Market Review: Inversion

"All of us would be better investors if we just made fewer decisions." ~Daniel Kahneman

Investor perceptions about the U.S. economy and monetary policy played a diminished role in driving equity market returns in the first quarter. As we entered the year, money market investors discounted six or more 25 bp Fed Funds rate cuts in 2024; as we exit the quarter, that expectation hovers just below three rate cuts. Normally, a significant shift in short-rate expectations in fixed-income markets adversely impacts equities and the U.S. Dollar, but both gained considerable value. So what gives?

We can posit several reasons for this outcome. First, company-level narratives have come to the forefront—rapid technological innovation and artificial intelligence, onshoring of industrial capacity, and broad infrastructure spending are just three popular secular investment themes that, for now, seem impervious to cyclical forces. Second, the economic outlook and, more importantly, company earnings remain reasonably good even after a year and a half of monetary tightening. After increasing +4.0% in 2023, the street consensus expects S&P 500 earnings to rise +9.2% in 2024 and +12.3% in 2025. Equities will likely remain attractive until something upsets this forecast. Finally, economic policy uncertainty has receded. In his press conference after the March FOMC meeting, Chair Powell indicated that the risks around growth and inflation are "two-sided." He went on to make the case that policymakers could be patient because if there were a significant weakening in the labor market, for example, they had ample room to ease policy. In other words, most likely, there will be a so-called 'soft landing' with GDP growth near trend, but if economic activity slows too rapidly, then the FOMC stands ready to backstop the economy (and markets) by applying monetary stimulus.

In the face of a rapid monetary tightening, resilient GDP has been the product of many forces. According to the Brookings Institution, government spending on infrastructure and other initiatives pushed the Federal deficit to 7.5% of GDP in 2023 (up from 3.9% in 2022, adjusted for the student loan forgiveness program). The FOMC expects GDP growth of 2.1% in 2024 (down from 3.1% in 2023), but Q1 is tracking towards 2.8%, as recent activity data has positively surprised economists. The wealth effect from outsized home price appreciation and buoyant financial markets, together with non-farm payroll growth averaging +265k/month in the past three months, supports household consumption and suggests an upside risk to consensus expectations.

Meanwhile, PCE inflation is running around 2.5% through February, whether measured year-over-year or annualized over the past six months. Core PCE inflation has been 2.75% year-over-year and near 3.0% annualized over the past six months. Narratives on inflation are balanced between optimists who see substantial disinflationary progress since the peak in 2022, and pessimists who believe that inflation will be "sticky" and the disinflation process will not present a smooth path back to the Fed's 2% target. Even so, Chair Powell was clear that inflation need not be at 2% before they begin to ease policy, adjusting the level of real interest rates to an appropriate level to sustain economic momentum.

As in the fourth quarter of 2023, financial conditions eased further in the first quarter even though bonds lost value. The 10-year Treasury bond yield increased +32 bps to finish the quarter at 4.20, as investors discounted reduced policy easing and stronger-than-expected economic news.

Russell Index Returns—*As of March 31, 2024*

	Quarter	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	5.2	19.7	-0.1	8.1	7.6
Russell 2000 Value Index	2.9	18.8	2.2	8.2	6.9
Russell 2000 Growth Index	7.6	20.4	-2.7	7.4	7.9
Russell 2500 Index	6.9	21.4	3.0	9.9	8.8
Russell 2500 Value Index	6.1	21.3	5.4	9.4	7.7
Russell 2500 Growth Index	8.5	21.1	-0.8	9.4	9.6
Russell Mid Cap Index	8.6	22.4	6.1	11.1	10.0
Russell 1000 Index	10.3	29.9	10.5	14.8	12.7

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

Small- and Mid-Cap Market Review

In the first quarter, Small Cap Indices underperformed the broad market as well as the Large and Mid Cap Indices. Large Cap stocks (the S&P 500) gained +10.6% in the quarter with considerably greater market breadth. Small Cap stocks (the Russell 2000) rose +5.2%, with Small Cap Growth (up +7.6%) outperforming Small Cap Value (up +2.9%). With regards to style, and a continuation of the quarterly seesaw, growth once again took the lead over value across all market cap ranges for the quarter. For the trailing 12 months, growth continued its lead, however, with a decreasing spread moving down the market cap range. Within large caps the lead was most pronounced where growth led value by 18.7% (Russell 1000 Growth Index up 39.0% while the Russell 1000 Value Index was up 20.3%). In the small-cap space, growth's outperformance was narrower at 1.6%. On a 3-year basis, however, small value is far outpacing small growth—by more than 490 bps (Russell 2000 Value +2.2% vs. Russell 2000 Growth -2.7%) and is slightly ahead on a 5-year basis.

