Market Review: Prepare for landing

"It is better to travel well than to arrive." ~Siddhartha Gautama (Buddha)

With the decisive outcome of November's U.S. elections, all things became possible, and investors turned wildly optimistic about the outlook. As we enter 2025, when the new administration will take power, the reality that governing is challenging and requires compromise makes it unlikely that investors' collective high hopes will be realized. The 2.4% quarterly return in the S&P 500 closed off a second year of more than +20% equity returns. Perhaps investors have largely discounted the best-case macro/political scenario of a benign monetary environment, corporate tax cuts, and less government regulation.

Bottom-up expectations are also elevated. Ahead of the fourth quarter earning season, FactSet reports that S&P 500 companies are expected in calendar year 2024 to report year-over-year EPS growth of +9.5% on revenue growth of +5.0%, and, looking into calendar year 2025, upbeat Wall Street analysts predict that EPS growth will accelerate to +14.8% on revenue growth of +5.8% (as of January 3rd). Accordingly, investors have moved equity valuations to anticipate that outlook. The forward 12-month P/E ratio for the S&P 500 is 21.4x, somewhat above the trailing 5-year average of 19.7x. These figures are undoubtedly high, reflecting the consensus that good times will likely continue.

Leading indicators of economic momentum are positive. The FRB Atlanta's GDPNow model estimates that fourth quarter GDP growth will be above potential at +2.4%, and the FOMC's Summary of Economic Projections (released on December 18th) expects solid 2025 growth of +2.1%. These estimates may understate the lagged, positive impact of looser financial conditions on household wealth, improving business and household confidence, and continued employment and income growth, which underpin solid household spending trends. Forecasters cannot yet deduce how the new administration will implement their tax and spending campaign promises and the potential consequences those policies will have on the economic outlook.

For investors, inflation trends will be a critical driver of interest rates and the cost of capital. The FOMC expects core PCE inflation to fall from 2.8% in 2024 to 2.5% in 2025 and 2.2% in 2026. This forecast effectively pushed to 2027, the date when the Committee expects to reach its inflation target. However, disinflationary trends largely remain intact. The FRB Atlanta's 3-month moving average of median wage tracker has fallen to 4.3% (as of November), down from 5.2% a year earlier and close to pre-pandemic levels when inflation was quiescent. Housing costs have also moderated. CoreLogic's Single-Family Rent Index (a leading indicator for PCE Housing Inflation) slipped to 1.7% year-over-year in October (the latest release), down from 2.3% a year ago. What's unclear is how the new administration's immigration policies will affect the labor market or how and when new trade and tariff policies may impact goods prices.

The Buddha's teachings tell us, "Times of luxury do not last long, but pass away very quickly." Rising bond yields could upset the bullish narrative. In the fourth quarter of 2024, the U.S. 10-year bond yield jumped from 3.90% to 4.57% (up by +67 bps) and added another +10 bps in early 2025 (through January 7th). This development reflects several commingled factors, including an above-trend economic outlook with positive economic surprises, worries over persistent inflationary pressures, and bond supply pressure from mounting fiscal deficits. Until many of the uncertainties discussed above are resolved, financial market volatility will likely remain high as investors dissect the daily news for clues about the changing economic landscape.

Russell Index Returns—*As of December 31, 2024*

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	0.3	11.5	11.5	1.2	7.4	7.8
Russell 2000 Value Index	-1.1	8.1	8.1	1.9	7.3	7.2
Russell 2000 Growth Index	1.7	15.2	15.2	0.2	6.9	8.1
Russell 2500 Index	0.6	12.0	12.0	2.4	8.8	8.9
Russell 2500 Value Index	-0.3	11.0	11.0	3.8	8.4	7.8
Russell 2500 Growth Index	2.4	13.9	13.9	0.0	8.1	9.5
Russell Mid Cap Index	0.6	15.3	15.3	3.8	9.9	9.6
Russell 1000 Index	2.8	24.5	24.5	8.4	14.3	12.9

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

Small- and Mid-Cap Market Review

In the final quarter of 2024, Small Cap Indices underperformed the broad market as well as the Large Cap Indices. Large cap stocks (the S&P 500) gained +2.4% while small cap stocks (the Russell 2000) rose 0.3%. However, the intra quarter performance for small caps was anything but placid. In November, due to the Trump 2.0 euphoria, the Russell 2000 was up almost 11.0%, but in December, with the reemergence of inflation concerns and the spike in the 10-year yield, the Index gave up most of the gains and was down 8.3%.

