Market Review: The Music Just Stopped

The U.S. economy exited the year with considerable momentum. Conference Board economists predict that 2021 real GDP grew by 5.6% in 2021. For the coming year, the FOMC's projection is for a healthy 4.0% growth before slipping back toward a more moderate "trend" growth of 2.0-2.2% in 2023-24. Consistent with information we gather from speaking to small- and mid-sized businesses, robust U.S. economic conditions endure despite successive waves in the pandemic, chronic supply-chain issues, and mounting evidence of economic fragility in other major economies. Labor market conditions also remain tight. Finally, inflation concerns remain elevated. The FOMC expects that PCE peaked in 2021 at 5.3% and will settle back to an above-target level of 2.6% in 2022 and 2.3% in 2023.

In the face of an over-heating economy and mounting inflationary pressures, policymakers had prudently signaled a policy shift in September. They emphatically reiterated that stance in December, with a more rapid reduction in their quantitative easing program and the possibility that they may begin raising short-term interest rates in March. Guidance from the FOMC is that the short-term Fed Funds rate will rise 75 bps in 2022 and another 50-75 bps in 2023 to peak at a terminal rate around 1.5%.

Yet, something does not add up when we try to square the FOMC's economic forecasts with articulated policy actions. When will economic activity slow below trend or the unemployment rate rise to cool wage growth? Neither outcome is suggested in the forecast period. Implicit in their projections must be assumptions about the resolution of supply-chain issues, reduced energy prices, and greater labor force participation. These expectations have no basis in the current economic reality.

In the fourth quarter, investors were unconcerned about the upcoming shift in the monetary regime. The 10-Year U.S. Treasury bond yield began the quarter at 1.49% and ended at 1.51%, up 2 bps. The S&P 500 Index powered to an all-time high in late December after the FOMC meeting, gaining 11.0% in the quarter and 28.7% for the year, while the international EAFE index added 2.7% in the fourth quarter and 11.3% over 2021. The small cap Russell 2000 gained 2.1% in the quarter but lagged the S&P 500 Index by 13.9% for the year. The outsized divergence between small-cap value and small-cap growth persisted in the fourth quarter. The Russell 2000 Growth Index was flat for the quarter while the Russell 2000 Value Index added 4.4%. For calendar year 2021, the Russell 2000 Value Index rose 28.3%, outperforming the Russell 2000 Growth Index by 25.5%.

We typically discuss the previous quarter and certain aspects of the previous year in our market review section. However, the elephant in the room is the dramatic shift in the narrative regarding the yields and FOMC policy since the turn of the calendar year. The yields—real and nominal—have spiked close to 30 bps in the first twelve days of 2022. The FOMC minutes released on January 3rd made clear that they would increase rates before full employment was achieved. In addition, the minutes highlighted that some members are in favor of an earlier Quantitative Tightening (QT) and fewer rate hikes that would offset the flattening of the yield curve. In essence, FOMC is going to use three policy tools: faster tapering of asset purchases, rate hikes, and a possible QT in middle of 2022. The surprise for the markets was a higher probability of the QT. This means that Fed is serious about containing inflation and that will lead to tighter financial conditions and higher real yields. The flow of easy money could reverse, which would be bad for speculative/risk assets and growth equities. The party may have ended—the music just stopped.

Russell Index Returns—*As of December 31, 2021*

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	2.1	14.8	14.8	20.0	12.0	13.2
Russell 2000 Value Index	4.4	28.3	28.3	18.0	9.1	12.0
Russell 2000 Growth Index	0.0	2.8	2.8	21.2	14.5	14.1
Russell 2500 Index	3.8	18.2	18.2	21.9	13.8	14.2
Russell 2500 Value Index	6.4	27.8	27.8	18.3	9.9	12.4
Russell 2500 Growth Index	0.2	5.0	5.0	25.1	17.7	15.8
Russell Mid Cap Index	6.4	22.6	22.6	23.3	15.1	14.9
Russell 1000 Index	9.8	26.5	26.5	26.2	18.4	16.5

