SAPIENCE
INVESTMENTS

Portfolio Review
Fourth Quarter 2019

Market Review

"At this point in the long expansion, I see the glass as much more than half full."
–Federal Reserve Chairman Jerome Powell (December 11, 2019)

Happy Last Year! The comparison between stock market results in 2018 and 2019 was a 180-degree shift. The 31.5% for the S&P 500 is the best calendar year return since 2013 (where returns were 32.4% that year). Though we can sift through the various factors for the turnaround, the change of heart at the Fed toward accommodation seems to be the main reason—2019 returns were pure multiple expansion.

For most of 2019, the global economic and financial environment was dominated by perceptions regarding U.S. trade policy. Uncertainty over if, when, and how the trade war between the U.S. and China would be resolved was the central question for investors. Prolonged trade conflict slowed both U.S. and world economic activity as the absence of an agreement might tip the decade long ongoing U.S. expansion into a full-fledged recession. In response, the U.S. Federal Reserve halted and subsequently partially reversed its campaign to withdraw the extraordinarily accommodative monetary policy adopted after the Great Financial Crisis. Other major central banks have followed suit and pushed additional liquidity into their markets as well.

U.S. stocks, as measured by the S&P 500 Index, were up in 10 of the past 12 months. Each of the four quarters were positive led by the first quarter, which was up 13.7%. The fourth quarter return was just over 9%, with consistency of performance in each month. Hints that a "Phase One" deal with China were imminent sparked a huge late-year 'risk-on' rally in equities and across most asset classes. Rarely have we seen a year when everything performs this well—global stocks, bonds, gold, energy, and commodities all had healthy advances in 2019—with sanguine inflation projections. That said, large cap growth stocks dominated, all S&P 500 sectors were up between 20% and 33%, except the two outliers—Energy 11.8% and Technology 50.3%, and U.S. equities beat EAFE by 9.5% and the Emerging Markets by 13.1%.

Using Russell metrics, growth beat value by approximately 10 percentage points for the year. Though the economy has expanded for 126 consecutive months, growth has been sluggish. As we so frequently hear, scarcity commands a higher price—the markets have pronounced that companies that can grow in this sluggish environment warrant a *big* premium.

With December bringing the decade to a close, a lookback reveals some interesting insights:

- U.S. stocks generated a highly impressive 13.6% annualized return during the last 10 years. It may raise some eyebrows to know that this past decade was only the fourth best over the past seven decades (50's: 19.3%, 80's: 17.3%, and 90's: 18.1%).
- Though institutions and most individuals like to think of themselves as long-term investors, planning for return expectations is fraught with uncertainty. A decade is a long time when you live it quarter to quarter. U.S. stock returns were negative in the first decade of the 2000s.
- The spread between U.S. stocks and foreign stocks (ACWI ex U.S. in $U.S.) was staggering, 13.6% versus 5.0%. Particularly when we consider this was a decade when so many institutions equalized domestic and international equity allocations. In addition to U.S. fundamentals being the strongest among major global economies, U.S. sectors have been more aligned with growth—Technology is 20% of the S&P 500 versus 9% in Europe and 7% in Japan.

Russell Index Returns—*As of December 31, 2019*

	Quarter to Date	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	9.9	25.5	25.5	8.6	8.2	11.8
Russell 2000 Value Index	8.5	22.4	22.4	4.8	7.0	10.6
Russell 2000 Growth Index	11.4	28.5	28.5	12.5	9.3	13.0
Russell 2500 Index	8.5	27.8	27.8	10.3	8.9	12.6
Russell 2500 Value Index	7.1	23.6	23.6	6.1	7.2	11.3
Russell 2500 Growth Index	10.6	32.7	32.7	15.2	10.8	14.0
Russell Mid Cap Index	7.1	30.5	30.5	12.1	9.3	13.2
Russell 1000 Index	9.0	31.4	31.4	15.1	11.5	13.5

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 perfect linear relationship favoring large caps over mid and small caps for the year 2019. Starting with the Russell Top 200, which returned 31.8%, down thru the Microcap index, returning 22.4%. The relevant indices for our strategies fell in line—the Russell 2000 Value generated 22.4% and the Russell 2500 Value was up 23.6%.

