Market Review

A year ago, in the Outlook section of our Q1 2020 letter we wrote: *"It is not clear at this time whether the Covid-19 shock will be transitory or permanent. Our view is that it will inflict more serious damage than a typical transitory shock but less severe than what transpired after the 1930s depression or the GFC. The U.S. economy was on a solid footing until February and then the economy was abruptly shut down. We are going to see some ugly numbers in the near term. The speed of recovery is difficult to model because the sudden stop was deliberate. We believe that investors should make realistic and conservative assumptions about the near term, but this does not mean that they should be pessimistic regarding the return opportunities over the medium term. Investor comfort is a poor gauge for evaluating risk exposure. If investors are myopic and obsess over near-term earnings, they could miss out on exceptional returns when markets start pricing in more normalized earnings and true fundamental values."*

What a difference a year makes! Today, at just about the one-year anniversary of the Covid-19 related sell-off, the markets look completely different. The quote by Benjamin Graham aptly sums up this dramatic shift, "In the short run, the market is a voting machine but in the long run, it is a weighing machine."

As we draw closer to the end of the pandemic, investors in the first quarter have positioned themselves for a post-Covid-19 world with significant pent-up demand and somewhat higher inflation. U.S. economic growth forecasts in the mid-to-high-single digits for 2021 have become commonplace. In the coming months, the inflation narrative will be fed by a widely anticipated jump in published government statistics after being artificially depressed last spring. Policymakers would like investors to believe that the surge will be "transitory," but inflationary psychology can be challenging to bottle up once it takes root, especially in a society that has re-leveraged itself to recover from an unexpected shock.

The reflation trade took many forms in the first three months of 2021. Treasuries had their worst quarter since 1980, with the global bond plunge rapidly sending yields back to pre-pandemic levels. The Biden administration's adoption of a multi-trillion-dollar U.S. fiscal package, along with the promise for even more spending on infrastructure and other priorities, further dampened an already depressed bond market. From here, we anticipate that long-term Treasury yields net of expected inflation, currently at around -60 to -70 bps, should push ahead to a more normal 0 bps (and probably overshoot) in coming quarters.

Equity investors continued a trend that began in the second half of 2020—rotating out of previously high-flying sectors and into formerly unheralded sectors. Technology stocks, last year's undisputed winners, have lagged with market leadership turning to smaller companies. The Russell 2000 Index of smaller companies has outperformed the tech-heavy Nasdaq 100 for the second straight quarter, beating it by approximately 10%. Value stocks have also stepped into the spotlight, with the Russell 1000 Value Index exceeding its growth counterpart by roughly the same amount. As the economic recovery continues to unfold, this rotation should persist, correcting for a long decade of relative underperformance.

Signs of excess suggest a growing danger of capital misallocation. This time may be unusual, but the broad outline is not different. In past cycles, investor excess materialized as an internet stock bubble, clever new methods to hide financial leverage and the systematic mis-packaging of mortgage debt. Today, market fever generates cryptocurrency hype and the proliferation of SPACs, a fresh way to take companies public. With policymakers promising to keep interest rates and the cost of capital low for the foreseeable future, perhaps it is rational for investors to seek ever more speculative ways to gather a return on their money. However, as the economist Herb Stein is famously credited with saying, "If something cannot go on forever, it will stop."

Russell Index Returns—*As of March 31, 2021*

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	12.7	12.7	94.9	14.8	16.4	11.7
Russell 2000 Value Index	21.2	21.2	97.1	11.6	13.6	10.1
Russell 2000 Growth Index	4.9	4.9	90.2	17.2	18.6	13.0
Russell 2500 Index	10.9	10.9	89.4	15.3	15.9	12.2
Russell 2500 Value Index	16.8	16.8	87.5	10.9	12.2	10.2
Russell 2500 Growth Index	2.5	2.5	87.5	20.0	19.9	14.2
Russell Mid Cap Index	8.2	8.2	73.6	14.7	14.7	12.5
Russell 1000 Index	5.9	5.9	60.6	17.3	16.7	14.0

