

Market Review

Equity markets extended their gains in the first quarter of 2017. Markets initially continued to rise on hopes for more business-friendly policies, potential tax cuts, and less regulation (the Trump trade). However, as the quarter progressed, optimistic sentiment for the Trump trade waned. It seems the recent weakness in Commercial and Industrial lending and non-energy capital expenditures are related more to policy uncertainty than impeding economic weakness. Despite this shift in viewpoint, the market's rally persisted as returns were bolstered by rising U.S. business and consumer confidence and in anticipation of a stronger global economy.

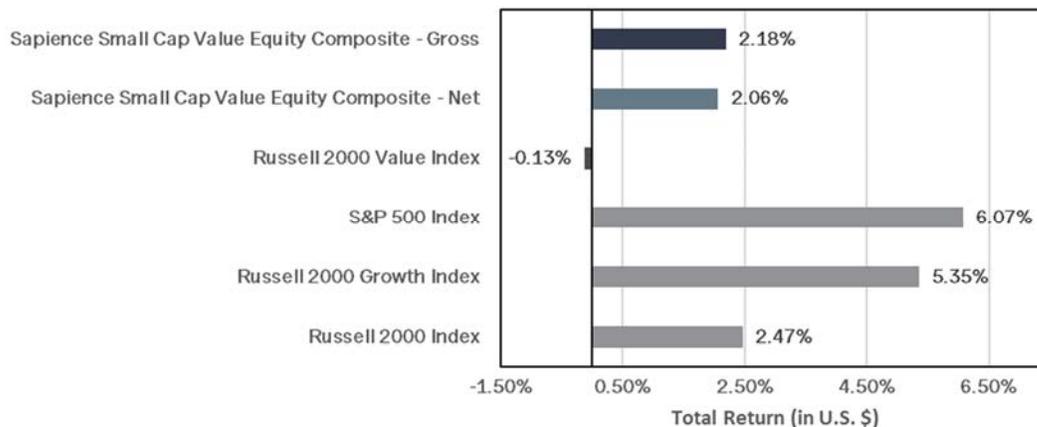
Toward the end of the quarter, the Federal Reserve (the Fed) raised rates and reaffirmed their expectation for three fed fund rate increases in 2017. Additionally, inflation equaled the Fed's target for the first time in nearly five years, labor markets continued to gain strength, and pre-inflation adjusted consumer spending rose. From a macro view, the U.S. and most global economies appear to be improving; however, from our bottom-up perspective valuations appear full in many sectors.

In a reversal from the prior quarter, small-cap companies sizably underperformed both large- and medium-sized companies during the first quarter as measured by the Russell U.S. indices. The probability of this was high due to a significant outperformance by small-cap companies in the fourth quarter of 2016. Given this, market performance the last three months was not surprising to us at Sapience. Looking back to the fourth quarter of 2016, the initial post-election market reaction was, in our opinion, overdone. Valuations surged forward for non-fundamental reasons and, as a result, we actively exited positions or pulled back position sizing in certain situations. In the recent quarter, as the market shifted from its initial reaction (change in leadership) to digesting the changes that can be realistically implemented in the near term, we entered an environment more suitable for us. As a result, our strong stock selection generated a respectable absolute return in both strategies for the quarter.

Small Cap Value Equity Performance

For the first quarter of 2017, the Sapience Small Cap Value Equity Composite posted a total return of 2.18% gross of fees (2.06% net of fees), outperforming the Russell 2000 Value Index return of -0.13% and underperforming the broad Russell 2000 Index return of 2.47%.

Equity Performance—First Quarter 2017



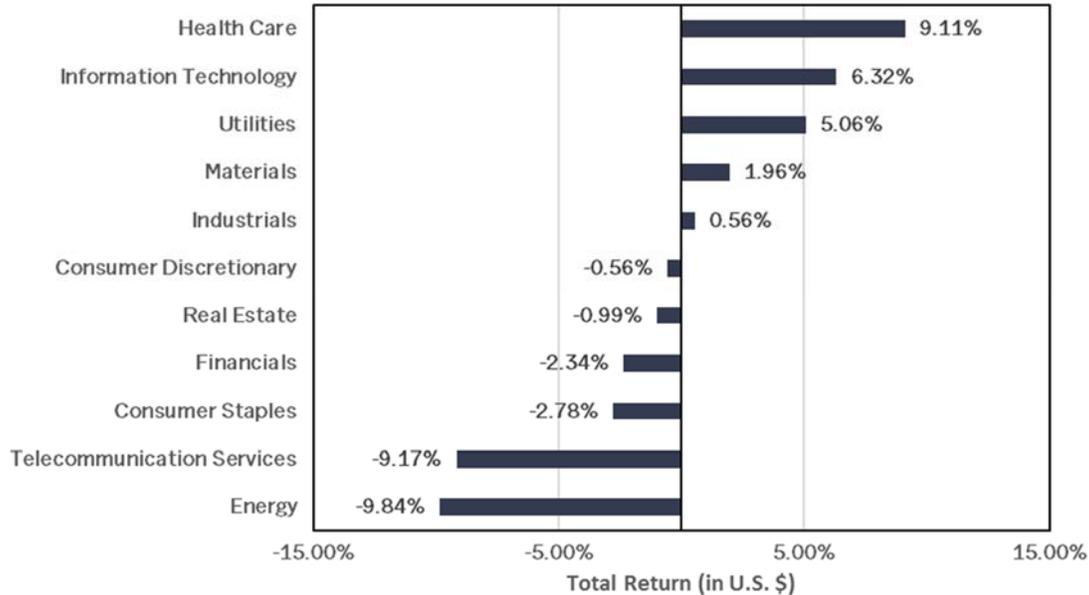
Sources: Advent Geneva, Russell Investments, Standard & Poor's, FactSet.