For the quarter, with regards to style, in a continuation of its lead, growth maintained its edge over value across all market cap ranges. For the trailing 12 months, growth continued its lead in the mid- and large-cap space, and regained its lead in small caps. On a 3-year basis, small value's lead over small growth has narrowed to approximately 170 bps (Russell 2000 Value 1.9% vs. Russell 2000 Growth 0.2%) and continues to be slightly ahead on a 5-year basis.

From a sector perspective, results were mixed during the quarter. In the Russell 2000 Value, Technology and Consumer Staples were the top performers (+10.2% and +6.4%), while Financials and Energy were the strongest performers in the Russell 2500 Value Index (+6.4% and +5.4%). Meanwhile, on the negative end of the spectrum, Consumer Discretionary (-7.5%) and Health Care (-7.2%) were the laggards in the Russell 2000 Value Index. Similarly, in the Russell 2500 Value Index, the Health Care sector was the most meaningful underperformer during the period, declining 7.9%, with the Materials and Real Estate sectors following (-5.7% and -5.5%, respectively).

For the year, the results across all sectors were primarily positive, however, the return drivers varied in each Index. Financials was the best-performing sector in the Russell 2000 Value Index, up 14.2%. Technology, Communication Services, Industrials, and Consumer Staples followed, all returning between 10.5% and nearly 13.0%. Within the Russell 2500 Value Index, Utilities returned 29.7% and Financials was up 20.3%. Conversely, in both Indexes, the Health Care sector generated negative returns, down 3.5% in the Russell 2000 Value Index and -0.6% in the Russell 2500 Value Index. The Energy sector also underperformed in the Russell 2000 Value Index, returning -3.8%.

Performance Impact

Our Small Cap Value strategy produced positive absolute returns during the quarter, generating 2.3% gross (2.1% net), outperforming the Russell 2000 Value Index by 3.4%. As mentioned above, small-cap stocks had see-sawing performance during the quarter: up 11.0% in November and down 8.3% in December—nearly erasing all of November's gains. It was gratifying to see that our Small Cap Value strategy outperformed in such a volatile environment, both in an up market and down market. In November, our Small Cap Value strategy outperformed the Russell 2000 Value Index by 2.0%, and in December by 1.4%. For 2024, our Small Cap Value strategy delivered strong absolute and relative returns, posting 13.1% gross (12.0% net) versus 8.1% for the Russell 2000 Value Index. Meanwhile, our SMID Cap Value strategy's performance was nearly flat during the final quarter of 2024, returning -0.4% gross (-0.6% net) versus -0.3% for the Russell 2500 Value Index. During the one year ended December 31, 2024, the strategy delivered positive absolute returns, posting 9.2% gross (8.1% net) while underperforming the Russell 2500 Value Index by 1.8%.

In reviewing our Small Cap Value portfolio's attribution for the quarter, we added value relative to the Russell 2000 Value Index in 6 of the 11 sectors. Top contributors to performance included stock selection in Consumer Discretionary, Financials, and Energy. In Consumer Discretionary, Despegar.com, Corp. was the top performer. Webster Financial Corp. added the most value in Financials, while Comstock Resources, Inc. was the top contributor in Energy.

