Market Review

“Missing the bottom on the way up won't cost you anything. It's missing the top on the way down that's always expensive.”-Peter Lynch

2022 is sure to go down as a year for the record books as both equities and bonds went down double digits. The U.S. equity markets ended the year with the biggest decline since 2008, S&P was down approximately 18% and Nasdaq 100 was down nearly 33%. While these are large declines, they don’t quite capture the disastrous losses suffered in a few of the popular names during the last year: NVIDIA Corp. (NVDA) -50%, Amazon.com, Inc. (AMZN) -50%, Meta Platforms Inc. (META) -64%, Tesla Inc. (TSLA) -65%, and Carvana Co. (CVNA) -98%. As we begin a new year, hope springs eternal and for investors who are wishing for these growth darlings to get close to the previous highs anytime soon—there is an old saying: *Stocks take the stairs up but the elevator down.*

As we turn the calendar from 2022 to 2023, consensus opinion believes that a recession either has already begun or is imminent, a conclusion with which we agree, with qualification. This cycle may move more slowly than previous cycles, as the U.S. economy is currently less interest rate sensitive because of the lingering effects of the massive fiscal stimulus and the excessively loose monetary policy applied during the pandemic years. To be sure, some excess in the financial sector has been unwound. Financial historian Edward Chancellor dubbed this period “The Everything Bubble,” notable for its rampant speculation and the synchronized extreme valuation recorded across most asset classes, which can be traced to the world’s major central banks’ collectively unsustainable policies. As this process runs in reverse, financial conditions have tightened and asset prices have declined, but the economic expansion endures.

With all due humility, this has been one of the most challenging business cycles to understand. U.S. real GDP growth in the third quarter was +3.2%, which erased small declines recorded in the first half of 2022, and the FRB Atlanta’s real-time model now projects +3.8% GDP growth in Q4, a figure somewhat ahead of the Conference Board estimate of around +1.0%. A secularly tight labor market confirms continued economic momentum—nonfarm payroll employment has increased by over 4.5 million in 2022 (averaging +375k/month), the unemployment rate sits on a 50-year low at 3.5%, and open positions outnumber available workers by about 1.7 to 1. The inflation picture is equally challenging to decipher. Through November, the core goods inflation rate is actually lower than it was a year ago, but this disinflation may be more than offset by surging housing costs and inflation in other service prices through at least the middle of 2023. As Chair Powell repeatedly intoned after the last FOMC meeting, “We have more work to do” to slow the economy and arrest inflationary pressures. A recession may come eventually, but given this array of indicators, it is unlikely to happen as quickly as most observers expect.

Asset prices rallied and financial conditions eased in the fourth quarter as investors grew increasingly confident about the path of short rates in 2023. The 10-year Treasury bond yield changed little in the quarter, beginning at 3.83%, rising to a high of 4.33% in late October, and returning to 3.88% to close the year. Large-cap stocks (the S&P 500) gained +7.6% in the quarter, while small-cap stocks (the Russell 2000) added +6.2%. With the coordinated fall across most asset prices, this adjustment to higher interest rates has already begun, but additional impacts are yet to be felt. In equity markets, S&P 500 EPS actually rose approximately +3% in 2022 (this figure uses the consensus forecast for Q4), so the -19.4% price return is almost entirely attributed to the nearly -22% fall in P/E multiples. The same observation was true across market cap and growth/value style—EPS expanded in every style box and declines in multiples were proportional to negative returns, with growth assets experiencing the weakest EPS increases and the most significant multiple contractions.

Anchored by their experiences, analysts and investors surprisingly expect the new regime to have little material impact on company earnings. As of early January 2023, the street consensus for S&P 500 EPS growth for fiscal year 2023 is +10%, followed by another +9% in fiscal year 2024. In an environment where many economists predict weak economic growth and generalized disinflation, it is difficult to see how EPS growth rates accelerate to the extent now forecast.

