Market Review: From Goldilocks to the Big Bad Wolf

The sentiment in the markets has shifted significantly since the turn of the year. The S&P was down ~5% in the first quarter, but it feels much worse. Could it be the case of *coming events cast their shadows before*? The U.S. economy is overheating—let's have a look at some of the stats. After real GDP growth of 5.7% (year-over-year) in 2021, the Conference Board estimates that U.S. economic growth will moderate to 3.0% in 2022 (3 months ago the estimate was at 4.0%). Strong tailwinds continue to support above-trend growth. Household spending has weathered higher consumer prices, spurred by ample savings and the strong labor market. According to the Federal Reserve, U.S. household wealth surged $40.3 trillion since the pandemic began seven quarters ago to a record $150.3 trillion at the end of 2021. Conference Board and BLS statistics reveal that the U.S. has 11.3 million open jobs and only 6.3 million unemployed people. The unemployment rate has been lower than March's 3.6% level only three times in the past 50 years. Business capital spending has surged 11% year-over-year through February as companies pour money into equipment and technology, further sustaining the recovery. Finally, inventory levels are near-cyclical lows, depressed after a year of supply-chain challenges—inventory restocking alone could drive above-trend growth well into second half of 2022.

Soaring inflation, already a foremost concern, could worsen before it gets better. CPI at 7.9% year-over-year is running at a 40-year high on broad-based price gains. According to Edmunds, 82% of new cars sell above the sticker price (versus 0.3% two years ago). Redfin reports that more than 50% of homes now sell above the listing price (versus < 20% two years ago). Some of this activity reflects pent-up post-pandemic demand that is likely temporary, but other factors may make this inflationary era more persistent than is currently believed. The extraordinary fiscal and monetary stimulus implemented to combat the pandemic-induced economic downturn went too far for too long. Moreover, the continuing work-from-home trend fundamentally altered the basket of goods and services that households purchase, with household consumption of durable goods now running 24% above trend and no indication of a correction. At the same time, the Russia-Ukraine war added another commodity price shock that should push global food and energy prices higher over the balance of the year.

Slow to react during the pandemic recovery, U.S. fiscal and monetary policies are well behind the inflation-fighting curve. After telegraphing their intentions since September, the Federal Reserve did raise short-term interest rates 25 bps on March 16, and money market investors expect policymakers to push rates to between 2.5% and 3.0% by early 2023. Yet, there is a broad disconnect between the FOMC's economic forecasts and their assumptions about appropriate monetary policy. The FOMC's *Summary of Economic Projections* has real GDP moderating to 2.2% in 2023, unemployment stable at 3.5%, PCE inflation falling to 2.7% (currently at 6.4% year-over-year), all *before* the federal fund rate rises to 2.8% in 2023. With the FOMC projecting nominal GDP of 7.1% in 2022, a policy rate of 1.9% to exit this year still leaves monetary conditions in a highly accommodative setting. The Fed's unwinding of Quantitative Easing (QE) and undertaking Quantitative Tightening (QT) is likely to inject significant volatility into financial markets for the balance of the year. Historically, financial conditions need to tighten considerably before the economy slows, unemployment rises, and inflationary pressures abate. That process has only just begun.

Day one of 2022 set an all-time high for the broad U.S. market. From there it was downhill with major declines in January based on a sell-off in growth stocks, followed by similar though less severe declines in February culminating in a low point for the S&P 500 in early March (down -13.2%), only to bounce back and finish the quarter down 4.6%. Bond market investors have finally responded to hawkish Fed rhetoric—the 10-Year U.S. Treasury bond yield soared 83 bps to end the quarter at 2.34% as money market investors discounted an ever more rapid sequence of rate increases. The Fed is finally walking the walk and is becoming The Big Bad Wolf after over a decade of shepherding the Goldilocks market.

Russell Index Returns—*As of March 31, 2022*

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	-7.5	-7.5	-5.8	11.8	9.7	11.0
Russell 2000 Value Index	-2.4	-2.4	3.3	12.7	8.6	10.5
Russell 2000 Growth Index	-12.6	-12.6	-14.3	9.9	10.3	11.2
Russell 2500 Index	-5.8	-5.8	0.3	13.8	11.6	12.1
Russell 2500 Value Index	-1.5	-1.5	7.7	13.0	9.9	11.0
Russell 2500 Growth Index	-12.3	-12.3	-10.1	13.0	13.2	12.7
Russell Mid Cap Index	-5.7	-5.7	6.9	14.9	12.6	12.9
Russell 1000 Index	-5.1	-5.1	13.3	18.7	15.8	14.5

Sources: Russell Investments. Full definitions of the Indexes may be found in the Disclosures and Composite Notes sections.