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

Small- and Mid-Cap Market Review

There was a perfect linear relationship in terms of size, favoring large caps over mid and small caps for the fourth quarter. Starting with the S&P 500 and Russell 1000, which returned 11.0%, and 9.8%, respectively, down thru the Russell 2000 Index, returning 2.1%. The relevant indices for our strategies fell in line—the Russell 2000 Value generated 4.4% and the Russell 2500 Value was up 6.4%. With this quarter's underperformance, year to date small caps are now trailing the larger caps. For example, the Russell 2000 Index was up 14.8% for the year ended December 31, 2021, while the Russell 1000 Index was up 26.5%. Value, however, continues to outperform growth. The Russell 2000 Value Index was ahead of the Russell 2000 Growth Index by 4.4% for the quarter. Similarly, the Russell 2500 Value Index outperformed its growth counterpart by 6.2%. For 2021, both the Russell 2000 Value and Russell 2500 Value Indices not only held on to, but also continued to widen their significant leads (+25.5% and +22.8%) over their growth counterparts.

From a sector perspective, results were mixed during the quarter. In both the Russell 2000 and 2500 Value Indexes, Utilities was the top performer (Russell 2000 Value: 12.5%; Russell 2500 Value: 12.4%). From there the positive similarities diverge. Consumer Staples (+11.7%) and Technology (+10.4%) followed Utilities in the Russell 2000 Value Index and Materials (+11.8%) and Real Estate (+11.2%) in the Russell 2500 Value Index. Meanwhile, Communication Services, Health Care, and Energy were the laggards in the quarter, posting returns of -12.0%, -6.2%, and -5.1% in the Russell 2000 Value Index and -5.2%, -1.1%, and +3.2% in the Russell 2500 Value Index.

For the year, Energy was the best-performing sector in both Indexes, up 66.4% in the Russell 2000 Value Index and 83.3% in Russell 2500 Value Index. Communication Services, Consumer Discretionary, and Real Estate were the next best performers in the Russell 2000 Value Index, up 39.3%, 37.2%, and 30.9%, respectively. Within the Russell 2500 Value Index, Materials, Financials, and Real Estate yielded the next largest returns (up 35.1%, 32.8%, and 31.5%, respectively). Conversely, Health Care and Utilities, while positive, were the worst-performing sectors (Russell 2000 Value: +3.9% Health Care, +10.5% Utilities; Russell 2500 Value: +9.0% Health Care, +12.8% Utilities).

2021 was an interesting year for small and SMID cap value. The first quarter saw very strong performance as the value rotation from fourth quarter 2020 continued and there was an expectation of a strong economic rebound after reopening post-Covid. During the first quarter, we also witnessed a speculative euphoria for the meme stocks. The second quarter saw a resurgence by large growth stocks as fear over the Delta variant took hold along with elevated inflation readings. Increased inflation should normally benefit value stocks over growth stocks; however, the negative real rates were a factor in driving investors to the perceived safety of large cap growth. The third quarter saw mixed performance due to supply chain constraints and labor shortages. In the fourth quarter, we saw large caps perform better than small caps, however, small and SMID cap value did much better than their growth counterparts. This was driven by the expectation of an improving economy post-Omicron, rising yields, and declining inflation over the next 12-18 months.

Performance Impact

Our fourth quarter performance was positive in both strategies. In Small Cap Value, we posted 5.4% gross of fees (5.2% net of fees) versus 4.4% for the Russell 2000 Value Index and in SMID Cap Value we generated 5.8% gross of fees (5.6% net of fees) versus 6.4% for the Russell 2500 Value Index. On a relative basis, we outperformed the benchmark in Small Cap by 1.0% and underperformed in the SMID strategy by -0.6%.

For the year ended December 31, we posted strong absolute returns, 28.4% gross of fees (27.6% net of fees) in Small Cap Value and 25.0% gross of fees (24.2% net of fees) in the SMID Cap Value strategy. Our Small Cap Value strategy performed in line with the Russell 2000 Value Index (+0.10%) and our SMID Cap Value strategy's returns were behind the Russell 2500 Value Index (-2.8%).