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

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	6.2	-20.4	-20.4	3.1	4.1	9.0
Russell 2000 Value Index	8.4	-14.5	-14.5	4.7	4.1	8.5
Russell 2000 Growth Index	4.1	-26.4	-26.4	0.7	3.5	9.2
Russell 2500 Index	7.4	-18.4	-18.4	5.0	5.9	10.0
Russell 2500 Value Index	9.2	-13.1	-13.1	5.2	4.8	8.9
Russell 2500 Growth Index	4.7	-26.2	-26.2	2.9	6.0	10.6
Russell Mid Cap Index	9.2	-17.3	-17.3	5.9	7.1	11.0
Russell 1000 Index	7.2	-19.1	-19.1	7.4	9.1	12.4

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

Small- and Mid-Cap Market Review

After most Indexes suffered three consecutive quarters of negative returns, equities finally rallied to produce positive performance during the fourth quarter. The quarter's respite, however, could not undo the damage for the year and the 12-month period ended with declines across all Indexes. As measured by the Russell Indexes, mid caps posted the best returns for the quarter and the year, followed by large- and small-cap companies. In a reversal from the prior quarter, value outperformed growth, which resulted in value ending the year ahead of growth by a margin of nearly 12% in small caps, 15% in mid caps, and 22% in large caps.

In a reversal from the prior quarter, results were primarily positive across all sectors in the Russell Indexes. In both the Russell 2000 and 2500 Value Indexes, Materials, Energy, Industrials, and Consumer Discretionary were among the top performers (Russell 2000 Value: 18.7%, 17.7%, 15.3%, and 13.0%; Russell 2500 Value: 18.9%, 11.4%, 13.3%, and 14.6%). Meanwhile, in the Russell 2000 Value Index, Health Care was once again the laggard for the quarter, posting a return of -4.8%. In the Russell 2500 Value Index all sectors generated positive returns, with the worst-performing Technology sector generating +3.4% during the period.

For the year, Energy was once again the best-performing sector in both Indexes, up 52.2% in the Russell 2000 Value Index and 61.8% in Russell 2500 Value Index. Excluding the Energy sector, all other sectors produced negative returns for the one year ended December 31, 2022. Defensive sectors, specifically Utilities and Consumer Staples, were the next best-performing sectors as investors moved toward the typically less economically sensitive areas of the market (Russell 2000 Value Index: -1.9%, -5.7%; Russell 2500 Value Index: +0.4%, -10.5%). Within both Indexes, Communication Services, Technology, Consumer Discretionary, and Health Care were the worst performers (Russell 2000 Value Index: -29.7%, -26.2%, -24.5%, and -24.4%; Russell 2500 Value Index -41.7%, -28.6%, -28.0%, and -33.0%).

After the selloff in the last twelve months, the ratio of the Russell 2000 to the S&P 500 is close to its lowest in almost 20 years. On a relative basis, small caps are unusually cheap. Small-cap shares are already taking into account a greater likelihood of a recession than the large caps. In addition, small-cap companies are less impacted by weakness in Europe and other international markets as more of their revenues are derived domestically versus large-cap companies. Additionally, and more importantly, small-cap companies, especially within the value space, never really benefited from the post-Covid euphoria during 2020 and 2021 and, as a result, never garnered the lofty valuations experienced in the growth space.

Performance Impact

Both our strategies produced positive absolute returns during the quarter. Our Small Cap Value strategy returned 8.6% gross (8.4% net), narrowly outperforming the Russell 2000 Value Index by 0.2%. Meanwhile, our SMID Cap Value strategy returned 8.4% gross (8.2% net) underperforming the Russell 2500 Value Index by 0.8%. For 2022, both our strategies delivered strong results compared with their respective benchmarks, but we still produced negative absolute returns. Our Small Cap Value strategy returned -10.9% gross (-11.4% net) and our SMID Cap Value strategy returned -8.9% gross (-9.7% net). On a relative basis, our Small and SMID Cap Value strategies solidly outperformed our benchmarks (the Russell 2000 Value Index and the Russell 2500 Value Index, respectively) for the year by +3.6% in Small Cap and +4.2% in SMID.