On the negative side, security selection in Technology and Communication Services detracted from performance. Within Technology, Varonis Systems, Inc. subtracted the most value as the company modestly missed elevated expectations in the third quarter due to Federal business weakness. In Communication Services, Liberty Latin America Ltd. was the sole detractor. For the year ended December 31, 2024, we outperformed in 9 of 11 sectors. The Energy, Consumer Staples, Industrials, and Financials sectors were the largest contributors to the strategy's outperformance. Comstock and Viper Energy Partners LP were the top performers in the Energy sector. Viper Energy benefited from its acquisitions announced in 2024 along with the mineral and override interests that Diamondback Energy, Inc. acquired with the Endeavor acquisition in the third quarter. In Consumer Staples, Vital Farms, Inc. was the top performer. Within Industrials, Kirby Corp. added the most value. Kirby continued to benefit from good demand for barge transportation services as well as a tight supply of barges. Increased new barge construction costs have resulted in limited new barges entering the market, a dynamic we believe will continue to benefit the company. As a result, Kirby has benefited from meaningful increases to both spot and contract prices for its barge transportation services, which have resulted in margin expansion, earnings growth, and solid free cash flows. Wintrust Financial Corp. was the top contributor in the Financials sector. The company had a strong 2024 due to solid revenue growth, operating leverage, and excellent credit quality. We believe these trends should continue in 2025 as net interest margins stabilize as the yield curve steepens and organic balance sheet growth drives net interest income higher at rates outpacing peers. Meanwhile, the Health Care sector was the most meaningful detractor with Acadia Healthcare Company, Inc. performing the worst.

In the fourth quarter, our SMID Cap Value strategy underperformed the Russell 2500 Value Index in 4 of the 11 sectors. Most of the underperformance was concentrated in the Communication Services and Consumer Discretionary sectors with Liberty Latin America and Hasbro, Inc. detracting the most value, respectively. Conversely, stock selection in Industrials and Real Estate added value during the period. Within Industrials, OPENLANE, Inc. added the most value as the company beat expectations fueled by EBITDA growth in its Marketplace business. COPT Defense Properties and Kilroy Realty Corp. were the top performers in the Real Estate sector. COPT Defense Properties is an Office REIT with a unique focus on the needs of Defense, Intelligence, and IT companies that require mission-critical, high-security facilities. This segment has experienced strong secular growth in the first half of this decade. The company's occupancy is near a decade high, client retention is >80%, and cash same-store net operating income has consistently grown at a mid-single-digit pace. In 2025, COPT Defense Properties' robust development pipeline and push into government data centers should help drive the shares to a modest premium valuation over REIT peers. Kilroy was a depressed West Coast Office REIT when we started building a position. Occupancy bottomed in 2024 and rent spreads have increased as premium office space availability became incrementally tighter. The REIT has beaten FFO expectations and raised guidance as the company's operational performance exceeded (admittedly low) expectations. Kilroy is poised to continue its strong execution as prudent acquisitions and the company's development pipeline contribute to superior FFO growth in 2025. For the year ended December 31, 2024, we outperformed in 6 of 11 sectors. Security selection in the Industrials and Materials sectors added value. Kirby added the most value within Industrials. In Materials, Smurfit WestRock plc was the top contributor as the merged company should benefit from structural improvements in the legacy Westrock business along with a better balance within the industry in the U.S. market. Meanwhile, Consumer Discretionary and Health Care were the most meaningful detractors with Integra LifeSciences Holdings Corp. and National Vision Holdings, Inc. detracting the most value from their respective sectors.

In the last one year, we have been able to generate decent absolute returns and strong relative returns versus our benchmark and our peers primarily due to our focus on intrinsic value and 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 with different drivers for the return streams. For example, we invested in undervalued growth businesses when they were out of favor (and valuation was attractive) like Vital Farms, Inc. within Consumer Staples and Coherent Corp.—a laser and an optoelectronic components company with application in datacenters for AI—in the Technology sector. Despegar.com is the leading OTA in Latin America and we added to our position at a depressed valuation in 2023. The company doubled its EBITDA in 2023 and is on course to grow by over 70% in 2024. In December, Despegar.com announced a definitive agreement to be acquired at a decent premium. We invested in Comstock Resources with a medium-term positive outlook on natural gas and LNG. We took advantage of a few dislocations in what we believe are high-quality businesses, like Viper Energy in Energy, US Foods Holding Corp. in Consumer Staples, Kirby and Westinghouse Air Brake Technologies Corp. in Industrials and Encompass Health Corp. in Health Care.

(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

Today within small/SMID caps, there are several high-quality stocks that we believe remain 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. We are not at the bottom of the cycle, therefore, we are not as bullish on all small caps. If the economy holds up and inflation does not moderate, then the rates might not have much to decline. In that scenario high-quality stocks within the small/SMID cap universe should do well.

