Market Review

Much of modern finance theory depends upon the simple proposition that there is no such thing as a free lunch. However, in practice, when central banks lower the cost of capital to near or below zero to stimulate the real economy, there are unintended consequences in the financial economy that give rise to significant investment opportunities. The unprecedented pace at which global yields are turning negative has been a bold experiment in central bank manipulation of the cost of capital. Remarkably, fixed income analysts estimate that roughly 25% of global debt is trading at a negative yield, including 75-85% of outstanding Bunds and Japanese Government Bonds. So, money is not just ‘free,’ but the lender actually pays the borrower! Adopted to combat stagnant growth and heightened deflation expectations, negative interest rates have instead become self-fulfilling by reinforcing structurally low growth prospects through an impaired banking system and depressing long-term inflation expectations. Here in the U.S., Federal Reserve policy makers shifted their stance during Q319, taking out “insurance” against a nascent economic slowdown by prophylactically enacting two 25 basis point rate cuts that brought short-term interest rates down to 1.75-2.0%. A third move is widely anticipated this quarter, with the possibility of more to follow in 2020.

As the U.S. edges back to the zero-policy rate boundary, like it did during the Great Financial Crisis, capital becomes misallocated. Amid mounting macroeconomic uncertainty and ample, low-cost capital, risk-adverse equity investors have flocked into a handful of popular stocks, driving their valuations to extreme levels. This market inefficiency can be seen in many ways including the extraordinary behavior of momentum stocks with investors chasing recent performance, the growing cost of high-priced stocks, and the over-valuation of so-called ‘safe’ stable stocks.

“Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, one by one.” (Charles MacKay, Extraordinary Popular Delusions and the Madness of Crowds) Investor herding is apparent, as equity price momentum has become a powerful performance factor. Bank of America analysts estimate that shares with the fastest price appreciation over the past 12 months are trading at valuations that are almost 25% higher than normal. Indeed, momentum forces in investors’ desperate search for returns have distorted the allocation of equity capital across the world. Since the beginning of the year, quantitative analysts at AB Bernstein have observed that cheaply priced stocks are getting cheaper as expensive stocks have gotten extremely expensive. Using price-to-book value on an equally weighted basis, they calculate that the dispersion between the highest decile and the lowest decile of the global equity universe has spiked to levels that are over three standard deviations from the mean over the past 45 years. In other words, investors’ desire for a small set of favored momentum stocks was stronger only during the brief heights of the internet bubble.

Equity markets in the third quarter continued to juggle trade concerns and monetary policy perceptions, while adding a few new headline uncertainties, to prompt frequent price reversals and meaningful disparity between equity indexes and sectors, culminating in modest gains for the broad U.S. equity market. For the most part, July was a continuation of the first half of the year—nearly all U.S. indexes were positive, large cap and growth stocks were the leaders (the best index being the Russell 1000 Growth +2.26%), and the Fed cut rates as expected at month end. August began with U.S. trade tariff escalation and China’s retaliation, rebounding global recession fears, and the second yield curve inversion of the year, all causing investors to move toward safe haven assets and sectors. Value and growth differentials were narrow and small cap stocks were hit the hardest (Russell 1000 down 1.8%, Russell 2000 down 4.9%).

August news of weakness in exports and a contraction in manufacturing for the first time since 2016 gave way to favorable stats in September on consumer strength and unemployment numbers that were the lowest in 50 years. Equity markets advanced, with particular emphasis in the classic value sectors. There was a two-day period mid-month when factors were the driver of a notable sell-off in momentum stocks and strength in value stocks. The noise of U.S. politics elevated to a thunderclap with the changing fortunes of contenders on the democratic side, and concerns about the impact of impeachment inquiries on the President. The month closed with the second Fed rate cut in seven weeks.

