SAPIENCE INVESTMENTS

Portfolio Review
First Quarter 2023

Market Review

"When you get something for nothing, you just haven't been billed for it yet." -- Franklin P. Jones, humorist

The High Cost of Free Money

An immutable truism in economics, finance, physics, and life is that there is no such thing as a free lunch—it is impossible to get something for nothing. By holding U.S. short-term interest rates at abnormally low levels, even after the economy began to recover from the pandemic shock, the Federal Reserve effectively tried to 'feed the economy for nothing.' We are now learning that an extended period of cheap money—supplied by fiscal and monetary policymakers—can have a hefty price tag.

One tangible outcome is that our dollar lost value—based on the BLS CPI index, $100 in 2020 purchasing power will require about $116 today. A second consequence came to the surface last month from the government's response to continuing inflation. In 2022, the FOMC engineered one of the most rapid tightening of monetary policy in the modern history of central banking. Many economic actors that had accepted the Fed's diagnosis of "transitory inflation" were caught flatfooted by the new policy. Responsibility for the recent collapse of three prominent regional banks is a combination of the sharp, unexpected increase in short-term interest rates and basic market risk mismanagement on the part of the banks themselves. The follow-on impact on the banking system and economic activity is still unfolding and may be felt for years to come.

As things stand now, economic data from early 2023 suggests considerable economic and inflationary momentum in the U.S. economy. Inflated by inventory building, Q422 Real GDP was up +2.6%, and the FRB Atlanta's GDPNow tracker estimates that Q123 GDP will grow +1.7%. Non-farm payroll employment has averaged +351k jobs in the past three months (through February), little changed from the 12-month average (+357k). As we have mentioned in previous quarterly letters, corporate and household balance sheets are in a strong position, with little, short-run borrowing needs, so they have been largely insulated from the initial impact of restrictive monetary policy. To be sure, a few interest-sensitive sectors such as housing and autos, and technology have felt a sharp slowdown in activity, but most other parts of the economy remain healthy.

Developments in the banking sector bear watching. A credit crunch developing from mounting deposit outflows has the potential to accelerate the economic downturn. Banks have been tightening lending standards in the face of declining borrower demand since early 2022. Even before the banking crisis developed in March, survey measures had moved to levels that typically foreshadow an economic recession. If bank lending growth were to drop from its low double-digit pace in 2022 to near zero in 2023, then real GDP would typically slow by about 2%. However, by some estimates, little immediate financing needs from the non-financial corporate sector could cut that credit shock in half (~0.8%). Hence, the effects of the credit distress emanating from the banking sector may at first appear to be small but build substantially in coming quarters.

The banking crisis heightens the uncertainty around both tails of the outlook. Policymakers could see continued economic momentum as a reason to continue their tightening campaign, ultimately overreacting and driving the economy to a hard landing. Conversely, they may pause to assess the impact of the banking crisis and restore financial stability, under-reacting in a way that allows inflationary dynamics to become more entrenched and requiring a higher peak Fed Funds rate. For an FOMC that has already had several major policy missteps in this cycle, the coming period could be one of considerable turbulence. In short, the bill for our pandemic-induced free lunch policies is rapidly coming due.

Russell Index Returns—*As of March 31, 2023*

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	2.7	2.7	-11.6	17.5	4.7	8.0
Russell 2000 Value Index	-0.7	-0.7	-13.0	21.0	4.6	7.2
Russell 2000 Growth Index	6.1	6.1	-10.6	13.4	4.3	8.5
Russell 2500 Index	3.4	3.4	-10.4	19.4	6.7	9.1
Russell 2500 Value Index	1.4	1.4	-10.5	21.8	5.6	7.7
Russell 2500 Growth Index	6.5	6.5	-10.4	14.8	6.8	10.1
Russell Mid Cap Index	4.1	4.1	-8.8	19.2	8.1	10.1
Russell 1000 Index	7.5	7.5	-8.4	18.6	10.9	12.0

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

Small- and Mid-Cap Market Review

The broad-based Russell 2000 and 2500 Indexes resembled a roller coaster this quarter, ending January on a high note before cresting and shifting into accelerating declines in February and March. Ultimately the gains in January were large enough to offset the declines that followed and both Indexes ended the quarter in positive territory, up nearly 3-3.5%. Large caps, as measured by the Russell Indexes, posted the strongest returns during the quarter (+7.5%), with large-cap growth leading overall at +14.4%. At the opposite end of the spectrum were small-cap value companies, returning -0.7%. In its continued seesaw for control, growth led value during the first quarter across all Indexes.

Similar to last quarter, results were primarily positive across most sectors in the Russell Indexes. In both the Russell 2000 and 2500 Value Indexes, Technology and Consumer Discretionary were among the top performers (Russell 2000 Value: 15.2% and 10.6%; Russell 2500 Value: 12.1% and 9.0%). Meanwhile, in the Russell 2000 Value Index, Financials and Health Care were the laggards for the quarter, posting returns of -10.9% and -6.6%. In the Russell 2500 Value Index, the Financials, Energy, and Health Care sectors generated the weakest returns (-8.7%, -6.7%, and 2.6%, respectively).