For the quarter, cap size was less of a factor as the Russell 1000, 2500, and 2000 Indexes all fell between 8% and 10%. By equity style, growth continued to dominate value in the fourth quarter, leading in all cap size segments by nearly 2% to 4%. Similar to the rebound we saw for value back in September, we saw favorable signs for value sectors and stocks in the small- and mid-cap arena as the year wound down. Sector returns for the quarter witnessed some outliers. Within the Russell 2000 and 2500 Value Indexes, most major sectors generated returns between 6% and 10%. The aforementioned increasing appetite for risk led to lower returns in the Utilities and Real Estate segments (including negative returns in Utilities), and outsized returns in Health Care and Technology (Russell 2500 Value: Health Care 12.5%, Technology 13.1%; Russell 2000 Value: Health Care 17.6% and Technology 21.1%).

For the year, the outliers were different but amplified. The Energy sector was down 7% to 8% in the Russell 2000 and 2500 Value Indexes, and Technology was up 46.9% in the Russell 2500 Value and 55.5% in the Russell 2000 Value.

Portfolio Strategy and Key Exposures

There is an old Yiddish curse, "may you be involved in a lawsuit when you are in the right". We believe that our absolute return and private equity mindset generates desirable risk-adjusted returns over time. We believe we are investing "in the right" even though this consensus jury of a market continues to increase prices in the momentum and low-volatility businesses to ever-loftier levels. A market that advances based solely on multiple expansion is simply not the environment that best rewards our approach. These are the times when sticking to our discipline is the most challenging and critical.

That being said, we are pleased to have generated double-digit absolute returns for our clients in 2019: 22.2% gross (21.4% net) in Small Cap and 28.2% gross (27.5% net) in SMID Cap. Relative performance in Small Cap was mixed but still acceptable given what we consider to be a challenging market—our Small Cap strategy was essentially flat with our benchmark, the Russell 2000 Value Index. Meanwhile, our SMID Cap strategy was 4.6% (gross of fees) above its benchmark, the Russell 2500 Value Index, for the year. The differential is easily identified—our SMID Cap portfolio, as policy, owns companies with higher market caps and with that, a somewhat higher-quality profile.

During the fourth quarter, we gave back some of our previously generated relative results. We fell short of our benchmark in Small Cap by 3.1% (gross of fees), and narrowly underperformed the SMID Cap bogey by 37 bps (gross of fees).

Though we have been active in opportunistically adding to and trimming position sizes throughout the year, our primary positioning has been constant:

- Of the three value habitats we focus on, we believe Sustainable Franchises[1] have been too dear from a price perspective, and therefore, have a lower weight within each strategy than is typical. However, we took advantage of the dislocation in the markets in the fourth quarter of 2018 and initiated investments in a few businesses that we believe to be high quality. There was a larger opportunity set of higher-quality businesses in the SMID portfolio than the Small Cap portfolio.