The main theme for the year has been slowing global economies. While the U.S. has held up better than most, economists expect our GDP growth to decelerate from 2.9% in 2018 to 2.3% in 2019 and 1.7% in 2020. Ten-year

Treasury yields have declined from 3.2% to 1.7% in the last twelve months. While we all recognize that valuations are stretched in general, it does not feel like the Japan bubble of 1990. With that said, there are some big picture concepts worth noting:

- Bernstein published a report in September identifying that "investors are more out of the stock market than ever" and that for the last 12 months "the outflow from stocks and inflow into bonds has been the largest in history." This is unusual for a stock market that is up over 20% year to date.
- Both U.S. stocks and U.S. long bonds are up around 20% for the year. We believe parallel strength of this magnitude is *very* rare and would not have been considered possible by most forecasters at the beginning of the year.
- While the growth-value differential does not feel as extreme as 1999, according to most studies the overvaluation of growth relative to value is near, or even exceeding, New Economy levels. In an uncertain world without much growth, investors have been willing to pay increasing amounts for assets that transmit security. Bonds have been one solution. So have momentum stocks, mainly technology, that *promise* future growth, in some cases without much concern for the viability of business models or profitability.
- Negative bond yields. Globally, the amounts invested in, and the five-year span of this phenomena, could be termed a serious bubble. Whether you buy into the rationale that negative yields incentivize investment or not, it is difficult to argue that it will be harder for countries to get out of this policy trap than it was to get in.
- Of course, we are keen to see a reversal of the leadership by growth stocks, and it signals the message we have articulated in the past few letters. However, a signal is a long way from a confirmation. At this point, we cannot tell if the value rebound in September was simply based on the economics of a few key value sectors, a default victory from weakness in Technology (Tech) and Health Care, the beginning of a more analytic mindset regarding business fundamentals, or conversely, computer-driven factor trading which deliberately disregards fundamentals.

Russell Index Returns—*As of September 30, 2019*

	Quarter to Date	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	-2.4	14.2	-8.9	8.2	8.2	11.2
Russell 2000 Value Index	-0.6	12.8	-8.3	6.5	7.2	10.1
Russell 2000 Growth Index	-4.2	15.3	-9.6	9.8	9.1	12.3
Russell 2500 Index	-1.3	17.7	-4.0	9.5	8.6	12.2
Russell 2500 Value Index	0.1	15.4	-4.4	6.9	7.0	11.0
Russell 2500 Growth Index	-3.2	20.0	-4.1	12.3	10.2	13.5
Russell Mid Cap Index	0.5	21.9	3.2	10.7	9.1	13.1
Russell 1000 Index	1.4	20.5	3.9	13.2	10.6	13.2

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

Small- and Mid-Cap Market Review

There was a linear preference for larger cap stocks during the third quarter with the Russell 1000 up 1.4%, the Russell 2500 down 1.3%, and the Russell 2000 down 2.4%. Small caps underperformed large caps in July and August and were relatively even in September.

In our small-cap corner of the world, value was a clear winner for the quarter. The spread between the Russell 2000 Value and Growth was approximately 3.6% (-0.6 vs. -4.2%), and the Russell 2500 Value/Growth spread was 3% (0.1% vs. -3.2%).

Sector results were disparate during the quarter. In the Russell 2000 Value, Energy was -21.0% and Health Care was -7.9%, while Real Estate, Consumer Discretionary, Tech, Consumer Staples, and Utilities were all up between 4% and 6%. Financials, the largest Russell 2000 Value sector, was essentially flat for the quarter. This disparity has been consistent for all of 2019 as Energy year to date is -14% relative to 28% for Tech and 25% for Real Estate.

The Russell 2500 Value displayed similar results. Energy and Health Care were the laggards, -17.5% and -9.8%, respectively. Conversely, Real Estate, Utilities, the Consumer stocks, Financials, and Tech were all positive. Energy is the only sector that is negative year to date for 2019 (-15.3%).

Portfolio Strategy and Key Exposures

We are pleased for our clients at the absolute returns the portfolios have generated this year: 15.9% gross (15.4% net) for our Small Cap Value strategy and 20.1% gross (19.7% net) for our SMID Cap Value. On a relative basis, our Small and SMID Cap Value strategies outperformed our benchmarks (the Russell 2000 Value Index and the Russell 2500 Value Index, respectively) for the quarter (0.6%in Small Cap and 3.0% in SMID) and the year (3.1% in Small Cap and 4.7% in SMID). Yet we still have not fully recovered from Q4 of last year, and our exposure in the Consumer Discretionary sector continues to be a major detractor over the last twelve months.