The irony is that small- and SMID-cap value stocks never benefited from the euphoria as the large-cap growth stocks did in 2020/2021 but are bearing the brunt of selling in this late cycle environment. The markets have been anticipating a recession since the beginning of 2022. After the selloff in the last year, the ratio of the Russell 2000 to the S&P 500 is close to its lowest in almost two decades. On a relative and absolute basis, small caps are unusually cheap. Small-cap shares are already factoring in a recession and an earnings collapse while large caps are historically expensive. In a similar environment to now, during the early 1970s and 1980s, small caps outperformed when the Fed was also fighting inflation.

Performance Impact

Our first quarter performance was negative in both strategies on an absolute and relative basis. In our Small Cap Value strategy, we posted -1.8% gross of fees (-2.0% net of fees) versus -0.7% for the Russell 2000 Value Index and in our SMID Cap Value strategy we generated -3.4% gross of fees (-3.5% net of fees) versus +1.4% for the Russell 2500 Value Index.

In reviewing our Small Cap portfolio's attribution, the shortfall was all stock selection related as we were behind the Index in 6 of the 11 sectors. Most of this shortfall was due to the Financials and Energy sectors with Webster Financial Corp. and Liberty Energy Inc. detracting the most value. Conversely, our security selection in the traditionally defensive Consumer Staples sector partially offset our strategy's underperformance during the period. BellRing Brands, Inc. was the top contributor within this sector.

In our SMID Cap Value portfolio, stock selection accounted for nearly all the underperformance and we lagged the Russell 2500 Value Index in 5 of the 11 sectors. Most of the underperformance was concentrated in the Financials sector with First Republic Bank being the most significant detractor. In light of the recent crisis in the regional banking industry, *we have provided our thoughts on the topic in some detail in the Portfolio Strategy section below.* Security selection in Consumer Discretionary and Industrials further hindered performance during the period with Capri Holdings Ltd. and Stericycle, Inc. detracting the most value from their respective sectors. Capri missed its quarterly earnings guidance due to weakness in wholesale channel revenues. Management lowered fiscal year 2023 guidance by 12%. The stock had appreciated over 50% from October to early February and gave back most of the gains post earnings in the quarter. Stericycle's 2023 earnings and free cash flow guidance was slightly below expectations due to higher interest expense, divestitures, and higher incentive compensation. However, long-term sales and EBITDA growth targets were reaffirmed. Partially offsetting our underperformance was stock selection in the Health Care sector. Within Health Care, Catalent Pharma Solutions, Inc. was the top performer.

(All companies not specifically discussed above are discussed below in the Small and SMID Cap Value top and bottom five contributors sections.)

Portfolio Strategy and Key Exposures

The first quarter was strong out of the gate, stocks that were down the most last year bounced hard the first 5-6 weeks. Then the rally petered out and sentiment became outright negative in mid-March after the mini banking crisis. The breadth was narrow in the markets as mega Technology stocks became the defensive play and correlations remained elevated as stocks were trading based on their sectors and factors (e.g. low volatility) rather than on underlying fundamentals of the business. We retained our defensive posture during the quarter. However, as we look at a few of our holdings that declined during the quarter and certain companies that we like, we believe a few have become incredible bargains. Considering the current depressed sentiment in the equity markets, especially in the small/SMID caps, we thought it might be useful to provide our perspective on the different sectors.

From a sector standpoint, we have a considerable overweight in Consumer Staples and Health Care in both portfolios. This positioning is less based on a macro outlook, but more driven by the attractive upside we see in our holdings. In Consumer Staples, the two largest holdings in both portfolios—US Foods Holding Corp. and TreeHouse Foods, Inc.—are both executing well and we believe are trading at a discount. In Health Care, valuations have come in and we believe they are quite attractive for several of our holdings, especially in the current late cycle environment. We are slightly underweight Consumer Discretionary, however, we believe we own several attractive franchises like Samsonite International S.A., Hasbro, Inc., Capri and Six Flags Entertainment Corp. and many of these are at depressed valuations. We are underweight in Industrials as the valuations are not as attractive after the run up in the last six months, especially as we could be approaching a recession. We have been underweighted in Materials; however, in the last couple of months, as the stock prices have declined, we believe valuations have started to become more attractive. We maintain a modest overweight in Energy as we believe that supply remains constrained and absolute valuations based on cash flow generation and capital returns are downright depressed. We are equal weight in Technology but mostly own software businesses—higher quality and generally more defensive. We continue to remain underweight in REITs and the recent declines in office values validate our thinking. We are underweight in Financials in both portfolios—please see our detailed discussion below.

Financials: March Madness

After the turmoil of March, in which the U.S. recorded the second (Silicon Valley Group, SIVB) and third (Signature Bank, SBNY) largest bank failures in history, investors' aversion to bank stocks has moved into an unprecedented position. U.S. bank stocks are trading on an earnings yield of 13.5%, well above the 5.3% yield available on the broader S&P 500 Index, excluding Financials (as of March 5th). This risk premium of 820 bps is the highest in over two decades (for which we have available data) and almost 4 times the average risk premium (217 bps). Regional banks have been hit hardest—the S&P Regional Bank Index lost -25.3% of its value in the first quarter and now offers an earnings yield of 14.4%. What factors are driving the cloudy short-term outlook for the sector, and more importantly, at what point will investors be adequately compensated for the risk of holding these stocks?

