Market Review: Recalibration

"The market is a pendulum that forever swings between unsustainable optimism and unjustified pessimism."
~Howard Marks

Major U.S. equity indices started the quarter and ended the quarter near all-time highs, but the path between those dates was anything but smooth. Investors perceived soft business confidence and labor market readings in early July as a harbinger of an economic slowdown. That news triggered an almost -5% decline in the S&P 500 from the July 16th peak. Investors drove U.S. equities down -8.4% (from the peak) in response to a larger-than-expected increase in short rates by the Bank of Japan, which resulted in the chaotic unwinding of the so-called "JPY carry trade," whereby speculators had funded their long positions by borrowing JPY at low interest rates. Movement in the U.S. equity markets was at odds with the estimated +4.2% year over year EPS growth that S&P 500 companies posted in the third quarter (according to FactSet *Earnings Insight*) and generally upbeat forecasts for Q424 and fiscal year 2025. Yet company-specific news and a dovish signal from Fed Chair Powell helped push the market back to the quarter's highs by late August. In early September, a second disappointing labor market report from August pushed the Index down -4.2%. Finally, on September 18th, the Federal Reserve laid its cards on the table, delivering a dovish 50 bp "policy recalibration" rate cut—a move of this magnitude that had been widely discussed but not entirely discounted. This development set off an 'everything rally' as investors celebrated the advent of a new easing cycle.

What is remarkable about this volatile period is just how myopic investors have become. Even with the introduction of some arguably soft economic news, U.S. economic fundamentals remain on a solid footing. The FRB Atlanta GDPNow model-based estimate for Q3 real GDP is a robust, above-trend +2.9%, little changed from Q2's +3.0% real GDP growth. Many bearish narratives on the U.S. economy fail to account for the wealth effect that has flowed from extraordinary fiscal and monetary stimulus and asset inflation. The massive increase in stock market and housing wealth has sustained household spending, and the net creditor position of businesses largely blunted the aggregate impact of the Fed's over 500 bp increase in short rates in 2022-2023. To be sure, interest rate-sensitive sectors and highly leveraged companies are feeling the impact of higher interest rates. However, the decline in actual and expected inflation means that real interest rates (net of inflation) are uncomfortably high, so policymakers have sensibly begun a campaign to reduce short rates over the next six quarters.

A soft economic landing supported by an ease in financial conditions is positive for the corporate earnings outlook. Investor expectations are already high for fiscal year 2025. According to FactSet (before the Fed's decision), analysts were projecting EPS growth of +15.2% year over year and revenue growth of +5.9% year over year. Easier monetary policy makes that estimate more certain and arguably supports today's above-average valuation for the S&P 500. A second factor that could help business fundamentals would be the resolution of uncertainty surrounding November's elections since the path of fiscal and regulatory policy likely hinges on the outcome.

As always, the outlook has significant risks. First, the Fed has set out on an easing cycle before reaching its 2% inflation target. Easier financial conditions could keep economic activity above trend, perhaps stoking inflationary pressures. Second, U.S. fiscal deficits are unsustainably high, and political leaders have (so far) remained silent about the painful task ahead to address this issue. Government deficit spending has been a significant support for economic activity since the onset of the pandemic. Bond investors have taken an optimistic view on both issues, with 10-year Treasury yields down over 30 bps this quarter, reflecting continued confidence in the current direction taken by economic policymakers.

Russell Index Returns—*As of September 30, 2024*

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	9.3	11.2	26.8	1.8	9.4	8.8
Russell 2000 Value Index	10.2	9.2	25.9	3.8	9.3	8.2
Russell 2000 Growth Index	8.4	13.2	27.7	-0.4	8.8	9.0
Russell 2500 Index	8.8	11.3	26.2	3.5	10.4	9.5
Russell 2500 Value Index	9.6	11.3	26.6	6.1	10.0	8.5
Russell 2500 Growth Index	7.0	11.2	25.2	-0.8	9.8	10.0
Russell Mid Cap Index	9.2	14.6	29.3	5.8	11.3	10.2
Russell 1000 Index	6.1	21.2	35.7	10.8	15.6	13.1

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

Small- and Mid-Cap Market Review

Across the market cap spectrum, as measured by Russell, all Indices posted positive returns during the third quarter. The Small Cap Index outperformed both the broad market and the Large Cap Index with the Russell 2000 up 9.3%, the S&P 500 up 5.9%, and the Russell 1000 up 6.1%. The Russell 2000 generated nearly all of its positive results in July, returning +10.2%, while turning negative during August (-1.5%), and moderating in September—returning to positive territory (+0.7%). The Russell 2500 Index experienced a similar pattern of monthly returns (+7.4%, -0.3%, +1.5%, respectively). However, despite this quarter's outperformance, small caps continue to trail the larger caps year to date. For example, the Russell 2000 Index was up 11.2% year to date through September 30, 2024, while the Russell 1000 Index was up 21.2%. In a reversal from prior quarters, value outperformed growth. The Russell 2000 Value Index was ahead of the Russell 2000 Growth Index by 1.8% for the quarter. Similarly, the Russell 2500 Value Index outperformed its growth counterpart by 2.6%. For the year to date period ending September 30th, the Russell 2000 Value Index continued to lag its growth counterpart (+9.2% versus +13.2%), while the Russell 2500 Value narrowly outpaced the 2500 Growth (+11.3% versus +11.2%).

