Market Review: Inversion

"Invert, always invert: Turn a situation or problem upside down. Look at it backward." ~Charlie Munger

Commonly used by mathematicians, inversion is a creative problem-solving technique whereby one reverses how they look at a situation to reveal new possibilities and dislodge assumptions. The dominant investor narrative in the third quarter, which had fueled a nasty bond rout, inverted in the final months of 2023. At first, investors began to realize that financial conditions had probably advanced sufficiently to enable Federal Reserve policymakers to pause their tightening cycle. Then, they began to discount an easing cycle, predicated on monetary policy being too tight given the steep drop in inflation, which meant that real interest rates were well above levels that would ordinarily substantially slow economic momentum. Rather than focusing on all the factors which might push interest rates higher, such as resilient growth and fiscal deficits, the prevailing market narrative shifted or inverted, and bonds and stocks rallied as investors sought to increase their risk positions.

After a surprisingly robust third quarter, U.S. GDP appears poised to track somewhat below or near trend into fourth quarter 2023 and 2024. Strong government spending was a significant driver in 2023, as Federal non-defense spending associated with infrastructure investment legislation came on stream. Economic news has been uneven or weak as consumers and businesses respond to tighter financial conditions. For example, non-farm payroll growth in the fourth quarter averaged 165k/month, down well from the 245k/month average of the first nine months of 2023, and most of the hiring activity was concentrated in three sectors with secular strength: government, healthcare, and hospitality. Looking into 2024, growth will likely slow as infrastructure spending stabilizes. Federal Reserve policymakers project a growth rate of 1.4% this year, with considerable uncertainty arising from political volatility regarding fiscal policy, debt, and outlays in a contentious election year.

Understanding the pandemic's impact on inflation also requires imaginative inversion. A policy-induced expansion in demand coincided with pandemic-generated sectoral demand dislocations and supply constraints. The labor force was shocked by lower immigration, the virus, and early retirements. As economists would posit, supply curves are vertical in the short run, so these impulses combined to spark a hefty price level increase. But, over time, these forces faded as government stimulus receded, supply chains caught up with excess demand, and the labor market reached an equilibrium. Headline year-over-year PCE inflation (the Fed's preferred measure) was reported at 2.6% in November (down from 5.5% in November 2022). Core PCE inflation fell to 3.2% (down from a peak of 5.5% in September 2022). More notably, the three-month annualized average of core PCE is a tame 1.2% (below the Fed's 2.0% target), suggesting that inflationary pressures have moderated as the pandemic's effects diminish and economic activity has slowed. With this array of growth and inflation news, central bankers have ample justification to ease policy in early 2024.

In the fourth quarter, we witnessed a record easing of financial conditions. The 10-year Treasury bond yields dropped 69 bps to 3.88% at quarter end (rates peaked at 4.99% on October 19th) and Large Cap stocks (the S&P 500) gained +11.7% in the quarter in a broad-based rally.

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

	Quarter	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	14.0	16.9	2.2	10.0	7.2
Russell 2000 Value Index	15.3	14.7	7.9	10.0	6.8
Russell 2000 Growth Index	12.8	18.7	-3.5	9.2	7.2
Russell 2500 Index	13.4	17.4	4.3	11.7	8.4
Russell 2500 Value Index	13.8	16.0	8.8	10.8	7.4
Russell 2500 Growth Index	12.6	18.9	-2.7	11.4	8.8
Russell Mid Cap Index	12.8	17.2	5.9	12.7	9.4
Russell 1000 Index	12.0	26.5	9.0	15.5	11.8

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

Small- and Mid-Cap Market Review

After muddling the first nine months of the year, small and mid caps surged in the final quarter of the year with the Russell 2000 Index up 14.0%, the Russell 2500 Index up 13.4%, and the Russell Mid Cap Index up 12.8%. Large caps slightly lagged the group, up 12.0%. Despite this strong rally in the final quarter of 2023, smalls caps nor mid cap could outpace large caps for the year. For the one year ended, small caps underperformed the Russell 1000 Index by 9.6%—up 16.9% versus 26.5%, while mid caps underperformed by 9.3%. Large cap's dominance also persisted for the 3-, 5-, and 10-years ended December 31, 2023. With regards to style, value took the lead over growth within small caps for the quarter; however, for the year, growth continued its astounding lead across all market-cap ranges. This lead was most pronounced within large caps where growth led value by 31.2% (Russell 1000 Growth Index up 42.7% while the Russell 1000 Value Index was up 11.5%). Within the small-cap space, growth's outperformance pushed it ahead of small cap value for the trailing 12 months by roughly 4%. However, on a 3-year basis, small value is outpacing small growth by more than 1,100 bps, after the drubbing small growth took in 2022, and is slightly ahead on a 5-year basis.