- Within our second tier, Value with Drivers, we have seen greater opportunity (Diebold Nixdorf, Inc. being a good example). In this tier, we have been very conscious of not "trying too hard" to find value, such that we force an optimistic viewpoint on weak businesses. Several of our investments have confirmed our confidence in their visions by divesting non-core segments and bringing on talented new senior executives, including CEOs. Stericycle, Inc., LKQ Corp., Beacon Roofing Supply, Inc., and Diebold are prime examples of businesses with new senior management teams.
- In both portfolios, the majority of our exposures are in three sectors: Industrials, where we are slightly overweight in SMID Cap and nearing a double weight in Small Cap; Financials, which is our absolute highest sector weight, but where we are slightly underweight each strategy's respective benchmark; and Consumer Discretionary, where we have maintained an overweight position. These sectors make up approximately 50% of the SMID portfolio and nearly 60% of the Small Cap strategy.
- Our Industrial holdings emphasize a group of businesses that are consciously less cyclical than the broader sector.
- In the Financial sector we own a diversified basket of investments (10 in SMID Cap, 13 in Small Cap), with an emphasis on sustainable franchises[1] along with a few special situations.
- In Consumer Discretionary, our exposure to select Specialty Retailers is our most contrarian position in the portfolios. In SMID, The Michaels Companies, Inc. is our sole Specialty Retail investment, and in Small Cap, we own two investments in this industry (Ascena Retail Group, Inc. and Michael's). This industry remains well out of favor in the market and we are also bearish on most retailers, however, we believe investors have overgeneralized and that can present select opportunities. We continue to own Michael's and Ascena for different reasons. Michael's is a high margin, high free cash flow generating arts and crafts retailer with stable sales and comparable sales (comps) that have been flat to down 2% the last couple of years (versus *negative* 8 to 10% for some department stores). With Private Equity firms Bain Capital and Blackstone owning about half of the equity and a new management team with expertise in digital/omni channel retailing, we are cautiously optimistic for Michael's prospects over the next 1 to 2 years. Ascena is a turnaround and has become a distressed investment at the current level. We like the changes Ascena's CEO, Gary Muto, and Chairwoman have made in the last 6 to 12 months—closing down their underperforming Dressbarn division and selling half of Maurice's at an attractive valuation. In addition, Ascena is open to selling one or two additional divisions (Justice and Plus segments) to simplify the business and reduce debt. The CEO delivered improved sales and margins in 2018 and did deliver better than expected margins in the most recent quarter while reducing inventory. If this management team is able to achieve even half of the targets they have outlined, we believe there is tremendous upside in this investment.
- We believe Technology is generally overpriced at this point and our exposures are limited to a few holdings. A couple of our investments (Diebold and Plantronics, Inc.) are considered to be out of favor by most investors; however, we believe we understand these businesses far better than the market.

Performance Impact

In our Small Cap strategy, the most significant laggard in the fourth quarter was the Technology sector as Diebold (our second-largest holding) and Plantronics both had negative returns. Diebold declined meaningfully in October concurrent with a short-term selloff in the high-yield markets, which we believe affected the company's stock. Subsequently, Diebold's stock price declined further after the company reported a strong third quarter but provided mixed commentary on its 2020 outlook. We added to the position after this decline. In December, Diebold's management team decided to provide an explicit financial guidance for 2020. This clarity led to a meaningful rebound in the company's stock price. Plantronics' stock declined based on delays in new product rollouts, which led to a significant earnings disappointment. We added to our position here as well. Consumer Discretionary has been our Achilles heel all year. In this sector, a steep decline in Party City Holdco Inc. neutralized bright spots such as El Pollo Loco Holdings, Inc., Despegar.com, Corp., and Ascena. We take full responsibility for Party City, as we failed to detect management's failure to execute. We ultimately sold the position during the quarter. In Consumer Staples, TreeHouse Foods, Inc. negatively impacted results as a short-term decline in orders led to management softening guidance.

We added value in the Financials sector as our Bank exposure was validated—the market is beginning to agree with our belief that the group is in much better shape than previously believed. Our underweights in both Utilities and Real Estate also added value as these were among the weakest-performing sectors in the Russell 2000 Value Index.

In our SMID Cap strategy, Financials were the primary source of value with particularly strong performance from The Bank of N.T. Butterfield & Son Ltd., First Republic Bank, and Zions Bancorporation. An underweight in Utilities was similarly favorable to this strategy as it was for our Small Cap portfolio. The Technology sector detracted value, primarily due to Plantronics. In Consumer Staples, Treehouse Foods had the same negative impact for this strategy as it did in the Small Cap portfolio. Conversely, Consumer Discretionary results were neutral in this portfolio as Party City was not an investment.