In the fourth quarter, our Small Cap Value strategy outperformed the Russell 2000 Value Index in 6 of the 11 sectors. Most of the outperformance was concentrated in the Health Care and Energy sectors. Communication Services, the worst-performing sector in the Index, also contributed due to the strategy's underweight in the sector. Syneos Health, Inc. was the primary contributor in Health Care as the company continues to post good growth. EQT Corp. was the top performer within Energy as the company announced a bold capital return plan. Consumer Discretionary and Real Estate were the two sectors where our strategy underperformed. Cheesecake Factory Inc. and Despegar.com, Corp. were the largest detractors in Consumer Discretionary (both companies are discussed in a later portion of this commentary). For the year ended December 31, 2021, we outperformed in 5 of 11 sectors. The Financials sector was by far the largest contributor to the strategy's performance, followed by Health Care and Energy. Navient Corp. and SLM Corp. added the most value within Financials. Both student lenders are posting improved earnings and delivering on an aggressive capital return program to shareholders. Similar to the quarter, Syneos was the top contributor in the

Health Care sector. Within Energy, Diamondback Energy, Inc. added the most value. Meanwhile, among the underperforming sectors, Consumer Discretionary, Technology, and Industrials were the most meaningful detractors. In Consumer Discretionary, the primary factor contributing to our strategy's underperformance was not owning meme stocks, like Gamestop (as discussed in our Q1 letter). In Technology, the main detractor was Diebold Nixdorf, Inc., which is discussed below in the top and bottom five contributors section. Within Industrials, the primary detractor was KAR Auction Services, Inc. KAR Auction Services' stock has been volatile over the last 24 months as the company has undertaken a major cost transformation by eliminating physical auctions and has contended with reduced volumes of used cars at its auctions due to the pandemic.

In our SMID Cap Value portfolio, despite a slight underperformance, we outperformed in 6 of 11 sectors in the fourth quarter. Most of the underperformance was concentrated in Technology and Materials. In Technology, Alliance Data Systems was the primary detractor. Within Materials, WestRock Co. detracted the most value. Conversely, the Consumer Discretionary and Industrials sectors were the largest contributors in the fourth quarter. In Consumer Discretionary, Capri Holdings Ltd. and LKQ Corp. were the primary positive contributors. In Industrials, Kirby Corp. was the top performer. (Please see the discussion below that covers the top and bottom five contributors, including all the companies mentioned in this section.) For the year ended December 31, 2021, we outperformed in only 4 of the 11 sectors. Most of the underperformance was concentrated in three sectors: Technology, Materials, and Industrials, with Technology being the largest detractor. FleetCor Technologies, Inc., Diebold Nixdorf, and Alliance Data Systems were the biggest detractors in the Technology sector. FleetCor's stock declined during the fourth quarter in sympathy with other payments companies as well as the expected impact of Omicron. Diebold and Alliance Data Systems are discussed below in top and bottom contributors section. In Materials, Westrock Co. was the primary detractor. Within Industrials, KAR Auction Services was the largest detractor. Conversely, Consumer Discretionary and Financials were the largest contributors for the year. Within Consumer Discretionary, The Michaels Companies, Inc., LKQ, and Capri Holdings, added the most value. As previously mentioned, LKQ and Capri Holdings are discussed below. In the first quarter of 2021, a PE firm acquired Michael's at a healthy premium. In Financials, East West Bancorp, Inc. and SLM Corp. were the largest contributors. East West Bancorp is delivering healthy earnings due to strong loan growth along with lower credit costs. SLM was discussed above in the Small Cap Value performance for the year.

Portfolio Strategy and Key Exposures

In our view, and as we wrote in our last two quarterly letters, the value rotation is not dead. Our view remains that the Covid-19 impact will continue to abate despite new variants like Omicron, driving a cyclical recovery as the world has learned ways to cope with the ailment through vaccines and treatment. Given the multi-year lows in capex, inventories, and strong consumer balance sheets, we believe the recovery can continue for a while. The rising inflation and bond yields, a credulous belief coupled with overweights in growth and tech stocks, and the opposite in value and cyclical stocks, support our rotation thesis. In the first two weeks of this year, we are witnessing a strong resurgence in the rotation towards value stocks.

Our positioning and exposures have remained consistent since the first quarter of last year, as we are pleased with how our companies are executing and still see attractive upside in our investments. In light of the recent data on inflation, movement in yields, and increase in crude and natural gas prices, we provided our views on the Energy, Financials, Industrials, and Consumer Discretionary sectors last quarter. Our views remain the same and we are constructive on these four sectors.

Concerning the Technology and Communication Services sectors, we have been cautious for a while now due to the irrational growth expectations and extremely high multiples for many of the software, internet, and consumer-related businesses. In the last few months, we have started to witness a carnage in many of these uber expensive stocks. We believe it is too early to jump into these investments as this correction has a while to go. We believe our current holdings in the Technology sector are reasonably valued with a couple at downright depressed valuation as these companies are undergoing a turnaround.

