Market Review: All About The Landing

Pundits, economists, and policymakers tend to employ simple shorthand analogies to communicate their outlook around major economic turning points. As the pandemic spread in early 2020, investors debated what shape the recovery would take using letters of the alphabet—V-shaped to refer to a rapid recovery, W-shaped to reflect an uneven, bouncy rebound, and L-shaped to signify flat, anemic economic times. A V-shaped recovery ensued with the help of a massive economic policy jolt. But policymakers did too much of a good thing, and an overshoot in inflation is causing concern as the invisible hand drawing the upward flick in the winning character just won't put the pen down. Now that monetary policymakers are "moving expeditiously" to unwind their mistake, letters of the alphabet have been replaced by air travel analogies—'hard landings' for a deep recession, 'soft landings' for a moderate growth slowdown, and 'bumpy landings' for something in between. After the recent FOMC meeting in late June, Federal Reserve Chair Powell explicitly told passengers to brace for impact. Wrestling inflation "is highly likely to involve some pain," and while it is possible, he called a soft landing "very challenging." In a remarkable display of collective groupthink, investors quickly rushed to discount the extreme case, abandoning all hope that inflation could be arrested without a deep and prolonged recession.

As of quarter end, the proverbial airplane has undoubtedly not yet landed, and recession has not begun. A record trade imbalance and slower federal government spending pushed U.S. real GDP down by 1.6% in the first quarter, but these factors usually do not herald a recession. The Conference Board forecasts second quarter real GDP growth of 1.9%, with the third quarter projected to grow at 0.8%. Business and consumer confidence may be gloomy, but corporate and household balance sheets remain healthy. Many observers suffer from confirmation bias—misinterpreting a moderation in economic momentum and the uneven distributional impact of rapid inflation as the start of a more extended downturn. In the money market, this outlook is evident in Fed Funds futures, which discount a shift to an easing policy by early 2023.

Perhaps a hard landing is not "virtually inevitable," as some respected observers (notably Bill Dudley and Larry Summers) recently declared, at least not soon. A more calibrated view arises as we speak to corporate leaders—they may parrot the conventional view that an economic hurricane is coming, but when asked about their business, they say things are fine—new business pipelines are solid, the most significant challenge is finding skilled labor, and other ancillary measures of a deteriorating economic environment are not present. Generally speaking, the demand for services may be boosted as spending on goods moderates and production is strengthened by growing inventories. In this scenario, headline inflation eventually comes down from today's heady levels as supply chain issues abate, but core inflation and wage growth remain uncomfortably high. Central bankers ultimately respond by pushing the cost of capital to a restrictive posture that tightens financial conditions sufficiently to drive up unemployment. But that process has a long way to run, and investors have prematurely discounted a hard landing and a rapid takeoff (i.e., a return to accommodative monetary policy) in the coming year.

The second quarter was a challenging time for all investors as they suffered large losses on stocks, corporate bonds, and other assets while government bonds offered no offsets. Coming into the quarter, the prevailing narrative held that economic momentum was strong and the Fed was behind the curve. Bond market investors saw the 10-Year U.S. Treasury yield move from 2.34% to just under 3.50% in early June, settling at 3.01% at quarter end as pessimistic investors began to discount an economic recession.

Russell Index Returns—*As of June 30, 2022*

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	-17.2	-23.4	-25.2	4.2	5.2	9.4
Russell 2000 Value Index	-15.3	-17.3	-16.3	6.2	4.9	9.1
Russell 2000 Growth Index	-19.3	-29.5	-33.4	1.4	4.8	9.3
Russell 2500 Index	-16.7	-21.8	-21.0	5.9	7.0	10.5
Russell 2500 Value Index	-15.4	-16.7	-13.2	6.2	5.5	9.5
Russell 2500 Growth Index	-19.6	-29.5	-31.8	3.7	7.5	10.9
Russell Mid Cap Index	-16.9	-21.6	-17.3	6.6	8.0	11.3
Russell 1000 Index	-16.7	-20.9	-13.0	10.2	11.0	12.8