From a sector perspective, all but one sector finished the fourth quarter in positive territory in both the broad and value Russell 2000 and 2500 Indexes. Financials and Consumer Discretionary were among the top performers, posting returns between 18% and nearly 24%, and nearly 17% and 21%, respectively, during the quarter. Meanwhile, Energy returned between nearly -5% and -6% across both the broad and value Russell 2000 and 2500 Indexes. For the 12-months ended December 31, 2023, sector returns were again primarily positive. In both the broad and value Russell 2000 and 2500 Indexes, Consumer Discretionary, Industrials, and Technology posted the largest returns. Meanwhile, returns in the Utilities sector were negative across the board, with Health Care generating the next worst returns during the period (between approximately -5% and +4%).

In our last quarterly letter, we wrote: *"The last five-year returns have been anomalous for small caps relative to large caps—the Russell 2000 Value Index delivered +2.6% and the Russell 2000 Index +2.4% for the five-years ended September 30, 2023 (annualized) versus +9.9 for the S&P 500 and +15.1% for Nasdaq. Small caps have a history of emanating from long periods of low performance to those with above average returns."* For the fourth quarter, small-cap stocks, as measured by the Russell Indexes, delivered strong performance, with small cap value up 15.3% outperforming small cap growth (up 12.8%), which is typical when monetary policy switches towards an accommodative stance. Let's see if this is the beginning of a turn in small-cap performance or just a one quarter blip.

Performance Impact

Our fourth quarter performance was strong on an absolute basis in both strategies. In Small Cap, we were up 11.7% gross of fees (11.4% net of fees) versus 15.3% for the Russell 2000 Value Index and in SMID we generated 9.9% gross of fees (9.6% net of fees) versus 13.8% for the Russell 2500 Value Index. However, on a relative basis, we underperformed each strategy's respective benchmark as it was challenging for active managers to keep up with the Value Indexes when small/SMID caps had such a large bounce in November and December. The Russell 2000 Value Index was up 9.0% and 12.5% and the Russell 2500 Value Index was up 9.1% and 10.5% in November and December, respectfully. Within small and SMID caps, lower cap/ROE, driven by ETF inflows, gained over 19% in the fourth quarter. This is fairly normal as financial conditions ease, lower quality stocks typically lead in the early innings.

In reviewing our Small Cap Value portfolio's attribution, the relative underperformance was partially stock selection with the balance resulting from sector weights (a byproduct of security selection process). More specifically, stock selection in Industrials and Health Care with Kirby Corp. and Envista Holdings Corp. detracting the most value from their respective sectors. Exposure to cash also hindered relative performance during the period. Conversely, our security selection in the Financials sector enhanced performance in our Small Cap strategy with Webster Financial Corp. and Shift4 Payments, Inc. adding value. Shift4 Payments delivered better than expected results due to solid margin performance. In addition, there were news reports of the company being approached by a strategic buyer.

In our SMID Cap Value portfolio, stock selection accounted for a portion of the underperformance with sector weights again accounting for the balance. Security selection in the Consumer Discretionary, Industrials, and Health Care sectors subtracted the most value. Hasbro, Inc. was the primary detractor in Consumer Discretionary, while Kirby Corp. hindered performance within Industrials. Envista detracted the most value from the Health Care sector. Exposure to cash also detracted from relative performance during the quarter. Meanwhile, on the positive side, stock selection in the Technology sector added value with Varonis Systems, Inc. performing the best.