Sector results were mixed across the Russell 2000 Indexes and primarily positive across most sectors in the Russell 2500 Indexes. More specifically, across the broad and value Indexes, Energy and Industrials were among the best-performing sectors (returning between 11.1% and 12.2% and approximately 8.2% and 12.0%). In the Russell 2000 Index, however, Technology was the top performer (+12.8%). Meanwhile, Communication Services was the laggard for the quarter across the broad and value Indexes, posting returns of -4.0% and -5.1%. From there the weak performers diverged with Financials returning -2.4% in the Russell 2000 Value Index, and Utilities returning -3.6% in the Russell 2000 Index. In the Russell 2500 and 2500 Value Indexes, the Real Estate sector was the only other sector to generate negative returns (-2.5% and -2.8%).

Performance Impact

Our first quarter performance was strong on an absolute and relative basis in both strategies. In Small Cap, we were up 5.3% gross of fees (5.0% net of fees) versus 2.9% for the Russell 2000 Value Index, and in SMID we generated 7.6% gross of fees (7.3% net of fees) versus 6.1% for the Russell 2500 Value Index. On a relative basis, we outperformed the benchmark in Small Cap by 2.4% and in SMID Cap by 1.5%.

In the first quarter, our Small Cap strategy outperformed in 6 of the 11 sectors and in reviewing our Small Cap Value portfolio's attribution, the relative outperformance was nearly all stock selection with the balance resulting from sector weights (a byproduct of security selection process). More specifically, stock selection in Consumer Staples, Industrials, and Financials with Vital Farms, Inc., ESAB Corp., and Assured Guaranty Ltd. adding the most to their respective sectors. Assured posted robust operating results for the first quarter and fiscal year of 2023, with a substantial contribution from its ownership in Sound Point Capital and a decreased risk of unexpected charges from Puerto Rico. The company also gained market share in the new-issue municipal bond market and announced the increase of its share repurchase authorization by $300 million. Meanwhile, our security selection in the Health Care sector hindered performance in our Small Cap strategy with Integra LifeSciences Holdings Corp detracting value.

In our SMID Cap portfolio, we outperformed in 8 of 11 sectors in the first quarter and stock selection accounted for a portion of the outperformance with sector weights again accounting for the balance. Similar to our Small Cap strategy, Industrials and Financials were among the best-performing sectors. RenaissanceRe Holdings Ltd. was the primary contributor in Financials, while Regal Rexnord Corp. and Kirby Corp. enhanced performance within Industrials. Leading reinsurer RenaissanceRe handily beat consensus expectations with its fourth quarter 2023 earnings release due to better-earned premium volumes, investment income, and lower loss ratio components that offset a higher-than-expected expense ratio. In short, investors reacted positively to the highly favorable reinsurance conditions, which will likely sustain strong expected underwriting results. Meanwhile, on the negative side, stock selection in the Technology sector detracted value with Twilio Inc. performing the worst.

(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 2023. During the last two months of the fourth quarter, investors started to get excited about 6-7 rate cuts by the FOMC beginning as early as March 2024 and, as a result, the small and mid caps had a strong bounce. In the first quarter, the euphoria around rate cuts subsided and investors became more realistic and are now pricing in 2-3 cuts by the FOMC beginning at the end of the second quarter or sometime in the third quarter. The economy is holding in far better than expectations and we have witnessed the equity rally broaden out in the first quarter from the Magnificent 4 stocks to other sectors and companies. Small caps are lagging large caps in the first quarter but are starting to catch up.

During the quarter, in our Small Cap strategy, we initiated one new investment in the Technology sector and added to a few of our positions within the Industrials and Energy sectors. In our SMID strategy, we initiated two new investments each within the Industrials and Technology sectors.