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

Small- and Mid-Cap Market Review

Stocks were under significant pressure in the second quarter—ending in negative territory and extending their first quarter losses. Within the Russell Indexes, returns during the quarter were down double digits across the board with the epicenter of the losses being in growth stocks (Russell 1000 Growth -20.9%, Russell Mid Cap Growth -21.1%, Russell 2500 Growth -19.6%, and Russell 2000 Growth -19.3%). The broad Indexes were down between 16.7% and 17.2% during the period, followed by Small-Cap Value Indexes, which declined the least, falling 15.3% in the Russell 2000 Value Index and 15.4% in the Russell 2500 Value Index. Finally, we are being vindicated in what we have been writing the last two years—look at the almost 45% (that's not a typo!) spread between the Russell 2000 Value and Growth for the two years ended June 30th. As a result of this massive reversion, small cap value is now leading small cap growth for the 3 years and both are almost equal in performance for the 5 and 10 years.

Unsurprisingly there were no safe havens during the quarter and all sectors in the Russell 2000 and 2500 Value Indexes posted negative returns. Within the Russell 2000 Value Index, Communication Services and Consumer Discretionary were the two worst-performing sectors, declining 31.0% and 21.5%, respectively. Meanwhile in the Russell 2500 Value Index, the Communication Services sector declined 25.2% followed by the Materials sector, which lost 21.6%. Utilities and Consumer Staples were the least scathed in both Indexes, returning -3.9% and -3.6% in the Russell 2000 Value Index and -4.2% and -8.4% in the Russell 2500 Index.

After the selloff in the last three months, the ratio of Russell 2000 to the S&P 500 is closest to the lowest in almost 20 years. On a relative basis, small caps are unusually cheap. Small-cap shares are already taking into account some likelihood of a recession. In addition, small-cap companies are typically less impacted by a stronger dollar as more of their revenues are derived domestically versus large-cap companies.

Performance Impact

During the second quarter, both our strategies delivered respectable results compared with their respective benchmarks but we still produced negative absolute returns. Our Small Cap Value strategy returned -14.1% gross (-14.2% net) and our SMID Cap Value strategy returned -13.4% gross (-13.5% net). On a relative basis, our Small and SMID Cap Value strategies outperformed our benchmarks (the Russell 2000 Value Index and the Russell 2500 Value Index, respectively) for the quarter by +1.1% in Small Cap and +2.0% in SMID and year-to-date by +3.1% in Small Cap and +4.0% in SMID.

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. Top contributors to performance included Consumer Staples, Communication Services, and Health Care. In Consumer Staples, TreeHouse Foods, Inc. was the top performer (discussed below in the top and bottom five contributors). Within Health Care, home medical equipment provider AdaptHealth Corp. and leading behavioral health services company Acadia Healthcare Company, Inc. were the top contributors. AdaptHealth's shares recovered from what we believe were oversold levels as the company managed through their supplier recall issues (impact on their sleep therapy business seems to be bottoming), their supply chain issues, and the outlook in their diabetes segment remains encouraging. Acadia continues to deliver solid results as the demand for its behavioral services remains strong. An underweight in the worst-performing Communication Services sector further enhanced performance. Conversely, Consumer Discretionary and Technology were two sectors where our strategy underperformed. Within these two respective sectors, Six Flags Corp. and Diebold Nixdorf, Inc. were the worst performers. (Both companies are discussed below in the top and bottom five contributors section.)

In our SMID Cap Value portfolio, we outperformed in 5 of 11 sectors in the second quarter with Consumer Discretionary and Consumer Staples adding the most value. Partially offsetting this was underperformance in the Industrials sector. In Consumer Discretionary, LKQ Corp. was the primary contributor as the company's auto parts are less discretionary, management has done a stellar job improving execution, and the business generates solid free cash flow. Within Consumer Staples, TreeHouse Foods and Post Holdings, Inc. added the most value—both are discussed below in the top and bottom five contributors. Meanwhile, the Industrials sector was the largest detractor in the second quarter. In Industrials, Stericycle, Inc. and Regal Rexnord Corp. were the primary detractors. Stericycle's first quarter results were negatively impacted by driver shortages and inflationary cost pressures as well as a lag in pricing offsets. Regal Rexnord's stock price declined due to a deceleration in orders.

Portfolio Strategy and Key Exposures

The second quarter was dominated by macro factors as investors' concern shifted from inflation to an impending recession. The risk-off regime took affect and correlations became elevated within equities as fundamentals were mostly ignored and stocks were trading as a yield play and based on their sectors and factors (e.g. low volatility) rather than on underlying performance of the business.