Health Care and Consumer Staples—both defensive sectors—have been out of favor for the last two years. Both sectors have been negatively impacted by macro factors like higher yields, being bond proxies along with the GLP-1 headlines. We believe there are a few select attractive opportunities within these two sectors. 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. Banks should do well with a steepening yield curve, provided the economy holds up. Several Consumer Discretionary companies are at nearly 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. Industrial companies have attractive fundamentals with reshoring opportunities but are not cheap from a valuation perspective. In Technology, there are more attractive opportunities within small and SMID caps versus large cap where the valuations are stretched.

Last year was not an overly active year for M&A transactions. With continued strength in the economy and less regulation under the new Republican administration, we believe M&A activity will pickup in 2025. Despite 2024 being a below-average year for M&A activity, we had six acquisitions within our Small Cap Value strategy: Physicians Realty Trust (Healthpeak, Acquiror), ChampionX Corp. (Schlumberger N.V.), Stericycle, Inc. (Waste Management, Inc.), Retail Opportunity Investments Corp. (Blackstone), Avid Bioservices, Inc. (Ampersand & GHP Capital), and Despegar.com Corp. (Prosus). In our SMID Cap Value strategy, we had two acquisitions: Catalent Pharma Solutions, Inc. (Novo Holdings) and Stericycle, Inc. (Waste Management).

Small Cap Value Equity Performance—*Through December 31, 2024*

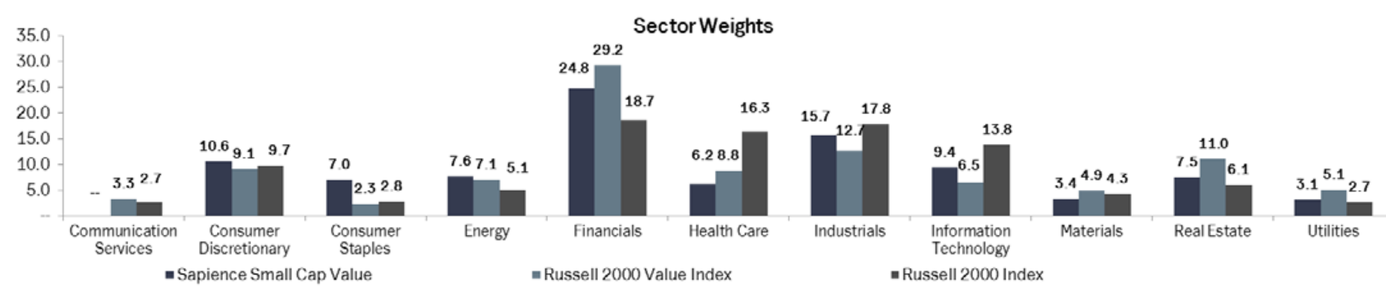
	Quarter	1 Year	3 Years	5 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	2.3%	13.1%	3.7%	8.9%	7.6%
Sapience SCV Equity Composite (Net)	2.1%	12.0%	2.5%	7.7%	6.5%
Russell 2000 Value Index	-1.1%	8.1%	1.9%	7.3%	7.8%
Russell 2000 Index	0.3%	11.5%	1.2%	7.4%	8.7%

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 December 31, 2024*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	21.2%
Active Share [2] (relative to the Russell 2000 Value Index)	95.1%
Tracking Error [3]	6.0
Number of Buys[4]	4
Numbers of Sells[4]	5

[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 2024

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Despegar.com, Corp.	Acadia Healthcare Company, Inc.
Comstock Resources, Inc.	TreeHouse Foods, Inc.
Webster Financial Corp.	Papa John's International, Inc.
Integra LifeSciences Holdings Corp.	Liberty Latin America Ltd.
Six Flags Entertainment Corp.	ATI, Inc.

Despegar.com, Corp.
Despegar.com, Corp. is the leading OTA (online travel agency) serving Latin America. The company outperformed in the fourth quarter, initially in November as the company reported strong third quarter results, including EBITDA margins that were much better than expectations. Subsequently, on December 23rd, the company's stock price increased as Prosus announced a definitive agreement to acquire Despegar.com at $19.50 per share in cash.