For the full year, in the SMID portfolio, strong results in Technology (Diebold was up over 300% for the year), Health Care, and Industrials outpaced our difficulties in Consumer Discretionary. In Small Cap, similar experience in Technology and Industrials along with contribution from Financials offset the Consumer Discretionary results. Additionally, our Energy exposure was hindered by poor results in a couple of investments in this sector.

Small Cap Value Equity Performance—*Through December 31, 2019*

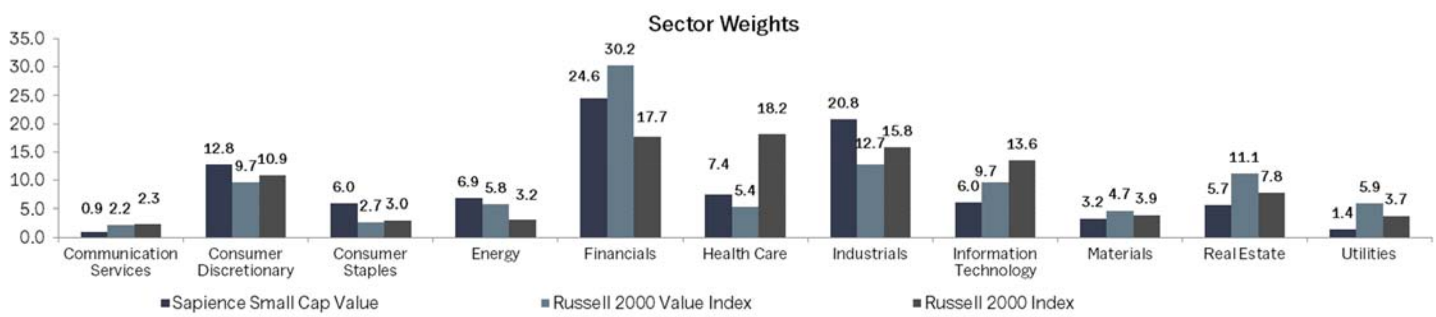
	Quarter to Date	1 Year	3 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	5.4%	22.2%	1.3%	5.7%
Sapience SCV Equity Composite (Net)	5.2%	21.4%	0.7%	5.1%
Russell 2000 Value Index	8.5%	22.4%	4.8%	8.7%
Russell 2000 Index	9.9%	25.5%	8.6%	10.8%

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 December31, 2019*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	26.6%
Active Share [2] (relative to the Russell 2000 Value Index)	96.1%
Tracking Error [3]	6.2
Number of Buys[4]	1
Numbers of Sells[4]	2

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



Sources: Russell Investments, FactSet

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 2019

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
The Bank of N.T. Butterfield & Son Ltd.	Party City Holdco Inc.
Stericycle, Inc.	The Michaels Companies, Inc.
WPX Energy, Inc.	Plantronics, Inc.
El Pollo Loco Holdings, Inc.	TreeHouse Foods, Inc.
FGL Holdings	KAR Auction Services, Inc.

The Bank of N.T. Butterfield & Son Ltd.
The Bank of N.T. Butterfield & Son Ltd. reported favorable core operating EPS in the third quarter of 2019 against the backdrop of a very difficult operating environment for this deposit-rich trust and estate bank. The bank's net interest margin (NIM) contracted by 68 bps, in part due to the acquisition of ABN AMRO (Channel Islands). N.T. Butterfield's fortunes were boosted this quarter as the U.S. yield curve steepened, which should work to stabilize the bank's NIM as it finds value enhancing ways to deploy its deposit surplus. Currently trading a 28% discount to peers on a forward PE basis, we do not believe N.T. Butterfield's shares adequately value the bank's strong competitive position in its markets, the diversified nature of its relatively high level of non-interest income, excellent credit quality, low-cost core deposit base, modest effective tax rate, and healthy capital ratios.