NOTE: The complete GIPS compliant presentation and additional disclosures can be found at the end of the document.

Performance by Size, Style and Sector

As previously mentioned, small cap companies underperformed their large- and medium-sized brethren during the period. With respect to style, growth stocks outperformed their value counterparts across all three capitalization ranges during the period.

Russell 2000 Value Index Sector Returns—First Quarter 2017



Sources: Russell Investments, FactSet.

Performance varied across the 11 sectors in the Russell 2000 Value Index during the period. In contrast to the previous quarter, the Health Care sector performed the best, with a total return of 9.11%. Meanwhile, at the other end of the spectrum, Energy was the worst-performing sector, posting a total return of -9.84%.

Small Cap Value Equity Performance Attribution

During the quarter, stock selection accounted for all of the Small Cap Value portfolio's outperformance relative to the Russell 2000 Value Index. Compared with the Index, security selection was strongest in the Financials, Real Estate, and Consumer Staples sectors. An overweight in the best-performing Health Care sector further augmented relative return. On the negative side, an underweight in the second-best performing Information Technology sector detracted from relative performance. Overall, the positive factors far outweighed the negative, resulting in solid excess return for the quarter.

**Performance Attribution
Relative to the Russell 2000 Value Index
First Quarter 2017**

Contributors	Detractors
Stock Selection in Financials	Underweight in Information Technology
Stock Selection in Real Estate	
Stock Selection in Consumer Staples	
Overweight in Health Care	

In Financials, Redwood Trust, Inc. was the best performer. During the quarter, shares of Redwood Trust advanced along with most mortgage real estate investment trusts (REITs). While the overall industry performed well during the period, Redwood's stock price also rose as a result of active securitization activity in early 2017. On Redwood's most recent earnings call, management noted that it had completed three jumbo securitization deals with favorable pricing in the first two months of 2017.

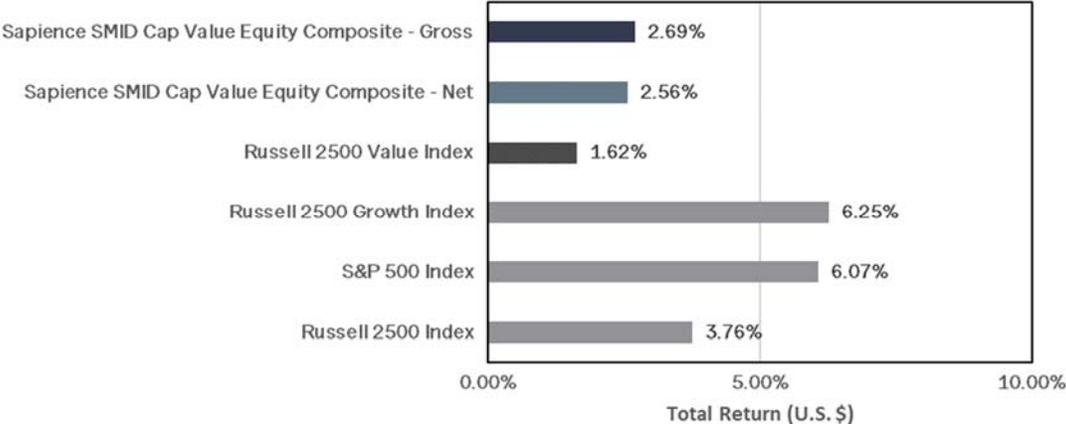
CoreCivic, Inc. contributed the most value within the Real Estate sector. Shares of CoreCivic extended their advance that began shortly after President Trump’s election. During the first quarter, Attorney General Jeff Sessions reversed an order to eliminate the government’s use of private prison facilities, which buoyed this private prison REIT’s stock price. Private prison usage currently represents approximately 10% of the total inmate population and its anticipated this number should rise under the Trump administration. Overcrowding in Federal and State prisons is a known issue and private prisons should benefit from Immigration and Customs Enforcement’s (ICE’s) detention center expansion.