The conditions that triggered a deposit run at SIVB are not generally present in other U.S. banks. Catering to the so-called 'innovation economy,' SIVB's deposits tripled in the past three years as investors plowed into speculative start-ups, betting on high returns from future growth while exceptionally low interest rates depressed returns on other assets. During this period, bank balance sheets commonly held ample excess cash—each dollar of deposits supported only 69 cents of loans on average in the system. SIVB was an outlier, with a loan/deposit ratio of 43 cents. Most banks held their un-loaned balances (31 cents) in cash, short-term Treasuries, or agency-issued MBS securities, making it easy to deploy their capital as the economy recovered and loan demand rose. SIVB was different, having purchased long-duration Treasuries, reaching for yield in a portion of their securities portfolio that could not easily be liquidated. As the Federal Reserve started its rapid hiking cycle in 2022, SIVB's securities portfolio lost value, investor appetite for venture capital and private equity (VC/PE) faltered, and deposits began to flow out of SIVB. This sequence of events forced management to make a fatal decision to sell parts of its securities book, thereby realizing substantial losses. At the end of fiscal year 2022, total unrealized losses on SIVB's securities portfolio exceeded the bank's capital, as measured by CET1. That fact undermined confidence in what was an extremely concentrated deposit base (the VC/PE community), sparking a catastrophic run on the bank.

Naturally, investors began to look for other potentially vulnerable banks—attacking banks with a high proportion of non-interest-bearing deposits, banks with significant deposits that exceed FDIC guarantee limits, and, most recently, banks with out-sized exposure to commercial real estate (CRE). These are not factors that bank managements, industry analysts, investors, accountants, rating agencies, or regulators were overly concerned about before March 2023. Deposits have flowed out of the banking system since the Fed began its aggressive tightening cycle in March 2022—that is one way monetary policy acts on financial conditions to slow lending growth and the economy. FDIC guarantee limits could stand reform, but that could cost the industry higher premiums and would require an act of Congress. Regarding banks' securities portfolio, accounting standards do not recognize market rate losses (or gains) on a bank's held-to-maturity (HTM) portfolio unless those assets are sold. Indeed, regulators incentivize banks to hold government-backed instruments in their securities portfolio because they are considered safe. Moreover, periodic stress testing has not previously incorporated the market risk of higher interest rates, as most banks actively manage this risk, just as they manage their asset-liability mismatch. Unfortunately, SIVB management did not, and panic ensued.

Bank profits will face significant headwinds from many sources. First, the shift in cash and deposits to higher yielding instruments like money market funds raises banks' cost of funding and depresses net interest margins (NIM). This process has been underway for some time. Banks typically respond by raising loan rates to offset higher input (funding) costs. However, with higher loan rates and tighter lending standards, bank lending and net interest income (NII) usually slows. These developments were already largely factored into most analysts' expectations for fiscal year 2023, but the events of March may hasten these trends and necessitate another round of EPS downgrades during upcoming reports. Second, slower bank lending and reduced access to credit are typically associated with an economic downturn, which results in credit losses. Overall, bank credit quality is currently as good as it ever gets, so the industry is overdue for a re-normalization of credit quality. Investors' most significant credit concern is CRE lending—an asset class that features prominently in many banks' loan portfolios. Of course, CRE lending is not homogenous—many different real estate categories, not just half-empty central city office towers—fall under this label. Finally, regulators will likely re-evaluate their standards and tighten the regime to ensure more failures like SIVB and SBNY do not occur, making banking less profitable.

At the end of Q123, the Sapience Small and SMID Cap portfolios had an underweight to the Financials sector but a slight overweight to Banks. Within the Bank industry, our Small Cap portfolio is underweight regional and community banks, while our SMID Cap portfolio is slightly overweight this sub industry. Prospects for banks are generally better than other Financials sub-sectors such as Capital Markets, Consumer Finance, Financial Services, or Mortgage REITs. Within our bank exposures, we have sought companies that have strong core deposit base (to manage funding costs), banks with abundant excess liquidity (that can capture material spread revenue), leverage to the short end of the yield curve (perhaps with a greater proportion of variable rate loans), loads of capital in a fortress balance sheet which is ready for the proverbial rainy day, and banks with a reputation for conservative underwriting and a record of pristine credit quality.

Current bank sector valuations discount an extremely challenging environment. We are confident that the banks in our portfolio have resilient, diverse funding sources sufficient to meet any liquidity needs that may arise. We have assessed the adverse impact that deposit outflows could have on our holdings' NIM and EPS estimates. We have also undertaken a further review of banks' loan and securities portfolios to assess vulnerabilities to interest-rate risk and potential credit quality issues that might arise from either their CRE exposures or an extended economic downturn. Where appropriate, we have spoken with bank management to better understand their plans and strategies. Finally, in this period of great disorder and chaos, we continue to be watchful for both latent risks and potential opportunities in the banking sector.