Last quarter, in light of the elevated inflation and upward pressure on yields, we started reducing some cyclical exposure in Consumer Discretionary and Financials. In expectation of the inflationary pressures, we have invested in businesses with dominant positions in their industry, pricing power, and the ability to maintain margins. In addition, in anticipation of a slowing economy, we are investing in businesses that are defensive and less cyclical. Furthermore, our investments in private label companies, such as Post Holdings 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 are starting to see some evidence of this shift already. We maintain a large relative overweight in the Consumer Staples sector. Notwithstanding the selloff in energy stocks in the last one month, we retain a positive bias towards the sector. The Russia-Ukraine war has certainly complicated things and introduced additional inflation pressures in energy and agricultural commodities. We believe that the supply side should remain constrained despite the volatility in commodities like oil and natural gas.

Value can be found in traditional growth sectors like Technology and growth investors will migrate to traditional value sectors like Energy. With the recent decimation in the Technology sector, we have started adding exposure to a few select, long-followed software businesses. We believe we are moving towards a market environment where returns will be driven more by stock selection than sector selection. We are pleased with how a majority of our companies have been executing since the Covid crisis, and after the selloff in the last three months—we believe several of our investments have become real bargains. We have seized a few select opportunities in this selloff by deploying the proceeds from the three companies that were acquired in the portfolios (Plantronics, Inc., SailPoint Technologies Holdings, Inc., and American Campus Communities, Inc.) in the last three months as well as from certain investments that we exited for a better risk/reward elsewhere going forward.

Small Cap Value Equity Performance—*Through June 30, 2022*

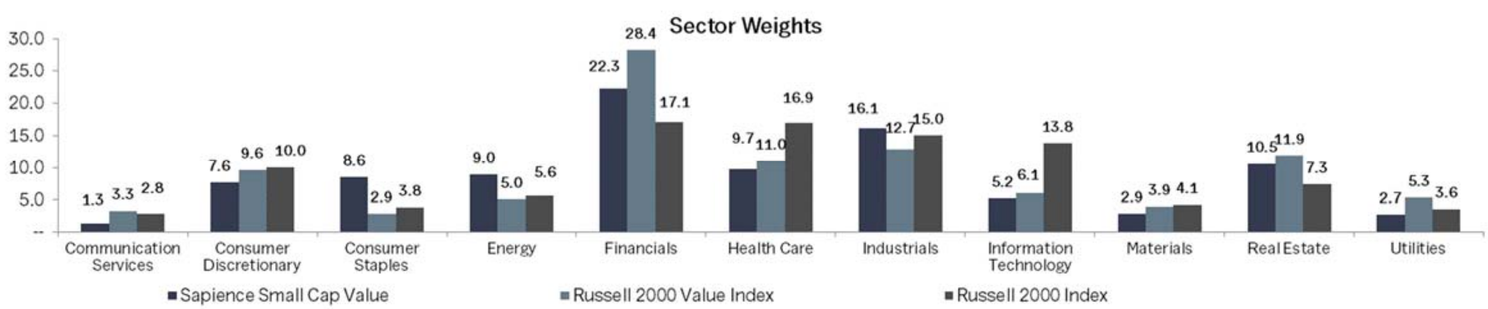
	Quarter	Year to Date	1 Year	3 Years	5 Years
Sapience SCV Equity Composite (Gross)	-14.1%	-14.2%	-13.8%	7.5%	4.4%
Sapience SCV Equity Composite (Net)	-14.2%	-14.4%	-14.3%	6.9%	3.8%
Russell 2000 Value Index	-15.3%	-17.3%	-16.3%	6.2%	4.9%
Russell 2000 Index	-17.2%	-23.4%	-25.2%	4.2%	5.2%

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 June 30, 2022*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	22.3%
Active Share [2] (relative to the Russell 2000 Value Index)	95.1%
Tracking Error [3]	6.0
Number of Buys[4]	7
Numbers of Sells[4]	11

[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 second quarter.

Top and Bottom Contributors
Second Quarter 2022

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
TreeHouse Foods, Inc.	Diebold Nixdorf, Inc.
EQT Corp.	Six Flags Corp.
SailPoint Technologies Holdings, Inc.	Hudson Pacific Properties, Inc.
Resources Connection, Inc.	OUTFRONT Media Inc.
e.l.f. Beauty, Inc.	Webster Financial Corp.