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 first quarter, Smaller Cap Indices handily outperformed the Broad Market and Large Cap Indices: S&P 500 6.2%, Russell 3000 6.4%, Russell Mid Cap 8.2%, Russell 2500 10.9%, and Russell 2000 12.7%. This quarter's strong outperformance by Smaller Cap Indices pushed them ahead of the Larger Cap Indices for the trailing 12 months, with the Russell 1000 up 60.6% and the Russell 2000 up 94.9%. For the second quarter in a row, the Russell 1000 and 2000 Growth Indices lagged their value counterparts by a meaningful margin—the Russell 1000 Value was up 11.3% versus the Russell 1000 Growth up 0.9%, while the Russell 2000 Value was up 21.2% versus the Russell 2000 Growth up 4.9%. This quarter's significant outperformance by Value Indices pushed small cap value ahead of the small cap growth for the trailing 12 months by roughly 7%. However, large cap growth still maintained almost a 7% lead over large cap value.

From a sector perspective, results were strong across the board during the quarter as every sector posted positive performance. In both the Russell 2000 and 2500 Value Indices, Energy and Consumer Discretionary (CD) were among the top performers (Russell 2000 Value: Energy 41.9%, CD 35.9%; Russell 2500 Value: Energy 38.1% and CD 26.0%). Materials, Financials, and Industrials also posted positive double-digit gains during the quarter in both indices. Meanwhile, Utilities was the laggard in the quarter, posting roughly 4-5% returns in both indices.

For the preceding 12 months (from almost the bottom of the Covid-related sell-off) both of our Value Indices have almost doubled: the Russell 2000 Value is up 97.1% and Russell 2500 Value is up 87.5% with several sectors up over 100%. CD was the top-performing sector, up 250% in the Russell 2000 Value and 170% in the Russell 2500 Value, followed by Materials (+151% and +110%) and Energy (+136% and +152%). Industrials, Technology, and Financials were three major sectors that were up anywhere between 75% and 101% in both indices as well. Meanwhile, Utilities was the laggard, posting returns of roughly 17% in the Russell 2000 Value and 21% in the Russell 2500 Value.

Performance Impact

Our first quarter performance was strong on an absolute basis in both strategies. In Small Cap, we were up 19.3% gross of fees (19.1% net of fees) versus 21.2% for the Russell 2000 Value Index and in SMID we generated 16.7% gross of fees (16.5% net of fees) versus 16.8% for the Russell 2500 Value Index. On a relative basis, we underperformed the benchmark in Small Cap by 1.9% and were nearly in line with the benchmark in the SMID strategy as it was challenging to keep up with the Value Indexes, especially in Small Cap in a quarter where lower quality and smaller market caps led the performance.

The one-year performance is key as it measures the performance almost from the low point of the Covid-related sell-off in the markets last March. Exactly twelve months ago, in our Q1 2020 letter we were defending our portfolio positioning and rationale for several of our holdings which had declined meaningfully and we wrote: "*Based on our absolute return criteria, this is the best opportunity we have experienced in the value space and within the smaller cap universe since the GFC. Historically, going into sell-offs like the current one, our strategy underperforms due to our exposure to turnaround businesses and higher leverage in certain investments. Additionally, like many price driven investors, we are often early in repositioning our portfolios. However, as the financial conditions begin to normalize, we should outperform meaningfully coming out of such downturns.*"

For the trailing one year, we posted strong absolute returns that were also well ahead of the respective benchmarks in both strategies. In our Small Cap strategy, we were up 126.8% gross of fees (125.4% net of fees) versus 97.1% for the Russell 2000 Value Index and in SMID we generated 96.6% gross of fees (95.6% net of fees) versus 87.5% for the Russell 2500 Value Index. While we are pleased with the results so far, we are more gratified that our alpha has come from businesses in several sectors that are being positively rerated due to superior execution and improved fundamentals. In addition, we feel vindicated as the market is realizing that a few of our businesses are of a much better quality than investors have given them credit for in last three years. Our excess returns have come from several investments across sectors and are not merely a by-product of value factor's resurgence.