In Small Cap Value for the quarter our returns were stronger than the Russell 2000 Value Index in 7 of 11 sectors; however, there was some underperformance in Financials due to the impact of low rates and resulting net interest margin pressure for the banks. In Consumer Discretionary, we had some favorable fundamental and performance results with The Michaels Companies, Inc. (our largest position in the sector) and a smaller position in Capri Holdings Ltd., yet Ascena Retail Group, Inc. had a meaningful negative impact. Looking at sector allocations, most being favorable, our typically perpetual underweights to Utilities and Real Estate were detractors as both had good results for the quarter and the year. For the year to date period, we had stronger returns than the Russell 2000 Value Index in 8 of the 11 sectors, with favorable results in Tech (Diebold Nixdorf, Inc.) almost completely offsetting our negative results in the Consumer Discretionary sector. In addition, our stock selection drove what we believe to be meaningful outperformance relative to the Russell 2000 Value Index in the Industrial and Health Care sectors.

The positive relative returns in SMID Cap Value for the quarter were primarily a result of our stock selection in the Tech sector, mainly due to Diebold, and further enhanced by our security selection within the Consumer Discretionary sector, primarily due to Michaels. Financials was a detractor, while Health Care and Industrials were positive contributors.

Our overall positioning in both portfolios has remained consistent during the quarter and for the most part throughout the year. As usual, we remain highly selective in sectors such as Tech and Industrials where we believe most of our holdings are not as vulnerable to the business cycle as is the case for most companies in the broad sectors. We recognize our Financials holdings were hurt based on a somewhat surprising interest rate drop, which pressures net interest margins. Energy is particularly troubling, as we believe the service sector is seriously unloved at this point. We thought that the broad sector was pricing oil well below current levels. The drone strike in Saudi Arabia that disabled approximately 5% of the world's oil production generated an immediate spike in the price of oil, only to quickly return to prior levels.

Small Cap Value Equity Performance—*Through September 30, 2019*

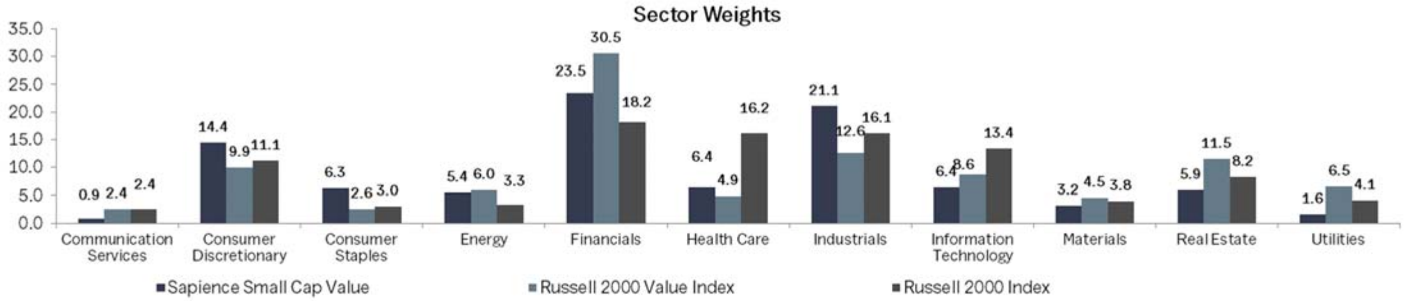
	Quarter to Date	Year to Date	1 Year	Inception to Date
Sapience SCV Equity Composite (Gross)	0.1%	15.9%	-12.2%	4.3%
Sapience SCV Equity Composite (Net)	-0.1%	15.4%	-12.7%	3.7%
Russell 2000 Value Index	-0.6%	12.8 %	-8.2%	6.5%
Russell 2000 Index	-2.4%	14.2%	-8.9%	8.2%

Sources: Advent Geneva, Russell Investments.
Inception Date: October 1, 2016
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 September 30, 2019*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	28.0%
Active Share [1] (relative to the Russell 2000 Value Index)	96.0%
Tracking Error [2]	6.1
Number of Buys[3]	6
Numbers of Sells[3]	7

[1 and 2] Please see disclosures for calculation
[3] 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 third quarter.