Comstock Resources, Inc.
Comstock Resources, Inc.'s stock outperformed in the fourth quarter due to improvement in natural gas pricing in the last two months of the quarter along with its continued investments in its operations and additional acreage. The company reported slightly better free cash flow for the third quarter versus consensus with better pricing and lower costs. Comstock increased its annual sales and capex guidance, while modestly reducing production guidance. In addition, the company is seeing encouraging results from its horseshoe Haynesville wells and continues to expand by finding bolt-on acreage acquisitions.

Webster Financial Corp.
Webster Financial Corp.'s robust operating performance in the third quarter of 2024 helped propel the stock's recent outperformance in a favorable economic environment. The combination of net interest margin (NIM) expansion and modest loan growth drove net interest income (NII) and core EPS above expectations. Credit trends have been broadly stable as management has been de-risking the loan portfolio and proactively managing the book to minimize the impact of credit costs if and when they eventually re-normalize. As management discussed the outlook, the combination of improving loan pipelines and stable to positive NIM as the yield curve steepens means that NII growth will likely improve again in fiscal year 2025. Finally, Webster's management team has a proven record of successfully deploying excess capital in M&A and share buybacks. Despite projected above-peer average growth, Webster's shares trade at a P/E of 9.8x on FY25E, a roughly 15% discount to its peers.

Integra LifeSciences Holdings Corp.
Integra LifeSciences Holdings Corp. reported better than expected third quarter results, which helped sentiment on the stock. The company made good progress on its master compliance plan during the third quarter with the impact coming in as expected. Integra reiterated expectations for mid-single digit organic growth in 2025. The company also announced a new CEO, with a medical technology background, had been appointed and would join the company in early January 2025. These events led to a recovery in Integra's stock price as its shares were trading at a depressed valuation.

Six Flags Entertainment Corp.
Six Flags Entertainment Corp. delivered mixed results for the third quarter against low expectations due to weather headwinds and its recently completed merger (Six Flags and Cedar Fair) on July 1st. The company's stock outperformed as the fourth quarter is off to a strong start, with attendance +20% year-over-year, season passes +8% year-over-year, and EBITDA guidance was better than expectations. In addition, the management team provided encouraging long-term targets: fiscal year 2027 free cash flow of $800 million, attendance of 55 million, and leverage < 3.5x.

Acadia Healthcare Company, Inc.
Acadia Healthcare Company, Inc. reported a good third quarter although the results were overshadowed by a reduction in revenue guidance and a $20 million EBITDA guidance reduction for the year. The company began to see an impact to volumes from negative articles by The New York Times. Volumes were healthy at 5% in September but fell to 3% in October and were expected to grow only 3-4% in the fourth quarter, which is 200-300 basis points below prior

expectations. The impact is related to referral sources, which are sending patients elsewhere due to the negative press. The impact is expected to continue into 2025 while the company works to educate its referral sources. Investor concerns were already high given the negative press and government inquiries that resulted from the original article. The reduction in guidance only served to increase those concerns, which negatively impacted shares despite an already depressed valuation.

TreeHouse Foods, Inc.
TreeHouse Foods, Inc.'s stock price underperformed as the company posted results below expectations and reduced its annual sales and EBITDA guidance. Similar to larger branded packaged food peers, TreeHouse experienced weakening private label trends in its categories, with volume growth decelerating from +4% in July to -1% in October. Even though private label has continued to outperform brands, it is facing a shrinking market. Management is pivoting its strategy over the medium term to focus more on margins and profitability versus growth.

Papa John's International, Inc.
Papa John's International, Inc.'s stock price underperformed as the company posted lackluster results that were in line with consensus expectations. In December, subsequent to the earnings call, the company held its investor day under the new CEO and outlined its plans to drive transactions by resetting the value proposition with clearer messaging, increased marketing spending, and enhancing its loyalty program. All these initiatives will take a few quarters to bear fruit in the U.S. market. In addition, the company is fixing its business in the UK and development efforts in the middle east market.

Liberty Latin America Ltd.
Liberty Latin America Ltd.'s stock sold off after the company reported weak third quarter results. In addition, and more importantly, the withdrawal of Puerto Rico profitability guidance hurt management's credibility. Liberty's management team maintained that the results should improve in the fourth quarter driven by its B2B segment as well as sequential improvement in Puerto Rico.