Small Cap Value Equity Performance—*Through December 31, 2021*

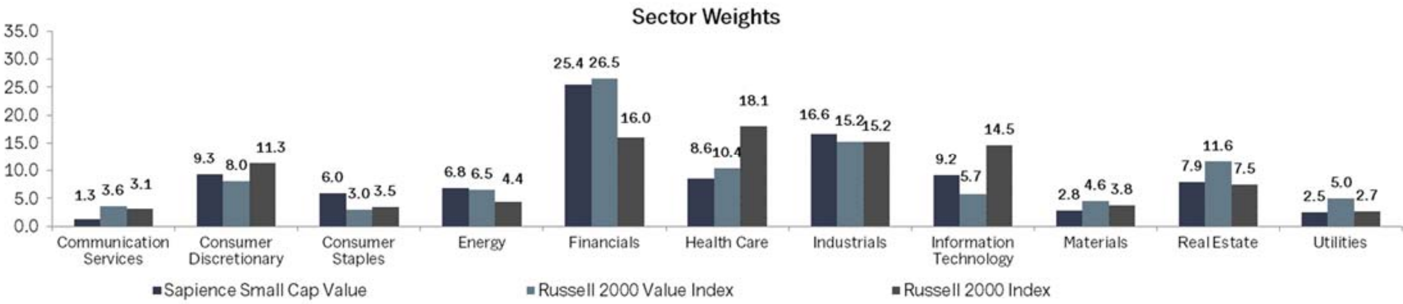
	Quarter	Year to Date	1 Year	3 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	5.4%	28.4%	28.4%	18.9%	9.9%
Sapience SCV Equity Composite (Net)	5.2%	27.6%	27.6%	18.1%	9.3%
Russell 2000 Value Index	4.4%	28.3%	28.3%	18.0%	11.4%
Russell 2000 Index	2.1%	14.8%	14.8%	20.0%	13.2%

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 December 31, 2021*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	21.6%
Active Share [2] (relative to the Russell 2000 Value Index)	94.4%
Tracking Error [3]	6.6
Number of Buys[4]	1
Numbers of Sells[4]	3

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



Sources: Russell Investments, FactSet

Small Cap Value Equity

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

Top and Bottom Contributors
Fourth Quarter 2021

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Capri Holdings Ltd.	8x8 Inc.
New Relic, Inc.	Cheesecake Factory Inc.
EnPro Industries, Inc.	Despegar.com, Corp.
Helios Technologies, Inc.	Diebold Nixdorf, Inc.
Kirby Corp.	Hanger, Inc.

Capri Holdings Ltd.
Capri Holdings stock price appreciated 34% during the quarter as the company posted results that were well ahead of expectations. The EPS came in at $1.53 versus an expectation of $0.95 as the gross margin improved by more than 400 bps and EBIT margin expanded over 200 bps. Versace and Jimmy Choo posted better than expected revenues, while the Michael Kors brand was slightly below due to supply chain issues. Capri has a strong balance sheet, generates solid free cash flow, and has authorized a new $1 billion share buyback program.

New Relic, Inc.
New Relic, Inc.'s stock price appreciated approximately 53% during the fourth quarter. The company has been transitioning from a license-based model to a usage-based model for their software products. During the quarter, CEO Bill Staples announced that they had formally reached the end of this transition based on a few metrics. Mr. Staples' announcement indicates high traction of this new strategy by customers. Additionally, revenue growth and guidance were both above analyst estimates. Finally, the company noted an increase in market share, which New Relic took from a leading company in the space. The combination of this news led to the strong performance during the period.

EnPro Industries, Inc.
EnPro Industries, Inc. reported solid third quarter results and continues to make progress with its transformation. Over the last couple of years, the company has strategically exited various underperforming businesses and replaced those with higher growing and high margin businesses. The improvement to EnPro's operations has taken time—this is now becoming more evident as the company has been delivering stronger and more consistent results. Additionally, during the quarter the company made two additional steps in its transformation. EnPro announced the sale of its

Compressor Products International (CPI) business unit, which will lower cyclicality by decreasing the company's exposure to the oil and gas industry. The company also used its strong balance sheet and proceeds from the CPI sale to acquire NxEdge, which will expand EnPro's existing semiconductor manufacturing, coating, cleaning, and refurbishment business. The semiconductor business has a more favorable growth profile and significantly higher margin. EnPro had been trading at a very low valuation that did not reflect the meaningful improvements management has made.