In reviewing our Small Cap Value portfolio's attribution for the quarter, we added value relative to the Russell 2000 Value Index in 7 of the 11 sectors. Top contributors to performance included stock selection in Consumer Staples, Industrials, Consumer Discretionary, and Health Care. In Consumer Staples, US Foods Holding Corp. was the top performer. Altra Industrial Motion Corp. added the most value in Industrials, while Capri Holdings Ltd. was the top contributor in Consumer Discretionary. Within the Health Care sector, Integra LifeSciences Holdings Corp. generated the strongest return. On the negative side, our strategy underperformed in the Technology and Real Estate sectors. In Technology, Diebold Nixdorf, Inc. detracted the most value and SL Green Realty Corp. was the worst performer in the Real Estate sector as office REITs remained out of favor and SL Green lowered its occupancy outlook for fiscal year 2023. For the year ended December 31, 2022, we also outperformed in 7 of 11 sectors. The Consumer Staples, Materials, and Consumer Discretionary sectors were the largest contributors to the strategy's outperformance. Exposure to cash further enhanced performance (a by-product of our bottom-up stock selection process). Post Holdings, Inc. and TreeHouse Foods, Inc. were the top performers in the Consumer Staples sector as both companies are benefiting from favorable demand trends for private label food products. Within Materials, ATI, Inc. added the most value as the company exited its commodity steel business and is now a pure play aerospace business. Samsonite International S.A. was the top contributor in the Consumer Discretionary sector as the company benefited in 2022 from the resurgence in travel demand in all global regions except China. Meanwhile, among the underperforming sectors, Technology and Financials were the most meaningful detractors. In Technology, the main detractor was Diebold, which is discussed below in the top and bottom five contributors' section. Within Financials, Argo Group International Holdings, Ltd. was the worst performer as the company's execution did not improve and the strategic review drew no interest. We exited this position earlier this year.

In the fourth quarter, our SMID Cap Value strategy underperformed the Russell 2500 Value Index in 5 of the 11 sectors. Most of the underperformance was concentrated in the Technology and Financials sectors as well as our exposure to cash (a by-product of our bottom-up stock selection process). Diebold was the primary detractor in Technology. The Bank of N.T. Butterfield & Son Ltd., First Republic Bank, and Popular, Inc. were the worst performers within Financials. N.T. Butterfield is a highly asset-sensitive bank that suffered as investors began to discount short-rate cuts in the second half of 2023 which could potentially depress NIM. Fast-growing First Republic disappointed investors with its fiscal year 2023 NIM guidance and relatively high-deposit beta. Popular's management announced a temporary pause in its capital return program due to heightened macro uncertainty, which slowed one significant element in the investment case for the shares. Conversely, stock selection in Health Care and Consumer Staples added value during the period. Within Health Care, Encompass Health Corp. and Integra LifeSciences Holdings Corp. were the top performers. US Foods added the most value in the Consumer Staples sector. For the year ended December 31, 2022, we outperformed in 7 of 11 sectors. Security selection in the Consumer Discretionary sector was by far the largest contributor to the strategy's performance, followed by Consumer Staples, and Materials. Exposure to cash further benefited relative performance. Samsonite International S.A. added the most value within Consumer Discretionary. In Consumer Staples, TreeHouse Foods, Inc. and Post Holdings, Inc. were the top contributors. Within Materials, ATI, Inc. added the most value. Meanwhile, among the underperforming sectors, Financials and Real Estate were the most meaningful detractors. The underperformance in Real Estate was partially offset by an underweight in this weak-performing sector. In Financials, First Republic was the worst performer. SL Green Realty Corp. subtracted the most value from the Real Estate sector.

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

Portfolio Strategy and Key Exposures

The fourth quarter was again dominated by macro factors as investors became optimistic that inflation had peaked and the FOMC was close to signaling a pause. The FOMC downshifting to a 50bps increase at the latest meeting from 75 bps pace helped on the margin. The concern for equity investors has shifted from inflation to an impending recession. The correlations remained elevated within equities as stocks were trading based on their sectors and factors (e.g. low volatility) rather than on underlying fundamentals of the business.

Last quarter, due to the expectation of an economic slowdown and pressure on earnings, we retained our conservative bias. As a result, we have been selective in deploying the cash in our portfolios, which has built up following the six acquisitions across both strategies that occurred earlier this year. Similar to last quarter, we continue to maintain a large relative overweight in the Consumer Staples sector. Notwithstanding the selloff in Energy stocks in the last few months, we retain a positive bias towards the sector due to the supply constraints.