Top and Bottom Contributors
Third Quarter 2019

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Diebold Nixdorf, Inc.	Forum Energy Technologies, Inc.
The Michaels Companies, Inc.	Ascena Retail Group, Inc.
e.l.f. Beauty, Inc.	Whiting Petroleum Corp.
Capri Holdings Ltd.	Altra Industrial Motion Corp.
Ritchie Bros. Auctioneers Inc.	Cadence Bancorporation

Diebold Nixdorf, Inc.
For Diebold Nixdorf, Inc.'s second quarter 2019 results, the company reported better than expected revenues, profitability, and improved cash flow versus the prior year. In addition, Diebold successfully refinanced its term loan (was set to mature in December 2020) and its management team continues to deliver steady progress on its "DN Now" cost initiatives.

The Michaels Companies, Inc.
The Michaels Companies, Inc. posted positive comps, +0.3% versus expectation of -1% and better than expected profitability for its second quarter of fiscal year 2019. Furthermore, initiatives that have mitigated a majority of the 2019 China tariffs were positively received by investors. These combined factors led to a significant recovery in the company's stock price from what we believe was an oversold level.

e.l.f. Beauty, Inc.
e.l.f. Beauty, Inc. posted revenues of +1% versus an expectation of -7% as well as better than expected earnings for its fiscal Q1 ending June 30, 2019. During its earnings call, management moderately increased annual guidance, which investors perceived as a conservative raise. The company continues to make progress in its digital marketing initiatives.

Capri Holdings Ltd.
Shares of Capri Holdings Ltd. have advanced since our initial investment during the quarter, as it quickly recovered from what we believe were oversold levels. For its fiscal Q1 ending June 30, 2019, Capri posted better than expected gross margins, tighter expense control in its Michael Kors (MK) brand, and lower dilution from Versace. Fiscal year 2020 sales guidance was reduced slightly due to weakness in the MK brand in the North America Wholesale channel; however, the EPS guidance was maintained despite headwinds from tariffs and foreign exchange. In addition, the company announced an additional $500 million share buyback authorization.

Ritchie Bros. Auctioneers Inc.

Shares of Ritchie Bros. Auctioneers Inc.'s shares advanced meaningfully during the quarter as the company delivered solid results across the board, exceeding consensus expectations in revenues and earnings. Management commented that they are starting to see equipment supply loosen, which is a positive development for the company.

Forum Energy Technologies, Inc.

There was no fundamental reason for weakness in Forum Energy Technologies, Inc.'s stock price. We believe the underperformance is attributed to weakness in oil markets and investor apathy towards the Oil Service industry. Forum is a self-help story as the company is generating free cash flow by reducing their inventory and cutting costs to reduce its debt burden. While Forum has been impacted by near-term headwinds in their North American Completions business, there are green shoots emerging in their International land and offshore segments.

Ascena Retail Group, Inc.

Ascena Retail Group, Inc. continued to underperform in the third quarter after the company reported weak results for its fiscal Q3 2019 in June. Underperformance persisted for two reason. First, there was a vacuum of information and results for fiscal Q4 2019 were not reported until the first week of October. Second, tariff-related uncertainties created an overhang in the company's stock price as the upcoming List 4 would directly impact the apparel category. In early October, Ascena posted in-line to slightly better results for its fiscal Q4 2019. More importantly, the company provided clarity on the closure of its Dressbarn chain (to be completed by December) and discussed its ample liquidity, including over $300 million of cash. As we discussed in last quarter's commentary, Ascena has 18-24 months to improve performance and sell one or more of its divisions to reduce debt in order to refinance its existing term loan that matures in August 2022.

Whiting Petroleum Corp.