Helios Technologies, Inc.

Helios Technologies, Inc. had a strong quarter with results significantly above expectations. Total organic order growth of 30% along with 31% organic growth in Hydraulics and 26% organic growth in Electronics were very strong. The company has a long history of being an efficient operator, which it is demonstrating by generating solid results and largely overcoming many of the supply chain and logistic challenges that all industrial companies faced. As a result, the company was able to take market share by maintaining good lead times. Proforma net leverage which the company had increased to fund the acquisition of Balboa Water Group, also declined to a manageable 2.0x—positioning the company to make additional acquisitions in the near future. These results led to a 4% and 6% increase in EBITDA and EPS guidance.

Kirby Corp.

Both the Delta variant and Hurricane Ida, which forced many customers to close operations, adversely impacted Kirby Corp.'s results. These factors hindered meaningful sequential improvement in financial results. Overall market conditions in the inland barge transportation market, however, started to improve towards the end of the third quarter with inland barge utilization reaching the high 80% range in October. Customer activity has also improved and is returning to pre-Covid levels. Spot pricing has moved above contract prices, which should allow the company to start repricing its contracts at higher rates. As those higher prices flow through earnings and the company continues to reprice its book of business, margins and profitability should improve towards normalized levels that are significantly higher than current levels. Additionally, demand for its oil and gas products has improved from trough levels, providing an additional source of earnings contribution.

8x8 Inc.

Shares of 8x8 Inc. declined approximately 28% during the fourth quarter in commiseration with the entire unified communications industry. The group suffered multiple compression with the expectation that Microsoft Teams would take share in this space. Additionally, in the last three months one of 8x8's competitors, RingCentral, signed an exclusive deal with a legacy telecom company, Mitel, which put further pressure on 8x8's shares. This deal will further reduce the subscribers available to 8x8 for their UCAAS and CCAAS products. However, penetration rates remain very low and we believe 8x8's valuation is attractive at these levels.

Cheesecake Factory Inc.

Cheesecake Factory Inc.'s stock price declined approximately 17% during the quarter as the company reported earnings that were slightly below expectations due to commodity and labor cost inflation. These cost pressures were offset by a +3% pricing increase and the company is doing better than its casual dining peer group in managing the cost/price dynamic. More importantly, the company was seeing accelerating trends in the current quarter (prior to emergence of Omicron variant) due to the reopening of its restaurants to on-premise dining. In addition, growth in the off-premise business (delivery and pick up) is continuing and contributing to better utilization. We believe that consumers have a pent-up appetite and have the savings to spend on restaurants and entertainment for the next 12-18 months and the company has growth drivers with its new concepts like North Italia, Flower Child, and other Fox Restaurant Concepts.

Despegar.com, Corp.

Despeagar.com, Corp. is the leading online travel agency (OTA) in Latin America. The company's stock price declined approximately 19% during the quarter. In mid-November, Despegar reported better than expected third quarter results and a pickup in sequential bookings. As a result, the company's stock price reacted positively. However, subsequently in the quarter as the news of Omicron broke, the stock price declined along with the rest of the travel sector.

Diebold Nixdorf, Inc.

Diebold Nixdorf, Inc. reported third quarter results in October that came in below expectations. Similar to the shortfall in the second quarter, global supply chain issues continued to negatively impact product delivery into Diebold's North America banking segment. However, final assembly operations in the U.S. are planned to be operational in early 2022. In addition, Diebold's management team forecasts no cash outflow for restructuring in 2022 and plans to refinance high-coupon debt in the middle of 2022. Together these two factors should reveal Diebold's free cash flow potential.

Hanger, Inc.

Hanger, Inc. continues to see sequential improvement as results recover from the pandemic impact. While third quarter results were better than expected, management lowered full year guidance to reflect more conservatism around the impact of Covid in the fourth quarter as well as the impact the Delta variant had on third quarter results. Hanger's volume has been sensitive to Covid trends. Although prosthetics need to be replaced, patients can defer appointments and patients have proven to be conservative during spikes in Covid infections. Results should continue to improve as prosthetic patients become more comfortable with returning to the clinics and as general activity recovers (orthotics is driven by work and sports injuries). Hanger's stock price was weak as concerns about Covid increased during the fourth quarter.