<u>Small Cap Value Equity Performance—</u> *Through March 31, 2023*

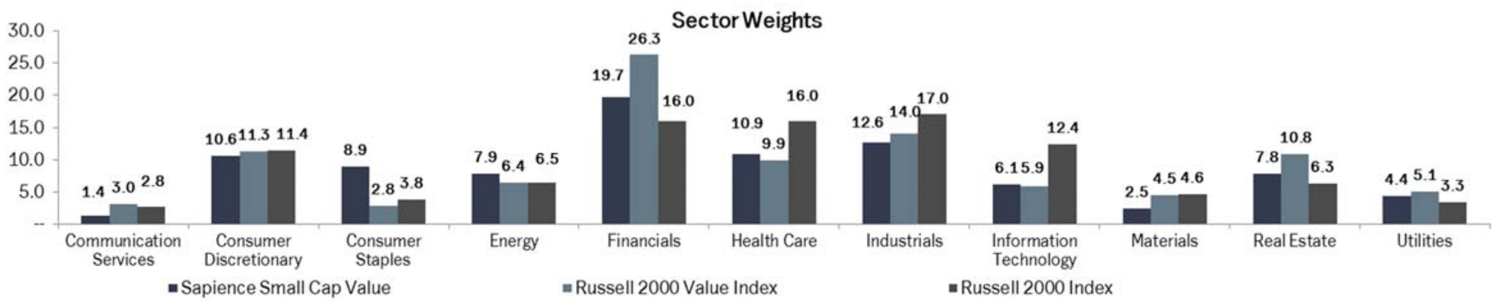
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	-1.8%	-1.8%	-12.5%	28.8%	4.6%	5.8%
Sapience SCV Equity Composite (Net)	-2.0%	-2.0%	-13.0%	28.0%	4.0%	5.1%
Russell 2000 Value Index	-0.7%	-0.7%	-13.0%	21.1%	4.5%	6.4%
Russell 2000 Index	2.7%	2.7%	-11.6%	17.5%	4.7%	7.2%

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, 2023*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	25.5%
Active Share [2] (relative to the Russell 2000 Value Index)	95.7%
Tracking Error [3]	6.0
Number of Buys[4]	0
Numbers of Sells[4]	2

[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 2023

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Samsonite International S.A.	AdaptHealth Corp.
New Relic, Inc.	Webster Financial Corp.
Envista Holdings Corp.	Ameris Bancorp
ATI, Inc.	Liberty Energy Inc.
BellRing Brands, Inc.	Hancock Whitney Corp.

Samsonite International S.A.
Samsonite International S.A's stock outperformed during the first quarter as the company continued to deliver solid results and the year-to-date sales for the first two months of 2023 have accelerated to more than 15% versus the comparable period in 2019. For 2023, management expects low- to mid-teens sales growth in constant currency over 2019 due to the recovery in Asia, especially China, and the continued strength in the U.S. and Europe. We believe that Samsonite remains well positioned as travel recovers over the next 1-2 years.

New Relic, Inc.
New Relic, Inc. had an excellent quarter as it beat on both revenue ($239.8 million versus $233 million) and operating profit ($18 million versus $9 million guidance). These positive results combined with the inexpensive valuation drove the company's stock price higher during the quarter. In addition, gross margins were 77% versus 74% guidance—this is a very strong result for a company with 100% operation in the cloud. Guidance for next quarter was also higher than consensus, both for revenue and operating profit. Strength was coming from not just expansion of existing usage from customers but also from new customers. New logos were up by 400 (15,700 customers now up from 15,300) sequentially versus an average of 200 previously. New Relic also talked about new competitive wins in the quarter. Thus the new consumption-based approach is gaining traction with customers. This coupled with a new go-to market (GTM) approach is driving improved results.

Envista Holdings Corp.

Envista Holdings Corp. delivered better than expected fourth quarter results due to superior execution. The company's Spark Clear Aligner remains a key growth driver, consumables demand grew high single digits, and infection prevention grew double digits. Strength in North America was offset by declines in China and Western Europe. The company's stock price performance in the quarter reflected what was likely an over correction in the second half of 2022, as macro concerns began to weigh on dental companies. Overall, we believe management has executed well in improving the growth profile of the company, lowering risk by divesting low margin capital equipment products, and enhancing profitability through meaningful cost reductions over the last few years.

ATI, Inc.

ATI Inc.'s stock price outperformed during the first quarter as the company posted another good quarter and issued solid 2023 guidance. ATI is transforming into a pure-play Aerospace & Defense materials business, which should help it garner a higher multiple.

BellRing Brands, Inc.

BellRing Brands, Inc. is an active nutrition company that was spun off from Post Holdings in 2019. The business includes Premier Protein shake brand, a leader in the fast-growing protein shake category, Dymatize protein powders, and PowerBar nutrition snack bars. The company's stock outperformed during the first quarter as BellRing delivered better than expected sales, gross margin expansion, and EBITDA. Total revenue grew +18% year-over-year driven by strength in Premier Protein shake (+23%), due to strong pricing (+18%), and volume growth (+5%). The guidance for fiscal year 2023 was reaffirmed and the improvement in production capacity and increased marketing/promotion in the second half for fiscal year 2023 is encouraging.

AdaptHealth Corp.