(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 consensus last year was that the U.S. economy was heading into a recession. Thus, it's not a surprise that the breadth was narrow and correlations remained high for most of the year in the markets as the Magnificent Seven stocks dominated while other stocks were trading based on their factors and themes rather than on underlying fundamentals of the business. During the last two months of the fourth quarter, the rally broadened out and small and mid caps had a strong bounce. As discussed in the last quarterly review, our portfolio's key sector exposures had remained consistent for the first three quarters; however, in the final quarter of 2023, we initiated two new investments within the Technology sector in our Small Cap portfolio and one investment in our SMID portfolio. Banks stabilized after the mini-banking crisis earlier in the year, and multiples expanded in the fourth quarter due to the repricing of the securities portfolios as yields declined. We added selectively to a few of our banks in the fourth quarter and purchased two payment companies within our Small Cap portfolio. We also selectively added to a few of our positions within the Industrials and Materials sectors during the quarter.

In Health Care, several industries and companies have come under pressure due to the potential long-term benefits of weight loss and related ailments due to GLP-1s. The Health Care sector has also been experiencing a lull since last year—resulting from a slowdown in spending within life sciences. These two issues coupled with economic uncertainty for particular discretionary types of healthcare businesses has led to valuations that we believe are quite attractive within the sector. In the Consumer Discretionary sector, we believe we own several high-quality businesses that offer considerable upside due to the current macro uncertainty. As discussed previously, our overweight in the Consumer Staples sector is not merely a macro call but, as you should expect from us, more based on fundamentals and the respective upside we see in our investments.

Small Cap Value Equity Performance—*Through December 31, 2023*

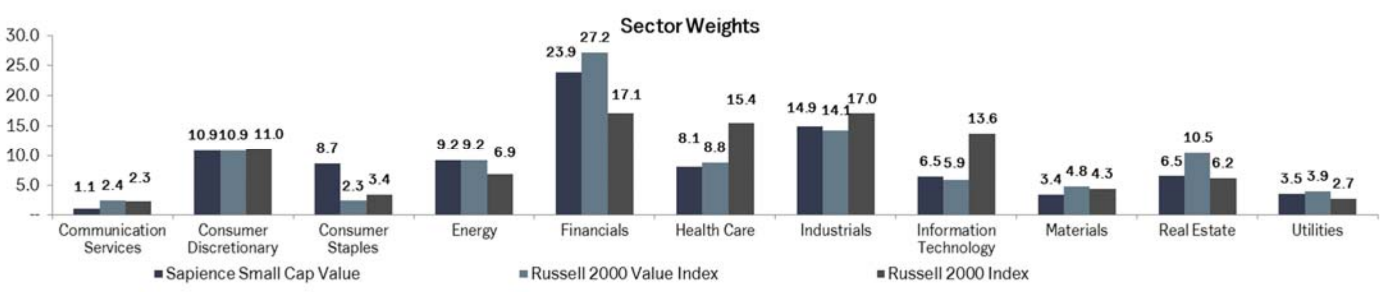
	Quarter	1 Year	3 Years	5 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	11.7%	10.5%	8.1%	10.6%	6.9%
Sapience SCV Equity Composite (Net)	11.4%	9.3%	7.0%	9.4%	5.7%
Russell 2000 Value Index	15.3%	14.7%	7.9%	10.0%	7.8%
Russell 2000 Index	14.0%	16.9%	2.2%	10.0%	8.3%

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.

Small Cap Value Equity Characteristics and Sector Weights—*As of December 31, 2023*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	22.9%
Active Share [2] (relative to the Russell 2000 Value Index)	95.5%
Tracking Error [3]	5.1
Number of Buys[4]	7
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 2023

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Varonis Systems, Inc.	ChampionX Corp.
Webster Financial Corp.	Envista Holdings Corp.
Ameris Bancorp	Comstock Resources, Inc.
Popular, Inc.	Helios Technologies, Inc.
National Vision Holdings, Inc.	AdaptHealth Corp.

Varonis Systems, Inc.
Varonis Systems, Inc. had a solid quarter, beating revenue growth and margin expectations. The company continues to grow steadily at approximately 15% and is successfully transitioning from an on-prem model to a cloud-based product. For the quarter, ARR growth was 16% year-over-year and 59% of new workloads were sold as SaaS (cloud)—beating expectations by 14%. Also, guidance for fiscal year 2023 was for 15-16% ARR growth and 8-9% free cash flow margin. SaaS now represents 15% of total revenue and Varonis is increasing the growth rate of SaaS workloads. Transition to the cloud is accretive to margins as the ASPs are up nearly 35%. The company's pricing model under SaaS requires the customer to purchase the entire bundle as separate modules are not available for sale. Customers are converting as their total cost of ownership (TCO) is lower. This is also an indication of the product's superiority and the company's pricing power. In addition, Varonis offers exposure to AI as its products protect internal data when large language models (LLMs) are used to interface with company's internal data to carry out AI analytics.