During the quarter, Whiting Petroleum Corp. posted a poor quarter with weak results. The company missed their oil production targets for the third quarter in a row and capital expenditures came in higher than expectations. Whiting's management team articulated a myriad of reasons for the miss and also communicated a reduced guidance for the rest of the year. We ultimately exited our position in Whiting as we lost faith in the managements' ability to execute.

Altra Industrial Motion Corp.

Altra Industrial Motion Corp. reported a weaker than expected second quarter and lowered guidance for 2019. The legacy Altra business performed well and grew organically, but the recently acquired Automation and Specialty (A&S) business declined due to weakness in automation and heavy duty trucks. As a short cycle industrial supplier, Altra was impacted by the broad industrial slowdown that began earlier in the year. The heavy-duty truck slowdown was expected, but came earlier than anticipated and was amplified by the loss of a Chinese customer. The company's stock price declined on the reduction to guidance and was also impacted by the higher leverage the company took on to complete the A&S acquisition. Despite the setback, Altra is generating an EBITDA margin above 20% and should deliver free cash flow near $200 million to pay down debt.

Cadence Bancorporation

Houston-based Cadence Bancorporation reported disappointing second quarter operating results. On credit quality, the bank charged-off four major loans, added to its non-performing loans, and increased its criticized and troubled assets. The bank's 24 basis point drop in net interest margins and forward guidance for further declines was much greater than management had led investors to believe during its May 2019 investor day. Finally, flat loan growth and 3% expense growth were substantially out-of-line with both guidance and peer bank outcomes. This array of issues undercut our confidence in the bank's management team and weakened our investment thesis; therefore, we exited the position during the quarter.

SMID Cap Value Equity Performance— *Through September 30, 2019*

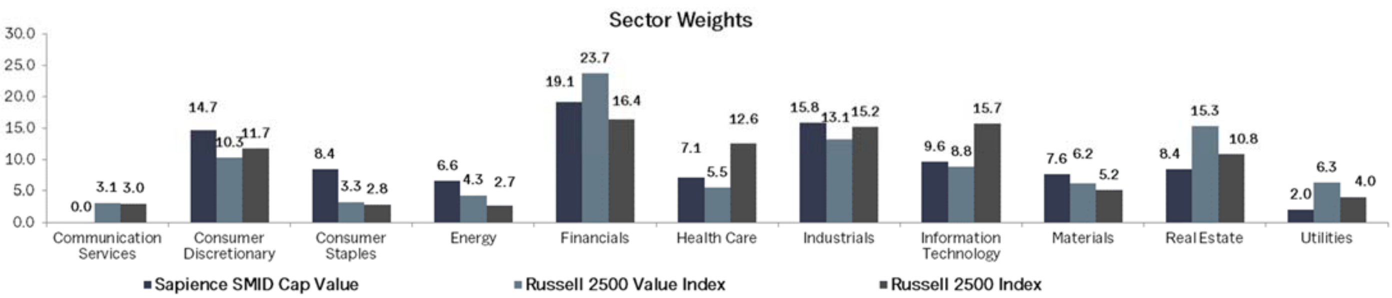
	Quarter to Date	Year to Date	1 Year	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	3.1%	20.1%	-6.6%	**3.4%**
Sapience SMID Cap Value Equity Composite (Net)	3.0%	19.7%	-7.2%	**2.8%**
Russell 2500 Value Index	0.1%	15.4%	-4.4%	**6.9%**
Russell 2500 Index	-1.3%	17.7%	-4.0%	**9.5%**

Sources: Advent Geneva, Russell Investments.
Inception Date: October 1, 2016
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 September 30, 2019*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	28.6%
Active Share [1] (relative to the Russell 2500 Value Index)	95.6%
Tracking Error [2]	6.3
Number of Buys[3]	5
Number of Sells[3]	2

[1 and 2] Please see disclosures for calculation
[3] 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 third quarter. Diebold Nixdorf, Inc., The Michaels Companies, Inc., and Forum Energy Technologies, 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
Third Quarter 2019