TreeHouse Foods, Inc.
Treehouse Foods, Inc. is a leading manufacturer and distributor of private label packaged foods and beverages in North America. The company's stock price outperformed during the quarter as TreeHouse posted an upside surprise in sales and EBITDA margins when it reported its quarterly results. This quarter could be an inflection point in the company's performance as consumers shift towards greater private label food consumption from brands. The price gap between private label and brands has widened in TreeHouse's categories. In addition, the company is outpacing the private label industry in several of its categories due to improved execution after the operational turnaround that was undertaken in the last 3-4 years by CEO Steven Oakland.

EQT Corp.
Similar to last quarter, EQT Corp. outperformed on the heels of the continued fallout from the Russia/Ukraine war. Europe's increased reliance on Russian-piped natural gas for energy needs as well as threats from Russia to cut off their supply drove natural gas prices higher during the period. Beyond these medium-term issues, we continue to believe that longer term, natural gas remains a critical fuel for global energy transition. We see continued evidence that this transition was poorly planned and will likely take decades to complete. As a result, natural gas will play an important role in acting as a bridge before renewables gain a significant share of the energy market. EQT remains the largest U.S. natural gas producer and is a well-managed company with a focus on generating free cash flow to reduce debt and return cash to shareholders. We continue to believe EQT will benefit disproportionately.

SailPoint Technologies Holdings, Inc.
Shares of SailPoint Technologies Holdings, Inc. rose more than 25% during the period as private equity firm Thoma Bravo announced plans to take the company private for $64 per share—an approximate 30% premium to its publicly traded price. SailPoint operates in a competitively advantaged environment: taking share from legacy Identity Governance and Administration providers such as IBM, ORCL, and CA, and having minimal competition from new entrants in the space. SailPoint is also successfully transitioning to a cloud-based product and seeing increased annual recurring revenue growth rates as a result. Thoma Bravo is familiar with SailPoint as it has a history with the company and hence was able to recognize the potential in this business.

Resources Connection, Inc.
Resources Connection, Inc. is a multinational professional services firm that provides its fortune 500 clients experienced accounting and finance professionals on a flexible basis. During the quarter, Resources Connection's stock price outperformed as the company continues to execute well and posted another strong quarter with upside in sales and EBITDA margins.

e.l.f. Beauty, Inc.
e.l.f Beauty, Inc.'s stock price outperformed during the quarter as the company continues to execute well and posted another strong quarter with upside in sales and margins. The company is outpacing the mass cosmetics industry and expanding in additional categories in both cosmetics and skincare.

Diebold Nixdorf, Inc.
Diebold Nixdorf, Inc. reported first quarter results that were materially below expectations and reduced its revenue guidance for 2022 by $300 million due to Euro weakness versus USD ($160 million), Russia/Ukraine ($80 million), and supply chain issues ($60 million). EBITDA guidance was also lowered by $115 million for the year. Conversely, orders were up +23% overall and +105% in the self-checkout segment. In addition, Diebold's new CEO announced $150 million in cost cuts over the next 18 months. While the factors behind the revenue miss and supply chain delays are understandable and the strong order book is encouraging, the debt refinancing of $750 million in term loans due November 2023 is the key focus for investors and it needs to be addressed to alleviate the pressure on the common stock.

Six Flags Corp.
Six Flags Corp.'s stock price declined approximately 50% during the quarter despite the company delivering better than expected first quarter results. There were two reasons for the company's stock price decline: the weakness in leisure

stocks due to the fear of an impending recession, and second, due to the new premium pricing strategy being implemented by its new CEO, Selim Bassoul. There is uncertainty over the near-term results caused by the price/volume trade off as Mr. Bassoul is increasing ticket prices and culling unprofitable customers. We believe that the selloff is overdone as amusement parks are attractive businesses with barriers to entry and generate strong free cash flow. In addition, in our estimate, the private market value for this business far exceeds its current market value.

