

## Market Review

Given the recent volatility of stock prices, weekly or even daily portfolio updates to clients seem more appropriate than quarterly letters. But that is our challenge isn't it—for investment managers who embrace or advocate a longer time horizon and discipline to stay the course during the most challenging environments. It's our discipline and conviction in our fundamental work that enables us to capitalize on the opportunities that arise due to such dislocation in the markets. We don't subscribe to the view that there is a single "stock market" but rather that it is a "market of stocks".

Unlike the singular connection between the ocean's tides and the moon, multiple forces usually drive financial tides. In the fourth quarter, stock market participants were buffeted by successive waves of both economic and political concerns, motivating many to flee from risky assets. In a so-called 'risk-off' environment, asset price volatility rises as correlations within the stock market, and across asset classes, leap toward 1.0. To recap the year, in U.S. equities there were minor declines in the first quarter approximating -1%, the second quarter built momentum with large cap indices up around 3.6% and smaller cap indices up a little more than twice that amount, and the third quarter was the strongest quarter of 2018 with the S&P 500 up 7.7%. At September's end, core U.S. indices were up between 10% and 12% for the year, with the growth segments dominating value (17% vs 4% for the Russell 1000 indices).

In our view, the sharp reversal in the fourth quarter was based on a combination of three factors: valuations were perceived to be stretched; an erosion of investor confidence on multiple fronts; and a heavily automated market mechanism that fueled rapid downward momentum. The end of December witnessed the biggest outflows from equity mutual funds since the 2008 crisis and the fourth quarter saw the largest *increase* in bearish sentiment since 1990 (State Street Investor Sentiment Index). While there were mixed fundamental signals (e.g., favorable U.S. corporate earnings projections were coming to fruition), we believe the causes for the declines in investor confidence seem to center on a few factors. Primarily, an uncertainty of the magnitude and timing of Fed tightening; increasing risks of the tariff war between the U.S. and the world (especially China); falling oil prices—a proxy for reduced global industrial demand; and mounting political risks (the imminent break of the U.K. from the E.U., and a variety of U.S. Congressional and Presidential actions that demonstrated less than optimal leadership).

The market mechanism issues are admittedly difficult to fully comprehend at this time; however, as reported in the Wall Street Journal, they are having an artificial impact on security pricing (Zuckerman, Gregory et al, "Behind the Market Swoon: The Herdlike Behavior of Computerized Trading", December 25, 2018):

*"Roughly 85% of all trading is on autopilot—controlled by machines, models, or passive investing formulas, creating an unprecedented trading herd that moves in unison and is blazingly fast."*

While automated trading amplifies trends and can be incredibly frustrating when looking at short-term movement in stock prices, we believe the offsetting opportunity is that current pricing of a significant percentage of companies is based more on their security category than on the fundamentals of their business.

The fourth quarter wiped out calendar year gains across every perceivable benchmark—Russell Top 200 Growth -0.5%, S&P 500 -4.4%, Russell 2000 -11%, MSCI EAFE -13.8%, and MSCI Emerging Equity -14.6. Specific to the U.S. market, P/E ratios declined by 25% from their late summer highs. The quarter began with an October decline of 7% in large caps and an 11% decline in small caps based primarily on a momentary re-rating of the growth segment. November bounced back between 1% and 2% depending on the index. December amplified the downward trend—the S&P fell 9% and the Russell 2000 declined 12%, with a nearly equal impact between value and growth stocks.

**Russell Index Returns—As of December 31, 2018**

	Quarter to Date	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	-20.2	-11.0	-11.0	7.4	4.4	12.0
Russell 2000 Value Index	-18.7	-12.9	-12.9	7.4	3.6	10.4
Russell 2000 Growth Index	-21.7	-9.3	-9.3	7.2	5.1	13.5
Russell 2500 Index	-18.5	-10.0	-10.0	7.3	5.2	13.2
Russell 2500 Value Index	-17.1	-12.4	-12.4	6.6	4.2	11.6
Russell 2500 Growth Index	-20.1	-7.5	-7.5	8.1	6.2	14.8
Russell Mid Cap Index	-15.4	-9.1	-9.1	7.0	6.3	14.0
Russell 1000 Index	-13.8	-4.8	-4.8	9.1	8.2	13.3

Sources: Russell Investments.