ATI, Inc.
After several quarters of solid execution, ATI, Inc.'s stock price underperformed after the company reported results that missed expectations and lowered guidance due to the recent issues at Original Equipment commercial aerospace customers (Boeing), sector wide inventory issues, bottlenecks in testing in the jet engine business along with some weakness in certain industrial end markets.

SMID Cap Value Equity Performance—*Through December 31, 2024*

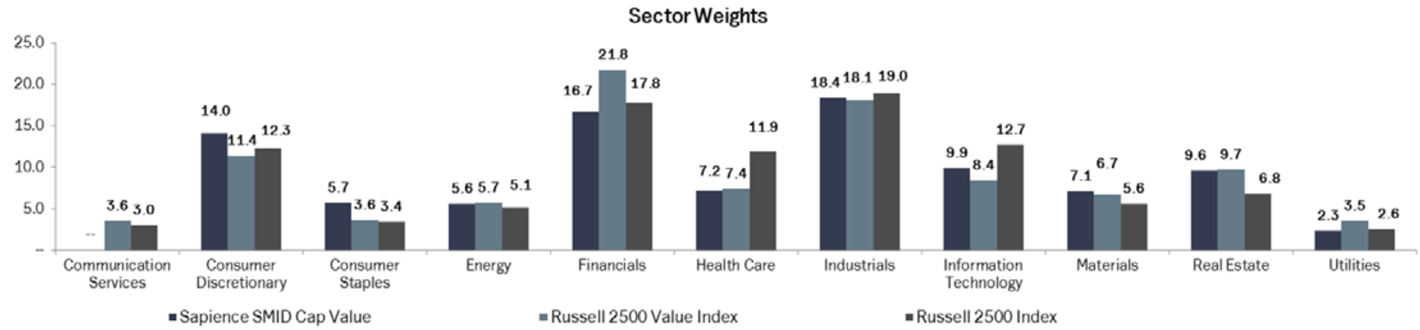
	Quarter	1 Year	3 Years	5 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	-0.4%	9.2%	2.3%	6.4%	5.9%
Sapience SMID Cap Value Equity Composite (Net)	-0.6%	8.1%	1.2%	5.3%	4.9%
Russell 2500 Value Index	-0.3%	11.0%	3.8%	8.4%	8.5%
Russell 2500 Index	0.6%	12.0%	2.4%	8.8%	9.8%

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 December 31, 2024*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	24.5%
Active Share [2] (relative to the Russell 2500 Value Index)	93.6%
Tracking Error [3]	4.5
Number of Buys[4]	5
Number of Sells[4]	5

[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. Webster Financial Corp., Integra LifeSciences Holdings Corp., Acadia Healthcare Company, Inc., TreeHouse Foods, Inc., Liberty Latin America Ltd., and Papa John's International, 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 2024

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Elastic N.V.	Acadia Healthcare Company, Inc.
Webster Financial Corp.	Hasbro, Inc.
Integra LifeSciences Holdings Corp.	TreeHouse Foods, Inc.
Vital Farms, Inc.	Liberty Latin America Ltd.
EQT Corp.	Papa John's International, Inc.

Elastic N.V.
Elastic N.V.'s stock price outperformed during the quarter after posting better than consensus results across the board. To provide context, the company's stock had a violent reaction last quarter after management lowered the fiscal year 2024 revenue guidance from 17% to 14% due to a disruption in sales coverage implemented earlier this year. We believed at the time that the issue was fixable and the management would need to regain its credibility over the next couple of quarters by meeting or exceeding the revised sales targets.

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 despite posting strong results after significantly outperforming during the first half of 2024. The decline in Vital's stock price was because of the ramped-up marketing spending guidance in the second half of 2024. The company outperformed in the fourth quarter as Vital posted another quarter with strong growth. The organic sales growth was 31%, with volume accounting for 22% and EBITDA was $15 million versus consensus of $13 million. In addition, the company's management team raised its annual guidance across the key financial metrics.

EQT Corp.
EQT Corp.'s stock outperformed as the company delivered a significant beat on the EBITDA for the third quarter due to a combination of higher production and lower capex. In addition, investors were encouraged by the update on asset sales towards the higher end of the previously provided range of $3-$5 billion by the end of fiscal year 2024. The improvement in the natural gas pricing in the last two months of the quarter further contributed to the increase in EQT's stock price .

