SOUND SHORE FUND
P.O. BOX 588
PORTLAND, ME 04112

December 31, 2020

Dear Investor:

The Sound Shore Fund Investor (SSHFX) and Institutional (SSHVX) class shares advanced 21.03% and 21.08%, respectively, in the 4th quarter of 2020, finishing well ahead of the Russell 1000 Value Index (Russell Value) which was up 16.25% and the Standard & Poor's 500 Index (S&P 500) which was up 12.15%. The 2020 full year advances for SSHFX of 7.78% and for SSHVX of 7.95% were nicely ahead of the Russell Value's 2.80% and trailed the S&P 500's 18.40%. As long term investors, we highlight that Sound Shore's 20-year annualized returns of 7.00% and 7.20%, for SSHFX and SSHVX, respectively, were ahead of the Russell Value at 6.82% and trailed the S&P 500 at 7.47%.

We are required by FINRA to say that: Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For the most recent month-end performance, please visit the Fund's website at www.soundshorefund.com.

As 2020 drew to a close, all of us at Sound Shore reflected on what we are thankful for. Thankful for our health and that of our families, colleagues and our broader community. We understand not everyone has been so fortunate. Thankful that scientists and clinicians can innovate quickly to respond to the pandemic with extraordinary speed. We are especially grateful for the heroism of the healthcare community, first responders, teachers and essential workers during the COVID-19 outbreak. If there is a silver lining for this year, it has been the not so gentle reminder that we rely upon each other. We certainly plan to keep that memory with us as we manage our way through 2021 and beyond.

2020 returns for SSHFX of 7.78% and SSHVX of 7.95% outperformed the Russell 1000 Value Index return of 2.80% by a healthy 4.98% and 5.15%, respectively. The last twelve months proved as volatile as any, and Sound Shore's outperformance was driven by our focused portfolio of undervalued, high quality businesses that are growing and winning in their industries. Over four decades and numerous market cycles and periods of uncertainty, we've learned that conviction, judgement and stock picking are what deliver results. This year was confirmation that our strategy doesn't need a value market to produce attractive returns.

Our long-term investment process looks forward to assessing where a company's normal earning power will be. When stocks sold off sharply and broadly due to COVID-19 concerns during the first quarter of the year, we reacted to the short term changes that resulted from the virus. We trimmed exposure to holdings in the travel and automotive sectors we felt had uncertain outcomes in a stalled economy. Additionally, we eliminated an insurer that was levered to rates in favor of financials we believe are more attractively positioned. Meanwhile, throughout the year we took advantage of several sell-offs to add to existing holdings and initiate investments in companies employing durable strategies.

Our third quarter addition of contract manufacturer Flex provides a great example. Originally an electronics-focused outsource manufacturer with highly cyclical cash flows and short product lifecycles, the company has evolved its customer base toward the capital goods, automotive and healthcare industries. Having successfully recast itself as a longer-cycle, "new industrial," Flex's stock is benefitting from more stable and diversified cash flows and more consistent revenue growth. CEO Revathi Advaithi joined in early 2019 and she has

refocused the company by accelerating the transition to these longer-cycle businesses. Moreover, the company has been shareholder oriented, using the company's ample free cash to reduce shares outstanding by 35% in the last decade. Lastly, Flex's Nextracker division should provide nice upside. The solar tracking company manufactures motors, software and systems for utility-scale power generation projects and business is growing quickly as the shift toward sustainable energy sources hastens. We believe Nextracker is underappreciated and could represent a significant amount of hidden value. At 13 times earnings Flex is a very attractive risk reward opportunity.

Similarly, our investment in Eaton is another great Sound Shore case study. Eaton is an electrical equipment maker that we were able to purchase in 2018 when it was trading below normal at 13 times earnings. The stock gained 31% in 2020 and outperformed its industrial peers. Over the last ten years, Eaton has methodically repositioned its business mix to a high value-add, electrical parts and aerospace business that now represents greater than 75% of operating earnings. This transformation has positioned the company well for the surge in demand for electric energy efficiency and environmentally friendly solutions. In addition, Eaton's experienced management is focused on capital efficiency and has executed on improving organic revenue growth and improved profitability. The company is generating substantial free cash flow and has returned 6% of capital to shareholders through dividends and buybacks for the year. Even after the stock's recent performance, it is still reasonably valued on free cash flow and remains a holding.