Webster Financial Corp.
Webster Financial Corp.'s shares appreciated in the period after reporting a solid quarter on restrained non-interest expense, well-contained LLP expense, and strong fee income growth. What most positively surprised investors was a 14 bp rise in net interest margins (NIM) as the bank's deposits and cost of funds held steady while average earning asset yields continued to re-price higher. Even with slower economic momentum in the northeast U.S., the bank is well positioned against any re-normalization of credit costs, with credit quality metrics remaining near cycle lows, high loan loss reserves, and little direct exposure to Office Commercial Real Estate (CRE). Webster's financial performance has been outstanding in recent quarters, with a core ROAA of 1.48% and 21% core ROTCE, yet the shares had languished with a below peer valuation until a recovery began this quarter.

Ameris Bancorp
Ameris Bancorp's share price rose after posting slightly better-than-expected third quarter results. Importantly, deposit flows from non-interest-bearing to interest-bearing accounts slowed, and NIMs showed nascent signs of stabilizing. The fall in interest rates during the quarter should also reinvigorate the bank's lending in important verticals like consumer lending, commercial C&I, and residential mortgage lending. Despite reporting excellent credit quality metrics, including in its non-owner occupied CRE portfolio, management has built up loan loss reserves to 144 bps, up from 104 bps at the end of fiscal year 2022 in a defensive action to blunt any impact from potentially higher credit costs. Investor concerns about the bank's operations were allayed this quarter, enabling a narrowing in the valuation discount that Ameris' shares traded at relative to peers.

Popular, Inc.
Shares of Popular, Inc. appreciated in the fourth quarter as the company reported much better-than-expected results, including positive net interest income (NII) growth due to surprisingly solid across-the-board lending growth and only modest NIM compression. Popular's credit quality remains stable with ample reserves. Investors were impressed by management's progress in achieving its ambitious fiscal year 2025 14% ROTCE target (excluding AOCI), which will require continued NII expansion and some non-interest expense reduction while keeping tangible common equity in its current range. In addition, the bank enjoys considerable excess capital, which could be redirected to shareholders via an increased dividend or share buybacks in fiscal year 2024. As Popular executes against its sound core strategy, the valuation discount to peers should narrow further.

National Vision Holdings, Inc.
After reporting better-than-expected revenues and earnings for the third quarter, National Vision Holdings, Inc.'s stock price recovered in the fourth quarter. The revenue strength came from an improvement in the managed care business along with expanding exam capacity. The company expects to achieve a fuller margin recovery by 2025.

ChampionX Corp.
Shares of ChampionX Corp. were down as the company reported weak third quarter earnings and fourth quarter guidance was approximately 8% below consensus. This was mainly related to ChampionX's short cycle U.S. on-shore businesses—Production and Automation Technologies and Drilling Technologies—as well as the sluggish recovery of rig counts, which had fallen earlier in the year. The company's crown jewel, Production Chemicals, continues to do well both onshore and offshore International as it grew 12%. We believe ChampionX is a high-quality franchise with more than 20% EBITDA margins, converting more than 60% of EBITDA to free cash flow, and returning nearly 75% of free cash flow back to shareholders.

Envista Holdings Corp.
The company reported a soft third quarter driven by decreased spending on imaging equipment and lower consumer spending on higher priced dental procedures, which impacted the company's dental implant business. Sales in the fourth quarter could be further impacted by the cyber security incident at distributor Henry Schein and potential disruptions at the company's implant manufacturing facility in Israel, which supports various geographies. The company announced plans to make investments throughout 2024 in its North America implants business to restore growth back to market growth levels in this geography. The tougher environment also raised questions about the company's ability to reach its 22.5% EBITDA margin goal in 2026. While a difficult macro creates near-term headwinds, we believe Envista remains well positioned in its key markets with a strong competitive position.