**Small- and Mid-Cap Market Review**

In a quarter that generated low double-digit declines across all U.S. equity markets, there was a very direct relationship between cap size and performance—going down the cap size spectrum yielded increasingly damaging results. Specific to our world, the Russell 2000 was down 20.2% and the Russell 2500 was down 18.5%. While this is intuitive given the higher risk most people generically equate to smaller caps, it was unexpected as the main economic risks were perceived to be global in nature. An explanation we have repeatedly heard is that “automated” sales have a more significant impact on these “less liquid” securities.

Performance across sectors the small cap indices was far from homogenous, with the classic value sectors taking the majority of the beating. Specifically, Energy (-41% in both the Russell 2000 and the 2500), Materials (-27% in the Russell 2000, -21% in the Russell 2500), Industrials (-20% in the Russell 2000, -21% in the Russell 2500), Consumer Discretionary (-19% to -20% in both the Russell 2000 and the 2500), and Financials (-16% in the Russell 2000 and -15% in the Russell 2500). Utilities (-2% in the Russell 2000 and 0% in the Russell 2500) provided the best defense. For the year, Energy and Materials were again the most significant detractors (-35 to -39% and -20 to -25%, respectively).

Regarding the value and growth comparisons, growth stocks built up a significant lead in the first three quarters: 15.8% vs 7.1% for the Russell 2000 and 15.8% vs 5.8% for the Russell 2500. Though value stocks declined slightly less than growth in the fourth quarter (approximately 3% in both indices), the differential remained perceptible for the year with growth outperforming value: -9.3% vs -12.9% for the Russell 2000, and -7.5% vs -12.4% for the Russell 2500.

**Portfolio Strategy and Key Exposures**

We had a bad quarter in a bad market. Partially due to some acknowledged errors (good investments where the odds went decidedly against us), partially due to the nature of our style and partially due the cascading effect of automated trading. Simply put, the majority of our relative shortfall, which was similar in both strategies (-5.6% in Small Cap and -5.2% in SMID Cap) was due to adverse results in the Energy and Consumer Discretionary sectors—both above benchmark exposure and underperforming individual holdings. The operating results of our Consumer Discretionary positions continued to meet expectations as a group and for the most part we are holding firm with some quality upgrade adjustments and adding to some existing investments. The market is pricing a recession into this sector, which we do not believe will occur. The Energy sector requires some re-thinking given the fall in oil prices and the steep decline in one of our more levered turn-around companies.

This period is highly reminiscent of the third quarter in 2011. The crisis in Europe drove a risk-off panic among stock investors and we were down relative to the market by approximately the same amount as this past quarter. Repositioning and upgrading the portfolio during this turmoil led to us generating some of our best performance. Alpha comes from taking advantage of opportunities that may seem troubling at the time, but these opportunities are recognized by following our discipline. Though our year ended with frustrating results, as investors, these are the environments we live for.

Our current exposure in the Tech and Financials sectors, as described in prior letters, remains intact. We also continue to have a favorable view on the majority of our Specialty Retail investments:

- Ascena Retail Group, Inc.: Ascena delivered strong results within its Kids and Premium segments. We are encouraged by the turnaround in the last two to three quarters. The stock declined in sympathy with other apparel retailers.
- Signet Jewelers Ltd.: The company's stock price declined meaningfully due to slightly lower EBIT guidance for the fourth quarter due to higher promotions in response to a competitive holiday season. We added to the position based on our opinion that the current valuation is discounting meaningfully lower earnings and the cost savings can be meaningful over the next one to two years if Signet can deliver flat comps after a mediocre year.
- The Michaels Companies, Inc. and Dave & Buster's Entertainment, Inc.: Both companies delivered solid results. Dave and Buster's guidance for the next year was slightly below consensus and the decline in both stocks seemed unjustified and more in sympathy with the sector rather than fundamental performance.

Though additions to portfolio holdings are more pronounced in our SMID strategy than our Small Cap portfolio, we have been active in both.