As mentioned earlier, periods of uncertainty often create the best opportunities for our strategy. Sound Shore's ability to remain nimble while preserving a long-term view is a definitive competitive advantage, and increasingly rare in the investment industry. Though we reduced our portfolio's exposure to original equipment auto manufacturers (OEM) during the selloff in March, we pivoted to opportunities our team identified in the specialty suppliers to the OEMs. One such company is Aptiv, our strongest contributor for the year. Formerly Delphi Automotive, Aptiv is a global technology and parts supplier to the transportation industry that makes electrical and active safety solutions for legacy vehicles as well as for the electric and automated cars of the future. We initiated our position in Aptiv during the market sell-off in March 2020 when the stock pulled back more than 60%. Our investment team has been following the company for a number of years and, given the opportunity to add the name at less than ten times normalized earnings, we acted quickly. Aptiv is a technology-driven business with excellent growth prospects. As global auto demand recovers, Aptiv's content per vehicle will continue to increase and its business will benefit from the evolution of the automotive industry.

Each of the portfolio holdings above represent the type of high quality investments we have been able to identify that are capitalizing on change. Not just change in their traditional end markets, but change in the way the companies are managed. This adaptation includes the important effort to decrease carbon intensity, increase electrical efficiency, conserve resources and reduce reliance on internal combustion engines.

The mindset of company managements is shifting and those that are succeeding have their eyes on the future. These are businesses that we have long described as being on *the right side of disruption.* An important area of change that has evolved is Environmental, Social and Governance (ESG) corporate disclosure. We believe in the adage from US Supreme Court Justice Brandeis that "sunlight is the best disinfectant," and that is one reason we have been signatories to the UN Principles for Responsible Investing (UN PRI) since 2016. Among its many goals is the increase in corporate disclosure that Sound Shore has embraced since our 1978 inception. The concept is just beginning to become widely adopted and we believe is an important step towards measurement and accountability. While this positive trend of increased

disclosure will continue to evolve, we must remember that "Not everything that can be counted counts and not everything that counts can be counted." (Attributed to Albert Einstein) We believe assessing ESG factors is a benefit of active portfolio management, but it will be important as always to focus on issues material to our investment thesis in order to inform judgement. Our investment team holds more than 500 company meetings per year, engaging with managements on a variety of issues and encouraging them to balance short-term forecasts and guidance with a focus on enduring goals that can sustainably improve their competitive advantage over time. Many of the issues we have always discussed with companies are now considered to be components of ESG best practices and the increased attention has provided more disclosure and data. Accordingly, we have committed to further integrate these efforts into our investment process.