Performance across the major sectors in the Small Cap Indices were relatively homogenous during the quarter, with only the Energy sector diverging to deliver negative returns (declining 8.2% in both the Russell 2000 and the 2500). Financials was the best-performing major sector, returning between +15.1% and +13.5%, while minor sectors, like Communication Services, Real Estate, and Utilities generated +27.0%, +17.7%, and +13.3%, respectively, in the Russell 2000 Index, and +15.9%, +17.5%, and +14.4%, respectively, in the Russell 2500 Index.

For the one year ended September 30th, returns for small-cap stocks have been respectable at +26.8%, however, still lagging the Russell 1000 Large Cap Index, which was up +35.7%. Returns for the last three years have been anomalous for small caps relative to large caps. The Russell 2000 Value Index delivered +3.8% and the Russell 2000 Index +1.8% for the three-years ended September 30, 2024 (annualized) versus +10.8% for the Russell 1000 Index. Going by history, small caps have emerged from long periods of similar low performance to periods with strong above-average returns. We could be approaching such a tipping point.

Performance Impact

During the third quarter, both our strategies lagged their respective benchmarks. Our Small Cap Value strategy returned 6.0% gross (5.7% net) and our SMID Cap Value strategy returned 5.8% gross (5.6% net). On a relative basis, our Small and SMID Cap Value strategies underperformed our benchmarks (the Russell 2000 Value Index and the Russell 2500 Value Index, respectively) for the quarter by 4.2% in Small Cap and 3.8% in SMID. Active managers within small-cap value had a difficult quarter as lower-quality companies and sectors that are bond proxies—REITS, Utilities, and Staples—outperformed. Per Jeffferies, only 14% of active small-cap value mangers outperformed the Russell 2000 Value benchmark during the quarter and most of the underperformance was concentrated in July. Year to date ended September 30th, roughly half the active small-cap value mangers are outperforming the value benchmark.

In reviewing our Small Cap Value portfolio's third quarter attribution, we underperformed in 8 of the 11 sectors and stock selection drove a majority of the performance. More specifically, security selection in Consumer Discretionary, Health Care, and Financials hindered performance. Six Flags Entertainment Corp. was the primary detractor in Consumer Discretionary, while Integra LifeSciences Holdings Corp. subtracted the most value in Health Care. In Financials, EVERTEC, Inc. was the weakest performer. Shares of EVERTEC, the Latin American payments business, underperformed this quarter despite reporting solid second quarter earnings that were well ahead of expectations as total revenue increased +27% year over year and margins improved. Buoyant economic conditions in Puerto Rico helped push revenue growth across almost all key segments: Merchant Services (up by +10%), Payments Processing PR and Caribbean (up by +7%), Payments Processing LatAm (up by +91%), and Business Solutions (up by +9%). However, investors were disappointed that EVERTEC's recent acquisition, Sinqia in Brazil, remains a work in progress. The newly procured division's results were broadly in line with the first quarter, but analysts had anticipated that revenue and cost synergies would begin to show up this quarter. Management continues to believe that Sinqia's growth will accelerate in second half and fiscal year 2025, and they also reiterated fiscal year 2024 revenue guidance and raised this year's EPS guidance by +5%. Conversely, our stock selection in Energy benefited performance in our Small Cap strategy with Viper Energy, Inc. adding value to the sector.

In our SMID Cap portfolio, the relative underperformance was also nearly all stock selection. More specifically, security selection in Health Care, Consumer Discretionary, Tech, and Communication Services. Integra LifeSciences Holdings Corp. detracted value from the Health Care Sector, while Six Flags Entertainment Corp. subtracted value from Consumer Discretionary. Elastic N.V. was the primary detractor in the Tech sector, and our sole investment in the Communication Services sector, Liberty Latin America Ltd., lagged the sector during the period. Liberty Latin America reported a mixed quarter and pushed out the benefit of the AT&T wireless conversion in Puerto Rico to the fourth quarter of 2024. Meanwhile, on the positive side, stock selection in the Consumer Staples and Financials sectors partially enhanced value with TreeHouse Foods, Inc. and Glacier Bancorp, Inc. adding value.