SMID Cap Value Equity Performance—*Through December 31, 2021*

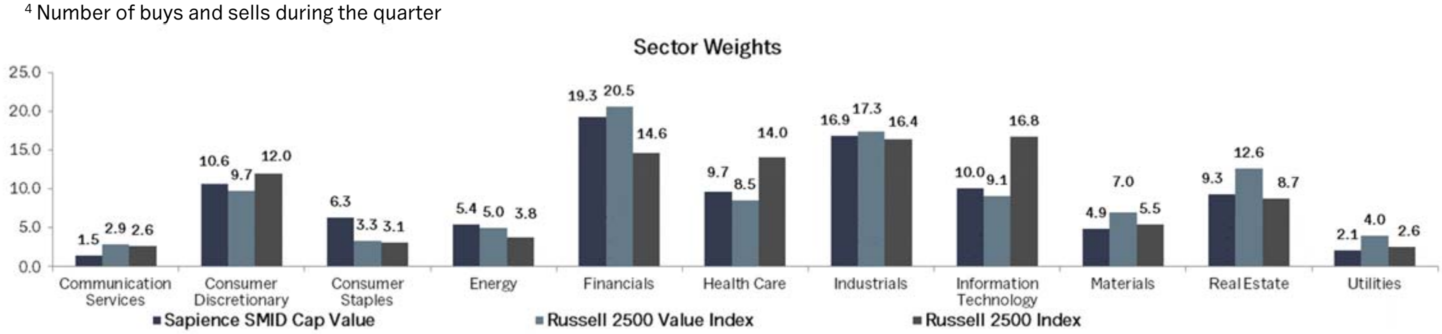
	Quarter	Year to Date	1 Year	3 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	5.8%	25.0%	25.0%	17.8%	8.1%
Sapience SMID Cap Value Equity Composite (Net)	5.6%	24.2%	24.2%	17.1%	7.4%
Russell 2500 Value Index	6.4%	27.8%	27.8%	18.3%	11.3%
Russell 2500 Index	3.8%	18.2%	18.2%	21.9%	14.3%

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 December 31, 2021*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	26.5%
Active Share [2] (relative to the Russell 2500 Value Index)	95.6%
Tracking Error [3]	5.0
Number of Buys[4]	3
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 fourth quarter. Capri Holdings Ltd., Kirby Corp., Cheesecake Factory Inc., and Diebold Nixdorf, 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
Fourth Quarter 2021

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Capri Holdings Ltd.	Encompass Health Corp.
RenaissanceRe Holdings Ltd.	Alliance Data Systems
LKQ Corp.	Cheesecake Factory Inc.
Kirby Corp.	Diebold Nixdorf, Inc.
Diamondback Energy, Inc.	WestRock Co.

RenaissanceRe Holdings Ltd.
RenaissanceRe Holdings Ltd., a property-catastrophe specialist, has moved in recent years to broaden its underwriting footprint into more liability-sensitive risks, creating a solid annuity of future earnings. In the wake of what has been an unusually high natural catastrophe activity in recent years, evidence that catastrophe reinsurance pricing will go much higher should be confirmed in the January 1, 2022 renewal results. RenaissanceRe has been especially conservative in its current loss accounting, which has obscured the underlying earning power of its businesses. Investors have been gradually realizing these catalysts, resulting in RenaissanceRe's shares being re-rated in the past quarter. Currently trading at 1.3x TBV, the company's valuation gap to peers should close as its premium earnings power becomes apparent.

LKQ Corp.
LKQ Corp.'s stock price increased approximately 20% during the period as the company delivered another strong quarter. The sales, earnings, and increased annual guidance were well ahead of expectations due to improved organic sales growth, especially in the specialty segment along with increased scrap steel prices. The highlight was the record EBITDA margin in North America, which is tracking +440 bps over the third quarter of 2019. This management team has delivered stellar execution the last two years by expanding margins and significantly improving its free cash flow conversion.