In early January, AdaptHealth Corp. provided preliminary fourth quarter 2022 results and initial guidance for 2023. Subsequently, in late February the company issued final fourth quarter results that fell short of its preliminary outlook. Results in the fourth quarter were adversely impacted by higher than expected expenses and payer refunds and recoupment. Some of the unanticipated expenses relate to the company's efforts to secure supply and make deliveries of CPAP machines, which have been in short supply due to a manufacturer recall. Although some of the issues that impacted the quarter reflect initiatives to serve patients and take market share in sleep apnea, an earnings miss after having provided preliminary results just seven weeks earlier raised several concerns about the company's processes and decision making. The company also lowered its 2023 guidance to reflect continuation of some of the cost headwinds as well as lower growth expectations in its diabetes business. We have been attracted to the company's participation in markets with good growth and believe the industry will be a beneficiary of the ongoing secular shift of medical services into the home. While we acknowledge that the company has been responding to a difficult sleep apnea market due to a shortage that is out of management's control, the company will need to improve execution and deliver more consistent results to regain investor confidence. We will be closely monitoring management's execution over the next few quarters and need to see better results to give us confidence in retaining our position in this company.

Webster Financial Corp.

Webster Financial Corp.'s shares declined in the first quarter as the bank was swept up in the undertow of investor concerns regarding the profitability of regional banks (note that the KBW Regional Bank Index was down 25.3% in the first quarter). Webster exited fiscal year 2022 with solid momentum and guided towards higher net interest income growth than street analysts expected in fiscal year 2023. With a strong franchise servicing health savings account (HSAs), the bank has a stable source of low-cost deposits that are relatively immune to higher funding cost pressures that plague its peers. Perversely, investors looked at Webster's granular access to non-interest bearing (NIB) deposits (24% of total deposits) and HSA deposits (15% of total deposits) as a source of business risk rather than a strength since these accounts (paying only 15 bps) could move to higher-yielding accounts. Notably, these NIB accounts are transaction accounts for thousands of SMEs and households across New England and NY and have proven relatively stable over time. Webster is also benefiting from its April 2022 merger with Sterling Bancorp, which extended its geography into greater New York and deepened its product set. In early March (before the volatility in the banking sector), Webster affirmed its fiscal year 2023 guidance and laid out a three-year path to 11-13% PPNR growth (CAGR), which suggests more durable and sustained financial performance than many analysts had expected. Even in today's more challenging banking environment, Webster is poised to outperform peers across many financial metrics, yet it trades on a depressed 5.3x 25E EPS, a remarkable 34% discount to peers.

Ameris Bancorp

Ameris Bancorp's shares declined after the Georgia-headquartered bank reported mixed fourth quarter results. Through fiscal year 2022, the bank had successfully funded its low double-digit organic loan growth with deposits. However, investors have grown wary that funding growth will become increasingly expensive, and deposit costs will outweigh the benefits of higher rates and an improved AEA mix. Management had already guided toward a moderate single-digit pace to loan growth in fiscal year 2023, but with the industry-wide scramble for deposits, that objective may fall by the wayside. Ameris is a bank with a balanced commercial and retail business profile across Georgia and surrounding states, a comparatively strong profitability profile, and a history of compounding low double-digit TBV growth. At 7.2x FY25E EPS, Ameris's shares trade at a 31% discount to peer banks, despite having a superior ROE and ROTCE profile over the medium term.

Liberty Energy Inc.

Liberty Energy Inc.'s stock price came under pressure in the quarter as there was an expectation that U.S. land-based oil and gas service providers will see close to flat budget from E&Ps in 2023. This is two pronged as demand might be weakening and price increases might stall out or possibly even decrease. In Liberty's case, their exposure to natural gas, which represents 20% exposure of their total volume, further exacerbated the situation as the price of natural gas plummeted by more than 60% over the last six months. However, Liberty continues to contend that the overall pressure pumping industry is more disciplined than before and they will lay down rigs instead of discounting prices. The industry is much more consolidated than in the past and Liberty produces prodigious amount of free cash flow —trading at 3-4 times its enterprise value in terms of its free cash flow, which we believe to be quite inexpensive.

Hancock Whitney Corp.

Gulfport Mississippi-based Hancock Whitney Corp.'s shares also declined in the first quarter. In the wake of the March banking crisis, Hancock's management issued a mid-quarter update indicating that it could no longer achieve its fiscal year 2023 PPNR guidance of +13-18% because the bank was experiencing net interest margin (NIM) pressure of at least 15 bps to 353 bps and deposits were modestly down quarter-to-date by $150 million. The bank's loan-to-deposit ratio was roughly stable at 79.8%, meaning that loan balances had likely also fallen in the quarter. Moreover, management emphasized its strong capital position as all regulatory ratios are expected to increase sequentially, and the bank has close to $18 billion in available liquidity to handle any potential deposit flight. Finally, management reported that unrealized losses on its available-for-sale securities portfolio (AFS amounts to 69% of the bond book) increased only $10.7 million to $764.9 million. Sell-side analysts predictably reduced their EPS estimates for fiscal year 2023. Hancock's management got ahead of what will likely be a common refrain this coming earnings season—because of the recent bank turmoil, the industry is experiencing heightened NIM compression, which may undercut fiscal year 2023 net interest income and EPS estimates. Hancock has two characteristics that will help it outperform over the medium term. First, loan growth has been solid but not outsized, and management has maintained conservative lending standards, which should help the bank weather an economic slowdown. Second, the Southeast U.S. bank remains exceptionally well positioned to benefit from an eventual economic recovery in fiscal year 2024 and beyond. Meanwhile, at only 6.4x FY25E EPS, Hancock's shares trade at a depressed valuation of 34% below peers.