Small Cap Value Equity Performance—*Through March 31, 2024*

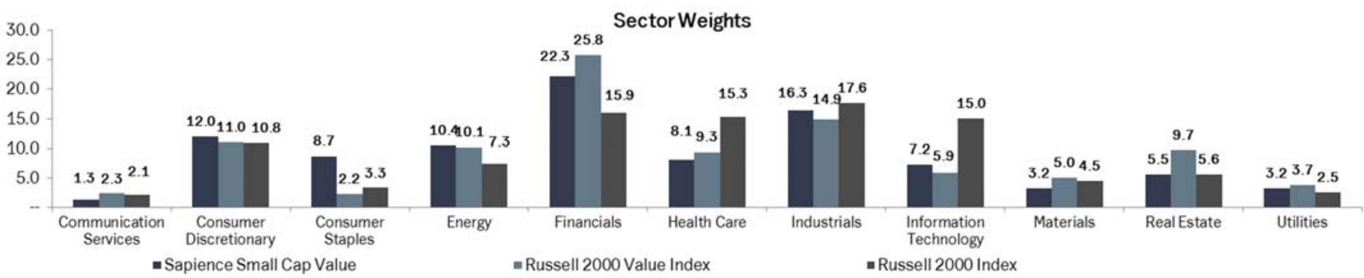
	Quarter	1 Year	3 Years	5 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	5.3%	18.4%	3.7%	8.1%	7.4%
Sapience SCV Equity Composite (Net)	5.0%	17.2%	2.6%	6.9%	6.2%
Russell 2000 Value Index	2.9%	18.8%	2.2%	8.2%	8.0%
Russell 2000 Index	5.2%	19.7%	-0.1%	8.1%	8.8%

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

Small Cap Value Equity Characteristics and Sector Weights—*As of March 31, 2024*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	23.2%
Active Share [2] (relative to the Russell 2000 Value Index)	95.4%
Tracking Error [3]	5.4
Number of Buys[4]	1
Numbers of Sells[4]	0

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



Sources: Russell Investments, FactSet

Small Cap Value Equity

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

Top and Bottom Contributors
First Quarter 2024

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
AdaptHealth Corp.	BigCommerce Holdings, Inc.
Viper Energy Partners LP	Integra LifeSciences Holdings Corp.
ESAB Corp.	Healthcare Realty Trust Inc.
Vital Farms, Inc.	Banner Corp.
Ultra Clean Holdings, Inc.	Arcos Dorados Holdings Inc.

AdaptHealth Corp.
AdaptHealth Corp. reported a solid fourth quarter with nearly 10% organic growth. EBITDA margin expanded 510 basis points to 23.8% and EBITDA grew 40%. Sleep apnea continued to post strong growth at 15%, demonstrating resilient demand that overcame concerns over the potential impact of GLP-1s. While diabetes sales declined to low-single digit,

the company's confidence in returning to growth in the second half of 2024 grew. The Humana contract, which adversely impacted third quarter performance, has now been largely transitioned, providing a positive contribution to results. Importantly, AdaptHealth demonstrated the cash flow potential of the business delivering significantly improved free cash flow of $143 million or 4.5% of sales. The performance along with a depressed valuation resulted in a meaningful improvement in the company's share price during the period.

Viper Energy Partners LP
Viper Energy Partners LP's shares outperformed in the quarter as they continue to post strong results. The company also stands to benefit from the Diamondback/Endeavor merger as the minerals owned by Endeavor make up two-thirds of Viper Energy. We believe this represents a sizeable upside for quality asset drop downs and visibility of growth in the future.

ESAB Corp.
ESAB Corp. delivered strong financial performance and superb operational execution, with results above expectations in the fourth quarter. Sales grew 4% organically while margins continued to improve. EBITDA margin expanded 200 basis points to 19.4% and the company is ahead of schedule in reaching its goal of obtaining a 20% EBITDA margin by 2026. ESAB's strategic focus on innovation has been benefiting growth in the Americas, where the company experienced 9% organic growth. Cobot sales grew 90% as automation investments by customers continue to be a tailwind. Strong free cash flow generation and earnings growth has allowed the company to bring net leverage below 2.0x. With management bringing an improved focus on innovation, operations, and margins, the company has been delivering significantly improved financial results and has both taken market share and improved its competitive position.