Looking at the trailing one year ended September 30th and the first nine months of 2024, both our strategies delivered respectable absolute returns. Our Small Cap Value strategy delivered 23.5% gross (22.2 % net) and 10.6% gross (9.7% net) year to date while our SMID Cap strategy delivered 20.4% gross (19.2% net) and 9.5% gross (8.7% net) for the trailing one year period and year to date, respectively. On a relative basis, our Small Cap strategy outperformed our benchmark, the Russell 2000 Value Index, for the trailing nine months by +1.4%, and underperformed the benchmark on a trailing one-year basis by 2.4%. Our SMID Cap strategy underperformed the Russell 2500 Value Index by 1.7% year to date and by 6.2% on the trailing one-year basis. In Small-Cap, Energy and Consumer Staples enhanced both absolute and relative performance for both time periods. Meanwhile, security selection in the Health Care and Consumer Discretionary sectors hindered performance. Within the SMID strategy, Consumer Discretionary and Health Care detracted the most value for both time periods while stock selection in Materials and Industrials were contributors year to date and Materials and Tech for the trailing one year.

In the last one year, we have been able to generate stronger absolute returns due to our fundamentals-based stock selection (not from top-down or factor-based investing) as should be expected from our strategy. As a result, top performers have come from different sectors (as opposed to concentrated in one particular sector). We took advantage of a few dislocations in what we believe are high--quality businesses, like Viper Energy, Inc. in Energy, US Foods Holding Corp. in Consumer Staples, Westinghouse Air Brake Technologies Corp. in Industrials, and East West Bancorp, Inc. in Financials. We also invested in undervalued growth businesses when they were out of favor (and valuation was very attractive) like Varonis Systems, Inc. in Tech and Vital Farms, Inc. within Consumer Staples.

(All companies not specifically discussed above are discussed below in the Small and SMID Cap Value top and bottom five contributors sections.)

Portfolio Strategy and Key Exposures

In July, the euphoria around rate cuts reemerged, investors again became excited at the prospect of several cuts by the FOMC beginning in the third quarter. This time, the FOMC did oblige by cutting by 50 bps in September. The economy has remained strong and the loosening in labor market is more due to increased supply from immigration rather than significant layoffs. For the first nine months of 2024, small caps are still lagging large caps meaningfully (by 10%), having narrowed the gap from 12.5% at end of the second quarter. As we wrote last quarter, while we think small/SMID stocks should perform well in 2024, we have much higher conviction that the current dislocation in high-quality stocks within the small/SMID cap universe offers an uncommon opportunity.

Today within small/SMID caps, there are several high-quality stocks that we believe are very cheap. This is an unusual set up because historically deep value stocks are deservedly cheap: more cyclical, highly leveraged, and generally low-quality businesses. Typically, at the bottom of a cycle, the cheapest companies are cheap for good reasons as was the case at the end of 2008. While today we don't know whether we will have a soft landing or no landing for a while, and if the latter, then the rates might not have as much to decline. In that scenario high-quality stocks within the small/SMID cap universe should do very well.

Financials have done well with rates coming down, however, banks are still trading at low multiples versus their historic metrics due to lingering concerns about the CRE exposure. Consumer Discretionary stocks are almost at depressed valuations due to the fear of a major slowdown in spending by the low- to middle-income consumer. Energy stocks are downright cheap on an absolute basis and are paying attractive dividends due to concerns about lower crude prices in the near to medium term.

Small Cap Value Equity Performance—*Through September 30, 2024*

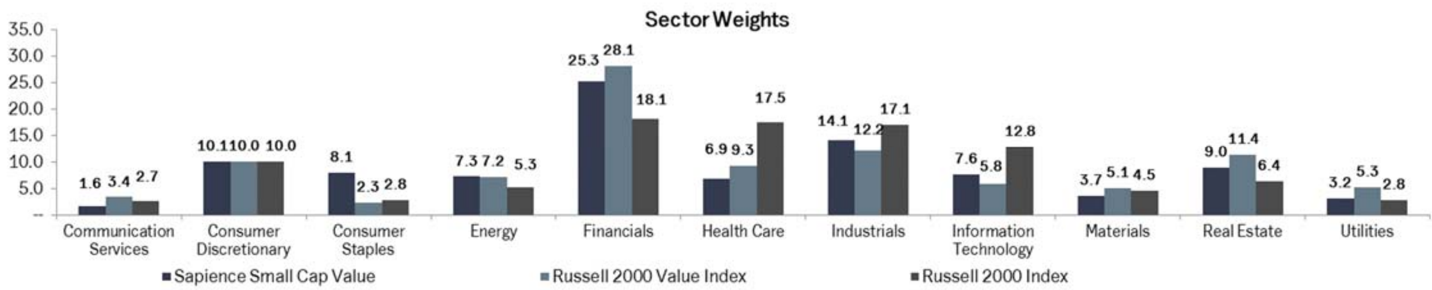
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	6.0%	10.6%	23.5%	4.7%	9.5%	7.5%
Sapience SCV Equity Composite (Net)	5.7%	9.7%	22.2%	3.6%	8.4%	6.4%
Russell 2000 Value Index	10.2%	9.2%	25.9%	3.8%	9.3%	8.2%
Russell 2000 Index	9.3%	11.2%	26.8%	1.8%	9.4%	8.9%