Hudson Pacific Properties, Inc.
Shares in Los Angeles-based Hudson Pacific Properties, Inc. lost nearly 46% in the quarter due to investor fears that the office REIT segment would not fully recover from the impact of the pandemic. However, the company's operating fundamentals are solid. Hudson released first quarter FFO in line with our and the street's forecasts. Hudson's Office segment had solid results with 504k square feet of leasing and +6.0% cash rent spreads. A modest leased rate decline for Studios resulted from softness in non-stage office users, which management believes is beginning to reverse. Stage demand is robust with limited availability—note that 32 of Hudson’s 35 stages are under long-term lease rather than available for a given production. Another significant item supporting Hudson is the return of office workers in Northern California and the strength of prime San Francisco office, given its scarcity. Management narrowed guidance for fiscal year 2022 to $2.02-$2.08, from $2.01-$2.09, as most key metrics align with our expectations. Well positioned to serve California's creative industries, Hudson's office properties should remain in demand in all but the most pessimistic economic scenarios.

OUTFRONT Media Inc.
OUTFRONT Media Inc.’s stock price declined approximately 40% during the quarter. Like all marketing segments, out-of-home (OOH) advertising is an inherently cyclical industry. OUTFRONT’s shares have been impacted by investor fears of an extended economic downturn. However, based on first quarter reporting, operating fundamentals are solid, with strong momentum in all its operating segments. Management pointed to strength across several categories, including entertainment and travel, which lead the recovery. OUTFRONT’s revenues of $373.5 million (up 44.1% year-over-year) were helped by billboard revenues that are now more than 20% ahead of pre-pandemic levels. For fiscal year 2022, OUTFRONT expects to deliver revenue growth in the low-30% range year-over-year from continued billboard growth (primarily digitally based advertising) and an expected 80-90% year-over-year increase in NYC transit revenues. Rate contributed two-thirds of the growth and higher occupancy one-third. AFFO guidance of +60% year-over-year was maintained. Growth rates will undoubtedly moderate into fiscal year 2023, but OOH advertising companies are solid inflation beneficiaries with pricing power and limited cost impact. OUTFRONT’s shares currently trade at a depressed valuation of 8.4x 2023E AFFO/share, while the closest comparable, Lamar Advertising, trades at 12.0x.

Webster Financial Corp.
Operating in the Northeast U.S., Webster Financial Corp.’s shares fell approximately 24% on concerns that an economic recession could undermine the company's strong operating momentum. Webster posted core EPS in the first quarter that handily beat consensus expectation. Management guided towards healthy +8-10% loan growth through year-end fiscal year 2022. In addition, since 61% of the loan book is floating rate, NII stands to perform well as short-term interest rates rise. NIM, core fee revenues, credit quality, and expenses were all in line with or better than our expectations and management's conservative projections. Webster is highly capital generative—core ROAA was 1.4% and ROTCE at a healthy 17%—profitability figures well above peers. Webster is a well-run regional bank whose shares trade at 8.0x 2023E EPS, which we believe to be an undeserved two multiple discount to peers.

SMID Cap Value Equity Performance—*Through June 30, 2022*

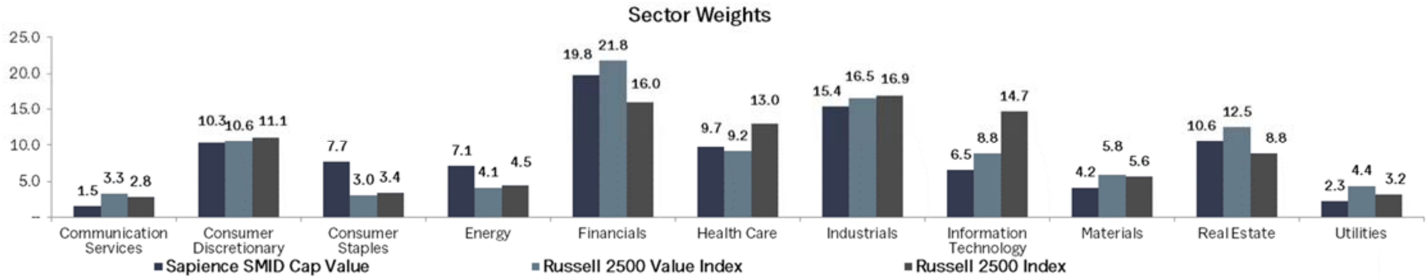
	Quarter	Year to Date	1 Year	3 Years	5 Years
Sapience SMID Cap Value Equity Composite (Gross)	-13.4%	-12.6%	-10.7%	7.0%	3.9%
Sapience SMID Cap Value Equity Composite (Net)	-13.5%	-13.0%	-11.4%	6.3%	3.3%
Russell 2500 Value Index	-15.4%	-16.7%	-13.2%	6.2%	5.5%
Russell 2500 Index	-17.0%	-21.8%	-21.0%	5.9%	7.0%

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.