Vital Farms, Inc.
Vital Farms, Inc., a leading company in the pasture raised eggs category, outperformed during the last three months as the company posted strong fourth quarter results with +23% sales growth and 300 basis points improvement in gross margin. Further, management provided 2024 guidance and EBITDA that was well ahead of expectations. The company has good growth momentum due to increased distribution and brand building initiatives.

Ultra Clean Holdings, Inc.
Ultra Clean Holdings, Inc. is a supplier of subsystems for the semiconductor capital equipment industry. The company's stock outperformed during the period as the company posted in-line results for the fourth quarter with guidance for the first quarter and 2024 coming in better than expected. Management expects sequential improvement in activity through the year, with a more meaningful pick up in the second half of 2024.

BigCommerce Holdings, Inc.
Big Commerce Holdings, Inc. is a software company that offers SaaS platform and solutions for eCommerce to enterprise and SMB customers. During the quarter, BigCommerce's stock underperformed even though the company posted upside to revenues and profitability for the fourth quarter as the guidance for revenue growth of 7% in 2024 came in somewhat below expectations.

Integra LifeSciences Holdings Corp.
Integra LifeSciences Holdings Corp.'s share price was impacted by disappointing 2024 guidance and an expected slow start to the year. The biggest driver of the shortfall was a production issue with a skin product, which has been resolved, but will nevertheless impact first quarter and full year results. The Boston facility (which is closed for remediation) is still scheduled to return to the market in the second quarter as previously communicated, but the company is now only expecting two commercial products to be back in the market in the second half of 2024. Management preferred to take a more conservative approach to guidance and did not include private label products from the Boston facility in guidance. Although this assumption is likely conservative, it did raise some questions about the company's ability to return Boston back to its 2022 sales run rate by the third quarter of 2025. The CEO also announced plans to retire at year end, which further pressured shares as the company is in the process of rectifying several issues that have impacted financial performance.

Healthcare Realty Trust Inc.
Healthcare Realty Trust Inc.'s shares declined in the period after reporting fourth quarter and fiscal year 2023 earnings that matched street estimates. Somewhat disappointingly, Healthcare Realty's midpoint fiscal year 2024 FFO guidance was $1.55, just below the consensus estimate of $1.59—a poor outturn given that management had forecasted +5.0-7.0% FFO growth once the synergies from the HTA merger (closed in Summer 2022) were fully realized. The company's operating results were mixed with single-digit same-store revenue growth, unexpectedly high expense growth, and occupancy of 89.2%, up +20 basis points year-over-year. Finally, Healthcare Realty's net debt-to-adjusted EBITDA improved 20 basis points to 6.4x quarter-over-quarter, but it remains stubbornly ahead of the company's 5.7x

leverage before the HTA merger. Healthcare Realty remains an attractive medical office building investment with growth potential and solid yielding assets, but rising borrowing costs have hurt the company, and it would benefit from lower interest rates.

Banner Corp.

During the quarter, Banner Corp.'s shares underperformed as the bank posted fourth quarter core EPS 4 cents below the consensus. The bank's net interest margin (NIM) fell -10 basis points to 383 basis points as increases in funding costs outpaced the improvement in AEA yields. One of the appealing features of Banner is the surplus of low-cost deposits that it gathers from primarily rural counties along the West Coast. However, in a time of rapid deposit repricing, the bank's relatively high NIM has come under pressure as its extremely low cost of deposits rises. On the conference call, management signaled that AEA yields should trend higher in fiscal year 2024, but if the Fed is on pause in the first half of 2024, then deposit pricing pressures would likely balance any asset yield gains. Banner's credit quality continues to surprise positively, which is characteristic of the bank's conservative operating profile. The bank's most recent loan quality review found no significant repayment concerns, even though 15% of the CRE portfolio will have interest rate resets over the next two years. Banner's shares continue to trade at a substantial valuation discount to peers, which should narrow when NIM stabilizes and improves.

Arcos Dorados Holdings Inc.

Arco Dorados Holdings Inc., the franchisee for McDonald's in Latin America, posted another quarter of strong results with revenues up 15% and EBITDA +16%—both in line with expectations. The company's stock underperformed during the quarter due to high expectations, slightly softer margins, and currency continuing to drag on otherwise strong operational results.