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

Small Cap Value Equity Characteristics and Sector Weights—*As of September 30, 2024*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	21.6%
Active Share [2] (relative to the Russell 2000 Value Index)	95.0%
Tracking Error [3]	5.8
Number of Buys[4]	5
Numbers of Sells[4]	3

[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 third quarter.

Top and Bottom Contributors
Third Quarter 2024

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Avid Bioservices, Inc.	Integra LifeSciences Holdings Corp.
Viper Energy, Inc.	Six Flags Entertainment Corp.
Glacier Bancorp, Inc.	BigCommerce Holdings, Inc.
Ameris Bancorp	Vital Farms, Inc.
TreeHouse Foods, Inc.	National Vision Holdings, Inc.

Avid Bioservices, Inc.
Avid Bioservices, Inc. continues to make progress improving financial performance following recent completion of several facility expansions. In the latest quarter, the company improved gross margin 300 basis points year over year. Improving gross margin will be the primary driver of earnings growth as the company leverages expenses for recent new

hires to staff facilities and higher depreciation expense. The company's stock reacted well to net new orders, which more than doubled sequentially and were the highest in the last six quarters, resulting in backlog growth of 16%. The mix of orders also contained a few more early stage projects, which benefits near-term revenue. The company also expanded its customer base, securing work with a new large pharma customer.

Viper Energy, Inc.
Viper Energy, Inc. owns mineral and royalty interests in oil and natural gas properties primarily in the Permian basin. The company delivered better than expected results driven by higher volumes and crude realizations for the second quarter. Viper raised its base distribution by 11% to $1.20/share annually and paid a variable distribution of $0.34. In addition, the company raised its production guidance by 1% for 2024.

Glacier Bancorp, Inc.
Glacier Bancorp, Inc. outperformed in the quarter as this Mountain West-focused bank posted solid operating metrics for the second quarter. Most striking was the 7 bp rise to 263 bps in net interest margins (NIM) and management's bullish guidance that NIM might rise to over 300 bps in 2025 as the Fed lowers short rates. While loan growth was subdued in the second quarter, the bank indicated that its pipeline is refilling rapidly, which, with NIM gains, means that net interest income is likely to improve substantially in coming quarters. Management has also been prudent in managing its non-interest expenses which helped improve the bank's efficiency ratio. Finally, Glacier Bancorp reported another quarter of excellent credit quality, which looser financial conditions will likely help in coming quarters. We believe the bank's unique business model in relatively dynamic markets, a strong core deposit franchise, and the ability to use small bank M&A to enhance EPS over time, warrants a premium valuation.

Ameris Bancorp
Ameris Bancorp outperformed in the third quarter after reporting a solid second quarter pre-provision net revenue, and EPS beat on strong core revenue trends. The most important factor driving results was a surprising jump in non-interest-bearing deposit balances, which lowered the bank's core deposit costs and pushed net interest margins up by +7 bps to 358 bps. Despite higher yields, loan growth proved remarkably robust, so the bank's net interest income exceeded expectations. Ameris also posted solid asset quality figures, enabling them to slow the bank's recent multi-quarter rise in loan loss reverses. Ameris is a highly capital-generative bank, with a TCE of 9.7%, well above management's 9.0% target. Management has historically been shrewd capital allocators and we anticipate another value-enhancing acquisition or a significant share repurchase in fiscal year 2025. At roughly 1.6x TBV, Ameris' shares trade in line with the peer median, but we believe they deserve a premium valuation given the company's superior growth, financial performance, and fortress balance sheet.

TreeHouse Foods, Inc.
Treehouse Foods, Inc.'s stock outperformed in the third quarter after reporting better than expected EBITDA for the second quarter and inline revenues. The company expects to generate positive volume growth in the second half of 2024 after almost eight quarters of year over year volume declines. This volume inflection is based on new distribution wins the company has already secured. In addition, the company is seeing some trade down benefit by consumers to private label and within private label.