### Small Cap Value Equity Performance— Through December 31, 2018

	Quarter to Date	Year to Date	1 Year	Inception to Date
Sapience SCV Equity Composite (Gross)	-24.2%	-17.3%	-17.3%	-0.9%
Sapience SCV Equity Composite (Net)	-24.4%	-17.9%	-17.9%	-1.5%
Russell 2000 Value Index	-18.7%	-12.9%	-12.9%	3.1%
Russell 2000 Index	-20.2%	-11.0%	-11.0%	4.8%

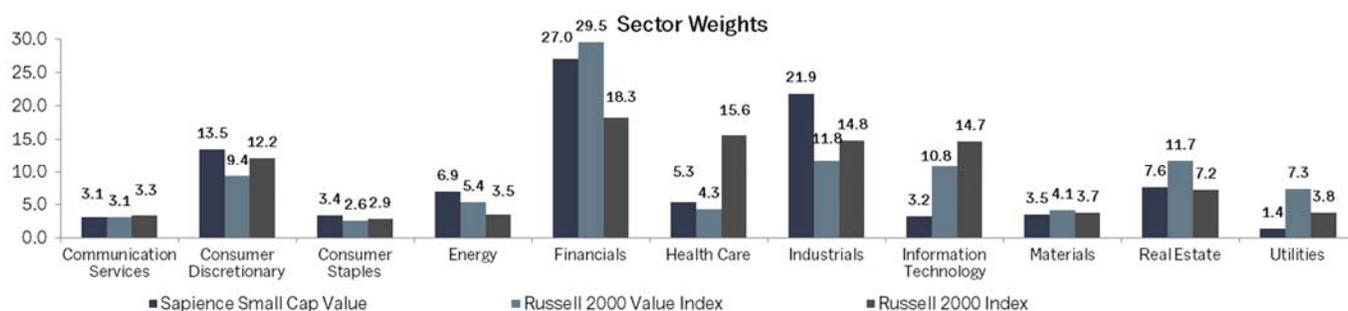
Sources: Advent Geneva, Russell Investments.

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

### Small Cap Value Equity Characteristics and Sector Weights— As of December 31, 2018

	Sapience Small Cap Value
Largest 10 Positions - Total Weight	25.5%
Active Share <sup>1</sup> (relative to the Russell 2000 Value Index)	95.5%
Tracking Error <sup>2</sup>	5.3
Number of Buys	4
Numbers of Sells	3

<sup>1 and 2</sup> Please see disclosures for calculation



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 2018*

Top Five Contributors	Bottom Five Contributors
Company Name	Company Name
EVERTEC, Inc.	Weatherford International plc
Argo Group International Holdings, Ltd.	Forum Energy Technologies, Inc.
TreeHouse Foods, Inc.	Diebold Nixdorf, Inc.
Assured Guaranty Ltd.	Oasis Petroleum Inc.
Post Holdings, Inc.	Ascena Retail Group, Inc.

***EVERTEC, Inc.***

EVERTEC, Inc. is a leading full-service transaction processing business in Latin America and the Caribbean region. The company's shares outperformed during the fourth quarter. Similar to recent quarters, EVERTEC reported strong results benefiting from the rebuilding efforts and relief funding in Puerto Rico.

***Argo Group International Holdings, Ltd.***

Shares of Argo Group International Holdings, Ltd., a provider of specialty property/casualty insurance and reinsurance, advanced during the fourth quarter. Despite an elevated natural catastrophe loss experience in 2018, Argo Group has consistently reported solid results due to management's successful focus on expense ratio improvement, platform modernization, and active capital management. We believe that the Argo Group is well positioned to achieve a double-digit operating ROE (currently at approximately 7%), which would support a continued, positive re-rating of the stock price over the medium term.

***TreeHouse Foods, Inc.***

Treehouse Foods, Inc. is a leading private label food company. The shares outperformed during the fourth quarter as investors became more comfortable with the turnaround and portfolio restructuring outlined at the analyst day by the new CEO, Steve Oakland.

***Assured Guaranty Ltd.***

Municipal bond insurer Assured Guaranty Ltd. was a relative outperformer in the final quarter of 2018. Assured Guaranty trades at a significant discount to book value (0.63x) and while it has an ample cushion for potential Puerto Rico-related losses, this scares many investors. In coming years, Assured Guaranty's depressed earnings should improve as bond insurance penetration rises and the company deploys excess capital to either re-purchase shares or make accretive acquisitions.