SMID Cap Value Equity Performance—*Through March 31, 2024*

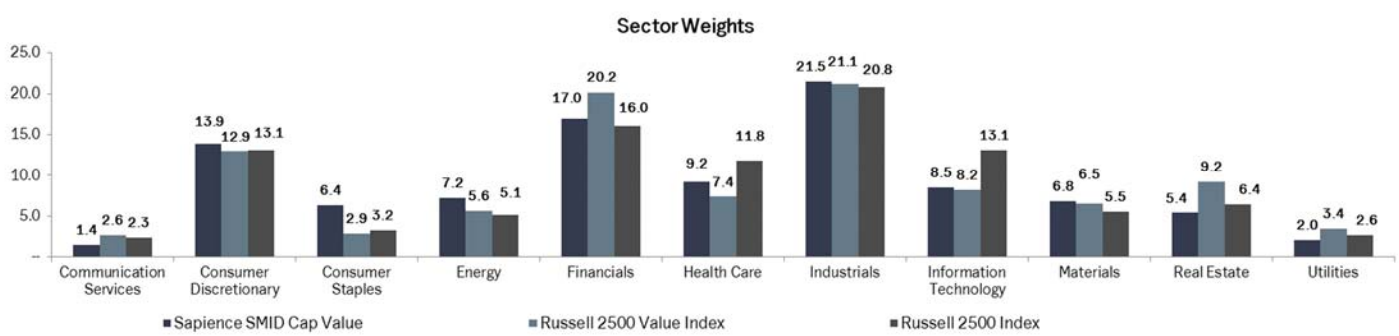
	Quarter	1 Year	3 Years	5 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	7.6%	19.6%	4.1%	7.7%	6.3%
Sapience SMID Cap Value Equity Composite (Net)	7.3%	18.4%	3.1%	6.6%	5.3%
Russell 2500 Value Index	6.1%	21.3%	5.4%	9.4%	8.7%
Russell 2500 Index	6.9%	21.4%	3.0%	9.9%	10.2%

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

SMID Cap Value Equity Characteristics and Sector Weights—*As of March 31, 2024*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	25.5%
Active Share [2] (relative to the Russell 2500 Value Index)	94.0%
Tracking Error [3]	4.3
Number of Buys[4]	4
Number of Sells[4]	2

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



Sources: Russell Investments, FactSet.

SMID Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the first quarter. Arcos Dorados Holdings Inc., Banner Corp., Healthcare Realty Trust Inc., and Integra LifeSciences 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
First Quarter 2024

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Catalent Pharma Solutions, Inc.	Twilio Inc.
Diamondback Energy, Inc.	Healthcare Realty Trust Inc.
Encompass Health Corp.	Integra LifeSciences Holdings Corp.
Regal Rexnord Corp.	Banner Corp.
Kirby Corp.	Arcos Dorados Holdings Inc.

Catalent Pharma Solutions, Inc.
In early February, Novo Holdings announced an agreement to acquire Catalent Pharma Solutions, Inc. for $16.5 billion or $63.50 per share in an all-cash transaction. Once completed, Novo Holdings will sell three of Catalent's fill-finish facilities to Novo Nordisk, the manufacturer of Ozempic. Catalent is one of the largest CDMOs with strength in fill-finish capabilities. Catalent had already been making significant capital expenditures to expand its capacity for GLP-1 customers. The company was a sizable contributor to the global manufacturing of the Covid vaccine, but faced challenges as its production normalized to a more normal mix of biopharmaceutical products. Our investment in Catalent was based on our belief that the company would eventually fix its operational challenges and that its capabilities and assets were not easy to replicate and were being undervalued. The pending acquisition by Novo Holdings demonstrates the value of Catalent's capabilities, particularly in the important fill-finish process.

Diamondback Energy, Inc.
Diamondback Energy, Inc.'s shares outperformed during the quarter as they announced a merger with private E&P operator Endeavor, which is the crown jewel of private companies in the Permian Basin. With Exxon and Pioneer Natural's pending merger and Occidental Petroleum's recent acquisition of CrownRock, Diamondback became the only logical player to buy the long sought after private operator. The company's total production of 475 million barrels of oil/day places it in the top five oil producers in the country. In addition, the company will become the most efficient E&P operator as they are operating with only $4.2 billion of capex. The combination is also expected to result in upwards of $550 million in annual synergies due to the overlapping nature of the combined company's acreage and as Diamondback applies its efficiency to the Endeavor assets. The deal makes Diamondback the largest pure play and third largest in aggregate core location count, trailing only pro forma Exxon/Pioneer and ConocoPhillips in the basin.