Within Consumer Staples, TreeHouse Foods was the largest contributor. TreeHouse’s stock price rebounded from recent lows as a result of improvement in the company’s private brands business. Additionally, during its recent earnings call, management communicated its focus on utilizing free cash flow to reduce leverage. Longer term, we continue to believe TreeHouse will benefit from its integration of the private-label business it acquired from ConAgra.

SMID Cap Value Equity Performance

For the first quarter of 2017, the Sapience SMID Cap Value Equity Composite posted a total return of 2.69% gross of fees (2.56% net of fees), outperforming the Russell 2500 Value Index return of 1.62% and underperforming the broad Russell 2500 Index return of 3.76%.

Equity Performance—First Quarter 2017

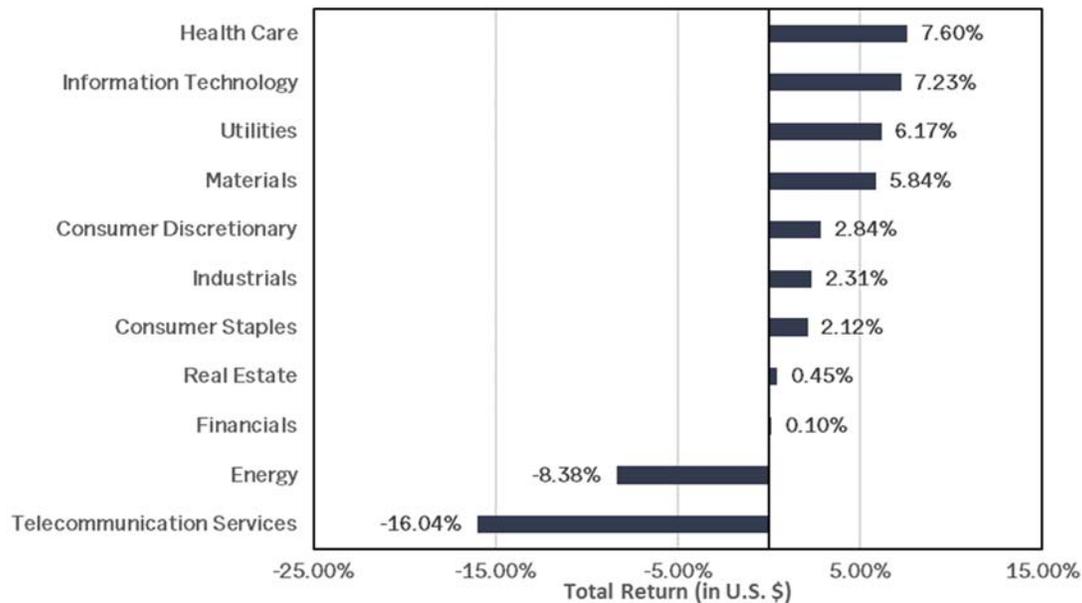


Sources: Advent Geneva, Russell Investments, Standard & Poor’s, FactSet.
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Performance by Size, Style and Sector

As previously mentioned, small cap companies underperformed their large- and medium-sized brethren during the period. With respect to style, growth stocks outperformed their value counterparts across all three capitalization ranges during the period.

Russell 2500 Value Index Sector Returns— First Quarter 2017



Sources: Russell Investments, FactSet.

Performance varied across the 11 sectors in the Russell 2500 Value Index during the period. In contrast to the previous quarter, the Health Care sector performed the best, with a total return of 7.60%. Meanwhile, at the other end of the spectrum, Telecommunication Services was the worst-performing sector, posting a total return of -16.04%.

SMID Cap Value Equity Performance Attribution

Stock selection accounted for all of the SMID Cap Value portfolio's outperformance relative to the Russell 2500 Value Index. Compared with the Index, security selection was strongest in the Real Estate, Consumer Staples, Industrials, and Energy sectors. (An overweight in the second-worst performing Energy sector partially offset strong stock selection in this sector.) On the negative side, security selection in the Consumer Discretionary and Information Technology sectors detracted from relative return. Overall, the positive factors far outweighed the negative, resulting in a respectable excess return for the quarter.