Small- and Mid-Cap Market Review

Despite a mini rally throughout the U.S. equity markets in March, all Indexes ended the quarter in negative territory. The Russell 2000 Index fell 7.5% during the quarter versus a loss of 5.1% for the large-cap Russell 1000 Index and -5.7% for the Mid Cap Index. Across the Russell Indexes, value once again outperformed growth—a trend that began in the third quarter of 2021. Within small caps, value has generally outpaced growth when rates are rising. The Russell 2000 Value Index declined 2.4% during the quarter while the Russell 2000 Growth Index fell by 12.6%. Similarly, the Russell 2500 Value Index lost 1.5% while the Russell 2500 Growth Index declined 12.3%. Value also outperformed growth in the Russell Mid Cap and 1000 Indexes. In a dramatic reversal of the trend the last 3-5 years, the spread between value and growth in the small- and mid-cap Indexes is notable for the trailing 1 year.

Within these Indexes, there was one dramatic sector outlier: Energy stocks, which have declined in their Index weighting over the past decade, were up more than 40% during the quarter (Russell 2000 Value: 43.4%; Russell 2500 Value: 42.5%). Utilities also had modest gains in both Indexes, and Materials were up nearly 11% in the Russell 2500 Value Index. All other sectors generated negative returns during the quarter with Consumer Discretionary and Health Care leading the declines in both Indexes during the quarter (-14.2% and -13.3% in the Russell 2000 Value Index and -12.4% and -9.5% in the Russell 2500 Value Index).

Performance Impact

For the first quarter of 2022, our Small Cap Value strategy was almost flat, posting -0.1% gross of fees (-0.2% net of fees) versus -2.4% for the Russell 2000 Value Index. In our SMID Cap Value strategy, we generated 0.8% gross of fees (0.7% net of fees) versus -1.5% for the Russell 2500 Value Index. In a difficult quarter in the markets, we outperformed each strategy's respective benchmark by 2.3%.

In reviewing our Small Cap portfolio's attribution, our stock selection added value relative to the Russell 2000 Value Index in 6 of the 11 sectors. In our Small Cap portfolio, most of the outperformance was concentrated in the Consumer Discretionary, Materials, and Health Care sectors. In Consumer Discretionary, Despegar.com, Corp. and Samsonite International S.A. were the primary contributors as both companies are benefiting from the rebound in travel. Within Materials, Allegheny Technologies Inc. was the top performer (discussed below in the top and bottom five contributors). Acadia Healthcare Company, Inc. and Envista Holdings Corp. added the most value within the Health Care sector as both companies are growing and executing well to deliver results ahead of expectations. Conversely, Industrials and Consumer Staples were two sectors where our strategy underperformed. Helios Technologies, Inc. and Altra Industrial Motion Corp. were the worst performers within Industrials. Helios' stock had appreciated meaningfully after last quarter and pulled back with some concern regarding the timing of price increases. Altra is an early cyclical and the weakness in the company's stock price was in response to a slight miss in the guidance. In Consumer Staples, e.l.f. Beauty, Inc. and TreeHouse Foods, Inc. were the largest detractors. e.l.f. Beauty has been executing very well and the stock had appreciated meaningfully before pulling back from what we deem to be an extended level. TreeHouse Foods ended its strategic review process, as it did not receive an acceptable bid for the entire business or for the meal prep segment. This led to a decline in the company's stock price as it had run up earlier in anticipation of a take out.

In our SMID Cap Value portfolio, we outperformed in 5 of 11 sectors in the first quarter. The outperformance in Technology, Real Estate, Industrials, and Health Care far outweighed the underperformance in the remaining 6 sectors. In Technology, Plantronics, Inc. was the primary contributor. Within Real Estate, Kilroy Realty Corp. and SL Green Realty Corp. added the most value—both are office REITs and recovered as investors saw signs of workers returning to offices post Covid-19. Kirby Corp. was the top performer in Industrials. Meanwhile, Encompass Health

Corp. added the most value in Health Care as the company posted mixed results and remains on track to spin-off or divest its home health segment. In addition, Encompass' guidance was better than the fear reflected in what we believed to be an oversold level. Meanwhile, Financials, and Consumer Staples sectors were the largest detractors in the first quarter. In Financials, First Republic Bank was the primary detractor. TreeHouse Foods was the worst performer in Consumer Staples. (Plantronics, Kirby, and First Republic are discussed below in the top and bottom five contributors section.)

Portfolio Strategy and Key Exposures

Reiterating what we have stated in the past 3 quarterly letters, the value rotation is not dead. Given the multi-year lows in capex, inventories, and strong consumer balance sheets, we believe the recovery can continue for a while. The rising inflation and bond yields and a gullible affinity towards growth and tech stocks has led to a massive overweighting there and an apathy towards and underweight in value stocks supports our rotation thesis. Our view remains that the Covid-19 impact will continue to abate despite new variants, driving a recovery as the world has learned ways to cope with the ailment. The Russia-Ukraine war has certainly complicated things and introduced additional inflation pressures in energy and agricultural commodities like wheat. This could lead to a softening of the economic recovery globally, more so for Europe and certain emerging markets than the domestic U.S. economy. We believe that volatility in commodities like oil, natural gas, and wheat is here to stay. Even if there is some form of cease-fire in Ukraine, the sanctions will likely not be lifted overnight and the supply side would remain constrained.

