cap Strategy Commentary 1Q22

Portfolio Characteristics

Price-to-Value	high-50s%
# of Holdings	17
% of Cash	12.3%
Portfolio Yield	1.7%

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	Annualized Total Return					
	1Q (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Small-Cap Strategy (Gross)	0.30	2.01	11.36	7.25	11.58	9.75
Small-Cap Strategy (Net)	0.05	1.02	10.34	6.25	10.50	8.68
Russell 2000	-7.53	-5.79	11.74	9.74	11.04	7.99
Russell 2000 Value	-2.40	3.32	12.73	8.57	10.54	6.90

*Since Inception 12/31/2006

The Small-Cap Strategy added 0.05% in the first quarter, meaningfully outperforming the Russell 2000 Index, which declined 7.53%. In a volatile quarter for markets across the globe, our companies made solid progress across the board. Better relative stock performance across most sectors drove our outperformance. Our investment in US natural gas company CNX Resources was the strongest absolute performer, as demand for domestic natural gas increased and energy prices skyrocketed due to Russia's invasion of Ukraine. We wrote more extensively on our views on the expected impact of the ongoing conflict [here](#). Our appraisal values grew nicely across most of our businesses thanks to our aligned management teams that are taking steps to create value for shareholders.

We encourage you to watch our [video](#) with Portfolio Managers Ross Glotzbach and Staley Cates for a more detailed review of the quarter.

Contribution to Return

1Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)
CNX Resources	51	2.61
Oscar Health	28	1.60
White Mountains Insurance	13	0.54
Empire State Realty	11	0.50
Mattel	3	0.33

1Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)
Vimeo	-34	-1.28
LANXESS	-28	-1.19
Lumen	-8	-0.98
Lazard	-20	-0.96
RenaissanceRe	-6	-0.41

Performance Commentary

- CNX Resources:** CNX appreciated as energy prices increased dramatically, and the critical nature of natural gas infrastructure and its ability to support Europe in limiting its dependence on Russia as an energy source was broadly recognized. CNX saw the benefits of its extensive share buyback program over the last year+ with free cash flow (FCF) nearing \$3 per share. CNX increased the diversity and depth of experience of its board and executive management team in the quarter with the addition of Robert Agbede as a board director, Ravi Srivastava as President of New Technologies, and Hayley Scott as Chief Risk Officer.
- Oscar Health:** A new position in 4Q 2021, US health insurance and software platform Oscar Health rebounded from dramatic post-IPO lows seen in 2021 (which gave us the opportunity to initiate the position). The company had become overly discounted primarily due to confusing financials and near-term losses as the company rapidly grew its health insurance subsidiary. In the first quarter, Oscar reported strong revenue growth and outlined expectations for higher long-term margins at its analyst day.
- Vimeo:** Another new purchase in 4Q 2021, Vimeo, which was spun out of IAC last year, declined among a dramatic pullback in digital software companies in the quarter. This software company is misperceived and traded as a consumer business when it actually has a strongly growing enterprise business, but it is

growing solidly at a 20% topline rate in the capable hands of CEO Anjali Sud and Chairman Joey Levin from IAC.

- **Lanxess:** German-listed specialty chemical company Lanxess’s cyclical exposure to commodities and industrial inputs weighed heavily on its share price in the quarter. While we invested in this German-listed company because of its ownership of previous Small-Cap Fund winner Chemtura, its exposure to Russian gas drove the stock price in the quarter. This is a still-evolving situation where the European headlines do not relate 100% to the full value of this company. Management has shifted the fundamental profile of the business from a legacy European commodity chemicals business to a much higher quality global specialty chemical company today. CEO Matthias Zachert recently indicated that Lanxess is considering strategic options for its High Performance Materials division, which we think would be a good move.
- **Lumen:** Lumen reported weak organic revenue growth and guided more weakness for 2022. We expect revenue growth to kick back in towards the end of 2022, and the huge FCF coupon helped offset value decline from the weaker guidance. The other factor weighing on the stock price was largest shareholder Temasek’s partial sale of its 10% position in the quarter, creating uncertainty and a share price overhang. We have a 13D filed and continue to urge the company to take steps to address the significant price-to-value gap, including continued share buybacks.