***Post Holdings, Inc.***

Post Holdings, Inc.'s shares outperformed during the fourth quarter. The company reported solid results and offered guidance in-line with consensus, which was better than weaker outlook offered by many of its peers in the industry. In addition, the company announced the spinoff/IPO of its Active Nutrition business. This is expected to take place in the second half of fiscal year 2019.

***Weatherford International plc***

The fourth quarter saw a tremendous disconnect between the fundamentals of Weatherford International plc and its stock price performance. Weatherford reported on October 29<sup>th</sup> and beat the consensus EBITDA expectations. The company reported steady progress in reaching their goal of \$1 billion in incremental EBITDA from transformational benefits and confirmed a \$200 million sale of their non-core laboratory business. However, Weatherford also reported a \$30 million shortfall in free cash flow—missing consensus expectations of a slightly positive free cash flow. This miss was mainly due to Weatherford not being able to convert their considerable inventory to cash as it was made up of either bespoke products or products related to offshore energy, which had limited current demand. Weatherford guided flat sequential revenue for the fourth quarter and an EBITDA lower by mid-single digits (this was a better sequential guide down than most of their peers). The company has stood by this guidance (as late as an industry conference in November), while Schlumberger, a peer, has guided down on three separate occasions in the

quarter. Much of the turmoil in the stock price is obviously due to the high level of debt on the balance sheet as well as fears among investors that Weatherford might not be a going concern for long. We believe this fear is somewhat overblown. Weatherford has no meaningful debt maturities in 2019. In 2020 Weatherford has approximately \$350 million of notes that are due and these will likely be paid off by year end with the anticipated \$500 million cash inflow from asset sales. The other \$350 million of debt that is due in 2020 is a term loan backed by assets that can be extended. In 2021, Weatherford sees hefty debt maturities to the tune of almost \$2 billion. However, Weatherford has two years to improve their EBITDA and leverage ratios as well as attempt to refinance the debt. Alternatively, the company has three to four core businesses (two of them crown jewels) and they could potentially sell one of these businesses and use the cash to pay down the debt. Despite all the reasons listed above, Weatherford's stock price continued to be punished by the street throughout the quarter. A severe selloff in the broader market as well as in oil further aggravated the decline. A final factor hindering Weatherford's stock price was the impact of shorting, rumor mongering by debt investors, algos, and other machine trading. These factors combined resulted in us significantly reducing our position. Weatherford was a special situation and a contrarian call at our initial investment. However, we invested because we knew Weatherford's businesses and have high regard for their CEO, and have closely followed the company for more than ten years. Additionally, we were acutely aware of the leverage on the balance sheet and its potential implications. We believe that in a stable environment, Weatherford's stock price wouldn't have fared so poorly. Weatherford has solid businesses and a stellar CEO and management team that have stuck to their discipline and steadily executed.

#### ***Forum Energy Technologies, Inc.***

Forum Energy Technologies, Inc.'s shares performed poorly in the quarter due to the decline in the price of oil, its mixed record in execution against its targets, and an inability to generate free cash flow the last few quarters. We believe that the company has an attractive and diversified mix of businesses within the Energy Services sector. The current Chairman and the former CEO Chris Gaut was reappointed as the CEO during the fourth quarter after a lack of consistent execution under the outgoing CEO.

#### ***Diebold Nixdorf, Inc.***

On October 31, 2018, Diebold Nixdorf, Inc. reported better than expected results. Its Americas Banking segment reported 4% revenue growth year over year. Additionally, product revenues grew 13% year over year and operating margins improved as well with operating income coming in higher than street consensus. Initially the company's stock price rallied on the results; however, in November and December the company's stock price declined materially in a weak market. There were no incremental negative headlines from the company. We have spoken to Diebold's management team and we believe there is a sense of urgency at the company to right the cost structure. Management provided itemized cost takeout plans and we have built in a conservative estimate for the restructuring. Furthermore, Diebold's management team believes it has enough capital to get through the restructuring program. We continue to believe that the stability of the services business, cost reductions and, if required, further asset sales will help us realize significant upside from the current share price.