Our positioning and exposures have generally remained consistent since the first quarter of last year, as we are pleased with how our companies are executing and still see attractive upside in our investments. In light of the recent data on inflation and upward pressure on yields, we have started to reduce some cyclical exposure in Financials and Industrials. In expectation of the inflationary pressures, we have invested in businesses such as Samsonite and Capri Holdings Ltd. that have dominant positions in their industry or unique products to be able to maintain margins. In addition, in anticipation of a slowing economy, we are investing in businesses that have pricing power and are not cyclical, like Stericycle, Inc., a medical waste collection business, and Encompass Health, an inpatient rehabilitation centers and home health services business. Furthermore, our investments in private label companies, such as Post Holdings, Inc. and TreeHouse in Consumer Staples should benefit in a slowing economy when consumers switch from premium-priced brand names to store brands and private label. We believe we are moving towards a market environment where returns will be driven more by stock selection than sector selection.

Small Cap Value Equity Performance—*Through March 31, 2022*

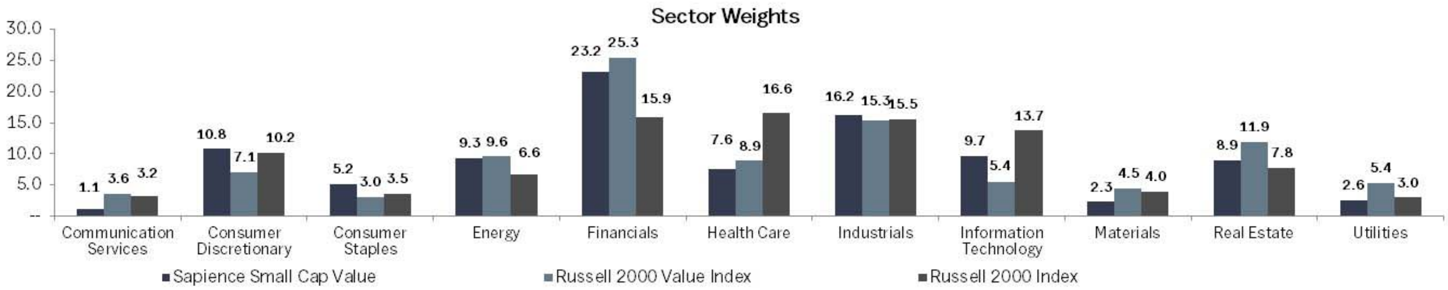
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	-0.1%	-0.1%	7.6%	12.4%	7.0%	9.5%
Sapience SCV Equity Composite (Net)	-0.2%	-0.2%	6.9%	11.7%	6.3%	8.8%
Russell 2000 Value Index	-2.4%	-2.4%	3.3%	12.7%	8.6%	10.3%
Russell 2000 Index	-7.5%	-7.5%	-5.8%	11.7%	9.7%	11.0%

Sources: Advent Geneva, Russell Investments.
Inception Date: October 1, 2016
NOTE: The complete GIPS Report and additional disclosures can be found at the end of the document.

Small Cap Value Equity Characteristics and Sector Weights—*As of March 31, 2022*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	23.1%
Active Share [2] (relative to the Russell 2000 Value Index)	94.0%
Tracking Error [3]	5.9
Number of Buys[4]	2
Numbers of Sells[4]	1

[2 and 3] Please see disclosures for calculation
[4] Number of buys and sells during the quarter



Sources: Russell Investments, FactSet

Small Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the first quarter.

Top and Bottom Contributors
First Quarter 2022

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
EQT Corp.	New Relic, Inc.
Allegheny Technologies Inc.	Diebold Nixdorf, Inc.
PDC Energy, Inc.	AdaptHealth Corp.
Viper Energy Partners LP	Argo Group International Holdings, Ltd.
Plantronics, Inc.	Syneos Health, Inc.

EQT Corp.
EQT Corp.'s stock price appreciated nearly 59% as it experienced a rerating during the quarter due to a combination of factors. The principle factor was the Russia-Ukraine war, which drove natural gas prices higher. Europe depends on Russian-piped gas and the prospect of supply disruption aggravated prices. As a result, the Biden administration announced initiatives that would enable U.S. natural gas providers to assist with the shortfall in Europe. In addition, positive news and awareness regarding natural gas as a transition fuel and the potential for more conducive U.S. policies for building infrastructure (pipelines and LNG terminals) and enabling the U.S. to export gas, further benefited the company's stock price. EQT is the largest U.S. natural gas producer and should benefit disproportionately. Finally, company-specific value drivers such as, deleveraging of its balance sheet, achieving an investment grade rating, and record free cash flow generation (FCF yields of more than 30% at $5 MCF even at current levels on 2023) remain intact.

Allegheny Technologies Inc.
Allegheny Technologies Inc.'s stock price appreciated approximately 68% during the period as the company posted an upside surprise when it reported its quarterly results. In addition, at its analyst day, the company provided EBITDA targets that were ahead of investor expectations. Allegheny is exiting its commodity steel business and is becoming a pure-play Aerospace & Defense business, which should help it garner a higher multiple.