Stericycle, Inc.
Stericycle, Inc. reported better than expected profitability with lower revenue for its fiscal third quarter. It appears investors were able to look past the below-expectation revenue, which was related to weakness in sorted office paper prices and foreign exchange rates. More importantly, during the quarter, Stericycle laid out its top five priorities, including margin improvement and debt reduction. The company's management team plans to update these priorities with milestones in the coming quarters. In addition, Stericycle signed a new credit agreement that refinanced its obligations and pushed out some debt maturities. Investors took a positive view of these items in the fourth quarter of 2019.

WPX Energy, Inc.
Most recent acquisitions or mergers of equals in the E&P space have been met with a harsh reception from investors. However, this was not the case for WPX Energy, Inc. when it announced the acquisition of Felix Energy, a private equity E&P with assets in the Delaware Basin of Permian. Based on the company's stock price movement, it appears investors welcomed this transaction. We believe this is an attractive acquisition for WPX Energy for several reasons: it is neutral in terms of leverage and accretive on many metrics (free cash flow/share, returns, and margins); oil cuts for Felix are meaningfully higher than WPX Energy's legacy acreage; and it addresses the question of WPX Energy's insufficient inventory level. Moreover, we find the valuation to be compelling. WPX Energy estimates it is paying 3.5x 2020 EBITDA. Finally, the base case does not include any synergies; however, we believe there should be some synergies due to increased scale in purchasing and operations.

El Pollo Loco Holdings, Inc.
El Pollo Loco Holdings, Inc.'s stock jumped nearly 11% after the company reported better than expected comps and earnings for the third quarter. This was due to value combo promotions and the rollout of two new delivery partners. The transformation being undertaken by the company's new management team, including the new website launch and menu innovation, is just starting to show results. According to El Pollo Loco's management, comps were also trending higher at the beginning of the fourth quarter.

FGL Holdings
Insurer FGL Holdings is a mono-line retail annuity provider with a favorable earnings and return profile. The company is leveraged to the upturn in bond yields that occurred during the quarter, which increases the likelihood that it can achieve its portfolio yield target. In addition, two initiatives initiated by FGL Holdings' management team—to deepen its relationship with alternative investment managers and to expand its distribution network into banks and brokers—should fuel continued above-average EPS and BV growth in coming years. Surprisingly, despite better operating fundamentals, we believe FGL Holdings' shares still trade at a discount to BV.

Party City Holdco Inc.
Party City Holdco Inc. had lowered its annual guidance in the previous quarter, thus, investors had moderate expectations for third quarter results but higher expectations for the fourth quarter guidance. Several potential positive catalysts drove these expectations: the helium supply for balloons improving after several quarters of shortage, Halloween falling on a Thursday, easier comps due to weakness at Halloween the prior year, and several new movie releases that drive merchandise sales (Frozen 2, Lion King, Toy Story 4). Against this backdrop, Party City delivered disappointing results and exceptionally weak results for Halloween. Third quarter comps were -2.9% while Halloween comp sales were -4.9% and adjusted gross margin declined by 560 bps for the quarter. As a result, the company lowered its annual EBITDA guidance further by approximately 15% (after already reducing it earlier in the year). We ultimately decided to exit the investment, as we believe management has lost credibility in their ability to execute. Furthermore, we believe the elevated debt level will pose a refinancing risk in the medium term.