#### ***Oasis Petroleum Inc.***

Shares of Oasis Petroleum Inc. declined materially during the fourth quarter, absent any company specific news. The underperformance can be primarily attributed to the decline in the price of oil. At the current price, Oasis' shares seem oversold and are trading at the level of their existing oil production plus the value of their mid-stream assets adjusted for their net debt. As a result, we are essentially getting their undrilled acreage in both Bakken and Permian for free (we believe this to be a value of approximately \$5 billion).

#### ***Ascena Retail Group, Inc.***

Despite quarterly results that were better than its recent trend, Ascena Retail Group, Inc.'s shares declined during the quarter in commiseration with a drop in sentiment across the apparel retail sector. Results by banner continue to be mixed with recent strong performance at Ann Taylor and LOFT. These results were somewhat offset by weakness in their Value and Plus segments. We believe that management is executing with a sense of urgency to turn around the business and there is significant upside if they are successful.

## SMID Cap Value Equity Performance— Through December 31, 2018

	Quarter to Date	Year to Date	1 Year	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	-22.3%	-17.4%	-17.4%	-3.7%
Sapience SMID Cap Value Equity Composite (Net)	-22.4%	-17.9%	-17.9%	-4.2%
Russell 2500 Value Index	-17.1%	-12.4%	-12.4%	2.5%
Russell 2500 Index	-18.5%	-10.0%	-10.0%	5.0%

Sources: Advent Geneva, Russell Investments.

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

## SMID Cap Value Equity Characteristics and Sector Weights—As of December 31, 2018

	Sapience SMID Cap Value
Largest 10 Positions - Total Weight	26.0%
Active Share <sup>1</sup> (relative to the Russell 2500 Value Index)	95.4%
Tracking Error <sup>2</sup>	4.4
Number of Buys	6
Number of Sells	4

<sup>1</sup> and <sup>2</sup> Please see disclosures for calculation



Sources: Russell Investments, FactSet.

## SMID Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the fourth quarter. TreeHouse Foods, Inc., EVERTEC, Inc., Weatherford International plc, Forum Energy Technologies, Inc., and Diebold Nixdorf, Inc. are also owned in our Small Cap Value strategy and these companies were discussed in the Small Cap Value Equity Commentary section above.

### Top and Bottom Contributors Fourth Quarter 2018

Top Five Contributors	Bottom Five Contributors
<b>Company Name</b>	<b>Company Name</b>
TreeHouse Foods, Inc.	Weatherford International plc
Nasdaq, Inc.	Forum Energy Technologies, Inc.
Healthcare Trust of America, Inc.	Parsley Energy, Inc.
US Foods Holding Corp.	Diebold Nixdorf, Inc.
EVERTEC, Inc.	Adient plc

### Nasdaq, Inc.

While shares of Nasdaq, Inc. declined during the fourth quarter, they held up better than most companies in the sector. The management team's strategy to shift the company towards non-transactional revenue streams (now

making up ~75% of revenues) has proven successful in insulating the firm's earnings from major swings in trading volume. Stable data and market tech driven earnings growth coupled with a tailwind of continued average daily volume growth should boost revenues and margins and support a valuation that would better reflect the business' sum of its parts.

### ***Healthcare Trust of America, Inc.***

In a generally difficult environment for REITs, shares of Healthcare Trust of America, Inc., a real estate investment trust focused on medical offices and healthcare-related assets, outperformed its peers. After posting another solid quarter, Healthcare Trust's shares continued to benefit from the ability of medical office buildings to produce net operating income growth in both strong and weak economic environments. Healthcare Trust generates a solid yield of approximately 4.7% with a predictable and positive growth model, while trading at a greater discount to net asset value (NAV) than many comparable REITs.

### ***US Foods Holding Corp.***

During the fourth quarter, US Foods Holding Corp.'s stock price recovered from its lows in the prior quarter. In November, US Food's management reported its third quarter results—showing improved case growth, especially in the critical Independent Restaurants category. In addition, adjusted EPS was higher than consensus expectations, which further benefited the company's stock price. Against a weaker macro backdrop, we believe US Foods will continue to perform well as they operate in a relatively stable category.