PDC Energy, Inc.
During the quarter, PDC Energy, Inc.'s stock price increased nearly 50%. Overall, oil-related equities benefited from the rise in the commodity, which was a result of the Russia-Ukraine war and the implications it has for the supply of oil. Already tight supply/demand economics for oil were exacerbated with the onset of the war. Russia produces 10% of world's daily oil production and exports approximately half. The implications of losing these exports due to sanctions is significant. On a more company-specific note, PDC Energy continues to follow a conservative production growth path. In addition, the company has experienced continued success in securing permit approvals in the state of Colorado where drilling regulations are strict. In general, E&Ps as a group trade at a considerable discount to their historic multiples. While PDC Energy trades at a larger discount to most E&Ps, we believe this discount will further close as the company is able to reduce its Colorado regulatory risk.

Viper Energy Partners LP
The oil macro factors discussed for PDC Energy also apply to Viper Energy Partners LP. In addition, Viper Energy provides a considerable yield to investors and permits investors to take part in the oil macro cycle without exposure to capex risk (as with traditional E&Ps) since Viper Energy owns the minerals and collects royalties without drilling and producing oil. Viper Energy's stock price increased approximately 41% during the quarter.

Plantronics, Inc.

The stock price for Plantronics, Inc. appreciated more than 34% during the quarter as HP, Inc. announced an acquisition of the company for $40 per share in cash. While on the surface HP paid a healthy 53% premium to the market price, we believe the acquirer got a steal at this price as Plantronics has a record backlog in its video business, is taking market share, and has a strong brand name in headsets. The acquisition would be accretive to HP in the first year and they expect Plantronics to hit 15% growth in the first three years. It remains to be seen if other strategic buyers will emerge with a higher bid.

New Relic, Inc.

After appreciating nearly 53% in the previous quarter, shares of New Relic, Inc. declined approximately 39% this quarter. The company delivered a good quarter beating estimates; however, their guidance was a bit conservative for the street. There were additional concerns about the seasonality of the consumption model employed by New Relic and how this would affect the predictability of estimates. This coupled with the overall sell-off in the software industry put further pressure on the company's stock price. We believe the post-earnings stock reaction in last two quarters was extreme on both sides.

Diebold Nixdorf, Inc.

Diebold Nixdorf, Inc. reported fourth quarter results that were in line and 2022 guidance met expectations. However, the stock price declined nearly 26% during the first quarter due to the uncertainty created by the unplanned resignation of their CEO and relating to their exposure to Europe post the Russia-Ukraine war. The board appointed Mr. Octavio Marquez, who was head of the banking business at the company, as CEO. We feel this should be a smooth transition. While the first quarter could be weak in Europe due to the Russia-Ukraine war, Diebold's management team is forecasting improved free cash flow in 2022 and plans to refinance expensive debt in the middle of 2022.

AdaptHealth Corp.

During the quarter, AdaptHealth Corp.'s stock price declined approximately 34%. AdaptHealth has been primarily impacted by the ongoing challenges in the sleep apnea market, which is its largest segment at 36% of sales. Philips Respironics is recalling certain ventilators, CPAP, and BiPAP devices due to a potential safety issue. As a result, Philips is not supplying any devices for new patients while it focuses on its remediation efforts. Simultaneously, ResMed has been unable to ramp up production of its devices due to component shortages. These dynamics have led to a shortage of sleep apnea devices for new patients, which is expected to last throughout 2022. As one of the largest distributors of these devices, AdaptHealth expects its sleep apnea business to decline in 2022. The company had originally expected a $20 million adverse impact from the Philips recall, but had to increase that forecast to $65 million in 2022. Although these issues will impact near-term performance we believe they are transitory and supply of sleep apnea devices will improve. Additionally, the company is making progress in other areas that we believe will be important drivers of investor confidence and value creation.

Argo Group International Holdings, Ltd.

Argo Group International Holdings, Ltd. stock price declined nearly 29% as its results negatively surprised in the fourth quarter of 2021 with a prior-year claims development (PYD), which pushed this Bermuda-based property and casualty insurer into losses. The $77 million adverse PYD arose from construction defect claims from 2016 to 2018, a largely discontinued business in Argo's U.S. operations. This development offset what otherwise were solid trends in the company's underlying results. New policies written increased 9.2% to $479 million on strong operating margins and a high degree of pricing power. The underlying combined ratio (net of the PYD) improved to 93.8% from 98.5% in the fourth quarter of 2020. In addition, the efficacy of management's strategy of de-risking the company's business mix while enhancing the overall expense structure is becoming evident. For instance, Argo has repositioned the international book by exiting underperforming businesses, raising rates, and tightening terms and conditions. Argo's management team now articulates a clear, credible path to deliver an operating ROACE of 9-11% in fiscal year 2022, up from 2.5% in fiscal year 2021. Argo's shares trade at 0.9x TBV, well below peers average 2.1x recent BVPS. Argo's lower-than-peer average ROACE warrants this discount, and the shares fully reflect management's diminished credibility, but they do not account for the ongoing business turnaround.

Syneos Health, Inc.