SMID Cap Value Equity Characteristics and Sector Weights—*As of June 30, 2022*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	26.3%
Active Share [2] (relative to the Russell 2500 Value Index)	95.5%
Tracking Error [3]	5.4
Number of Buys[4]	5
Number of Sells[4]	9

[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 second quarter. TreeHouse Foods, Inc., SailPoint Technologies Holdings, Inc., EQT Corp., Diebold Nixdorf, Inc., OUTFRONT Media Inc., and Webster Financial Corp. 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
Second Quarter 2022

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
TreeHouse Foods, Inc.	Diebold Nixdorf, Inc.
SailPoint Technologies Holdings, Inc.	SL Green Realty Corp.
Post Holdings, Inc.	OUTFRONT Media Inc.
American Campus Communities, Inc.	Kilroy Realty Corp.
EQT Corp.	Webster Financial Corp.

Post Holdings, Inc.
Post Holdings, Inc. is a leading manufacturer and distributor of consumer packaged and private label food items. The company sells cereal, egg, and potato products among other categories to grocery retailers and the food service industry. Post's stock price outperformed during the quarter as the company delivered sales and EBITDA that were higher than expectations. The sales are benefiting from pricing, strong consumption, and improvement in its food service business. In addition, cost pressures and capacity restraints improved sequentially from the previous quarter.

American Campus Communities, Inc.
American Campus Communities, Inc.'s shares gained nearly 16% in the second quarter. On April 19, 2022, the company announced that it had agreed to be acquired by Blackstone for $65.47/share in an all-cash transaction. The deal price was a 14% premium to the prevailing closing price, representing a 4% implied cap rate, and a valuation consistent with our target price. As a dominant player serving the student housing market, American Campus has unique characteristics that fueled steady organic and inorganic growth in a multifamily housing market with little new supply, but the company received little interest from public market investors in recent years. The deal is expected to close in the third quarter of 2022.

SL Green Realty Corp.
Investors' skepticism about the recovery's durability in the office REIT segment drove down the value of SL Green Realty Corp.'s shares by approximately 42% in the second quarter. First quarter results from SL Green solidly beat the consensus and leasing was strong. SL Green executed 821k square feet of Manhattan office leases in the first quarter, well ahead of what they did in fourth quarter of 2021 (573.8k square feet). Same-store cash NOI excluding lease term income rose 9.3% year-over-year (vs. +2.9% in the fourth quarter of 2021). However, same-store office occupancy decreased 150 bps to 92.7% (including leases signed but not yet commenced). On the recent capital markets day, management guided towards a 94.3% same-store office occupancy target by year end. Meeting this target involves signing at least 300k square feet of leases above space that expire by year end (810k square feet), so the full-year volume would need to top 1.9 million, including the first quarter's 821k square feet. Management remains confident that they can reach or exceed that figure given current trends. SL Green focuses on finding underperforming properties with premium locations and upgrading them with amenities that tenants are willing to pay a premium to rent. NYC office usage and occupancy have steadily improved in recent quarters. Yet, investors have become concerned that demand for office will not return to the previous peak, despite steadily mounting evidence to the contrary. At 7.0x 2023E FFO, we believe SL Green's shares remain severely depressed on both an absolute and relative basis.

Kilroy Realty Corp.

Kilroy Realty Corp.'s shares declined by nearly 31% as concerns mounted about work-from-home and the future of office REITs. Operating across the West Coast, fundamentals at Kilroy Realty are healthily improving with reported first quarter FFO/share up 18.3% year-over-year, nicely ahead of the Street's estimates on strong NOI momentum. The company had a solid quarter executing 183k square feet of leases (down from 312k square feet in the fourth quarter 2021). Average occupancy ticked down 50 bps quarter-over-quarter to 91.4%. However, leasing spreads jumped 6.7% (on a cash basis), boosted by longer duration and strong contractual bumps. Management did raise the midpoint of their FFO/share guidance by 6 cents due to improving same-store NOI growth of 5-6% (against 4.5-5.5%), and the remaining development spend for fiscal year 2022 in the $500-575 million range. Return-to-work has gradually risen in the past six months, improving the fundamentals of well-placed, high-quality office REITs like Kilroy Realty. Despite having a superior high-single-digit medium-term growth profile, at 12.1x 2023E FFO, we believe Kilroy Realty's shares continue to trade at an unwarranted 18% discount to peers.