As we wrote last quarter, value can be found in traditional growth sectors, like Technology and Health Care. With the recent decimation in these sectors, we have started to find opportunities within the Health Care sector and a few select software businesses in the Technology sector. We believe we are moving towards a market environment where returns will be driven more by stock selection rather than sector selection or simply based on factors like low volatility versus momentum and even value versus growth. We are pleased with how most of our companies have been executing since the Covid crisis, and, after the selloff this year, we believe several of our investments are real bargains. In addition, a few of the durable businesses we have owned in the past or have long followed are starting to come into our valuation range—our pipeline of investment ideas is growing again.

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

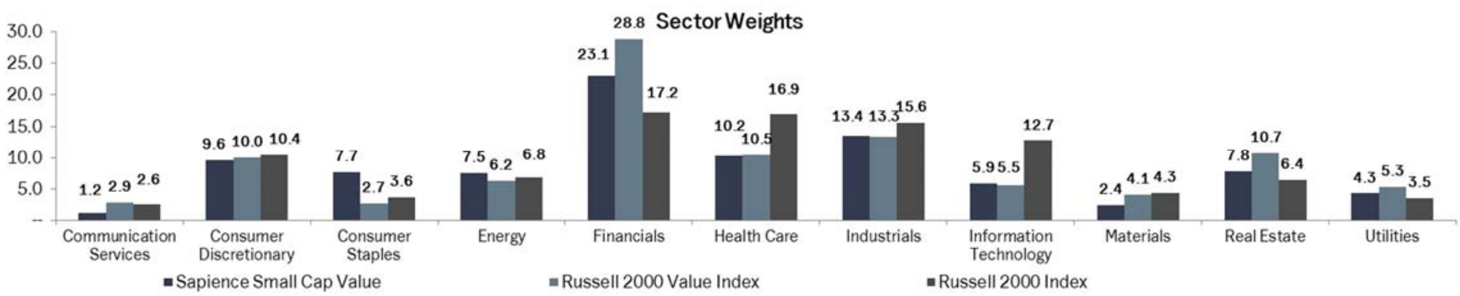
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	8.6%	-10.9%	-10.9%	7.0%	4.4%	6.3%
Sapience SCV Equity Composite (Net)	8.4%	-11.4%	-11.4%	6.3%	3.7%	5.7%
Russell 2000 Value Index	8.4%	-14.5%	-14.5%	4.7%	4.1%	6.8%
Russell 2000 Index	6.2%	-20.4%	-20.4%	3.1%	4.1%	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.

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

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	24.1%
Active Share [2] (relative to the Russell 2000 Value Index)	95.5%
Tracking Error [3]	5.8
Number of Buys[4]	3
Numbers of Sells[4]	6

[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 2022

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Altra Industrial Motion Corp.	Diebold Nixdorf, Inc.
Capri Holdings Ltd.	BigCommerce Holdings, Inc.
Integra LifeSciences Holdings Corp.	Syneos Health, Inc.
ChampionX Corp.	Amedisys, Inc.
Six Flags Entertainment Corp.	Comstock Resources, Inc.

Altra Industrial Motion Corp.
Altra Industrial Motion Corp. agreed to be acquired by Regal Rexnord Corp. for $62 per share in cash, representing a 54% premium to its closing price on October 26, 2022. We have been long-term shareholders in Altra and have followed the company for over a decade. Although Altra has some cyclicality in its end markets, we have seen the company make several improvements to its operations and have been of the view that the market undervalued several attractive attributes of the business. One of these attributes was the durable free cash flow generation of the company. Prior to the deal announcement, Altra was among the most attractively valued industrial stocks that we follow based on free cash flow multiples. Altra also had a reputable automation business, which was likely undervalued by the market and was an important factor in Regal Rexnord's decision to acquire Altra. With Altra's share price rising close to the offer price when the deal was announced, we decided to exit our position.

Capri Holdings Ltd.
Capri Holdings Ltd.'s stock appreciated meaningfully during the last three months as the company delivered another strong quarter with better than expected gross and operating margins. The company has consistently executed since the pandemic by growing sales in all three of its brands (Versace, Michael Kors, and Jimmy Choo), expanded margins, and its strong free cash flow generation has been impressive. We believe Capri remains well positioned and investors are starting to take notice.