Syneos Health, Inc.'s stock price declined approximately 21% as it was impacted by two issues during the quarter. First, after two strong years of biotech funding levels, there was some concern as biotech funding began to slow in early 2022. Adding to these concerns were comments from a competitor, which primarily serves biotech customers, that they had seen a meaningful decrease in request for proposal (RFP) activity from their customers. These concerns pressured the stock prices of all the clinical research organizations (CROs), including Syneos. Secondly, Syneos made a change to its backlog reporting that added some noise to the quarter. During the pandemic, many of the activities that CROs conduct for clients during clinical trials moved to a remote format, which is often referred to as a decentralized clinical trial (DCT). A DCT format compared to the traditional site-based clinical trial model results in lower travel and non-trial administrative type expenses (reimbursable expenses). CROs are paid for these reimbursable expenses at cost, which means they are recognized as revenue but have zero profit margin. Syneos believes many of its services have now shifted permanently to a remote format. This will lead to lower future reimbursable expenses and, as a result, an adjustment to its backlog. Syneos itself has not seen a slow down from its biotech customers, and pre-revenue customers represent less than 15% of total revenue. While we will continue to monitor market conditions, we believe CROs will remain an important part of the drug development program and provide valuable services to the biotech and pharmaceutical industry. Syneos is well positioned and should be able to weather a potential slow down, should it occur within the small- and mid-biotech segment of the market.

SMID Cap Value Equity Performance—*Through March 31, 2022*

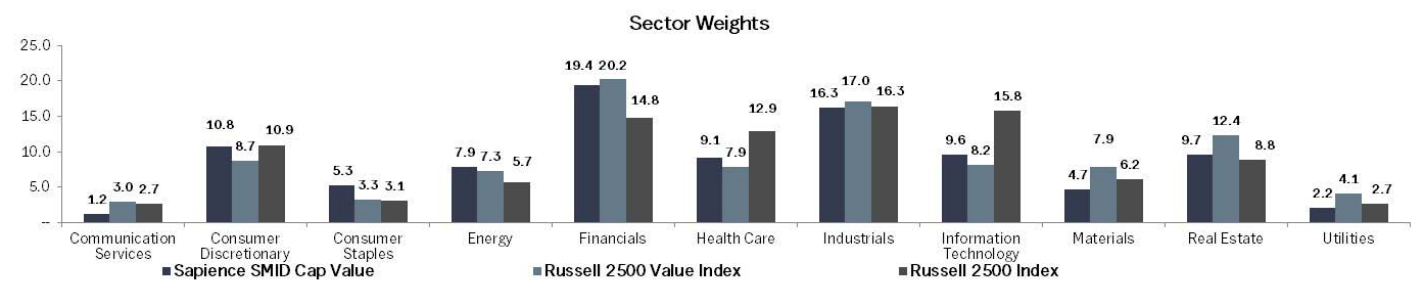
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	0.8%	0.8%	8.0%	11.5%	6.1%	7.9%
Sapience SMID Cap Value Equity Composite (Net)	0.7%	0.7%	7.3%	10.8%	5.4%	7.2%
Russell 2500 Value Index	-1.5%	-1.5%	7.7%	13.0%	9.2%	10.4%
Russell 2500 Index	-5.8%	-5.8%	0.3%	13.8%	11.6%	12.4%

Sources: Advent Geneva, Russell Investments.
Inception Date: October 1, 2016
NOTE: The complete GIPS Report and additional disclosures can be found at the end of the document.

SMID Cap Value Equity Characteristics and Sector Weights—*As of March 31, 2022*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	26.5%
Active Share [2] (relative to the Russell 2500 Value Index)	95.1%
Tracking Error [3]	4.9
Number of Buys[4]	3
Number of Sells[4]	3

[2 and 3] Please see disclosures for calculation
[4] Number of buys and sells during the quarter



Sources: Russell Investments, FactSet.

SMID Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the first quarter. EQT Corp., Allegheny Technologies Inc., Plantronics, Inc., Diebold Nixdorf, Inc. and Syneos Health, Inc. are also owned in our Small Cap Value strategy, and these companies were discussed in the Small Cap Value Equity commentary section above.

Top and Bottom Contributors
First Quarter 2022

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
EQT Corp.	Diebold Nixdorf, Inc.
Allegheny Technologies Inc.	LKQ Corp.
Diamondback Energy, Inc.	First Republic Bank
Plantronics, Inc.	Hasbro, Inc.
Kirby Corp.	Syneos Health, Inc.

Diamondback Energy, Inc.

Diamondback Energy, Inc.'s stock price appreciated nearly 28% during the quarter. All the macro factors mentioned in the above Small Cap section for energy companies also apply to Diamondback. The company owns excellent acreage in the Permian and is led by a management team that has out executed most of their peers over the last several years. Diamondback is also continuously focusing on taking out costs while maintaining flat production, and prudently distributing their free cash flow back to shareholders and reducing leverage. We believe valuation remains attractive for Diamondback.

Kirby Corp.