SMID Cap Value Equity Performance—*Through March 31, 2023*

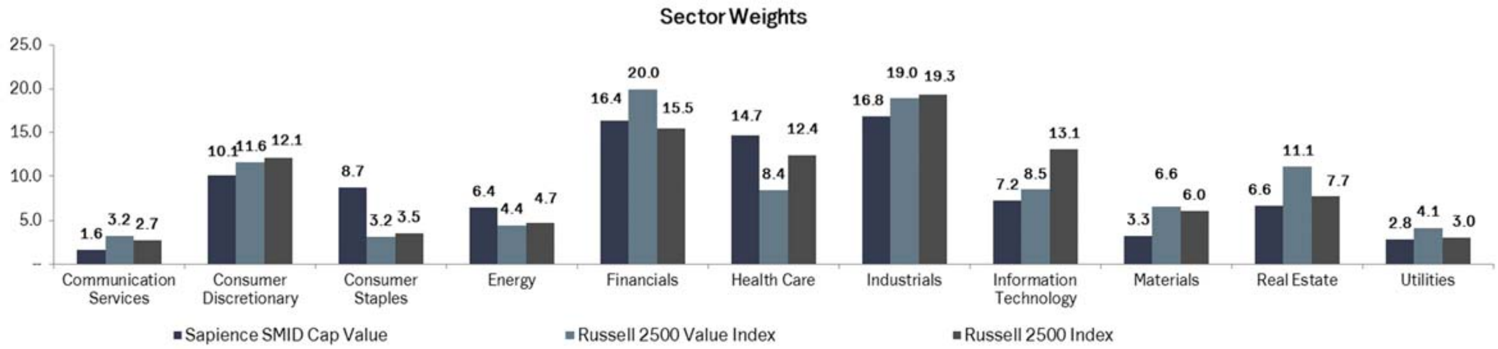
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	-3.4%	-3.4%	-12.6%	22.9%	4.0%	4.4%
Sapience SMID Cap Value Equity Composite (Net)	-3.5%	-3.5%	-13.4%	21.7%	3.0%	3.4%
Russell 2500 Value Index	1.4%	1.4%	-10.5%	21.8%	5.6%	6.9%
Russell 2500 Index	3.4%	3.4%	-10.4%	19.4%	6.6%	8.6%

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, 2023*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	27.7%
Active Share [2] (relative to the Russell 2500 Value Index)	95.8%
Tracking Error [3]	5.2
Number of Buys[4]	2
Number of Sells[4]	4

[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. Samsonite International S.A., New Relic, Inc., ATI, Inc., Envista Holdings Corp., Webster Financial Corp., and Liberty Energy 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 2023

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Catalent Pharma Solutions, Inc.	First Republic Bank
Samsonite International S.A.	Amedisys, Inc.
New Relic, Inc.	Webster Financial Corp.
ATI, Inc.	Ovintiv Inc.
Envista Holdings Corp.	Liberty Energy Inc.

Catalent Pharma Solutions, Inc.
We initiated a position in Catalent Pharma Solutions, Inc. towards the end of 2022. Catalent was a beneficiary of the Covid vaccine and therapeutics demand with the company being one of the largest manufacturers of vaccines during the pandemic. The company's stock came under pressure as Covid demand waned for both Covid and consumer nutritional supplement products. Catalent had provided fiscal 2023 (June 2023) guidance that was heavily weighted to the second half of the fiscal year, creating concerns about the company's ability to meet its guidance. Results in the December ending quarter were generally as expected, but several developments helped to de-risk the guidance. Catalent announced a program expansion with Moderna, better than expected Covid revenues in the quarter, strong gene therapy demand, and a cost-reduction plan. While guidance still depends on a strong second half to the fiscal year, the guidance appears more achievable. Recently, there has also been speculation that a strategic buyer might be interested in acquiring the company. We view Catalent as a differentiated asset, that we were able to buy at an attractive valuation given short-term concerns. Growth in biologics and gene and cell therapy products should provide a long runway of growth opportunities for the company.