Encompass Health Corp.
Encompass Health Corp. delivered better than expected fourth quarter results. Discharge growth continues to be solid, increasing 5.3% organically and 8.3% in total. The company is in the middle of its largest ever facility expansion initiative, which should continue to benefit discharge growth over several years. The adverse impact of higher labor costs also continues to abate as the need for contract labor and sign on bonuses declined. Encompass provided 2024 guidance above expectations as favorable trends are expected to continue. Despite significant capital expenditures to expand its IRF footprint, the company has been able to generate free cash flow and has brought down its net leverage to 2.7x, creating a strong balance sheet. Additionally, at the end of March, CMS released its proposed 2025 IRF rate update, which did not include any mention of a home health transfer rule, which was an area of investor concern as it would have lowered reimbursement for the IRF industry. The removal of this reimbursement overhang provided an additional benefit to the company's share price.

Regal Rexnord Corp.
Although recent results have been impacted by pockets of industrial demand softness, Regal Rexnord Corp. has been delivering in the area that has been our primary focus. Free cash flows in 2023 came in at $683 million, above guidance, and are expected to be at least $700 million in 2024. Net leverage, which was an area of inventor concern, is expected to decline to approximately 3.0x by the end of 2024, which should further reduce the perceived risk profile of the company. The cash flow generation of the business and largely in-line results have led to meaningful share appreciation

given what we believe was a previously unwarranted discounted valuation. With further room for free cash flow improvement, we believe shares remain attractively valued.

Kirby Corp.
Kirby Corp. continues to benefit from a tight barge supply market and the ability to reprice its long-term contracts at improved rates. We believe the company will continue to benefit from these tailwinds throughout 2024. Current barge rates and elevated costs to build new barges have discouraged new barge construction, creating a favorable backdrop for Kirby. The company expects 300 to 400 basis points of margin improvement in its core inland marine transportation business, which should allow the inland marine margin to reach its historical margin level of 20% for the full year in 2024. Additionally, coastal marine, which has been a drag to earnings, is also improving as supply and demand have balanced out, which led to improved pricing during the quarter and expectations for further improvement.

Twilio Inc.
Shares of Twilio Inc. underperformed despite overall acceptable results. Twilio had 8% organic growth with 50-51% gross margins and a steady 102% NRR. The company's software segment ("Segment") had tepid results with -25% operating margins, and NRR in the 90s, which indicates the ticket sizes are decreasing. During the company's earnings call, they announced an internal review of the Segment with plans to present results in March. Investors were hoping for a sale; however, in March, Twilio announced they will maintain the Segment business and will try to reinvigorate growth for this asset. In addition, the company's stand-alone messaging business is growing high-single digits and generating solid free cash flow. Overall we believe valuation remains attractive.

Outlook

"What the wise do in the beginning, fools do in the end." ~Warren Buffett

In this post-pandemic environment, it is difficult to assess where we are at present in the economic cycle—towards the beginning, the middle, or the end? While most investors expected the U.S. economy to have suffered a mild recession last year, we are still waiting to see when the elevated level of rates will begin to impact the economy. Fifteen months ago, most market strategists expected that the stocks would remain weak after declining in 2022. The markets did the exact opposite. Today, most strategists are forecasting a soft landing, and mid-single digits returns for the S&P or around 5,500 level by end of the year. A more bullish scenario for the near term would be that economic growth stays above trend due to the easing of financial conditions, as has been the case since November. In this scenario, rates don't decline as much but the economy is on a better footing. Lately, markets are ignoring any geopolitical events or any risk when pricing this scenario. Cyclical stocks are rallying as if we are at the beginning of an economic cycle and multiples for growth and momentum stocks are stretched.

Large-cap stocks have outpaced small-cap stocks by +11% since January 2023. Movements in portfolio weightings have mirrored this performance differential. According to the Bank of America U.S. equity team, Russell 2000 stocks represent just 3% of the active multi-cap core managers' portfolios, half the weight versus ten years ago. Accordingly, the relative valuation differential between the S&P 500 (SPX) and the S&P 600 (SML) on a cyclically adjusted P/E basis has moved below 0.8x, a level not seen (and exceeded) since the time of the dot com bubble in 1998-2001. The contrast on a one-year forward P/E basis is equally stark—the SPX trades on a 21.3x multiple while SML trades at 14.8x, a 44.4% valuation gap. Can this gap be sustained?