After two years of challenging end-market conditions, Kirby Corp. began to see improvement in its key inland marine transportation market. Inland marine utilization rates improved into the mid to high 80% range with December in the low 90% range compared to rates that had been in the low 80% range in the third quarter of 2021 and low 60% in the fourth quarter of 2020. Spot rates for inland marine transportation were up mid- to high-single digits in the fourth quarter of 2021. More importantly, term contract rates improved for the first time since the pandemic started and were up about 10%. With term contract rates still approximately 10% to 15% below pre-pandemic rates, Kirby could now be entering a multi-year period of term contract renewals that should drive meaningful margin expansion from current depressed levels and sustain earnings growth for the next few years. Kirby's stock price increased approximately 21% during the quarter.

LKQ Corp.

LKQ Corp.'s stock price declined nearly 24% during the period despite the company delivering another strong quarter and year. The guidance for 2022 was a little light as there was some confusion surrounding the impact of scrap metal pricing. We believe the sell-off is overdone for a business that has been consistently delivering strong results after the pandemic and is expected to generate over $1 billion of free cash flow in 2022, which equates to approximately an 8% FCF yield.

First Republic Bank

Despite reporting consistently excellent results, First Republic Bank's stock declined approximately 21% and underperformed its peers during the quarter. The bank completed a long-anticipated management transition in the first quarter with minimal disruption. First Republic's consistent client-centric, bi-coastal business model is deeply ingrained in the bank's culture. Operationally the bank is performing exceptionally well, having posted core balance growth of +22% LQA in the fourth quarter of 2021 on broad strength in residential mortgages, capital call lending, multi-family, C&I, and stock secured lending. First Republic's net interest margin gained +3 bps to 268 bps, reversing last quarter's decline, even as substantial deposit inflows (+30% LQA) continued to add to excess cash balances. Non-interest expense growth of +6% was in line with expectations for this fast-growing company. Credit quality remains pristine. Management's upbeat forward guidance caused many sell-side analysts to raise their fiscal year 2022 forecasts. First Republic's valuation is an issue as the shares trade at 16.8x 2023E EPS and 1.9x 2023E TBV, a modest premium to peers. We believe this premium does not adequately discount the quality, consistency, and sustainability of the company's EPS growth, steady above-peer TBV creation, and the potential for the franchise to eventually be acquired by a larger player.

Hasbro, Inc.

Hasbro Inc.'s stock price declined nearly 19% during the quarter. The company's guidance for 2022 was a little light due to lingering supply chain issues and some conservatism on part of the new CEO. Subsequently, an activist investor was pushing the company to spin-off its Wizards of the Coast (WOTC) gaming segment and appoint their chosen candidates to the board. Hasbro's management team rejected both proposals as they see synergies in keeping the WOTC segment within the business and they appointed two additional members with gaming experience to their board. We believe the sell-off due to these issues is overdone for a business that has consistently delivered strong results and is slated to deliver over $800 million of free cash flow in 2022, which equates to approximately a 7% FCF yield.

Outlook

"In the business world, unfortunately, the rearview mirror is always clearer than the windshield." –Warren Buffett.

It seems in the last few days, the doves at the Fed are changing their tune and are now sounding like hawks. Listen to Bullard, Daly, and Brainard who sent shockwaves through the markets and moved the 10-year yields by 15 bps on April 5 by uttering *"rapid trimming of balance sheet as soon as May"*. Up until now, the majority view in the market has been that the Fed will find increasing recession risk too big a cost and accept a somewhat higher core inflation, say around 3%, hence, a soft landing. However, if the Fed has found religion, they will continue to favor tightening conditions and that will lead to a growth slowdown. In addition, the equity and credit markets seem too sanguine ahead of the QT and the impact of resulting reduction in liquidity.

The surging real yields are turning the Tech sector from a haven to a hazard. Consumer Discretionary stocks should face weak demand and declining sales in a slowing economy. The recent weakness in bank stocks, which are supposed to benefit from rising rates, might be reflecting fears of credit losses in an economic downturn. Over the next 12-18 months, we could be entering an economic slowdown, thus the earnings for businesses should decline. In addition, we are going to be facing a monetary tightening and reduction in liquidity, both leading to a multiple compression and asset price deflation. Going into a downturn is always a nerve-wracking time for most investors. However, as pessimism replaces optimism, it can be an opportune time for value investors. In the last few weeks, major investment banks have been in a race to downgrade several cyclical industries like tech hardware. On April 6, Berkshire Hathaway announced it would be acquiring an 11% stake in HP, Inc. for $4.2 billion. We guess Mr. Buffett does not care to follow these sell-side opinions—having a different time horizon and his own estimate of HP's long-term worth.