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Diebold Nixdorf, Inc.	Forum Energy Technologies, Inc.
The Michaels Companies, Inc.	Diamondback Energy, Inc.
LKQ Corp.	The Bank of N.T. Butterfield & Son Ltd.
US Foods Holding Corp.	Wyndham Hotels & Resorts, Inc.
Stericycle, Inc.	Samsonite International S.A. ADR

LKQ Corp.
For the second quarter 2019, LKQ Corp. posted results that were slightly ahead of low expectations. These results were enhanced by favorable results in North America while simultaneously moderately tempered by languishing European operations. Subsequent to the earnings release, LKQ's stock price received a bigger boost as the company replaced its leadership in Europe and held an investor call to outline a clear strategy to improve margins in Europe through improved focus on integration and cost efficiencies.

US Foods Holding Corp.
US Foods Holding Corp. reported better than expected revenues and independent restaurant case volume growth. In addition, after undergoing a Federal Trade Commission review and receiving clearance with the agreement that US Foods would complete a few manageable divestitures, the company closed on its SGA Food Group acquisition. These two factors benefited US Foods' stock price performance during the quarter.

Stericycle, Inc.
During the quarter, Stericycle, Inc. reported revenue and profitability below previous guidance and reduced fiscal 2019 guidance. These results were primarily due to an abrupt decline in the price of sorted office paper. Despite this revised guidance, the company's stock price slightly outperformed during the quarter. It appears investors were willing to give Stericycle's new management team a little leeway as they are in the early innings of executing their strategy for improving revenue initiatives and ERP implementation for cost efficiencies.

Diamondback Energy, Inc.
Shares of Diamondback Energy, Inc. declined absent any company specific factors. Continued volatility in oil markets and investor apathy towards the Energy sector in general, however, created a headwind for the company's stock price. In terms of its assets, scale, execution, and balance sheet, Diamondback remains the premier E&P company in the space. It is the only company in its peer group that can grow high-double digit oil production at the current strip price (around $55) while also maintaining a healthy free cash flow. Additionally, Diamondback announced a $2 billion share buyback that should be completed over the next two years. We believe their ownership stakes in Viper Energy Partners LP and Rattler Midstream Partners further add to their underlying intrinsic value.

The Bank of N.T. Butterfield & Son Ltd.
The Bank of N.T. Butterfield & Son Ltd. is a Bermuda-based provider of specialized international financial services. Operating with a loan-to-deposit ratio of just 41%, this deposit rich bank has a highly asset sensitive balance sheet so declining short-term interest rates represent a headwind to net interest income growth. N.T. Butterfield's story has evolved towards greater focus on capital deployment with several recent accretive acquisitions and expense controls in an effort to mitigate the widely anticipated impact of net interest margin (NIM) compression. Even accounting for a lower NIM, the company still generates top-decile profitability with an expected ROA in 2019 of approximately 1.7% and a ROTCE exceeding 26%. N.T. Butterfield's shares trade below peers on both a P/E and P/TBV basis despite having a strong competitive position in its markets, a diversified and above-average level of non-interest income, solid credit quality, an attractive core deposit base, a low effective tax rate, and robust capital ratios. Over the medium term, the bank's excess capital and ongoing capital generation should both grow BV and support shareholder friendly capital return strategies.

Wyndham Hotels & Resorts, Inc.
Shares of Wyndham Hotels & Resorts, Inc. declined during the third quarter as the company posted slightly weaker revenues but in-line EBITDA for the second quarter and commented on pockets of weakness in the La Quinta brand. The company's management increased its EPS/EBITDA guidance, while reducing its annual Revpar guidance towards the lower end because of lower cost reimbursement revenues. These cost reimbursement revenues are primarily related to Wyndham's contract with one customer who is a La Quinta franchisee. We believe investors have become overly concerned with this issue given this customer's contribution to overall revenues is not material. Subsequent to the earnings release and an approximate 15% decline in the share price, Wyndham boosted its share buyback by $300 million.