Integra LifeSciences Holdings Corp.
Integra LifeSciences Holdings Corp. reported a good third quarter with organic sales growth of 3.5% despite several macro challenges (China lockdowns, foreign exchange, supply chain constraints). In August, the company announced a voluntary recall of its CereLink ICP monitor along with an initial estimate of the adverse financial impact, which, although manageable, negatively impacted its shares. The actual impact was significantly lower than originally expected and the company believes it has identified the root cause and technical fix, allowing the product to return to market in the first half of 2023. ACell, a company Integra acquired in early 2021, grew high-single digits in the third quarter and also appears to be moving in the right direction after some challenges following the acquisition. These positive developments contributed to the company's performance.

ChampionX Corp.
Due to a myriad of reasons, there has been an underinvestment in capital expenditures by E&Ps globally in the last several years, which has led to a tightness in the supply of oil and natural gas. Investors are beginning to realize that oil and gas have a longer duration than they originally estimated and the energy transition will be measured in decades not years. To address this need, energy producers are starting to increase their capex budgets. However, this increase is more pronounced for the international and offshore producers than the U.S E&Ps. Half of ChampionX's revenues are linked to international producers and the company is benefiting as a result. In addition, ChampionX reported a good quarter with appreciable strength in margins.

Six Flags Entertainment Corp.
Six Flags Entertainment Corp.'s stock price outperformed during the final three months of 2022 as the company's results for the third quarter were below consensus, but better than the low case. More importantly, Six Flag's management commented on a significant improvement in attendance in October. The company's new premium-price strategy will be refined, and the results will take time to reach management's new targets. In addition, late in the fourth quarter an activist firm took a stake in the company and is advocating for a REIT conversion or a sale leaseback transaction to unlock substantial value in the company's real estate portfolio.

Diebold Nixdorf, Inc.
Diebold Nixdorf Inc.'s stock price declined during the period as the company's third quarter results missed expectations due to a push out of revenues because of lingering supply chain challenges that have been impacting the company throughout the past year. Additionally, and more importantly, Diebold's shares were challenged because of its ongoing debt exchange overhang. However, the company finally concluded the debt exchange on December 29—pushing out the debt maturities by a couple of years and raising an additional $400 million to fund working capital and other needs.

BigCommerce Holdings, Inc.
BigCommerce Holdings, Inc.'s stock price underperformed during the quarter. The company's third quarter results were ahead of expectations, but management guided a deceleration in top-line growth from 25-30% to 15-20% in a weaker macro environment. Subsequently in the fourth quarter, BigCommerce's management team announced better than

expected gross merchandise value (GMV) for Black Friday and a 13% workforce reduction to pull forward EBITDA profitability to the fourth quarter of 2023 from mid to late 2024.

Syneos Health, Inc.

Syneos Health, Inc. reported a disappointing third quarter with bookings well below expectations. Clinical book to bill ex-reimbursable expenses came in at only 0.3x, a figure well below the level needed to support mid-single digit revenue growth. The primary culprit was a significant decline in the win rate and a 3x to 4x increase in decision delays from post-revenue small- and medium-size customers, which traditionally have been the core customer base of the company. Syneos had several leadership and personnel changes within its business development team in the last 18 months, which appear to have impacted the services being provided to customers. Although improving bookings and rectifying the problem will take time, clinical research organizations (CROs) like Syneos are backlog driven businesses, allowing management some time to rectify its problems. We will be closely monitoring the business and evaluating the actions management is taking to improve results.

Amedisys, Inc.

Amedisys, Inc. reported soft third quarter results as the company continues to deal with labor challenges. The company's ability to grow volumes across its business lines has been adversely impacted by labor shortages. Additionally, its recently acquired Contessa business has been ramping slower than previously expected, creating an earnings drag on consolidated results. At year end, the home health industry was also unable to gain legislative relief for pending home health rate cuts, eliminating what could have been a potential benefit to performance in 2023. The company did announce a management change, with the former CEO returning to lead the company. Additionally, the company announced a long-awaited contract with a Medicare Advantage (MA) payer. Amedisys signed its first case rate arrangement with CVS/Aetna as the company looks to shift its per visit MA business to case-based payment models that allow the company to improve profitability and optimize services provided to MA patients.