Performance Attribution Relative to the Russell 2500 Value Index First Quarter 2017

Contributors	Detractors
Stock Selection in Real Estate	Stock Selection in Consumer Discretionary
Stock Selection in Consumer Staples	Stock Selection in Information Technology
Stock Selection in Industrials	
Stock Selection in Energy	

CoreCivic, Inc. contributed the most value within the Real Estate sector. Shares of CoreCivic extended their advance that began shortly after President Trump's election. During the first quarter, Attorney General Jeff Sessions reversed an order to eliminate the government's use of private prison facilities, which buoyed this private prison real estate investment trust's (REIT's) stock price. Private prison usage currently represents approximately 10% of the total inmate population and its anticipated this number should rise under the Trump administration. Overcrowding in Federal and State prisons is a known issue and private prisons should benefit from Immigration and Customs Enforcement's (ICE's) detention center expansion.

Within Consumer Staples, TreeHouse Foods, was the largest contributor. TreeHouse's stock price rebounded from recent lows as a result of improvement in the company's private brands business. Additionally, during its recent earnings call, management communicated its focus on utilizing free cash flow to reduce leverage. Longer term, we continue to believe TreeHouse will benefit from its integration of the private-label business it acquired from ConAgra.

MSC Industrial Direct Co., Inc. was the best performer in the Industrials sector. The company's management team has executed well despite a soft market environment. By controlling costs, MSC Industrial was able to improve its incremental margins on sales. Additionally, the company began to experience increased demand for its higher priced capital equipment. More recently, expectations regarding inflation and tax cuts pushed MSC Industrial's stock price higher. In our disciplined fashion, we exited our investment in MSC Industrial as the company's stock price approached our target price.

In Consumer Discretionary, Ascena Retail Group, Inc. was the worst performer. Ascena's shares declined along with the overall retail apparel industry due to weak foot traffic. The company's experienced management team has taken steps to counteract this impact by managing expenses and announcing its intention to implement more aggressive store rationalization. During our investment horizon, we believe Ascena will benefit from its cost-reduction initiatives across its platform.

Within Information Technology, Sabre Corp. detracted the most value from performance. During the quarter, Sabre's shares continued to decline. The company announced mixed fourth quarter earnings results and provided annual guidance below consensus estimates. Additionally, management announced it would be investing in its IT infrastructure, which will temporarily increase capital expenditures and impact its near-term profitability. Longer term, we continue to believe this travel and tourism technology service provider remains an attractive investment opportunity.

Outlook

While the current optimistic, pro-growth sentiment has benefited equity market returns, divergence between hard and soft data points to some over confidence in the market and, as previously mentioned, we believe valuations are close to full in many sectors. Many pundits believe an increase in rates will lead to a pullback in the market. However, there is also the possibility that even if rates do not increase, a reduction in monetary stimulus could lead to a decline in the market. Regardless of the trigger, a pullback would provide us with attractive investment opportunities as we typically do not recoil from dislocations in the market. While exuberance continues, we will, as always, maintain our patience and discipline as selective opportunities continue to exist for those focused on fundamentals.

Disclosures

Performance:

Composite and benchmark returns reflect the reinvestment of income. Composite returns are presented gross and net of actual investment advisory fees. Performance is expressed in U.S. dollars. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Dividends are recorded gross of withholding taxes.

Additional:

This is not a recommendation to buy or sell a particular security. 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. Composite and benchmark returns reflect the reinvestment of income. Composite returns are presented gross and net of actual investment advisory fees. Performance is expressed in U.S. dollars. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Dividends are recorded gross of withholding taxes.

Sapience Investments, LLC
Small Cap Value Equity Composite

As of December 31									
Year	Gross Returns (%)	Net Returns (%)	Russell 2000 [®] Value Index (%)	Internal Dispersion (%)	Composite 3Y Std Dev (%)	Primary Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	14.91	14.87	14.07	N/A	N/A	N/A	2	\$223.99	\$349.83
2017					N/A	N/A			

*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, 2016. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
- 2 Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
- 3 The Small Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small capitalization companies with sustainable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a two-to four-year investment horizon. The composite was created October 2016. The firm's list of composite descriptions is available upon request.
- 4 Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of actual investment advisory fees. Net returns are net of any performance-based fees. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations 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. The three-year annualized ex-post standard deviation of the composite and benchmark is not presented because 36 monthly returns for the composite are not available.
- 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 Past performance is not indicative of future results. Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. Registration as an Investment Adviser does not imply any level of skill or training. This material is not financial advice or an offer to sell any product. The portfolio characteristics shown relate to the Small Cap Value Equity Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Adviser reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Sapience Investments, LLC
SMID Cap Value Equity Composite

As of December 31									
Year	Gross Returns (%)	Net Returns (%)	Russell 2500™ Value Index (%)	Internal Dispersion (%)	Composite 3Y Std Dev (%)	Primary Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	9.96	9.83	9.34	N/A	N/A	N/A	1	\$22.50	\$349.83
2017					N/A	N/A			

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