Samsonite International S.A. ADR
Samsonite International S.A.'s stock price continued to underperform during the third quarter due to the ongoing news flow of the U.S.-China trade tensions. Despite the negative impact of the 25% tariffs, Samsonite's management posted improved results in Q2 versus Q1 due to the implementation of a 12% price increase and sales growth (in constant currency) in regions other than North America, especially in the Tumi brand in Asia and Latin America.

Outlook

The shallow economic recovery has motivated investors to "pay up" for the promise of scarce, future earnings growth. At the trough of the Great Financial Crisis, the cheapest quintile of the largest 1,500 U.S. equities (ranked by market capitalization) traded on a P/E of 6x, while the highest quantile bottomed at 29x. Today, a decade later, those P/E figures are 8x for the bottom quintile and more than 80x for the top quintile. Setting aside the sluggish economic environment, to justify such elevated valuations, top-quintile companies must compound outsized future earnings growth that remarkably few companies have ever managed to achieve.

Uncomfortable with these divergences, many investors have sought the relative safety of more defensive stocks—stocks that are stable, at least as measured by the so-called "low-volatility" investment factor. BlackRock's iShares division conveniently offers an ETF of stocks "that, in the aggregate, have lower volatility characteristics relative to the broader U.S. equity market." As of early October 2019, iShares reports that this passive fund has a P/E of 26x, equal to the P/E of BlackRock's Growth factor product. In contrast, their Value factor fund has a P/E of 11.5x. The year-to-date gain of 24% in the low-vol ETF is the best performance among these three products. In their desire for safety, investors operating in an environment of chronic uncertainty and cheap capital have broadly ignored both earnings growth and valuation. JP Morgan quantitative analysts concluded in a July report that “The bubble of low volatility stocks vs. value stocks is now more significant than any relative valuation bubble the equity market [has] experienced in modern history.”

It is tempting to speculate on how today’s equity valuation anomalies will eventually resolve themselves. With a patient, long-term investment focus, we are reminded of economist Herb Stein’s Law: “If something cannot go on forever, it will stop.” We remain acutely aware that starting points are crucial to compounding positive long-term returns so chasing today’s investment fads is a fool’s game. As value investors, we chose stocks whose long-term earnings potential is not widely recognized and seek to buy them when investor pessimism is fully reflected in valuations. We believe the current market offers us a rare, significant investment opportunity to buy several good businesses at a deep discount.

We recognize the economic slowdown but do not believe that we are at the cusp of a deep recession. We believe our portfolio to be well-positioned for either a partial or a full tilt shift towards value. Though we have exposure to a few deeply discounted businesses today relative to the perceived “safe” and momentum companies, we have been conscious to own businesses that are fundamentally sound and have drivers in place to close the valuation gap with their intrinsic value.

We recognize the two-fold challenges today for a value investor like us: the economy has evolved such that there are more value traps than at any time in our careers. We have to resist being seduced by significant discounts appearing in businesses that do not have the ability to sustain the current returns. In addition, the technical and quantitative aspects of this market will cause a few compelling investment opportunities to underperform over the short term, enough to discourage even experienced value investors like us. This is the test of discipline—to maintain conviction when we believe our investment thesis and valuations are correct.

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.

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

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.

Sapience is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Sapience, including our investment strategies, fees and objectives can be found in our ADV Part 2, which is available upon request at info@sapienceinv.com.

[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: $TE = \omega = \sqrt{E[(r_p - r_b)^2]}$ 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 σ_p^2 = portfolio variance; σ_b^2 = benchmark variance; and β = Historical beta

Russell 1000 Index: 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 1000 represents approximately 92% of the U.S. market.

Russell Mid Cap Growth Index: The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2500 Growth Index: 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.

Russell 2000 Growth Index: The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

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
2018	-17.33	-17.85	-12.86	0.17	N/A	N/A	14	$513.31	$647.68

*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, 2018. 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	1.31	0.74	10.36	N/A	N/A	N/A	8	$106.06	$771.66
2018	-17.44	-17.94	-12.36	0.25	N/A	N/A	10	$134.36	$647.68

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

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2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The SMID Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small- to mid-capitalization companies with 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.
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 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. 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.