First Republic Bank
First Republic Bank lost a significant portion of its value in March. Having owned First Republic for more than five years in this portfolio and following the company for over 15 years, our long-standing investment thesis was that investors had not fully discounted the extraordinary economic value creation of the company. First Republic's business model is based upon a consistent long-term emphasis on client service and stability. The bank's unique customer-focused culture generated considerable market share gains among high-net-worth households in its markets over time, with client satisfaction ratings well ahead of rival banks. Primarily a real estate lender, First Republic's loan portfolio is spread across single-family residences, multifamily, and commercial real estate in San Francisco, New York, Los Angeles, and Boston. The bank also has a diversified blend of funding sources balanced between business and consumer deposits. Through the end of 2022, organic loan and deposit growth have exceeded 20% per year in the past five years, translating into a net interest income CAGR of 18%. First Republic has also demonstrated exceptional credit quality, with only 8 bps of cumulative losses on all loans originated since the bank was founded in 1985. First Republic's

private wealth management business has grown AUM and Fee Income at a 20% CAGR in the past five years, contributing 15% of the bank's total revenues. Finally, First Republic has created significant shareholder value over time, with tangible book value per share rising 13% per year in the past five years. The bank's total shareholder returns in the past five years ending in fiscal year 2022 exceeded the annual return of the KBW Nasdaq Bank Index by 10% pa (19.5% pa versus 9.5% pa).

We did not foresee the sequence of events that took place in March 2023, especially, the run on deposits at a high-quality bank like First Republic. When Silicon Valley Bank's (SIVB) troubles began on March 8th, our discussions noted that capital call lending, a business SIVB dominated, was a small fraction of First Republic's overall lending portfolio, but we were able to differentiate the two banks on many parameters. Our analysis indicated that the First Republic's AOCI loss on its available-for-sale (AFS) securities portfolio was only $331 million. In addition, we observed that the marked-to-market (MTM) losses on First Republic's held-to-maturity (HTM) securities portfolio (roughly 15% of total assets) were sufficiently small such that, if one were to deduct them from capital, the bank would still meet regulatory minimums. Entering 2023, First Republic's market risk profile was not unlike that of many peer banks. Banks are in the business of maturity transformation, borrowing short term and lending long term. Loans may be current with considerable collateral, and the U.S. government may fully back securities, but the value of these debt instruments fluctuate with movements in the yield curve, as happened in 2022. Deducting MTM losses from capital is not how regulators, analysts, or accountants have ever evaluated banks (or most other non-trading financial companies). By this new standard, no bank is genuinely safe or solvent. Finally, we took assurance that the bank had over $70 billion in available liquidity to address any outflows on its $176 billion in total deposits. With the closure of Signature Bank of New York (SBNY) on March 12th, the crisis escalated, and Federal policymakers announced an additional plan—the Bank Term Funding Program (BTFP)—to backstop the liquidity needs of regional banks. This initiative provided only a fleeting respite to investor nervousness regarding regional bank deposit outflows. On March 16th, 11 major U.S. banks announced a collective $30 billion deposit infusion into First Republic, but this program also failed to restore depositor confidence. On March 20th, media reports began to discuss an imminent recapitalization of First Republic, perhaps using those major banks' collective deposits. At that point, we exited our investment in First Republic, given the increasing risk that existing shares could effectively lose their remaining value.

Amedisys, Inc.

Amedisys, Inc. provided good fourth quarter results, but 2023 guidance came in below expectations. The company's home health business continues to be impacted by higher clinician compensation costs (especially nurses), Medicare rate reductions, and an adverse payer mix shift as more seniors elect Medicare Advantage over traditional fee-for-service Medicare, which has more favorable reimbursement. Additionally, the company is incurring significant losses in trying to grow its Contessa business, which provides high-acuity and palliative care services at home. More recently, the company's stock has responded unfavorably to the announcement of a new permanent CEO to take over responsibilities from the Chairman, who had stepped into the role temporarily. There had been speculation that company might be sold, but a permanent CEO diminishes that probability. While the near-term macro presents headwinds for the company, we believe there are several reasons to own Amedisys. Demand for home health services is strong and should continue to grow as it provides the lowest cost setting for providing healthcare services and is also the preferred setting for elderly patients. Currently, the company's ability to meet demand has been constrained by labor availability. As labor markets become less constrained, the company should be able to improve volume growth. Converting Medicare Advantage payers from per visit to episodic payment terms or improving the per visit rate could take time and remains the biggest issue we are monitoring. Another potential value driver is the reduction in the losses at Contessa, which has become a top priority for management. Finally, while an acquisition is never part of our investment case, Amedisys remains the largest independent home health and hospice operator in an industry that has seen significant interest from strategic buyers.

Ovintiv Inc.

Ovintiv Inc. had a relatively weaker quarter as their guidance was for a 8% reduction in production compared to a 2% consensus. Capex guidance was also a bit higher than expected. Ovintiv is a multi-basin E&P operator with a healthy exposure to natural gas as well as exposure to oil. Natural gas has plummeted by more than 60% in the last six months due to unfavorable supply demand dynamics impacting Ovintiv more than other E&Ps.

<u>Outlook</u>

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

The current market sentiment is so dour that it feels like we are on the precipice of a crisis. The most certain way to gain attention and fame in the investment world is to make an outlandish bearish or bullish call—and the recent news is full of them. According to Bank of America, "wall street is more pessimistic about stocks than in late 2008. This could be a reason to buy."

Every investment we make for clients must pass our criteria—a vibrant business at a discounted price. A classic bottom-up approach. That said, macro dynamics periodically have an impact on our strategy—like a weather report at the super bowl or the state of the economy at election time. From past experience, and having gone through several cycles and crises in the markets, the world does not end; society always finds a way forward and sentiment improves in a surprisingly short period of time.