At one level, we observe that investors have increasingly crowded into a handful of stocks that have pushed the concentration of the SPX to levels not seen since the late 1920s. The ten largest stocks in the index account for 33% of the S&P 500 market cap. This fact alone is not a precursor that a significant market correction is imminent. Historically, analysis by Goldman Sachs strategists and others finds that after periods of extreme market concentration, average returns were higher 12 months later, and market rallies were more likely than corrections. While most observers agree that the fundamentals of the top stocks in the SPX have been robust, prospectively, relative stock returns are often governed by company earnings performance compared to prevailing expectations. Arguably, as the economic expansion broadens, the scope for positive earnings surprises is more likely to come from economically sensitive small-cap stocks than from the already inflated, highly-valued top stocks of the SPX.

The big debate among market participants currently is: if and when we'll have a rotation from momentum stocks towards value stocks and small caps. In the first quarter, we did witness a broadening of the rally in the large caps beyond a handful of Tech/growth stocks. Small and SMID caps are lagging, but starting to show some upward momentum. While allocators don't ever want to be too early, no alarm bells will ring to signal a turn. Like many others in the investment world, we are expecting better relative returns for small- and mid- (SMID) value stocks in the near to medium term. While we think Small/SMID stocks should perform better in 2024, we have much higher conviction that the current dislocation in high-quality stocks within the SMID universe offers an uncommon opportunity. Today within Small/SMID caps, there are several high-quality stocks that can be classified as deep value. This is an unusual set up because historically deep value stocks are deservedly cheap: more cyclical, highly leveraged, and generally low-quality businesses. Typically, at the bottom of a cycle, the cheapest companies are cheap for good reasons as was the case at the end of 2008. While today we don't know exactly where we are in the economic cycle, it doesn't seem to us that we are at the bottom. In a recessionary scenario, the profitability and margins of small companies can suffer dramatically. Therefore, with high-quality companies at a cheap valuation, you are getting the best of both worlds—better downside protection in a recession and equal or greater upside potential in a soft landing than the more cyclical and lower-quality businesses. This kind of free lunch is seldom on offer in the markets.

Active stock selection within the small-cap universe will also be important in generating alpha in this regime, as investors must differentiate among the shifting fundamentals of stocks. Our value-oriented investment process involves selecting stocks that trade below their intrinsic or private market value. We rely upon market overreaction to both good and bad news, enabling us to exploit dislocations between long-term fundamentals and the current stock price. As opposed to making a call on the fickle tides of market fads, most of our work is bottom-up, company-by-company. A careful focus on business fundamentals, rather than transitory issues, enables us to build a portfolio that we believe generates superior long-term returns through economic and market cycles. A patient, low-turnover approach that allows quality companies to see outsized price appreciation compound relative to peers is a requisite for our success. Due to apathy, lack of flows in value strategies, and much less competition, we continue to find several attractive opportunities for investment in inexpensive stocks with underappreciated economic value-creation potential. We believe that the current dislocation in high-quality stocks within the Small/SMID universe offers a compelling opportunity that is infrequent in the markets and has the potential for asymmetric returns.

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

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

Sapience Investments, LLC
Small Cap Value Equity Composite

As of December 31									
Year	Gross Returns (%)	Net Returns (%)	Russell 2000® Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	14.91	14.62	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
2023	10.50	9.30	14.65	0.25	20.21	22.06	8	$412.78	$443.03

*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, 2023. 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.
9. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
10. Past performance is not indicative of future results. Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. Registration as an Investment Adviser does not imply any level of skill or training. This material is not financial advice or an offer to sell any product. The portfolio characteristics shown relate to the Small Cap Value Equity Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Adviser reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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
2023	7.49	6.42	15.98	N/A	19.02	20.99	2	$29.69	$443.03

*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, 2023. 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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10. Past performance is not indicative of future results. Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. Registration as an Investment Adviser does not imply any level of skill or training. This material is not financial advice or an offer to sell any product. The portfolio characteristics shown relate to the SMID Cap Value Equity Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Adviser reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.