Comstock Resources, Inc.
Comstock Resources, Inc. reported a weak quarter with capex coming in higher than expectations along with free cash flow and EBITDA coming in below expectations. In addition, the general weakness in the natural gas commodity also affected the company's stock price performance. Finally, there was also a positive announcement regarding Comstock entering a JV with Quantum Capital Solutions who will provide capital to develop their prolific acreage in Western Haynesville. We continue to believe the attractiveness of Comstock stems from its leading position in the Haynesville region and their natural gas production, and the general proximity of the basin to the Gulf Coast, which may lead to the company playing a leading role in fulfilling global LNG demand.

Helios Technologies, Inc.
Helios Technologies, Inc. experienced reduced demand across both of its segments during the third quarter, resulting in weaker than expected financial performance. Weakness was broad based but more pronounced in Asia-Pacific and EMEA. Earnings were further impacted by management's decision to maintain ongoing investments to support several large potential opportunities that could materialize into sizable new customer wins. The company has been working on many of these initiatives for several years and decided to prioritize its strategy over near-term earnings. While this action creates short-term earnings pressure, we believe that the decision to maintain the company's strategy is the right choice and could enhance company's future earnings power.

AdaptHealth Corp.
AdaptHealth Corp. delivered good organic growth of 6% with sleep apnea continuing to recover. The company's sleep census grew 12% to 1.5 million patients. While sleep apnea is providing earnings benefits, the company's stock price was negatively impacted by three factors. First, the concerns over GLP-1s severely impacted diabetes and sleep apnea companies. AdaptHealth is a leading distributor in both markets. Second, the company's diabetes revenue fell in the quarter due to headwinds from growth in tubeless pumps and a payer-mix shift. The company is making investments in its diabetes sales force to help restore growth, but the tubeless pump conversion will continue to be a headwind in 2024, although at a lower level. Third, the company recently won a contract with Humana, which went live July 1st. The onboarding of patients proved slower than expected due to improper documentation by prior service providers. While there has been considerable focus on GLP-1s, the company saw no observable impact from GLP-1s on its business. Additionally, the company is on track to deliver approximately $100 million of free cash flow in 2023, implying a depressed valuation.

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

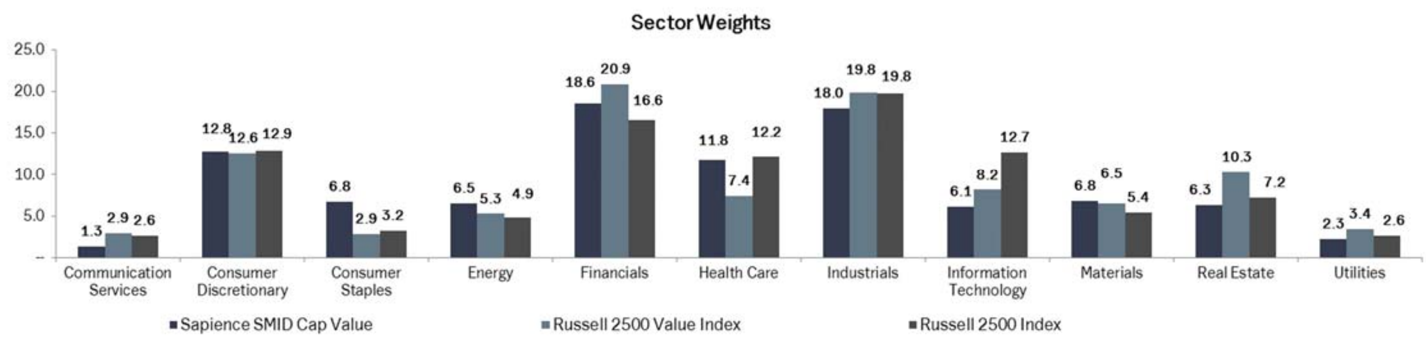
	Quarter	1 Year	3 Years	5 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	9.9%	7.5%	7.0%	9.9%	5.5%
Sapience SMID Cap Value Equity Composite (Net)	9.6%	6.4%	5.9%	8.8%	4.4%
Russell 2500 Value Index	13.8%	16.0%	8.8%	10.8%	8.2%
Russell 2500 Index	13.4%	17.4%	4.2%	11.7%	9.6%

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

SMID Cap Value Equity Characteristics and Sector Weights—*As of December 31, 2023*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	25.1%
Active Share [2] (relative to the Russell 2500 Value Index)	94.2%
Tracking Error [3]	4.8
Number of Buys[4]	4
Number of Sells[4]	1

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



Sources: Russell Investments, FactSet.