Portfolio Activity

Summary of Trade Activity in 1Q

New Purchases	Full Exits
No New Purchases	No Complete Exits

After adding five new positions in the second half of last year, we built out several of these newer holdings in the first quarter but did not buy any new businesses. We trimmed some of our stronger performers. We have 12% cash, and our on-deck list is growing longer amid market volatility. New investments have a high hurdle to qualify

given our conviction in our current holdings and the steep discount of the portfolio, which trades at a High-50s% price-to-value ratio.

Outlook

In a challenging period of global uncertainty – amid fears of a potential world war, ongoing COVID concerns, rising interest rates/growing inflation and the potential for a pending recession – we were pleased with the solid progress made and value growth seen across our portfolio holdings. We own companies that have pricing power that can price through cost increases and grow their profitability as a result. Our companies come from a position of financial strength with aligned, proven management teams that can take proactive steps to manage through challenging market environments.

See following pages for important disclosures.

Southeastern Asset Management can be found in our ADV Part 2, available at www.southeasternasset.com. Statements regarding securities are not recommendations to buy or sell the securities discussed. The statements and opinions expressed are those of the author and are as of the date of this report. Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Current and future holdings are subject to risk and past performance does not guarantee future results. Strategy information is based on a sample account at March 31, 2022. Portfolio makeup and performance will vary on many factors, including client guidelines and market conditions.

P/V (“price-to-value”) is a calculation that compares the prices of the stocks in a portfolio to Southeastern’s appraisal of their intrinsic values. The ratio represents a single data point about a strategy and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

“Margin of Safety” is a reference to the difference between a stock’s market price and Southeastern’s calculated appraisal value. It is not a guarantee of investment performance or returns.

SOUTHEASTERN ASSET MANAGEMENT, INC.
INSTITUTIONAL US EQUITY
COMPOSITE GIPS REPORT

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	Russell 2000 (with dividends)	Annual Performance Results Composite		Composite Dispersion	Composite 3-Yr Annualized EX-Post Standard Deviation	Benchmark 3-Yr Annualized EX-Post Standard Deviation
					Gross	Net			
2021	10,816	1	<5	14.8%	11.9%	10.9%	na1	37.3%	23.4%
2020	10,270	38	<5	20.0%	11.3%	10.3%	na1	38.0%	25.3%
2019	12,481	34	<5	25.5%	19.0%	17.9%	na1	12.9%	15.7%
2018	13,881	29	<5	-11.0%	-6.3%	-7.2%	na1	11.4%	15.8%
2017	18,203	31	<5	14.7%	3.3%	2.2%	na1	10.7%	13.9%
2016	19,302	55	<5	21.3%	25.0%	23.7%	na1	10.8%	15.8%
2015	20,315	44	<5	-4.4%	-2.8%	-3.8%	na1	10.3%	14.0%
2014	30,542	46	<5	4.9%	13.7%	12.5%	na1	9.4%	13.1%
2013	34,914	50	<5	38.8%	32.9%	31.6%	na1	14.6%	16.5%
2012	31,752	38	<5	16.4%	27.5%	26.2%	na1	19.0%	20.2%

Institutional U.S. Small-Cap Equity Composite - Portfolios included in this composite normally contain 18-22 securities. Sector and industry weightings are a by-product of bottom-up investment decisions, and market capitalization ranges from over \$1 billion up to sizes found within small-cap indices. Assets held in non-U.S. investments generally do not exceed 30% of portfolios. Cash is a by-product of a lack of investment opportunities that meet Southeastern's criteria. The benchmark used for comparison is the Russell 2000 with dividends.

Southeastern Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Southeastern Asset Management, Inc. has been independently verified for the periods January 1, 2001 through December 31, 2021. 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. The verification reports are available upon request.

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Results are based on fully discretionary portfolios under management that are managed without regard to tax considerations. Past performance is not indicative of future results.

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.

The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management and performance fees and include the reinvestment of income. Dividends are recorded either gross or net of foreign withholding taxes based on the treatment of these taxes by the accounts' custodian. Net of fee performance is calculated using actual management and performance fees. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the portfolios in the composite the entire year. Composite dispersion and 3 year annualized ex-post standard deviation are reported using gross returns. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The investment management fee schedule is 1% on the first \$25 million and then 0.75% on the balance. Actual investment advisory fees incurred by clients may vary.

The Institutional U.S. Small-Cap Equity Composite was created July 1, 2011. The inception date for this composite is December 31, 2006