Integra LifeSciences Holdings Corp.
Shares of Integra LifeSciences Holdings Corp. reacted negatively to the announcement of a new Compliance Master Plan across the entire company to improve quality systems and compliance. As a result, the company announced temporary shipping holds on various Codman products, which will primarily impact third and fourth quarter results. While we appreciate that the company is taking a wholistic review of its quality and compliance systems, the announcement was a disappointment given several quality-related setbacks in the last couple of years. We had expected the company to begin showing operational improvement in 2025, but the new plan will likely delay the earnings recovery by a year.

Six Flags Entertainment Corp.
After outperforming meaningfully during the last two months of the second quarter as the impending merger with Cedar Fair closed on July 1st, Six Flags Entertainment Corp.'s stock gave up the gains and underperformed during the third quarter. For the second quarter, the legacy Cedar Fair posted strong results due to improved attendance and a 570 bps improvement in EBITDA margins. On the other hand, the legacy Six Flags posted weaker results with slightly lower attendance due to unfavorable weather and lower than expected EBITDA. Going forward, over the next 2-3 years, the combined merged entity has many cost synergies as well as some cross sell revenue synergies.

BigCommerce Holdings, Inc.

BigCommerce Holdings, Inc. is a software company that offers SaaS platform and solutions for eCommerce to enterprise and SMB customers. The company's stock underperformed during the quarter even though BigCommerce posted modest upside to revenues and profitability for the second quarter and the guidance for 2024 was unchanged. In addition, the company exchanged part of its 0.5% convertible note due in 2026 to a new note at a 7.5% coupon with a maturity in 2028.

Vital Farms, Inc.

Vital Farms, Inc. is a leading company in the pasture-raised eggs category. The company's stock price underperformed in the third quarter after significantly outperforming during the first half of 2024 even though the company posted exceptionally strong first half results with 20%+ sales growth, 400 bps improvement in gross margin, and EBITDA that almost doubled from the prior year. The decline in Vital Farms's stock is due to its ramped-up marketing spending in the second half of 2024. We believe the increased marketing/brand spending is justified by the acceleration in revenues.

National Vision Holdings, Inc.

After reporting inline revenues and better than expected earnings for the second quarter, National Vision Holdings, Inc.'s stock price underperformed in the third quarter. This was due to a reduction in guidance for the second half of 2024 as well as deceleration in comps relating to its lower income cash pay customer, which comprises approximately two-thirds of its revenues.

SMID Cap Value Equity Performance—*Through September 30, 2024*

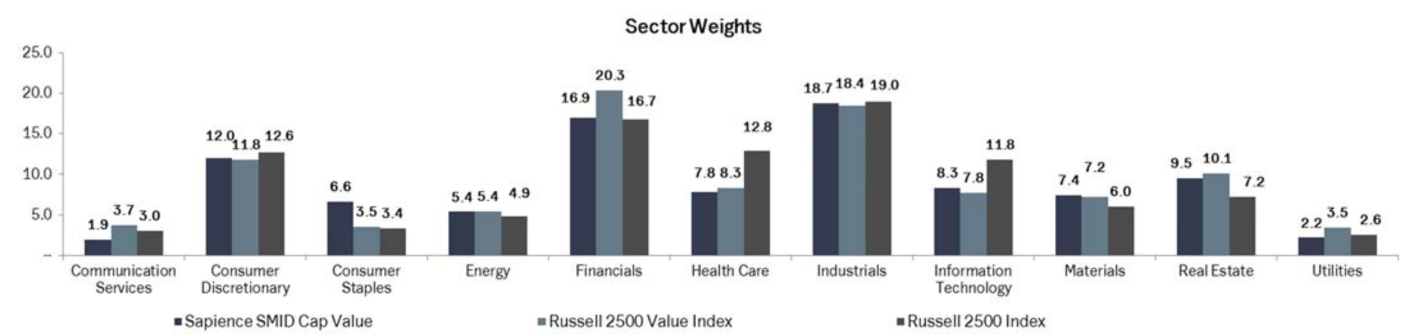
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	5.8%	9.5%	20.4%	4.3%	7.9%	6.2%
Sapience SMID Cap Value Equity Composite (Net)	5.6%	8.7%	19.2%	3.3%	6.8%	5.1%
Russell 2500 Value Index	9.6%	11.3%	26.6%	6.1%	10.0%	8.8%
Russell 2500 Index	8.8%	11.3%	26.2%	3.5%	10.4%	10.1%

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

SMID Cap Value Equity Characteristics and Sector Weights—*As of September 30, 2024*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	25.0%
Active Share [2] (relative to the Russell 2500 Value Index)	93.4%
Tracking Error [3]	4.3
Number of Buys[4]	4
Number of Sells[4]	7

[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 third quarter. Glacier Bancorp, Inc., Integra LifeSciences Holdings Corp., Six Flags Entertainment Corp., and National Vision Holdings, 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 2024

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Hasbro, Inc.	Integra LifeSciences Holdings Corp.
Regal Rexnord Corp.	Six Flags Entertainment Corp.
Glacier Bancorp, Inc.	Elastic N.V.
COPT Defense Properties	National Vision Holdings, Inc.
RenaissanceRe Holdings Ltd.	Permian Resources Corp.