In the first quarter, our Small Cap strategy outperformed in two of the four major sectors—Financials and Technology, while underperforming in the other two—Industrials and Consumer Discretionary. Within the Financials sector, SLM Corp., Ameris Bancorp, and Webster Financial Corp. were the top contributors. In Technology, Plantronics and Diebold were the top performers. Conversely, in Industrials, KAR Auction Services, Inc. was the biggest detractor. In the CD sector, while Carter's Inc. underperformed, a bigger factor was not owning Gamestop and other meme stocks that were all the rage in the first quarter. As an example, not owning Gamestop alone cost us 0.72% in relative performance within the CD sector versus the Russell 2000 Value Index. (Please see the discussion below that covers the top and bottom five contributors for further color on this company as well as a few other investments mentioned in this section.) For the 12-months ended March 31, 2021, we outperformed in 8 of 11 sectors and in all four of the major sectors (Financials, Industrials, CD, and Technology). Financials, Technology, and Industrials were by far the largest contributors. In Financials, N.T. Butterfield, Artisan Partners, and Webster Financial posted returns that exceeded 100%. Similarly, but to a larger degree, Diebold, Plantronics, and SailPoint Technologies Holdings, Inc. in the Technology sector, and Resideo Technologies, Beacon Roofing, and Altra Industrial Motion in the Industrials sector, all posted returns in excess of 200%. On the negative side, Materials was the primary detractor as we do not own some of the commodity driven and more speculative smaller market caps that are include in the Russell 2000 Value Index.

Within our SMID Cap portfolio, we outperformed in 7 of 11 sectors by a small margin in the first quarter. Similar to our Small Cap strategy, Technology and Financials were the largest contributors in SMID. In Technology, Plantronics and Diebold were the top contributors. East West Bancorp, Inc., SLM Corp., and Webster Financial were the top performers in the Financials sector. We underperformed in the Industrials sector as KAR Auction hindered our performance in this sector. (Please see the discussion below that covers the top and bottom five contributors for further color on this company as well as a few other investments mentioned in this section.) For the one year ended March 31, 2021, we outperformed in 5 of 11 sectors and outperformed in 3 of the 4 major sectors (Financials, CD, and Technology). We did, however, slightly underperform in the Industrials sector as Kirby Corp. was the largest detractor. Technology, Financials, and CD were by far the biggest contributors. In Technology, Diebold, Plantronics, and SailPoint all posted returns exceeding 200%, while in Financials, East West, Webster Financial, and N.T. Butterfield posted returns of more than 100%. In CD, Michael's generated more than 1,200% return, and Capri Holdings returned nearly 375%. The Consumer Staples sector was the most significant detractor during the period as our holdings in private label and food additives/ingredients lagged the sector due to their higher exposure to the food service industry.

Portfolio Strategy and Key Exposures

Activity in both portfolios continued to slow down materially from the first half of last year. For the most part, the positioning and exposures are consistent with the previous quarter.

Small Cap Value Equity Performance—*Through March 31, 2021*

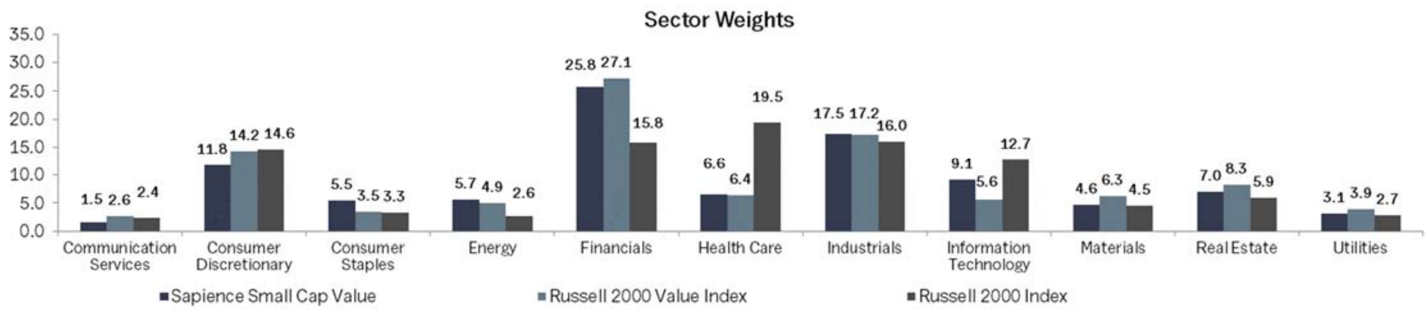
	Quarter	Year to Date	1 Year	3 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	19.3%	19.3%	126.8%	10.0%	9.9%
Sapience SCV Equity Composite (Net)	19.1%	19.1%	125.4%	9.3%	9.2%
Russell 2000 Value Index	21.2%	21.2%	97.1%	11.6%	12.0%
Russell 2000 Index	12.7%	12.7%	94.9%	14.8%	15.1%