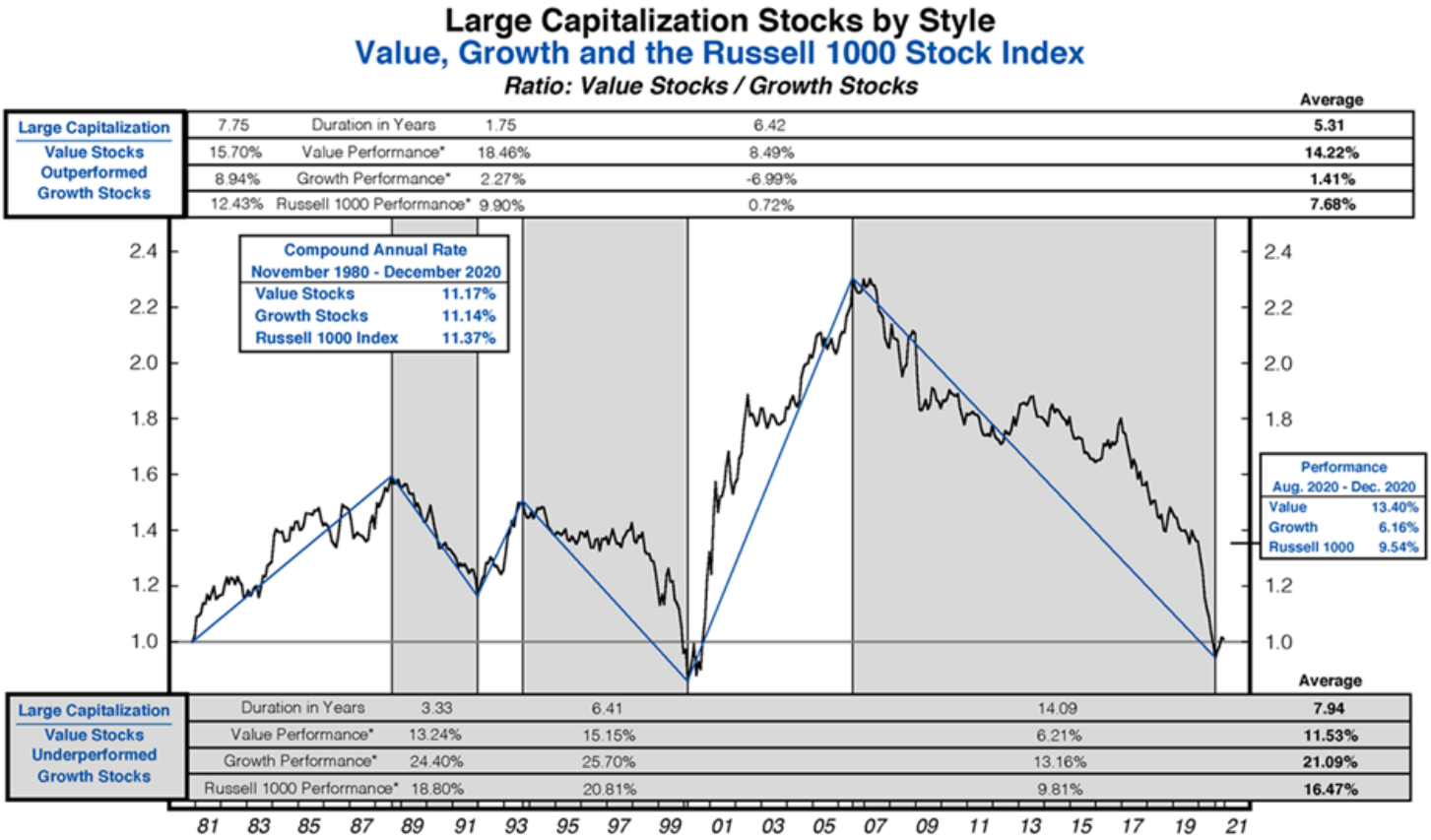
Active management also plays a critical role in the cheapest parts of the market. Broadly speaking, two sectors have largely contributed to value underperforming in recent years…energy and financial services. Both sectors are full of statistically cheap stocks so knowing what you own and where your exposures lie is critical. While we have been very selective within energy, our investments in the sector have experienced mixed results as the industry continues to undergo tremendous change. That said, we continue to look for attractive opportunities within and around the energy/power industries as they transition to renewable sources and focus on better returns. The portfolio has been overweight financials and our investments have been targeted on what we believe are the highest quality banks, financial services and insurance companies…those with excess capital and technology driven business models that can grow in a prolonged low rate environment. For example, SVB Financial, a specialty bank in Silicon Valley, gained 70% in 2020, while many of its peers finished lower for the year. A truly unique asset, we believe SVB is the most dynamic bank in the tech, healthcare, life science and venture capital arenas. The company has the potential to continue to generate outsized growth and returns, focusing on the innovation economy globally. We were able to purchase the stock at an attractive ten times earnings and below normal on tangible book value.

Looking back on the last twelve months reminds us of legendary value investor Benjamin Graham and his fictional character, *Mr. Market*. Graham described *Mr. Market* as a fickle investor whose estimate of a business's value would swing from very pessimistic to wildly optimistic. There was a tremendous amount of stock price volatility during 2020. The market provided us with some very attractive entry points for both existing and new positions. At other moments, the market offered equally attractive opportunities to harvest gains in some of our best performing stocks. Two sales that stand out…software leader Microsoft and lab supplier Thermo Fisher. We were able to purchase both these companies at between 10-12 times earnings in the post-financial crisis period. At the time, *Mr. Market* offered these businesses at extremely low prices versus what our analysis estimated their future earnings power to be. Both stocks turned out to be successful long-term investments for our investors. But with valuations reflecting most of their ample future growth prospects, *Mr. Market* made us an offer we couldn't refuse.

And so as the page turns on a tiring and seemingly endless 2020, our focus is on where the opportunities are for the next few years. Speaking of tired, we know many are weary of the value/growth debate. But, it's worth mentioning that the 35% performance gap between the Russell Value (+2.8%) and Russell 1000 Growth (+38.5%) indices was its worst year on record, despite the fourth quarter's value rally. The chart below illustrates just how great the disparity between the two has been over the last decade.

SOUND SHORE FUND

VALUE VS. GROWTH AT HISTORICAL LOWS



Shaded areas represent periods where Growth outperformed Value Stocks.
November 1980 = 1.00
*Expressed as a Compound Annual Rate • Averages do not include the current period to date.
Sources: FTSE Russell • Copyright © 2021 Crandall, Pierce & Company • All rights reserved.