Comstock Resources, Inc.

Comstock Resources, Inc.'s share price declined in commiseration with the natural gas selloff. The company is located in the Haynesville shale of Texas and leveraged to the U.S. natural gas production. Longer term, we believe natural gas is a valuable commodity globally as the energy transition to renewables will require natural gas as a base fuel for multiple decades. The U.S. is in an especially advantageous position with abundant natural gas available at relatively cheaper prices. However, in the near term, the commodity is under pressure as this year's winter is expected to be mild in the U.S and Europe. In addition, the supply/demand balance for 2023 is projected to be somewhat unfavorable.

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

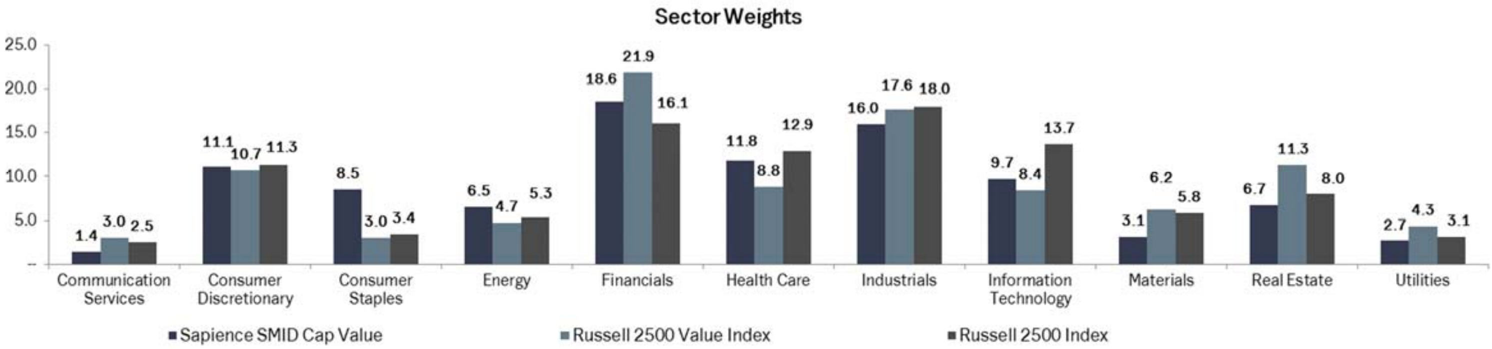
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	8.4%	-8.9%	-8.9%	5.1%	4.2%	5.2%
Sapience SMID Cap Value Equity Composite (Net)	8.2%	-9.7%	-9.7%	4.1%	3.2%	4.1%
Russell 2500 Value Index	9.2%	-13.1%	-13.1%	5.2%	4.8%	7.0%
Russell 2500 Index	7.4%	-18.4%	-18.4%	5.0%	5.9%	8.3%

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, 2022*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	28.2%
Active Share [2] (relative to the Russell 2500 Value Index)	95.5%
Tracking Error [3]	5.0
Number of Buys[4]	7
Number of Sells[4]	5

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



Sources: Russell Investments, FactSet.

<u>SMID Cap Value Equity</u>

Detailed below is our discussion of overall top and bottom contributors during the fourth quarter. Capri Holdings Ltd., Six Flags Entertainment Corp., 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 2022

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Capri Holdings Ltd.	Diebold Nixdorf, Inc.
Encompass Health Corp.	Elastic N.V.
Six Flags Entertainment Corp.	EQT Corp.
US Foods Holding Corp.	Regal Rexnord Corp.
RenaissanceRe Holdings Ltd.	Catalent Pharma Solutions, Inc.

Encompass Health Corp.
Encompass Health Corp. and healthcare services companies in general had to manage through a challenging market in 2022 as most service providers were impacted by labor shortages and elevated labor expenses. Although Encompass reported a mixed third quarter, the company has been impacted less than other healthcare service providers by these labor challenges. Volumes were healthy in the third quarter with 7.5% total discharge growth and 4.1% same store discharge growth. While labor costs remain elevated, both contract labor expense and contract labor headcount improved sequentially. Additionally, the company continues to make progress on its organic expansion plans, which should drive growth for the next several years. During the quarter, the company opened three de novo facilities, bringing the total to nine at the end of the third quarter. The company plans to open eight new facilities in 2023, which should benefit future growth.