Hasbro, Inc.
Hasbro, Inc. outperformed in the third quarter after reporting EPS well above expectations, which was driven by strong sales performance in the Wizards of the Coast (WOTC) segment, and better margins in both the WOTC and the Consumer segment. In addition, management raised guidance for 2024 to reflect the strength in the WOTC segment and an improvement in the Consumer segment from the low end of the company's previous guidance.

Regal Rexnord Corp.
Regal Rexnord Corp.'s shares likely benefited from investor focus on interest rate cuts given its early cycle exposure and levered position. The company also delivered better than expected second quarter results, and while full year guidance was lowered, the reduction was likely inline or better than the expected reduction. Importantly, free cash flow guidance for the year remained unchanged. In our view, one of the principal reasons for owning Regal Rexnord is the underappreciated cash flow generation of the business. The company hosted an investor day in mid-September providing 2027 financial targets, which highlighted the earnings potential of the business and free cash flow generation that should approach north of $1.0 billion annually. While earnings can be difficult to forecast for a short cycle industrial business like Regal Rexnord, we are confident in the cash flows of the business, which should allow the company to continue bringing down leverage and derisking the balance sheet.

COPT Defense Properties
COPT Defense Properties' unique focus on an office-dependent tenant base of U.S. defense and intelligence community clients drives it as one of the most reliable and consistent REITs (Office or otherwise). In the second quarter, COPT Defense posted results at the top end of management's fiscal year 2024 guidance range, making it one of the quarter's best-performing REITs. The company's results were helped by strong new and solid leasing activity that continues to drive development success and impressive tenant retention. Management raised the midpoint of FFO/share guidance by two cents (that's five cents year to date); cash SS NOI growth expectations were raised by +150 bps to +7.5-8.5%; and they increased year-end SS occupancy by 25 bps to 93.5-94%. Ongoing global political turmoil continues to drive tenant demand. The company's development pipeline of 959k SF (74% leased) provides a consistent source of future growth. We believe COPT Defense's shares continue to offer a compelling medium-term risk-return profile.

RenaissanceRe Holdings Ltd.
RenaissanceRe Holdings Ltd.'s shares outperformed as the company posted solid second quarter results that exceeded investor expectations, and management raised guidance for fiscal year 2024. RenaissanceRe continues to be a significant beneficiary of hard reinsurance pricing, which should be a tailwind at least through the end of fiscal year 2025, if not longer. Like peers, RenaissanceRe has posted solid margins for the last six quarters. So far, outside capacity has not entered the market, and with modest exceptions, pricing and terms remain firm. Eventually, pricing discipline will fade as new capital chases historically high margins, but when that will happen is not easy to predict. There is little evidence of that playing out in this quarter's industry reports. As what had been a quiet hurricane and wildfire season has suddenly become more severe with several major storms in the U.S. southeast, observe that reinsurers have remixed their business to absorb a smaller fraction of cat losses in high-risk areas. Continued upside in RenaissanceRe's shares over the medium term will come from sustained solid underwriting momentum and the company's new share buyback program that few Street analysts anticipated.

Elastic N.V.
Elastic N.V.'s stock price had a violent reaction after the company lowered its fiscal year 2025 revenue guidance from 17% to 14% due to a disruption in sales coverage implemented earlier this year. We believe that management will need to regain its credibility over the next 2-3 quarters by meeting or exceeding its revised sales targets.

Permian Resources Corp.
Permian Resources Corp. posted favorable results for the second quarter, exceeding expectations on production and free cash flow driven by strong gas/NGL volumes. The company continues to return capital to shareholders with a base dividend of $0.06/share, a variable dividend of $0.15/share, and $30 million of share repurchases during the quarter. Despite the positive results and capital returns, the stock price underperformed along with the Energy sector due to the weakness in the crude price during the third quarter.

Outlook

"As history has taught us, most of the time, most of the crowd moves long after the optimum time to have moved is passed. So it is with investment trends, which start with the belief of a few and end with the conviction of the many." ~Arthur Zeikel

Small caps have been in malaise since November 2021 while mega-cap Tech stocks have been on a tear since the beginning of 2023. As we wrote in our second quarter letter, conditions were ripe for the broadening of the rally. We believe this is the early stage, and as rates decline and inflation moderates into 2025, that small caps have a long runway to just get to trend, barring a deep recession. We should know in the next few weeks and months if this broadening is to become a rotation. By rotation we mean, the mega-cap Tech stocks derate to more normal valuations.