The changing economic and financial landscape provides a significant opportunity for skilled, active investors. Much of the "news" that frequently motivates traders is often noise that obscures the outlook at major economic turning points. For example, many investors have grown cautious as various pandemic-related stimuli programs fade and cite the yield curve's recent inversion as symptomatic of a lurking recession over the horizon. However, this observation ignores the fact that today's yield curve is not the product of a market-determined price, when the Federal Reserve, until recently, has been the dominant buyer in the bond market. The unfolding environment has had profound implications for how we understand company performance—earnings trends, leverage, capital allocation, and ultimately, equity valuation. Inflation makes the projections of corporate earnings particularly challenging. Nominal GDP growth of over 7% naturally lifts revenue for many companies without much effort. In contrast, other companies have been plagued by supply-chain disruptions or an inability to pass on rising input or labor costs. Our bottom-up investment process has enabled us to identify companies with superior secular growth prospects, pricing power, or self-help strategies that mitigate rising costs.

As a value investor it is certainly gratifying that value is regaining its historic leadership position. That said, it is our belief that the value universe also contains some significant pockets of vulnerability. "Value" is not a simple "factor" that can be identified without deep company research. Cheapness alone does not equal good value. Value investing is a process of careful, patient, active investment that uses financial analysis to estimate a company's worth and appreciate why its intrinsic value may not be fully reflected in public markets. As mentioned earlier in this note, the macro environment will present greater challenges for marginal businesses over the next 2 to 3 years, which creates an environment that puts a premium on stock selection. While our analytic work is uncovering many truly vulnerable businesses, we continue to find excellent investment opportunities in inexpensive stocks with under-appreciated economic value creation potential.

The inflation we are currently experiencing is the highest in almost five decades and the monetary policy is undergoing a regime shift. At Sapience, we study and try to understand the macro environment; however that's not our edge. We analyze businesses—we do not invest in stocks based solely on our expectation of the macro trends. In his recent annual letter to shareholders, Mr. Buffett said this perfectly: *"Please note particularly that we own stocks based upon our expectations about their long-term business performance and not because we view them as vehicles for timely market moves. That point is crucial: Charlie and I are not stock-pickers; we are business-pickers."* We at Sapience adhere to the same investment philosophy and could not have said it any better.

Disclosures

This is not a recommendation to buy or sell a particular security. The holdings discussed above do not represent all of the securities purchased, sold or recommended for Sapience's clients. You should not assume that this or any of the securities or sectors discussed herein will remain in the portfolio or that investments in such securities were or will be profitable. Past performance is not indicative of future results. Contributors and detractors for each strategy are selected based on the stock's attribution to a Sapience Small Cap Value representative account's return or a Sapience SMID Cap Value representative account's return. The calculation methodology and a list showing the contribution of each holding in the representative account to the representative account's performance during the measurement period are available upon request.

Composite and benchmark returns reflect the reinvestment of income. The volatility of the Composite may be different than its respective benchmarks. Composite returns are presented gross and net of actual investment advisory fees. Performance is expressed in U.S. dollars. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Dividends are recorded gross of withholding taxes.

This has been prepared for informational purposes only and should not be considered a recommendation to purchase or sell any specific security. The opinions expressed herein are those of Sapience Investments, LLC ("Sapience"), and are subject to change without notice. Past performance is not a guarantee or indicator of future results. This material is not financial advice or an offer to sell any security or product. You should not assume that any of the investment strategies or securities discussed herein were or will remain in an account's portfolio at the time you receive this report. Recommendations for the past 12 months are available upon request. Sapience reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. Investment involves risk of loss.

This document contains projections, forecasts, estimates, beliefs and similar information ("forward looking information"). Forward looking information is subject to inherent uncertainties and qualifications and is based on numerous assumptions, in each case whether or not identified. Further, material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed.

Sapience is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Sapience, including our investment strategies, fees and objectives can be found in our ADV Part 2, which is available upon request at info@sapienceinv.com. This information is also available on the Investment Adviser Public Disclosure (IAPD) website.

[1] Portfolio Ending Active Share: Measures the degree of active management by a portfolio manager.
$AS_f = | PW_f - BW_f | / 2$ where AS_f := Portfolio Ending Active Share; PW_f := Portfolio Ending Weight; and BW_f := Benchmark Ending Weight

[2] Tracking Error: Measures how closely a portfolio follows the index it is benchmarked against. An index fund which closely tracks its benchmark will have a tracking error close to zero, while an actively managed portfolio will have a higher tracking error. Tracking Error is calculated as the root-mean-square of the difference between the portfolio and benchmark returns: $TE = \omega = \sqrt{E[(r_p - r_b)^2]}$ where $r_p - r_b$ = the active return (i.e., the difference between the portfolio return and the benchmark return). This formula simplifies to: $TE = \omega = \sqrt{\sigma_p^2 + \sigma_b^2 - 2\beta\sigma_b^2}$ where σ_p^2 = portfolio variance; σ_b^2 = benchmark variance; and β = Historical beta

Russell 2000 Index: The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Russell 2500 Index: The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership.

Russell 2000 Value Index: The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower expected growth values.

Russell 2500 Value Index: 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 Index companies with lower price-to-book ratios and lower expected growth values.