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.

Small Cap Value Equity Characteristics and Sector Weights—*As of March 31, 2021*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	22.7%
Active Share [2] (relative to the Russell 2000 Value Index)	94.1%
Tracking Error [3]	7.5
Number of Buys[4]	6
Numbers of Sells[4]	4

[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 first quarter.

Top and Bottom Contributors
First Quarter 2021

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Plantronics, Inc.	KAR Auction Services, Inc.
The Michaels Companies, Inc.	PDC Energy, Inc.
Diebold Nixdorf, Inc.	Carter's Inc.
Diamondback Energy, Inc.	New Relic, Inc.
Cheesecake Factory Inc.	IAA, Inc.

Plantronics, Inc.
Plantronics, Inc.'s stock price appreciated 44% during the first quarter as the company posted another quarter with sales and profitability greater than most bullish expectations. The company's headset business grew 70% and video collaboration solutions grew 60% over the prior year as both are benefiting from the Work from Anywhere (WFA) environment. In addition, Plantronics' Video segment—huddle room products—and Audio segment should benefit once employees return to their offices. Plantronics remains supply constrained on a few of its headsets and video products due to strong demand and supply constraints for certain components. The Company is expected to generate strong free cash flow in the fiscal fourth quarter and use it to pay down debt. Plantronics also refinanced its notes due in 2023 ahead of schedule at a very attractive interest rate.

The Michaels Companies, Inc.
The Michael's Companies, Inc.'s share price increased nearly 70% after announcing an offer to be acquired for $22 per share on March 3 by private equity firm Apollo Global Management, Inc. The Company's board of directors has unanimously approved the terms of the agreement. The offer price represented a 47% premium to the closing stock price on February 26th (the last trading day prior to press speculation about a potential transaction) and a 78% premium to the 90-day volume-weighted average price. We feel vindicated that a PE firm has ratified our contrarian viewpoint on this investment and it shows how myopic and inefficient public markets can become at times.

Diebold Nixdorf, Inc.
During the quarter, Diebold Nixdorf, Inc.'s stock price appreciated when the company reported Q4 results in early February with both revenue and operating profit coming in above expectations. More importantly, management

guided 2021 free cash flow to be materially higher than in 2020—primarily due to lower cash outlays for restructuring initiatives that are tapering off. In addition, with moderation in pandemic-related curtailments in several geographies, order activity and backlog increased year-over-year.

Diamondback Energy, Inc.

Shares of Diamondback Energy, Inc. increased 69% during the period. Throughout the quarter, oil continued to move higher as new supply was kept off the market by OPEC and other participants as the demand is on a gradual uptrend. The company's stock price benefited due to this oil supply/demand dynamic and because its management continues to display impressive cost and production discipline.

Cheesecake Factory Inc.

In February, Cheesecake Factory Inc. reported better than expected traction in the off-premise business (delivery and pick up) in its fourth quarter results. In addition, anticipation of the economy reopening post vaccine roll-out further drove the outperformance of Cheesecake's stock price.

KAR Auction Services, Inc.