US Foods Holding Corp.
US Foods Holdings Corp.'s stock price appreciated during the fourth quarter as the company posted in-line third quarter results with better case volume growth that seems to be accelerating in the fourth quarter. Further, management reiterated its 2022 EBITDA guidance towards the high end and announced a $500 million share buyback program. In addition, in late November, the company announced the appointment of Dave Flitman as its new CEO, who comes with the foodservice industry and prior public company CEO experience.

RenaissanceRe Holdings Ltd.
RenaissanceRe Holdings Ltd.'s management reported an in-line third quarter and emphasized the company's strong capital position, which Hurricane Ian in Florida significantly enhanced. The reinsurance market is in a state of considerable dislocation with extremely tight capacity, and RenaissanceRe stands well positioned to capitalize on a substantial hardening in the market in 2023. Management discussed substantial rate increases and how RenaissanceRe has "the capital necessary to lean into the upcoming renewal." The company is also narrowing contract terms and conditions to limit unforeseen losses that often creep into coverage after a significant event. Outside of reinsurance, RenaissanceRe's efforts to diversify its revenue streams bore fruit as Casualty and Specialty Other Insurance lines showed tangible signs of improving business momentum.

Elastic N.V.
Even though software multiples have corrected significantly in 2022, Elastic N.V. has consistently traded at a discount to comparable peers in spite of being a premier platform company with critical infrastructure and security products. Elastic reported a good quarter with revenue and margins that were in line to slightly higher than consensus. In addition, the company presented an aggressive operating margin target of 10% for the next fiscal year, which was higher than investors' expectations. However, Elastic's stock sold off as senior management's messaging was not well perceived by the street. On their analyst day in early September, senior management continued to insist that they had yet to see any effects from a macro slow down—this contrasted with a majority of their peers. However, on their recent earnings call in November, management acknowledged that they are finally seeing the effects of a macro slowdown and brought down their guidance by a commensurate amount, which caused the company's stock to selloff.

EQT Corp.
EQT Corp.'s share price declined in commiseration with the natural gas selloff. The company is in the Marcellus shale of Texas and is the largest natural gas producer in the U.S. Longer term, natural gas is a valuable commodity globally as the energy transition to renewables will require natural gas as a base fuel for multiple decades. The U.S. is in an advantageous position with abundant natural gas available at relatively cheaper prices. Furthermore, after the Russia/Ukraine war, the U.S. is on its way to become the primary natural gas/LNG supplier to Europe—replacing Russia. EQT benefits disproportionately as it's the largest producer in the U.S. However, in the near term, the commodity is under pressure as this year's winter is expected to be mild in the U.S and Europe. In addition, the supply/demand balance for 2023 is projected to be somewhat unfavorable.

Regal Rexnord Corp.
Regal Rexnord Corp.'s shares came under pressure following its October announcement to acquire Altra Industrial Motion Corp. While strategically the deal makes sense, the company will need to increase net leverage to approximately 3.9x at closing. The higher leverage at a time of uncertainty for industrial markets caused shares to come under some pressure. Although the near term is more clouded due to the expected increase in leverage, both Altra and Regal Rexnord generate attractive free cash flows that should allow the company to decrease leverage rapidly. The acquisition will enhance Regal Rexnord's market presence in the automation markets, which could see long-term tailwinds from labor shortages as companies invest to automate operations. The combined companies will also become a stronger competitor in the power transmission and motion control markets. Regal Rexnord has delivered meaningful margin improvement in its own business over the last several years and we believe there remains significant opportunity to improve margins at Altra's Power Transmission Technologies segment under the leadership of Regal Rexnord. We see substantial upside to shares over our investment time horizon and believe that the shares currently offer an attractive valuation, especially when considering the potential for $1.4 billion of combined free cash flow generation by 2026.