In the last couple years, we have heard about the "Death of Small Caps" and "why do clients even need to allocate to small and mid caps?". In our view, it appears that many investors have been reducing their allocations to small/SMID caps without much contrition. At Sapience, we believe the tide is turning and now is the time to be forward looking—taking action to capture the bilateral benefits of this rotation. In the past decade (from January 1, 2014 through September 30, 2024), large-cap stocks have outperformed small-cap stocks by 122% (unannualized; comparing the Russell 1000 to the Russell 2000). Those returns beg the question, why have any small-cap exposure at all? And how can an active investment manager add value?

Several secular forces are operating. First, the ascendance of passive over active investing has been felt most acutely in small cap. A majority of small-cap assets are now managed passively. According to analysts at ISS Market Intelligence, over the last decade, the percentage of passive small-cap funds has grown from roughly 35% of the asset class to almost 60%. Passively managed small-cap assets have grown +13% p.a. in the past decade—over twice as fast as the category and approximately eight times the growth of active mandates. (For comparison, roughly 50% of large-cap and 40% of mid-cap funds are passively managed.) Second, capital is becoming more concentrated among a few large asset managers. Data collected by the Investment Company Institute finds that the five largest fund complexes managed 56% of the total net assets of mutual funds and ETFs at the end of 2023, up from 32% at the end of 2000.

From our perspective as an active small and SMID cap investment manager, less capital managed with fewer active investors and reduced analyst attention has given us an excellent opportunity to identify underappreciated and inefficiently priced businesses. With sufficient effort to uncover the fundamentals and greater experience, we can exploit the growing gaps between the market price and intrinsic value. However, with fewer active investors, short-term price discovery may be sluggish; thus, simply identifying undervalued stocks may no longer be sufficient to generate alpha over the near term.

In this environment, patient long-term small-cap investors have a competitive advantage in finding companies with unrecognized value creation potential. We apply an owner's mindset, focusing on companies that can prudently allocate capital and execute their strategy across various economic environments. We identify resilient businesses with a durable competitive advantage that we believe can compound the value creation of their business model while avoiding excessive leverage. They are usually not dependent on the economic cycle to thrive.

We believe that the current small-cap valuation discount is not warranted, especially now, considering declining rates and moderating inflation. Earnings and fundamentals should drive share prices in the medium term. The best investments are often initiated when the outlook is hazy and valuations are low. This is an ideal environment for our strategy as we are price-driven investors and we have been able to buy high-quality businesses at attractive to depressed valuations. We look forward to seeing how these investments bear fruit over the next 2-3 years

Disclosures

This is not a recommendation to buy or sell a particular security. The holdings discussed above do not represent all of the securities purchased, sold or recommended for Sapience's clients. You should not assume that this or any of the securities or sectors discussed herein will remain in the portfolio or that investments in such securities were or will be profitable. Past performance is not indicative of future results. Contributors and detractors for each strategy are selected based on the stock's attribution to a Sapience Small Cap Value representative account's return or a Sapience SMID Cap Value representative account's return. The calculation methodology and a list showing the contribution of each holding in the representative account to the representative account's performance during the measurement period are available upon request.

Composite and benchmark returns reflect the reinvestment of income. The volatility of the Composite may be different than its respective benchmarks. Composite returns are presented gross and net of actual investment advisory fees. You cannot invest directly in an index, which also does not take into account trading commissions and costs, see below for a description of benchmark indexes. Performance is expressed in U.S. dollars. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Dividends are recorded gross of withholding taxes.

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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. This information is also available on the Investment Adviser Public Disclosure (IAPD) website.

[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 = ω = √(E[(rp - rb)2]) where rp - rb = the active return (i.e., the difference between the portfolio return and the benchmark return). This formula simplifies to: TE = ω = √(σp2 + σb2 - 2βσb2) where σp2 = portfolio variance; σb2 = benchmark variance; and ß = Historical beta

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

Sapience Investments, LLC
Small Cap Value Equity Composite

As of December 31									
Year	Gross Returns (%)	Net Returns (%)	Russell 2000® Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	14.91	14.62	14.07	N/A	N/A	N/A	2	$223.99	$349.83
2017	3.06	1.95	7.84	0.19	N/A	N/A	14	$665.60	$771.66
2018	-17.33	-18.21	-12.86	0.17	N/A	N/A	14	$513.31	$647.68
2019	22.17	20.86	22.39	0.23	18.56	15.90	13	$610.15	$773.40
2020	7.11	5.99	4.63	0.20	33.32	26.49	12	$716.39	$760.25
2021	28.37	26.99	28.27	0.18	31.83	25.35	11	$870.84	$914.19
2022	-10.90	-11.87	-14.48	N/A	32.42	27.66	7	$487.53	$523.34
2023	10.50	9.30	14.65	0.25	20.21	22.06	8	$412.78	$443.03