KAR Auction Services, Inc.'s stock price declined 19% during the first quarter as elevated prices for used vehicle drove a shortage of vehicle supply in the wholesale market in the fourth quarter of 2020. High prices create an incentive for dealers to hold on to vehicles and sell them at retail rather than send them to wholesale auctions. Additionally, repossessed vehicles, which are an important source of vehicles for KAR Auction are well below normal as financial institutions continue to defer repossessions due to the Covid pandemic. As a result, KAR Auction's volumes declined to 76% of prior year levels in the fourth quarter compared to 90% in the third quarter. The shortfall of vehicle supply led to a meaningful shortfall in earnings during the fourth quarter and expectation that industry volumes will continue to be soft in early 2021 before beginning to normalize later in the year. KAR Auction has made significant reductions to its cost structure that should be apparent once volumes recover, allowing the company to showcase its improved margin structure.

PDC Energy, Inc.

We initiated our investment in PDC Energy, Inc. toward the end of the first quarter. Around the time of our initial purchase, oil sold off more than 5%, which led to the stock's underperformance. At the company level, we believe the fundamentals are highly attractive. PDC Energy is expected to generate approximately $2 billion in free cash flow over the next 3 years at oil's spot price—more than 50% of the company's current market cap. In addition, PDC Energy is planning to distribute the majority of the free cash flow back to shareholders.

New Relic, Inc.

New Relic, Inc.'s stock underperformed as its first quarter guidance was underwhelming for investors and the software sector multiples contracted during the period. The company had announced a new pricing policy last quarter, which included a free tier and is based on usage verses a seat-based subscription model. This shift should help them gain greater traction with their customer base, but the tradeoff is a lower growth rate in the medium term. We believe New Relic is trading at an attractive price for a business with a leading edge cloud multi-tenant APM solution.

Carter's Inc.

During the quarter, shares of Carter's Inc. underperformed as the fourth quarter results were disappointing and, more importantly, the guidance for fiscal year 2021 was significantly below investor expectations in light of the anticipated post-Covid recovery in consumer spending. We decided to exit the position in favor of other attractive opportunities.

IAA, Inc.

IAA, Inc. reported strong results in the fourth quarter. Volumes remained down on a year-over-year basis but high-teens pricing gains more than offset lower volumes allowing the company to return to positive revenue growth in the quarter. Sequential volume recovery, however, could start to moderate in early 2021. The strength in pricing could also begin to normalize in 2021 as industry dynamics return to normal. These expectations contributed to the weak stock performance in the quarter. Additionally, while IAA is a relatively stable business, its stock likely shifted out of favor as more cyclical stocks gained increased attention.

SMID Cap Value Equity Performance— *Through March 31, 2021*

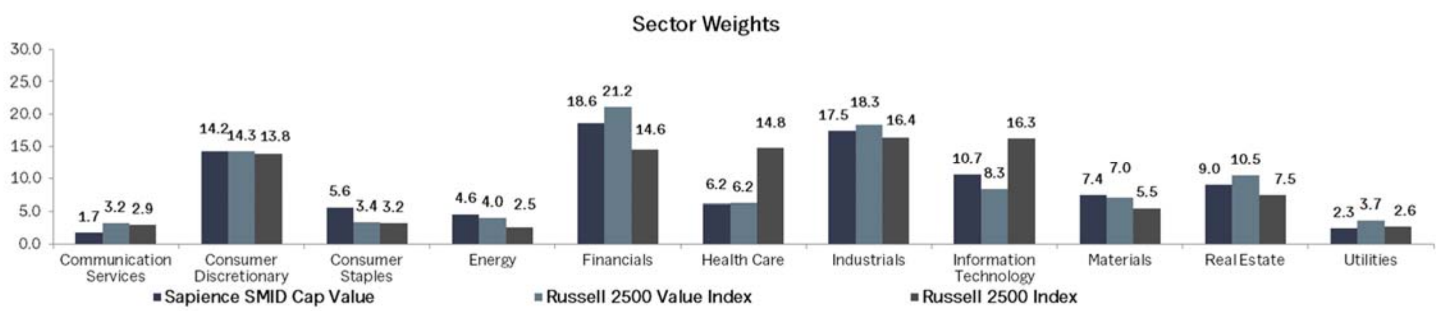
	Quarter	Year to Date	1 Year	3 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	16.7%	16.7%	96.6%	8.8%	7.8%
Sapience SMID Cap Value Equity Composite (Net)	16.5%	16.5%	95.6%	8.2%	7.2%
Russell 2500 Value Index	16.8%	16.8%	87.5%	10.9%	11.0%
Russell 2500 Index	10.9%	10.9%	89.4%	15.3%	15.3%

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 March 31, 2021*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	25.7%
Active Share [2] (relative to the Russell 2500 Value Index)	95.0%
Tracking Error [3]	5.9
Number of Buys[4]	3
Number 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.