The Michaels Companies, Inc.
After having nearly doubled in the third quarter from its prior low point, The Michaels Companies, Inc.'s stock price declined earlier in the fourth calendar quarter due to disappointment that the company promoted their interim CEO and did not hire an outsider to fill the role. Subsequently, the company's stock price was flat to down due to weaker than expected fiscal third quarter results and guidance for its fiscal fourth quarter. In addition, Michaels announced an acquisition of select assets from its competitor AC Moore, currently in bankruptcy, for $58 million. We believe this is an attractive and opportunistic purchase by the company. Towards the end of the quarter, its stock price jumped as Michaels announced the surprise hiring of new CEO Ashley Buchanan. Mr. Buchanan was most recently the head of eCommerce at Walmart and held several roles with increasing responsibility over his 12 years with the firm, including the Chief Merchandising Officer at Sam's Club.

Plantronics, Inc.
Plantronics, Inc.'s stock price declined more than 30% after a material reduction in profitability guidance for the current fiscal year. The primary reasons for the shortfall were the delay in rolling out new video products and reducing existing inventory in the channel. After the quarterly report, Plantronics held an analyst day and discussed its roadmap for new video products that it plans to launch over the next year. While the product delay is highly disappointing, we believe the company's leadership position should allow it to recapture lost sales and return to much higher profitability in the next 1 to 2 years. We took advantage of this weakness and added to our existing investment during the quarter.

TreeHouse Foods, Inc.
TreeHouse Foods, Inc. reported sales and EBIT slightly below guidance due to weakness in orders in the latter part of the third quarter. We view this weakness as transitory as the company's new CEO is focused on improving manufacturing operations, simplifying the business, and transitioning the company to a more stable and profitable model with organic growth over the medium term.

KAR Auction Services, Inc.
KAR Auction Services, Inc. reported a mixed third quarter that pressured shares. While revenue grew above expectations, gross margin was meaningfully lower due to the revenue mix, resulting in earnings that were below expectations. Additionally, while the company continues to grow volumes in its TradeRev platform, the pace of growth will fall short of the original goal for 2019. As a result, KAR Auction will have to reduce customer incentives at TradeRev to keep losses near the targeted level. The company reduced its adjusted EBITDA and operating adjusted EPS guidance slightly due to the aforementioned factors. Although results were slightly disappointing, KAR Auction is taking steps to lower expenses at TradeRev, which we believe is being undervalued by investors. KAR Auction generates stable cash flows and is paying a healthy dividend yield of 3%.

SMID Cap Value Equity Performance—*Through December 31, 2019*

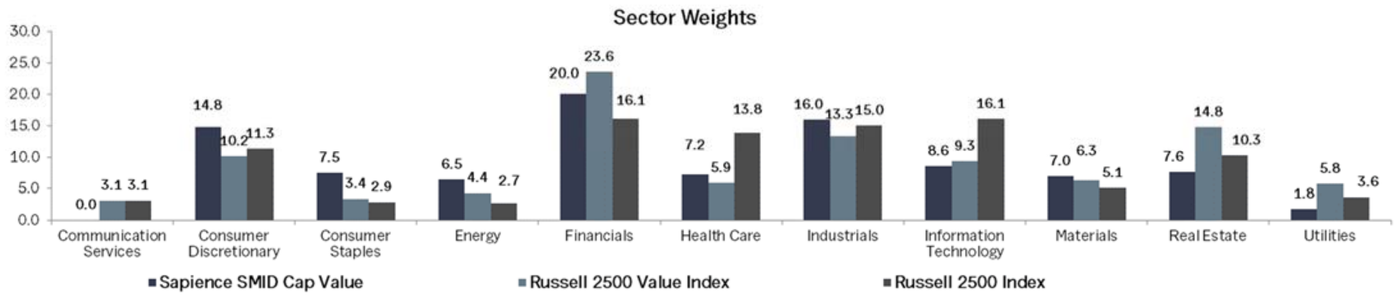
	Quarter to Date	1 Year	3 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	6.7%	28.2%	2.4%	5.2%
Sapience SMID Cap Value Equity Composite (Net)	6.6%	27.5%	1.8%	4.6%
Russell 2500 Value Index	7.1%	23.6%	6.1%	8.6%
Russell 2500 Index	8.5%	27.8%	10.3%	11.5%

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 December 31, 2019*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	28.5%
Active Share [2] (relative to the Russell 2500 Value Index)	95.6%
Tracking Error [3]	5.9
Number of Buys[4]	1
Number of Sells[4]	2

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



Sources: Russell Investments, FactSet.