Catalent Pharma Solutions, Inc.
We initiated a position in Catalent Pharma Solutions, Inc. in the fourth quarter. Catalent is one of the leading Contract Development and Manufacturing Organizations (CDMO) in the world. The company was a beneficiary of the pandemic, helping to manufacture over two billion doses of the Covid vaccine for its customers. The company's stock came under pressure as the pandemic benefit and reported growth slowed. We are cognizant there are some growth and margin headwinds in the near term as the Covid benefit subsides, but we believe these near-term issues are providing us with an opportunity to own a good business at an attractive valuation.

<u>Outlook</u>

"It is only in a bear market that the value investing discipline becomes especially important because value investing, virtually alone among strategies, gives you exposure to the upside with limited downside risk."-Seth Klarman

The era of cheap money is over. The Federal Reserve had flooded markets for over a decade with easy money, sparking a financial regime where stocks, bonds, houses, and investments of all kinds seemed to move only in the positive direction. The big problem had been what to do with all the money; investors chased any asset with a discernable yield, no matter the risk. The economy prospered on bountiful credit. Households refinanced their mortgages. Businesses borrowed money for next to nothing and used excess capital to buy back shares even when buybacks made little sense at increasingly lofty valuations. An entire generation of people who work and interact with financial markets think this is normal and know no other reality.

The script abruptly flipped in 2022 as a generationally significant inflation roared, and the Federal Reserve reversed course. With Chair Powell clearly stating that one of the FOMC's inflation-taming policy tools is to get positive real interest rates across the yield curve, asset markets and market participants will experience a positive cost of capital for the first time in a long time.

In Howard Marks's latest memo he is calling the current regime shift, a *sea change*—a complete transformation in the capital markets. As a corollary, we agree that if the investing environment is dramatically different than the post-GFC period, the strategies that worked well the last 13 years—passive, momentum driven, growth and quality at any price—may not lead going forward. Capital was abundant and returns were low for the past 13 years but now we are likely going to witness the reverse of this equation. 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.

Regime shifts in the markets, after long periods of speculative excesses, are seldom orderly. In the aftermath of the TMT bubble, retail investors swore off hot stocks and several growth firms shriveled or were shuttered. Looking out over the near term, we remain constructive but more cautious, as the reduction of fiscal and monetary stimulus should lead to a less favorable backdrop for equities. In the new regime, conditions should favor an extended period of value stock outperformance. The reduced availability and higher capital cost disproportionally impact the discounted cash flow valuation of long-duration growth stocks relative to value stocks. We expect these forces to continue to play out as this unusual economic cycle unfolds.

Our contention based on the above is that the probability of a return to value, in whatever form, is likely enough for investors to re-position their equity structure, and that firms like Sapience are in the best position to capture this reversal in leadership. However, value investing is not a homogenous endeavor. Therefore we prefer the label of being a price-driven investor. We never own a stock based on absolute cheapness—we only consider companies that we can value with confidence, and then own them when they are available at a discount. We believe Sapience will add value through our qualitative, fundamentals focused process, which avoids being beholden to a single macroeconomic view or being dogmatic about an investment style box. We have always believed, and maintain, that quality, valuation, and growth are all important criteria in evaluating any business. We remain disciplined—investing in durable and undervalued businesses when they might be out of favor and, at times, trade at a significant discount. This includes owning healthy franchises that are misperceived by the markets and investing in select troubled businesses where we are confident in our underwriting assumptions of improving, rather than static, operating results. We believe our version of value investing works because its core principles are logical and timeless.

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. You cannot invest directly in an index, which also does not take into account trading commissions and costs, see below for a description of benchmark indexes. Performance is expressed in U.S. dollars. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Dividends are recorded gross of withholding taxes.

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

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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 = ω = √(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 = ω = √(σp2 + σb2 - 2βσb2) where σp2 = portfolio variance; σb2 = benchmark variance; and ß = Historical beta

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2000 of the smallest securities base. The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2500 Growth Index is designed to measure the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

Sapience Investments, LLC
Small Cap Value Equity Composite

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

*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.
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Sapience Investments, LLC
SMID Cap Value Equity Composite

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

*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 model investment advisory fees. Net returns are calculated by reducing the quarterly composite returns by 1/4th of 1%, the highest tier of the standard fee schedule. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS reports is available upon request. Dividends are recorded net of withholding taxes.
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.
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