In the first half of this past quarter, the buoyancy in the equity markets led to a "no landing" narrative. After some tough Fed speak, that ebullience eased, and then the trifecta of bank failures in March cast a darker cloud. Thankfully, reality has set in and the "no landing" narrative has been retired. For now, we are back to debating the odds of a soft landing versus a hard landing, and with the bank failures and impending credit crunch, fears of a hard landing are increasing.
The Buffett quote above is valuable but it is observational. We find the one below even more powerful because it is prescriptive:

"Be fearful when others are greedy and greedy when others are fearful." -- Warren Buffett

Is this good advice? We strongly believe it is ONLY on the basis that the investor defines risk as the possibility of a permanent loss of capital AND that you understand the businesses of the stocks you own. Stocks with lofty multiples based on hyperbolic projections are infinitely vulnerable.

The current market environment is reminiscent of the latter half of 2000/2001—post the bursting of the TMT bubble. While the Nasdaq imploded in March 2000, small-cap value stocks did much better on a relative and absolute basis for the two years 2000-2001. The setup is similar to today in that sentiment towards small-cap stocks is dismal and the valuations are depressed. This year investors are again migrating to the mega-cap Technology stocks as a safety measure to guard against the impending recession. Over the last few years, these growth stocks had taken on the perception of being defensives, however, the Technology sector historically is higher beta and more pro-cyclical.

Howard Marks became famous after he wrote his "bubble.com" memo on January 2, 2000—60 days before the TMT implosion. We consider the memo he wrote 12 months later— "We're Not in 1999 Anymore, Toto"— to be even more instructive. There are several nuggets of wisdom in this memo but one stands out to us in particular: Respect cycles—"cycles always prevail eventually…Trees don't grow to the sky. Few things go to zero." What we witnessed in the first quarter was the inevitable, painful adjustment from the period of easy money to one in which capital is allocated using a positive real cost of capital. The unwinding of easy money is apt to be a painful process—one in which capital that had been carelessly misallocated is extinguished. As we wrote last quarter, if we are in a new regime of higher rates for longer, then there will be several other accidents and unwinding of excesses due to hidden leverage in our system that has been built over the last several decades.

The last time the market sentiment was this dismal and uncertainty this high, was in March 2020. You may recall our unusually detailed quarterly letter from April of that year explaining our performance challenges in the first quarter 2020. It's valuable to revisit one's thinking/writing during times of extreme market stress and crisis. We said:

"There is not a silver lining per se to this quarter…That said, we see tremendous opportunity for alpha in our portfolios over the next 1 to 3 years. We believe the current opportunity set is rare and we couldn't be more excited by the upside potential we see within our universe of stocks."

Looking back, while we didn't outperform every quarter, we (and hopefully, our investors as well) are quite pleased with the results over this three-year period. Here are some closing comments from that Q1 2020 client letter:

"The best investments are often undertaken in an environment when the outlook is circumspect to panicked…We believe that investors should make realistic and conservative assumptions about the near term, but this does not mean that they should be pessimistic regarding the return opportunities over the medium term. Investor comfort is a poor gauge for evaluating risk exposure. If investors are myopic and obsess over near-term earnings, they could miss out on exceptional returns when markets start pricing in more normalized earnings and true fundamental values. After all, the intrinsic value of a business is not derived by merely placing a multiple on its next 12-month's earnings."

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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. You cannot invest directly in an index, which also does not take into account trading commissions and costs, see below for a description of benchmark indexes. 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.

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[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: $TE = \omega = \sqrt{(E[(rp - rb)2])}$ where rp - rb = the active return (i.e., the difference between the portfolio return and the benchmark return). This formula simplifies to: $TE = \omega = \sqrt{(\sigma p2 + \sigma b2 - 2\beta\sigma b2)}$ where $\sigma p2$ = portfolio variance; $\sigma b2$ = benchmark variance; and ß = Historical beta

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 base. 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. 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. 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. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. 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. 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. 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
2022	-10.90	-11.44	-14.48	N/A	32.42	27.66	7	$487.53	$523.34

*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, 2022. 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.
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Sapience Investments, LLC
SMID Cap Value Equity Composite

Year	Gross Returns (%)	Net Returns (%)	Russell 2500™ Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	9.96	9.69	9.34	N/A	N/A	N/A	1	$22.50	$349.83
2017	1.31	0.30	10.36	N/A	N/A	N/A	8	$106.06	$771.66
2018	-17.44	-18.26	-12.36	0.25	N/A	N/A	10	$134.36	$647.68
2019	28.19	26.91	23.56	0.09	17.46	14.43	8	$163.26	$773.40
2020	1.98	0.97	4.88	N/A	29.67	25.40	2	$43.86	$760.25
2021	25.01	23.77	27.78	N/A	28.04	24.49	2	$43.06	$914.19
2022	-8.86	-9.72	-13.08	N/A	28.54	26.84	2	$33.1	$523.34

*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, 2022. 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.
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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 model investment advisory fees. Net returns are calculated by reducing the quarterly composite returns by 1/4th of 1%, the highest tier of the standard fee schedule. 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.
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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.
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