SMID Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the fourth quarter. Stericycle, Inc., The Bank of N.T. Butterfield & Son Ltd., The Michaels Companies, Inc., Plantronics, Inc., TreeHouse Foods, Inc., and KAR Auction Services, 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 2019

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Stericycle, Inc.	The Michaels Companies, Inc.
Wyndham Hotels & Resorts, Inc.	Plantronics, Inc.
The Bank of N.T. Butterfield & Son Ltd.	TreeHouse Foods, Inc.
First Republic Bank	KAR Auction Services, Inc.
WestRock Co.	Beacon Roofing Supply, Inc.

Wyndham Hotels & Resorts, Inc.
Shares of Wyndham Hotels & Resorts, Inc. appreciated from what we believe to be an oversold level after the company reported a clean third quarter following a couple of mixed quarterly reports. The Revpar of -1% was in line with expectations, however, the EPS was better than expectations due to a higher level of share repurchases. The net room growth was up 3% due to 6% growth internationally. Revpar and EBITDA guidance for 2019 was minimally reduced.

First Republic Bank
During its annual capital markets day in November, California-headquartered First Republic Bank underscored the operational consistency and diversification of its business model. A high-quality bank, First Republic’s focus on private banking and wealth management in urban, coastal markets has yielded industry leading growth metrics with minimal incremental underwriting risk. We believe First Republic’s share premium valuation is well justified given the leading economic value creation that it can reliably generate.

WestRock Co.
The primary concern bedeviling paper-packaging companies was the decline in domestic containerboard prices in the first half of 2019 and the fear this would lead to further weakness in face of general economic uncertainty and a weak European export market. However, in the second half of 2019, U.S. domestic prices stabilized due to supply discipline among the top four players (that control approximately 75% of the North American market). Investors recognized this factor in the fourth quarter and WestRock Co.’s stock price recovered slightly. Longer term, several value drivers in our investment thesis remain: returns from strategic projects undertaken in the last two years, remaining synergies from the KapStone merger, and capital returns to shareholders. We believe these factors will be key to WestRock’s returns in the coming quarters.

Beacon Roofing Supply, Inc.
Beacon Roofing Supply, Inc. reported a disappointing quarter to end its fiscal year. Strong organic residential volume growth of 11.5% was more than offset by negative price/cost differential that pressured gross margin by 100 bps

year-over-year and drove a sizable earnings miss. Management deferred providing annual guidance to give the new CEO time to evaluate the impact of changes he is making to the company's strategy. Beacon expects gross margin pressures to continue near term as the industry goes into its slow period. Although the company generated good cash flow in the quarter, Beacon was not able to reduce its leverage for the full fiscal year, and thus, it remains elevated. The new CEO announced a plan to improve results at underperforming branches and shift focus to improving existing operations. While the results in fiscal year 2019 were disappointing, there is potential for significant improvement in earnings and free cash flow generation over the next 2 to 3 years.

Outlook

Unfolding trade policy and monetary developments have several implications for investors. First, easy monetary conditions that support economic activity favor a shift towards small- and mid-cap companies. These markets are more heavily tilted towards economically sensitive sectors, such as Financials and Industrials, so there is a higher likelihood of benefiting from reflationary trends. In addition, small- and mid-cap companies have a greater focus on the U.S. domestic economy than large-cap companies, so their fortunes are less impacted by the trade war and de-globalization.