SMID Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the first quarter. Plantronics, Inc., Diamondback Energy, Inc., The Michaels Companies, Inc., Diebold Nixdorf, Inc., KAR Auction Services, Inc., and New Relic, 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
First Quarter 2021

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Plantronics, Inc.	KAR Auction Services, Inc.
Diamondback Energy, Inc.	New Relic, Inc.
The Michaels Companies, Inc.	CyrusOne Inc.
East West Bancorp, Inc.	RenaissanceRe Holdings Ltd.
Diebold Nixdorf, Inc.	SailPoint Technologies Holdings, Inc.

East West Bancorp, Inc.
East West Bancorp, Inc.'s stock appreciated 46% during the first quarter as the company posted operating EPS of $1.13/share in the fourth quarter of 2020, well above the consensus estimate of $1.02 on a combination of lower loan loss provisions, better fee income, and a rebound in net interest income. Loan growth was +13% LQA (excluding

PPP) on strength in both C&I and SFR lending. Core deposit inflows were substantial (+31% LQA; +40% LQA ex all CDs), which lowered the bank's funding costs and resulted in an essentially flat net interest margin at 276 bps. Similar to its peers, credit quality trends were favorable—non-performing assets declined 10% quarter-over-quarter, net charge-offs fell to 20 bps (from 26 bps in the third quarter of 2020), and deferrals dropped to 2.6% (from 4.2%). Management guidance of 6-8% loan growth (excluding PPP), core expense growth of 3-5%, and normalized LLPs of $70-80 million forced sell-side analysts to increase their fiscal year 2021 estimates. The yield curve steepening that has occurred since year end should add between 9-12% to most banks' fair value, depending upon a given bank's degree of asset sensitivity. As an asset-sensitive bank, the impact on East West's EPS will not be felt in fiscal year 2021; instead, if the interest rate move is sustained, it should impact fiscal year 2022 and mostly fiscal year 2023 since the initial effect comes from the reinvestment of securities portfolios. Only gradually do higher long-term rates work into loan pricing and reported net interest margin. A greater, more substantial EPS boost could come if investor expectations build that the Federal Reserve will hike rates sooner than expected. This move would drive LIBOR/Prime and quickly re-price variable commercial loans, possibly catalyzing a further share price re-rating.

CyrusOne Inc.
CyrusOne Inc.'s stock underperformed as the company reported fourth quarter 2020 results that included better-than-expected revenue and adjusted EBITDA in line with consensus. The company discussed hyperscale signings of $49 million (vs. weak bookings of $11 million in the third quarter of 2020), rising EBITDA margins, churn of just 0.9%, and solid guidance of high single-digit growth in 2021 with higher-than-expected capital expenditure guidance. The good news from fourth quarter 2020 is that the business has inflected; however, investors and analysts were mildly disappointed that (new) management decided to set conservative guidance for 2021 to build credibility. The company stands to benefit from secular trends in cloud computing and demand for colocation space from hyperscale customers. However, based on management's guidance, FFO growth in 2021 will be in the low-single-digit range, so the valuation discount to faster-growing peers should gradually narrow over the medium term.

RenaissanceRe Holdings Ltd.
The company's stock underperformed as RenaissanceRe Holdings Ltd. posted weak results for fourth quarter 2020 with a loss of $1.54/share versus a wide range of sell-side estimates from negative $3.01 to negative $1.90. Reserve releases, other income/FX, lower underwriting expenses, and lower taxes held down the loss from a huge natural catastrophe season/quarter. Somewhat disappointingly, RenaissanceRe also reported weak underwriting margins, premiums, and investment income. Management pointed to a bigger and more profitable book year-over-year following January renewals. They expect steady improvement over fiscal year 2021, including significant rate increases at the April 1 and July 1 renewal periods, reflecting the industry's recent loss experience. The company remains a market leader in the property catastrophe space with a competitive advantage from its sophisticated modeling capabilities. It remains well capitalized (following a mid-year secondary offering) and ready to deploy that capital into a difficult market in 2021 and 2022. In addition, the company's management team has been trying to diversify the business mix into specialty and casualty lines, where there may be better opportunities for organic and inorganic growth. The current diluted BV is $138.46 (up 15% year-over-year), so the stock currently trades slightly below the sector at 1.0x (vs. peers at 1.1x). It is a contrarian call as we believe that the company should post a substantial rebound in BV and EPS in 2021 and 2022, potentially supporting a share price recovery.