We have discussed this issue a number of times in the last few years and without question, historically low interest rates and disruption have played a major role. As always, a critical factor is what the market is currently discounting and how that might change. We are loathe to predict as we know outcomes are varied and our process is not dependent upon perfect timing of macro dynamics. But, expectations for inflation and interest rates are at generational lows. In a remarkable statement on December 16, 2020, Federal Reserve Chairman Jerome Powell said "Admittedly P/Es (price-to-earnings multiples) are high. But that's maybe not as relevant in a world where we think the 10-year Treasury is going to be lower than it's been historically from a return perspective." The market has taken note and is discounting low inflation and rates anchored around zero for the foreseeable future. Although valuation doesn't define inflection points, the chart above clearly shows the opportunity for patient investors. Still, the value/growth debate often is too binary and rigid and it

will be essential for Sound Shore to remain selective. Value to us is buying companies with greater earnings power and growth potential than is reflected in the current price, regardless of which index a stock may reside.

We understand that after a solid 2020 Sound Shore must continue to execute in order to deliver the returns both we and our investors expect. Within our portfolio we have witnessed the winds of change as our holdings responded well to company-specific drivers of performance, signaling a more balanced market with regard to macro and micro factors. Meanwhile, we are continuously researching stocks that are cheap versus their historic norms and the market, where value is building ahead of expectations. In the current environment, our emphasis on stock-specific sources of outperformance should prove as relevant as ever. With a backdrop of a highly concentrated, fairly valued market, we believe our portfolio, with an average twelve month forward P/E ratio of 14.8 times versus the S&P 500 of 22.1 times and the Russell Value of 17.3 times, has ample room to run. Even more important is what the P/E for our portfolio will be, based on earnings after the recession. It is likely to be significantly cheaper on earnings power out a year or two more.

Finally, we want to mention how grateful we are to be part of a firm with experienced and dedicated professionals who have proven they can react and remain focused on our portfolio and our clients during a time of crisis. We remain well aligned with our investors and appreciate your investment alongside our own.

Sincerely,

SOUND SHORE FUND

Harry Burn, III
John P. DeGulis
T. Gibbs Kane, Jr.

Co-Portfolio Managers

Important Information

Performance data quoted represents past performance and is no guarantee of future results. The Fund's Investor Class 1, 5, and 10-year average annual total returns for the period ended December 31, 2020 were 7.78%, 9.11%, and 10.03%, respectively. The Fund's Institutional Class 1, 5, and 10-year average annual total returns for the same period were 7.95%, 9.29%, and 10.22%, respectively. Fund returns assume the reinvestment of all dividend and capital gain distributions. As stated in the current prospectus, the total annual operating expense ratio (gross) is 0.91% for the Investor Class and 0.82% for the Institutional Class. The net expense ratio for the Institutional Class is 0.75% pursuant to an expense limitation agreement between the Adviser and the Fund. This agreement is in effect until at least May 1, 2021. The performance for the Institutional Class prior to its inception on 12/9/13 is based on the performance of the Investor Class, adjusted to reflect the lower expense ratio of the Institutional Class (net of expense reimbursements).

The Standard & Poor's 500 Index is an unmanaged index representing the average performance of 500 widely held, publicly traded, large capitalization stocks. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. It is not possible to invest directly in an Index. Data presented reflects that of the underlying holdings of the Fund, not of the Fund itself. Forward P/E (estimated price-to-earnings) is a measure of the P/E using forecasted earnings for the P/E calculation.

This letter may contain discussions about certain investments both held and not held in the portfolio. As required by the Financial Industry Regulatory Authority (FINRA), we must remind you that current and future portfolio holdings are subject to risk. Percent of net assets as of 12/31/20: Aptiv PLC: 2.01%; Eaton Corporation PLC: 1.71%; Flex Ltd.: 3.40%; Microsoft Corp.: 0.00%; SVB Financial Group: 2.01%; and Thermo Fisher Scientific, Inc.: 0.00%.

An investment in the Fund is subject to risk, including the possible loss of principal amount invested. Mid Cap Risk: Securities of medium sized companies may be more volatile and more difficult to liquidate during market downturns than securities of large, more widely traded companies. Foreign Securities Risk: The Fund may invest in foreign securities primarily in the form of American Depositary Receipts. Investing in the securities of foreign issuers also involves certain special risks, which are not typically associated with investing in U.S. dollar-denominated securities or quoted securities of U.S. issuers including increased risks of adverse issuer, political, regulatory, market or economic developments, changes in currency rates and in exchange control regulations. The Fund is also subject to other risks, including, but not limited to, risks associated with value investing.

The views in this letter were those of the Fund managers as of 12/31/20 and may not necessarily reflect their views on the date this letter is first published or anytime thereafter.

You should consider the Fund's investment objective, risks, charges and expenses carefully before investing. The summary prospectus and/or the prospectus contain this and other information about the Fund and are available from your financial intermediary or www.soundshorefund.com. The summary prospectus and/or prospectus should be read carefully before investing.

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