Second, small- and mid-cap companies tend to be more highly leveraged than their large-cap peers. Therefore, a benign credit environment makes it easier for these companies to refinance debt. Furthermore, greater economic momentum boosts their revenue and earnings prospects making it easier for them to manage their debt. To be sure, many companies appear to be 'value traps', temporarily supported by favorable macroeconomic tailwinds. We are focused on finding unrecognized businesses that we believe are high quality with good management that can benefit in this environment and can sustain themselves in a lower GDP growth scenario.

Third, easier monetary conditions have pushed investors to take greater risk with their capital. In turn, valuations on a range of risk assets have risen to historically high levels. For instance, the Shiller P/E ratio on the S&P 500 currently stands at 30.4x, a figure that exceeds the level recorded before The Great Crash of 1929, and is itself bested only by the 2000 Dot-Com Bubble. While these lofty valuations are most pronounced in large cap stocks, small and mid cap stocks are also trading above historical norms, making it more difficult to identify good value investments. However, according to Bank of America strategists, the key difference is that small caps are at a 17-year valuation low in relation to large caps, suggesting that recent relative gains in the small and mid cap indexes may persist.

Finally, the valuation gap between 'growth' and 'value' styles has reached a new level of extreme divergence and conditions are set for a reversal. Earlier this year, JP Morgan strategists observed that "value is currently trading at the biggest discount ever, and offers the largest premium over the last 30 years"[5]. In a shallow, uncertain economic environment, like much of 2019, investors crowded into a small set of stocks that are exhibiting earnings growth, driving up their valuation relative to slower growing companies. With the advent of a broader economic backdrop, select stocks—so unloved over the past decade—offer a real opportunity for patient investors as this anomaly closes over time.

The consensus view is that the benign financial environment will continue in the coming year, however, a number of risks loom in the background. First, we are concerned that loose financial conditions may induce a systemically risky misallocation of capital across the economy. Second, inflationary risks are broadly underappreciated. Inflation across the world is currently below central bank targets. Near-term leading indicators suggest these benign conditions will persist into 2020. Nevertheless, tight labor markets, rampant protectionism, rising oil prices, and diminished productivity growth are four factors that could abruptly reverse this trend and upset the placid financial environment. Third, political developments will undoubtedly continue to inject uncertainty into the outlook and induce market volatility. Heightened political risk will likely dampen risk taking in both the real and financial economies, as businesspeople and investors await greater clarity on the outlook. As we select investments for your portfolio, we remain ever mindful of these risks.

The indexes have been difficult for active managers to beat over the past few years. The sluggish growth environment along with low rates and supportive monetary policy has caused a melt up in defensives, low volatility, and growth stocks. In the battle between the momentum and low volatility versus value teams, we hope our leadership comes from superior play rather than disasters for some of our counterparts. However, we believe many of these momentum and low volatility stock valuations are at nosebleed levels. Today, would we rather hold the Small/Mid Cap index at the current valuation or our portfolios? We believe that approximately 15 of our holdings offer meaningful upside over the next two years, and while the future is never certain, we see the tides beginning to shift.

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.

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] Sustainable Franchises: These are businesses with distinctive competencies, durable moats, financial strength, and favorable industry dynamics.

[2] 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

[3] 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

[5] Matthews, Chris. "Value stocks are trading at the steepest discount in history." *MarketWatch*, June 29, 2019.

Russell 2000 Index: The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Russell 2500 Index: The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership.

Russell 2000 Value Index: 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.

Russell 2500 Value Index: 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.

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.

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 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.

Russell Mid Cap Index: The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

Sapience Investments, LLC
Small Cap Value Equity Composite

As of December 31									
Year	Gross Returns (%)	Net Returns (%)	Russell 2000® Value Index (%)	Internal Dispersion (%)	Composite 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.

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 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.
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7. The fee schedule for Adviser's investment advisory services for the SMID Cap Value Equity Composite is 1.00% on the first $25 million, 0.90% on the next $25 million, 0.85% on the next $50 million, 0.80% on amounts over $100 million. Actual investment advisory fees incurred by clients may vary.
8. 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.