Outlook

"Markets teach. The lessons can be painful." -Jeff Bezos

The above quote by Jeff Bezos is in response to venture capitalist Bill Gurley's twitter post a couple of months ago. Gurley's initial comment: "Previous all-time highs are completely irrelevant. It's not "cheap" because it is down 70%." Having invested in the Technology sector as a value investor through the Tech bubble and its aftermath, the present-day environment seems like déjà vu. We are currently at the stage where growth stocks have corrected drastically. But now there is a narrative in the markets (or perhaps, a "hope") that as the yields peak, growth stocks can regain their leadership. We are not believers that profitless and speculative Tech and Internet companies will revert to the multiples witnessed in the last two years. Regime shifts in the markets, after long periods of speculative excesses, are disorderly and often violent. So far, this one is no different.

Today's environment also rhymes with the stagflationary period of 1973-1982, where inflation averaged above 8.0%, real GDP grew less than 2% per year, and a regional conflict pushed energy prices to elevated levels. Even as three recessions were recorded in this decade, equities returned 8.2% per year on average, while value outperformed at just under 19% per year. Obviously, many factors such as the pandemic's impact on the real economy and the notable over-valuation in all asset markets distinguish today from the mid-1970s, but the parallels are remarkable.

In our view, the current cycle is different and unique as the world faces disparate supply constraints, geopolitical risks, and higher interest rates after more than a decade of subdued rates. All these factors create uncertainty and complications against a backdrop of persistent inflation and slower economic growth. The current situation warrants a conservative investment stance till there is better visibility on inflation and corporate earnings estimates have been revised lower for a slowing economy. More importantly, in our view, investors cannot be dogmatic and be guided by what has worked in the last five years. We believe the next 3-5 years are going to look different in the markets and in the types of investments that will provide leadership going forward.

Active equity investment management is critical in the current regime, where top-down uncertainty has induced many investors to flee in a wholesale risk-off panic. Numerous excellent businesses have been thrown to the wayside, enabling us, as fundamental, bottom-up investors, to find undervalued companies with a durable business model, high-quality management, and unassailable financial strength that are resilient enough to thrive in different economic environments. As an example, in the first half of this tumultuous year, four of our portfolio holdings were acquired: Plantronics. (acquirer: HP, Inc.), American Campus Communities (acquirer: private equity firm, Blackstone), SailPoint (acquirer: private equity firm, Thoma Bravo), and Healthcare Trust of America, Inc. (acquirer: Healthcare Realty Trust Inc.). This is a further validation of our investment process—strategic buyers and PE firms recognize the value in these businesses and are willing to pay a premium to the prevailing market price to acquire the business in its entirety. These acquisitions came at an opportune time. We have deployed the proceeds from three of these exits (except Healthcare Trust) in new investments during the selloff in the last three months. We believe PE firms have a lot of dry powder and there will be many more acquisitions of public companies by PE as the current valuations in public markets are significantly lower than peer-to-peer PE deals and are attractive even after factoring in higher interest rates. PE firms can take a longer time horizon, while most public equity investors myopically focus on quarter-to-quarter returns.

While it is difficult for investors to shed their obsession with where the rates will peak as well as the timing and depth of the next recession, there are positives emerging for investors. Mohammed El-Erian expressed it well in a recent piece: "For long-term investors, it will prove beneficial over time that markets are exiting an artificial regime that was maintained for far too long by the Fed and that resulted in frothy valuations, relative price distortions, resource misallocations and investors losing sight of corporate and sovereign fundamentals. The promise now is one of a more sustainable destination. Unfortunately, it comes with an uncomfortably bumpy and unsettling journey." We concur and are enthusiastic for this renormalization to take hold.

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.

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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: $TE = \omega = \sqrt{E[(rp - rb)2]}$ 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 β = 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

*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.