Russell 2000 Growth Index: The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2500 Growth Index: The Russell 2500 Growth Index is designed to measure the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Index: The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

Russell Mid Cap Index: The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

Sapience Investments, LLC
Small Cap Value Equity Composite

As of December 31									
Year	Gross Returns (%)	Net Returns (%)	Russell 2000® Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	14.91	14.87	14.07	N/A	N/A	N/A	2	$223.99	$349.83
2017	3.06	2.46	7.84	0.19	N/A	N/A	14	$665.60	$771.66
2018	-17.33	-17.85	-12.86	0.17	N/A	N/A	14	$513.31	$647.68
2019	22.17	21.43	22.39	0.23	18.56	15.90	13	$610.15	$773.40
2020	7.11	6.41	4.63	0.20	33.32	26.49	12	$716.39	$760.25
2021	28.37	27.59	28.27	0.18	31.83	25.35	11	$870.84	$914.19

*Period presented is October 1, 2016 through December 31, 2016.

1. Sapience Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sapience Investments, LLC has been independently verified for the periods October 1, 2016 through December 31, 2021. The verification report is 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.
2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The Small Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small capitalization companies with durable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a two-to four-year investment horizon. The composite was created and incepted October 2016. The firm's list of composite descriptions is available upon request.
4. Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of actual investment advisory fees. Net returns are net of any performance-based fees. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS reports is available upon request. Dividends are recorded net of withholding taxes.
5. Internal dispersion is the equal-weighted standard deviation of the annual gross returns of all accounts included in the composite for the entire year. For years where there are 5 or fewer accounts in the composite for the entire year, dispersion is not presented as it is not a meaningful statistical calculation.
6. The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000® Index companies with lower price-to-book ratios and lower expected growth values. It is not possible to invest in these indices. The returns for the Index do not include any transaction costs, management fees or other expenses. The volatility (beta) of the Composite may be greater or less than its respective benchmark.
7. The fee schedule for Adviser's investment advisory services for the Small Cap Value Equity Composite is 1.00% on the first $25 million, 0.90% on the next $25 million, 0.85% on the next $50 million, 0.80% on amounts over $100 million. Actual investment advisory fees incurred by clients may vary.
8. Effective March 1, 2020, a significant cash flow policy was adopted for the composite. Portfolios are removed from the composite if they have a contribution or withdrawal at 50% or greater of the beginning market value of the portfolio. The portfolio is removed from the composite for the month in which the significant cash flow occurred and the following month.
9. 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.
10. Past performance is not indicative of future results. Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. Registration as an Investment Adviser does not imply any level of skill or training. This material is not financial advice or an offer to sell any product. The portfolio characteristics shown relate to the Small Cap Value Equity Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Adviser reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Sapience Investments, LLC
SMID Cap Value Equity Composite

As of December 31										
Year	Gross Returns (%)	Net Returns (%)	Russell 2500™ Value Index (%)	Non-Fee Paying (% of assets)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	9.96	9.83	9.34	N/A	N/A	N/A	N/A	1	$22.50	$349.83
2017	1.31	0.74	10.36	N/A	N/A	N/A	N/A	8	$106.06	$771.66
2018	-17.44	-17.94	-12.36	N/A	0.25	N/A	N/A	10	$134.36	$647.68
2019	28.19	27.48	23.56	N/A	0.09	17.46	14.43	8	$163.26	$773.40
2020	1.98	1.42	4.88	N/A	N/A	29.67	25.40	2	$43.86	$760.25
2021	25.01	24.19	27.78	0.57%	N/A	28.04	24.49	2	$43.06	$914.19

*Period presented is October 1, 2016 through December 31, 2016.

1. Sapience Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sapience Investments, LLC has been independently verified for the periods October 1, 2016 through December 31, 2021. The verification report is 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.
2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The SMID Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small- to mid-capitalization companies with durable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a three-to five-year investment horizon. The composite was created and incepted October 2016. The firm's list of composite descriptions is available upon request.
4. Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of actual investment advisory fees. Net returns are net of any performance-based fees. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS reports is available upon request. Dividends are recorded net of withholding taxes.
5. Internal dispersion is the equal-weighted standard deviation of the annual gross returns of all accounts included in the composite for the entire year. For years where there are 5 or fewer accounts in the composite for the entire year, dispersion is not presented as it is not a meaningful statistical calculation.
6. 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™ Index companies with lower price-to-book ratios and lower expected growth values. It is not possible to invest in these indices. The returns for the Index do not include any transaction costs, management fees or other expenses. The volatility (beta) of the Composite may be greater or less than its respective benchmark.
7. The fee schedule for Adviser's investment advisory services for the SMID Cap Value Equity Composite is 1.00% on the first $25 million, 0.90% on the next $25 million, 0.85% on the next $50 million, 0.80% on amounts over $100 million. Actual investment advisory fees incurred by clients may vary.
8. Effective March 1, 2020 through June 1, 2021, portfolios were removed from the composite if they had a contribution or withdrawal at 50% or greater of the beginning market value of the portfolio. The portfolio was removed from the composite for the month in which the significant cash flow occurred and the following month.
9. 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.
10. Past performance is not indicative of future results. Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. Registration as an Investment Adviser does not imply any level of skill or training. This material is not financial advice or an offer to sell any product. The portfolio characteristics shown relate to the SMID Cap Value Equity Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Adviser reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.