Diamondback Energy, Inc.
Energy fundamentals, particularly oil, continue to improve as demand has increased while inventory levels remain low and no new supply has entered the market for the last 18 months. In addition, leading scale operators, such as Diamondback Energy, Inc., are able to keep costs low, maintain flat production, and deploy at least 50% of free cash flow back to shareholders in the form of dividends and buybacks. Diamondback is one of the lowest-cost operators in the industry with the ability to maximize efficiencies in all processes from drilling to completion.

Encompass Health Corp.
Encompass Health Corp. reported good results in its Inpatient Rehabilitation Facility (IRF) segment with same facility discharge growth of 6.7% and pricing gains of 2.4%. EBITDA in the segment grew 10.7% and the company managed staffing issues well in this segment. The Home Health and Hospice segment, however, was adversely impacted by labor shortages that plagued the healthcare services industry. Segment revenue declined modestly while same facility admissions were down 2.7% and cost per visit was up 9.3%. The segment lost 2,500 admissions due to staff shortages, which were in part due to higher numbers of staff in self-quarantine. As a result, the company lowered EBITDA guidance for the year by 2.4%. Additionally, management delayed the planned transaction to make its home health business a separate entity from late 2021 to the first half of 2022. We believe the stock is reflecting a depressed valuation for the home health business both relative to valuations for peers and on an absolute basis. As the impact of Covid wanes and the separation of their home health business progresses, we believe the shares should recover to more accurately reflect an appropriate value for the home health segment.

Alliance Data Systems
Alliance Data Systems reported third quarter EPS well ahead of consensus estimates due to better gross yields and record low charge-offs. However, investors remain concerned about a re-normalization of credit quality since this consumer finance company prudently raised its reserve rate due to economic uncertainty. Management reiterated its fiscal year 2022 credit-spending outlook, expecting high-single-digit/low-double-digit receivables growth. In addition, Alliance Data's new products and distribution partnerships continue to generate strong growth. From here, sales and portfolio growth trends should drive the shares to close the wide valuation gap to peers. If Alliance Data can reach 10% loan growth in fiscal year 2022, it would probably be the fastest amongst card peers. At approx. 5.5x 22E EPS, Alliance Data's shares currently discount no loan growth.

WestRock Co.
WestRock Co. reported its fiscal fourth quarter results in November that came in above consensus. However, the company's fiscal 2022 guidance came in below street estimates. More importantly, the company's stock traded down in mid-December due to investor concerns around demand deceleration and new capacity additions. Despite these issues, we believe WestRock will be able to maintain its market share due to its high vertical integration rate and paper mills with access to the lowest cost wood pulp in the world. The company has brought its leverage down to its target level and the new CEO is focused on raising margins further.

Outlook

"When the facts change, I change my mind - what do you do, sir?" —John Maynard Keynes

It has been nice, even fun, to be a value investor again the last couple of weeks. We will confess, after the last few years, we are not quite accustomed to this feeling. Headlines from a Bloomberg story last week read: *Wall Street Hails the Great Stock Rotation (Just Like Last Year). A global bond rout. The biggest win for the value strategy since March.*

A bloodbath in tech companies. Similar market moves happened in the first quarter of last year but then faded away with the spread of the Delta variant. Could the rotation last this time and be sustainable? We believe it can as the facts and the FOMC narrative have changed. Inflation has become a real and persistent issue. The Fed has finally recognized this and is now committed to containing inflation by driving real yields higher. Quantitative Easing (QE) led to asset price inflation and now QT will lead to the opposite. In last few months, speculative and high-multiple technology stocks have been decimated. This should not have come as a surprise—to us, it was always more of a question of when, not if.

Talking about large-cap stocks in the U.S., S&P 500 gained 28.7% in 2021. However, percentage gains do not justly convey the magnitude of the gains. In terms of market capitalization, the Index gained $8.7 trillion and a select group of large tech stocks fueled a majority of the rally. In the last three years, the S&P 500 market capitalization increased by a staggering $19.3 trillion. That is more than the $18.8 trillion total value the Index gained in *27 years* from *1991-2018*. Are there any precedents from history that we can look at for drawing inference? The dot com meltdown from 2000-2002 might be the most similar due to the stretched multiples in tech stocks. As far as the rotation to value and small caps is concerned, we addressed this topic in a white paper that we wrote two months ago, "A Momentous Shift". In this paper, we mentioned that value can regain leadership by a combination of growth multiples compressing and investors recognizing the merits of neglected and out of favor businesses. If this were to happen, it could be similar to what transpired following the dot com correction where small-cap value crushed the performance of small-cap growth stocks. The recent shift in the macro and yields narrative could be the harbinger for the sustained rotation towards value.