SMID Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the fourth quarter. Varonis Systems, Inc., Webster Financial Corp., Popular, Inc., National Vision Holdings, Inc., and Envista Holdings Corp. are also owned in our Small Cap Value strategy, and these companies were discussed in the Small Cap Value Equity commentary section above.

Top and Bottom Contributors
Fourth Quarter 2023

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Varonis Systems, Inc.	Hasbro, Inc.
East West Bancorp, Inc.	Envista Holdings Corp.
Webster Financial Corp.	Liberty Latin America Ltd.
National Vision Holdings, Inc.	Kirby Corp.
Popular, Inc.	Samsonite International S.A.

East West Bancorp, Inc.
East West Bancorp, Inc.'s share price rose in the fourth quarter as the bank posted excellent third quarter results on strong revenue and a tight lid on expenses, guiding towards a healthy recovery in fiscal year 2024. NII rose slightly last

quarter as loan growth offset a modest drop in NIM and deposits stabilized. Investors responded positively to management's guidance for mid-single-digit loan growth, adjusted NII growth of 12-15%, and adjusted non-interest expense growth of 9-11%. Management also indicated that share buybacks would resume in the fourth quarter. East West is well positioned to benefit from recent banking turmoil in California and strong demographic trends in its predominantly Chinese American clientele. Even with industry-leading financial performance, the bank's shares chronically trade at a discount to comparable banks.

Hasbro, Inc.

After delivering better than expected results in the last two quarters, by early September, Hasbro Inc.'s stock had recovered from its declines earlier in the year. However, Hasbro's stock underperformed in the fourth quarter as management meaningfully reduced guidance for the quarter due to weakness in the consumer products segment (toys and games) and depleting the inventory in the retail channel in order to clear the decks for 2024. The management team has undertaken a major cost restructuring along with exiting most of the entertainment assets to position the company for improved margins going forward.

Liberty Latin America Ltd.

Liberty Latin America Ltd. reported a mixed quarter as revenue came in slightly below expectations but OIBDA came in ahead due to synergies and lower programming costs. The company's shares underperformed as management reiterated 2023 guidance but with the caveat that free cash flow could be impacted due to the timing of payments affecting working capital.

Kirby Corp.

Kirby Corp.'s revenue was below expectations during the quarter due to an Illinois River lock closure. Industry fundamentals, however, remain positive. Spot prices for inland marine barge transportation services improved mid-teens year-over-year while term contract prices improved by high-single digits. With the fourth quarter being a heavy contract renewal quarter, the company should benefit from higher spot prices. The Distribution and Services (D&S) segment experienced good demand with operating margin in the high-single digits yielding one of the best margin performing quarters in about four years. The company's stock price reacted negatively to the third quarter revenue shortfall and commentary that fourth quarter could also be below expectations. The Illinois River lock reopened in October, but it will take time for all the equipment to return to normal operating levels. Additionally, record low water levels in the Mississippi River are also impacting operations. Despite these headwinds, the inland marine transportation operating margin is still expected to end the year around the 20% target and pricing remains favorable. We view the current headwinds as temporary in nature and Kirby should be able to continue repricing its book of business at more favorable rates given the limited supply.

Samsonite International S.A.

Samsonite International S.A's stock slightly underperformed during the fourth quarter even as the company continued to deliver solid results with sales for the third quarter of 2023 coming in at +22% versus the comparable period in 2019. Additionally, EBITDA margin was more than 20% for the period. We believe the recent weakness in the company's stock price is related to a slowdown in Chinese spending on luxury brands. After deleveraging the balance sheet, management expects to reinstate a dividend in 2024. The momentum in the business is being driven by a recovery in Asia, especially India, and international travel in China, along with stable trends in the U.S. and Europe. We believe that Samsonite remains well positioned as international travel recovers.