Hasbro, Inc.
After outperforming in the third quarter, Hasbro, Inc.'s stock underperformed in the fourth quarter even though the company reported margins and earnings that were well ahead of consensus. We believe that the weakness could be related to weaker than expected sales and guidance for consumer products in the fourth quarter along with negative sentiment related to tariffs (if and when implemented for the toy business) next year under the Trump administration.

Outlook

"The market, like the Lord, helps those who help themselves. But, unlike the Lord, the market does not forgive those who know not what they do. For the investor, a too-high purchase price for the stock of an excellent company can undo the effects of a subsequent decade of favorable business developments." ~Warren Buffet

1995-1999 was an unusually strong five-year period for the U.S. equity markets. The S&P 500 Index went from 459 at the beginning of 1995 to 1,469 by the end of 1999, generating a 26% annual return over those 5 years. The Nasdaq did even better delivering more than 40% annual return over the same period. This period was characterized by declining interest rates, the emergence of the internet, the manic growth in the TMT companies, and investors' fervor of the tech stocks. Investors valued the leading companies as though their dominance and growth rates would continue for many years into the future. Cisco did maintain its leadership for many years, however, its stock price after almost 25 years is 75% of the peak price reached in March 2000. Even Amazon lost over 90% of its value from the 2000 peak to 2001 bottom and it took a decade to return to the 2000 price. Nasdaq was decimated, declining 68% from 2000-2002.

Are there parallels today with all the AI excitement, Bitcoin frenzy, and Quantum computing hysteria to the internet bubble? Sure, there are several. Was the internet promising? Absolutely, and it has had a gargantuan impact on society. Similarly, AI has tremendous potential. However, that won't prevent a correction when the euphoria subsides. At the same time, there are key differences as well from the TMT bubble era. The dominant companies today are cash gushing monopolies. The question is whether they will remain monopolies far into the future. Another factor that could upset the apple cart is the recent uptick in the yields on the long end. This seems to be a global phenomenon, concurrently happening in the U.S., Japan, Europe, and the UK. If this persists, it has major ramifications for all asset markets. The returns from levered asset classes such as Private Equity and Commercial Real Estate would get compressed. Large-cap growth stocks and housing, both at stretched valuations, could be vulnerable as well.

In the third quarter of this year, investors again became excited about small caps and the prospect of several cuts by the FOMC, which was like the fourth quarter of 2023. As a Pavlovian response, small-cap stocks had a bounce on both occasions, first in December 2023 and then again during the third quarter of 2024. The FOMC made a bold move by cutting rates by 50 bps in September and following up with two additional 25 bps cuts during the fourth quarter. The economy has remained strong, the inflation outlook has shifted upwards from September, and the term premium is normalizing. As a result, barring a sudden economic slowdown, further meaningful easing in the monetary policy seems less likely than was the case even just one quarter ago.

In 2024, small caps again lagged large caps meaningfully (by almost 12%). In 2023 and 2024, the Magnificent Seven stocks, except Tesla, delivered much stronger earnings growth than small-cap companies. In 2025, the earnings growth rate for the Russell 2000 Index is expected to exceed the Magnificent Seven. The crossover is expected to happen in the second quarter. If the economy holds up and we are in a normal economic regime, then the valuation for small caps should follow the earnings this year. As we wrote last year in February, while we think small/SMID stocks should perform well going forward, we have a much higher conviction that the current dislocation in high-quality stocks within the small/SMID cap universe offers a better and uncommon opportunity. If the rates persist higher for longer, it will be a headwind for smaller companies with higher debt levels. However, today, the market is valuing most small-cap stocks indiscriminately. To us, this presents an anomalous opportunity for experienced fundamental investors in the small and SMID space. We hope that the allocators have the foresight and patience to sell mania-induced excess and redirect capital to take advantage of these bargains.

Last decade, the markets have been buoyed by low rates and benign volatility, and multiple expansion has been a major part of the melt up in valuations. Going forward, the market could be entering a new regime with higher rates and valuations would be driven more by earnings than multiple expansion. With the lack of tailwinds that helped in the last decade, momentum could stop working and absolute value could reemerge as an important driver in the markets.

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.

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

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

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