As the world recovers from the Covid-19 pandemic and the resulting generous fiscal and monetary policies, the recovery could look different from past cycles. The U.S. inflation is broad based across industries and inventories remain low, which should lead to better growth and pricing should hold up. Supply chain constrains should ease over time but not entirely. The skilled labor shortage will be a headwind in the U.S. and developed economies. This recovery might be characterized by its reflationary impetus, which differs from what we have seen in the last 40 years. We remain constructive on small- and mid-cap value equites as we believe investors remain skeptical about above trend economic growth in 2022. The factors that support our view are a strong economic expansion, low real rates, attractive relative valuation in most sectors and absolute low valuation in certain sectors, and an active M&A cycle. Even if we are right about our positive thesis, the small- and mid-cap value stocks could experience volatility in the next 12-18 months as the world emerges from Omicron, supply disruptions, and the pull/push between inflation and Fed tightening.

Where could we be wrong? In the first scenario, consistent with the consensus view in the market, the growth could disappoint and the global economy could revert to the low-growth regime post-GFC. As a corollary to this scenario, the consensus view is that the U.S. economy has become too leveraged in last three years and won't be able to withstand greater than three to four 25 bps hikes by the Fed and, as a result, the Fed will capitulate and reverse course, similar to 2018. This view has come into question within in the last few days as the rates are rising. A second scenario, which is not being given serious consideration currently, is what if inflation is more persistent and the Fed is forced to be more hawkish than the current projections. In this scenario, small- and mid-cap value could relatively outperform but might not produce attractive absolute returns.

The renormalization of monetary policy should be favorable for our investment strategy. Our contention is that the probability of a return to value, in whatever form, is likely enough for investors to re-position their equity allocations, and that firms like Sapience are well positioned to capture this reversal in leadership. Our confidence comes from our investment approach. In the last five years, riding the popular stocks upward has been a winning hand. Simple strategies—passive or momentum based—relying on multiple expansion in the name of growth/quality, have all led to unprecedented gains. The easy money has made geniuses out of many investors. The fear of missing out on further gains, and the institutional imperative of keeping up with the benchmarks and peer groups has led to an adjournment of healthy skepticism and a dissipation of discipline. Regime shifts in the markets, after long periods of speculative excesses, are seldom orderly. We believe future equity returns will be primarily earnings driven along with the re-rating of neglected businesses that typically fall under the value moniker, albeit in the midst of a broad market undergoing a de-rating for many of the stocks being valued with unsubstantiated fundamentals or hollow optimism. In addition, large cap growth stocks with durable businesses, which are a large weighting in the indexes, are likely to experience multiple compression. In our view, the odds now point to a shift in the equity markets toward the favoring of skill-based investing or alpha over beta. This shift would support modifying asset allocations towards active management by investors who do deep fundamental research, focus on valuations based on realistic projections of a company's earnings power, and invest in businesses at prices that provide a margin of safety.

Disclosures

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

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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: $TE = \omega = \sqrt{E[(r_p - r_b)^2]}$ where $r_p - r_b$ = the active return (i.e., the difference between the portfolio return and the benchmark return). This formula simplifies to: $TE = \omega = \sqrt{\sigma_p^2 + \sigma_b^2 - 2\beta\sigma_b^2}$ where σ_p^2 = portfolio variance; σ_b^2 = benchmark variance; and β = Historical beta

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

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

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

Russell 2500 Value Index: The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower expected growth values.

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

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

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

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

Sapience Investments, LLC
Small Cap Value Equity Composite

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

*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, 2020. 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 sustainable 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

As of December 31									
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	9.83	9.34	N/A	N/A	N/A	1	$22.50	$349.83
2017	1.31	0.74	10.36	N/A	N/A	N/A	8	$106.06	$771.66
2018	-17.44	-17.94	-12.36	0.25	N/A	N/A	10	$134.36	$647.68
2019	28.19	27.48	23.56	0.09	17.46	14.43	8	$163.26	$773.40
2020	1.98	1.42	4.88	N/A	29.67	25.40	2	$43.86	$760.25

*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, 2020. 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 sustainable 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.
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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, 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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