### ***Parsley Energy, Inc.***

Shares of Parsley Energy, Inc. sold off in commiseration with the oil price decline. While these macro headwinds pressured their stock price, we believe Parsley is a solid company when viewed from a fundamental perspective. Parsley is one of a handful of independent E&P companies with premium acreage in the Permian basin. They also have a deep inventory of wells (north of 5,000 wells), a solid balance sheet, a competent management team, and sufficient scale and contiguous acreage. Moreover, Parsley has demonstrated a willingness to spend within cash flow and has emphasized generating free cash flow, which has endeared them to investors. Finally, the majors (Exxon Mobil, Chevron, BP, and Royal Dutch Shell) have acquired meaningful acreage in the Permian and massively stepped up their investment in 2018. Since most of the core acreage in the Permian has been acquired, Parsley may become a highly attractive asset to the majors, as they will likely be looking to continue increasing their exposure to the region. At the current valuation, we believe Parsley offers significant upside.

### ***Adient plc***

Adient plc's stock price dropped approximately 40% during the quarter with the largest decline occurring after their earnings call in early November. During the call, Adient's management team announced the suspension of its \$1.10/share annual dividend as well as their decision to postpone their fiscal year 2019 guidance announcement to January. In addition, management announced they renegotiated covenant limits from 3.5x to 4.5x. Adient's management team cited the renegotiation and the dividend suspension as a source of financial flexibility to tide over operational challenges. We appreciate management's caution and focus on debt. However, unlike the street, we are not extrapolating that Adient will have immediate liquidity issues and need to raise expensive capital. Operational problems that unfolded in December 2017 continued to reverberate throughout 2018. It appears to us, that incoming CEO Doug DeGrosso is practicing caution and expecting Adient's operational challenges to extend into 2019. Nevertheless, we do believe the inherent strength of Adient's business—global leadership in seat manufacturing—should help them address operational issues and improve its profitability over time.

## **Outlook**

MIT Economist Paul Samuelson once quipped that the stock market has predicted nine of the past five recessions, a fairly accurate accounting of the equity market's record as an economic forecaster. While the American economy has been expanding for nearly a decade, none of the usual predictors of a recession—such as a major misallocation of capital or a credit crunch—are evident. To be sure, U.S. economic momentum is moderating, which is often enough to bring about an equity market correction in an environment of elevated asset prices.

Many of the factors that induced the volatility in the fourth quarter are likely to persist into the new year. As value investors, we view the shift to a risk-off market as a better investment environment with a broader opportunity set. Superior businesses are also de-rated when other investors sell indiscriminately, without regard to the underlying

intrinsic value. Best investments are often initiated with some discomfort and when the outlook is hazy. We have been able to upgrade the portfolios in the last three months as valuations became de-coupled from fundamentals for several high-quality businesses. In addition, we have added to our existing positions that we believe were oversold. Though 2019 is very early days indeed, the change in market thinking and pricing is worth noting. January to date (as of this writing: January 15, 2019), the Russell 2000 Value is up 6.9%, the Russell 2500 Value is up 6.5%, and both our Small and SMID Cap Value strategies have generated meaningful excess returns to these indices.

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

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

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<sup>1</sup> 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

<sup>2</sup> Tracking Error: Measures how closely a portfolio follows the index it is benchmarked against. An index fund which closely tracks its benchmark will have a tracking error close to zero, while an actively managed portfolio will have a higher tracking error. Tracking Error is calculated as the root-mean-square of the difference between the portfolio and benchmark returns:  $TE = \omega = \sqrt{E[(r_p - r_b)^2]}$  where  $r_p - r_b$  = the active return (i.e., the difference between the portfolio return and the benchmark return). This formula simplifies to:  $TE = \omega = \sqrt{(\sigma_p^2 + \sigma_b^2 - 2\beta\sigma_b^2)}$  where  $\sigma_p^2$  = portfolio variance;  $\sigma_b^2$  = benchmark variance; and  $\beta$  = Historical beta

**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	3.06	2.46	7.84	0.19	N/A	N/A	14	\$665.60	\$771.66

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

- 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, 2017. 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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	1.31	0.74	10.36	N/A	N/A	N/A	8	\$106.06	\$771.66

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

- 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, 2017. 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.
- 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.
- The SMID Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small- to mid-capitalization companies with sustainable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a three-to five-year investment horizon. The composite was created October 2016. The firm's list of composite descriptions is available upon request.
- 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.
- 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.
- 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.
- 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.
- 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.