Outlook

"Forecasting is a notoriously underpaid profession, and extremely risky to boot, so I avoid it." ~John Kenneth Galbraith

A year ago, most economists and market strategists expected that the U.S. would suffer a recession as inflation would remain stubbornly high, bond yields would remain elevated, and stocks would remain weak after declining in 2022. Frustratingly, the markets pretty much did the exact opposite. Today, it's the inverse of last year. Looking at 2024, about three-quarters of the market strategists expect a soft landing—falling inflation, below trend economic growth, and an accommodative monetary regime. A more bullish scenario would be that economic growth accelerates due to the easing of financial conditions, as has been the case since November, leading to stimulated demand in consumer durables and housing. In this scenario, rates don't decline as much but the economy is on a better footing. Currently, only about one-fourth of market participants expect a hard landing (i.e. a real recession). In this scenario, rates decline more than currently factored, but the economy would be much weaker.

We have no edge in forecasting or assigning probabilities that would be more accurate than the market to each of the above macro outcomes. Since the Fed embarked on raising rates in March 2022, it seems that all investors have become Fed watchers. In 2023, the fear of an impending recession and perceptions drove stock performance rather than the underlying fundamentals. Our mandate is to invest in quality businesses that can navigate through all scenarios and deliver attractive returns over our investment time horizon. In macro-driven environments, 2023 being a good example, fundamentals take a back seat. Today, quality stocks within small/SMID caps are cheap on an absolute basis and more so on a relative basis versus the large cap quality/growth stocks. Even after the bounce the last two months, since the peak in November 2021, small caps were down approximately 17% through the end of 2023—they clearly did not benefit as much as large-cap growth stocks post Covid in 2020-2021 and in 2023. Small-cap shares are already factoring in an earnings recession while large caps are historically expensive. We believe it is a low probability that the Magnificent 7 stocks' multiples can keep expanding in a soft landing or even in a recession while quality small/SMID cap multiples further decline from the current low levels. Borrowing from one of the market commentators—it's more likely that the Mag 7 become the Drag 7.

As we wrote in our first quarter 2023 letter, *"the current market environment is reminiscent of the latter half of 2000/2001. While the Nasdaq imploded in March 2000, small-cap value stocks did much better on a relative and absolute basis for the two years 2000-2001. The setup is similar to today in that sentiment towards small-cap stocks is dismal and the valuations are depressed."* The current small-cap valuation discount is not warranted, especially now, considering declining rates and moderating inflation. Earnings and fundamentals should drive share prices in the medium to long term. The best investments are often initiated with some discomfort and when the outlook is hazy. This is an ideal environment for our strategy as we are price-driven investors and we have been able to buy high-quality businesses at reasonable to depressed valuations. We look forward to seeing how these investments bear fruit over the next 2-3 years.

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.

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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	14.62	14.07	N/A	N/A	N/A	2	$223.99	$349.83
2017	3.06	1.95	7.84	0.19	N/A	N/A	14	$665.60	$771.66
2018	-17.33	-18.21	-12.86	0.17	N/A	N/A	14	$513.31	$647.68
2019	22.17	20.86	22.39	0.23	18.56	15.90	13	$610.15	$773.40
2020	7.11	5.99	4.63	0.20	33.32	26.49	12	$716.39	$760.25
2021	28.37	26.99	28.27	0.18	31.83	25.35	11	$870.84	$914.19
2022	-10.90	-11.87	-14.48	N/A	32.42	27.66	7	$487.53	$523.34

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

1. Sapience Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sapience Investments, LLC has been independently verified for the periods October 1, 2016 through December 31, 2022. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.
2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The Small Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small capitalization companies with durable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a two-to four-year investment horizon. The composite was created and incepted October 2016. The firm's list of composite descriptions is available upon request.
4. Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of 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 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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SMID Cap Value Equity Composite

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

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

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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.
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7. The fee schedule for Adviser's investment advisory services for the SMID Cap Value Equity Composite is 1.00% on the first $25 million, 0.90% on the next $25 million, 0.85% on the next $50 million, 0.80% on amounts over $100 million. Actual investment advisory fees incurred by clients may vary.
8. Effective March 1, 2020 through June 1, 2021, portfolios were removed from the composite if they had a contribution or withdrawal at 50% or greater of the beginning market value of the portfolio. The portfolio was removed from the composite for the month in which the significant cash flow occurred and the following month.
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