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

1. Sapience Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sapience Investments, LLC has been independently verified for the periods October 1, 2016 through December 31, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.
2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The Small Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small capitalization companies with durable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a two-to four-year investment horizon. The composite was created and incepted October 2016. The firm's list of composite descriptions is available upon request.
4. Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of model investment advisory fees. Net returns are calculated by reducing the quarterly composite returns by 1/4th of 1%, the highest tier of the standard fee schedule. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS reports is available upon request. Dividends are recorded net of withholding taxes.
5. Internal dispersion is the equal-weighted standard deviation of the annual gross returns of all accounts included in the composite for the entire year. For years where there are 5 or fewer accounts in the composite for the entire year, dispersion is not presented as it is not a meaningful statistical calculation.
6. The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000® Index companies with lower price-to-book ratios and lower expected growth values. It is not possible to invest in these indices. The returns for the Index do not include any transaction costs, management fees or other expenses. The volatility (beta) of the Composite may be greater or less than its respective benchmark.
7. The fee schedule for Adviser's investment advisory services for the Small Cap Value Equity Composite is 1.00% on the first $25 million, 0.90% on the next $25 million, 0.85% on the next $50 million, 0.80% on amounts over $100 million. Actual investment advisory fees incurred by clients may vary.
8. Effective March 1, 2020, a significant cash flow policy was adopted for the composite. Portfolios are removed from the composite if they have a contribution or withdrawal at 50% or greater of the beginning market value of the portfolio. The portfolio is removed from the composite for the month in which the significant cash flow occurred and the following month.
9. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
10. Past performance is not indicative of future results. Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. Registration as an Investment Adviser does not imply any level of skill or training. This material is not financial advice or an offer to sell any product. The portfolio characteristics shown relate to the Small Cap Value Equity Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Adviser reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

SMID Cap Value Equity Composite

Year	Gross Returns (%)	Net Returns (%)	Russell 2500™ Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	9.96	9.69	9.34	N/A	N/A	N/A	1	$22.50	$349.83
2017	1.31	0.30	10.36	N/A	N/A	N/A	8	$106.06	$771.66
2018	-17.44	-18.26	-12.36	0.25	N/A	N/A	10	$134.36	$647.68
2019	28.19	26.91	23.56	0.09	17.46	14.43	8	$163.26	$773.40
2020	1.98	0.97	4.88	N/A	29.67	25.40	2	$43.86	$760.25
2021	25.01	23.77	27.78	N/A	28.04	24.49	2	$43.06	$914.19
2022	-8.86	-9.72	-13.08	N/A	28.54	26.84	2	$33.1	$523.34
2023	7.49	6.42	15.98	N/A	19.02	20.99	2	$29.69	$443.03

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

1. Sapience Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sapience Investments, LLC has been independently verified for the periods October 1, 2016 through December 31, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.
2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The SMID Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small- to mid-capitalization companies with durable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a three-to five-year investment horizon. The composite was created and incepted October 2016. The firm's list of composite descriptions is available upon request.
4. Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of model investment advisory fees. Net returns are calculated by reducing the quarterly composite returns by 1/4th of 1%, the highest tier of the standard fee schedule. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS reports is available upon request. Dividends are recorded net of withholding taxes.
5. Internal dispersion is the equal-weighted standard deviation of the annual gross returns of all accounts included in the composite for the entire year. For years where there are 5 or fewer accounts in the composite for the entire year, dispersion is not presented as it is not a meaningful statistical calculation.
6. The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500™ Index companies with lower price-to-book ratios and lower expected growth values. It is not possible to invest in these indices. The returns for the Index do not include any transaction costs, management fees or other expenses. The volatility (beta) of the Composite may be greater or less than its respective benchmark.
7. The fee schedule for Adviser's investment advisory services for the SMID Cap Value Equity Composite is 1.00% on the first $25 million, 0.90% on the next $25 million, 0.85% on the next $50 million, 0.80% on amounts over $100 million. Actual investment advisory fees incurred by clients may vary.
8. Effective March 1, 2020 through June 1, 2021, portfolios were removed from the composite if they had a contribution or withdrawal at 50% or greater of the beginning market value of the portfolio. The portfolio was removed from the composite for the month in which the significant cash flow occurred and the following month.
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10. Past performance is not indicative of future results. Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. Registration as an Investment Adviser does not imply any level of skill or training. This material is not financial advice or an offer to sell any product. The portfolio characteristics shown relate to the SMID Cap Value Equity Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Adviser reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.