SailPoint Technologies Holdings, Inc.
SailPoint Technologies Holdings, Inc.'s stock underperformed during the first quarter in spite of delivering strong fourth quarter results and better than expected guidance. SailPoint's management team is executing well on their growth plan. The company's stock price declined due to a rise in the treasury yields, which led to a multiple contraction in the high-growth software sector, including security software companies such as Sailpoint.

Outlook

Looking back at the last twelve months, the opportunity to buy fire sale bargains barely lasted a few weeks in the equity markets. At Sapience, we do not place much reliance on macro forecasts. The reason we were able to capitalize on the dislocations within our existing holdings and initiate select new investments is that we have followed these businesses for a long time and are intimately familiar with these industries. Last year, while there was tremendous economic uncertainty, valuations were the most attractive since the GFC. Today, looking out over the next 2 years, the economic outlook is very strong, the Fed is highly accommodative, and there is plenty of fiscal stimulus, which had been missing in the last decade. However, we are currently witnessing high equity prices at very early stages of this recovery—this tempers our bullish sentiment. Due to the speed of this recovery and the appreciation in the early cyclicals, we believe it would be prudent to start transitioning to mid-cycle stocks.

"This is a stock picker's market" is a tired cliché that financial media pundits often proclaim. But it is *always* a stock picker's market to a stock picker. Trends tend to be persistent and, in recent years, passive investing has been ascendant, but we believe that the evolving financial environment is ideal for active investors for three reasons. First, active funds have the flexibility to shift and adapt to ever-changing trends to take advantage of emerging inefficiencies. While Indexes have seemingly steadily advanced upward, there has been highly violent subsurface churn. One way to see this is in the dispersion of market returns by sector—the S&P 500 was up roughly 6.2% in the first quarter of 2021. The difference between the best-performing sector (Energy, +30.9%) and the worst-performing sector (Consumer Staples, +1.1%) was a staggering 29.8%. Second, stocks with superior earnings fundamentals will trade at a premium, a potential source of alpha that index investors will miss. For example, the rise in bond yields during the first quarter lifted banks' next two years EPS estimates by roughly 9-12%. However, within Financials, asset-sensitive banks have the most significant potential for additional positive re-rating as interest rates rise. Investors are increasingly likely to discriminate among potential investments as business conditions move towards a full recovery from the pandemic, testing our skill as analysts to anticipate and position the portfolio towards the greatest beneficiaries. Finally, active management plays a defensive role in helping to mitigate risk across financial cycles. When bull markets inevitably turn, passive index managers are left holding stocks and sectors with poor fundamentals and inflated valuations.

The risk of rising rates is the elephant in the room today. There are heated debates among market experts regarding the outlook for inflation over the next few years. There are good arguments on both sides. Our view is that the rates can go up from the current level even if inflation does not get above 2.5-3.0% as long as the economy is able to recover and grow above trend for the next 2-3 years. The key question is: at what point will rates start to matter to equity valuations? If the 10 year does get above 2.5%, it could start to hurt the higher-multiple and high-growth stocks. Earlier this year, Mr. Klarman was correct in saying, "But as with frogs in water that is slowly being heated to a boil, investors are being conditioned not to recognize the danger." We believe that in the last five years, growth was scarce in the equity markets and value was plentiful. This scarcity of growth along with low rates led to the massive increase in multiples for large cap growth stocks, certain defensive stocks in the name of quality, and young companies with little to no revenues but with a promise to conquer a large addressable market. In the last decade, companies were remaining private much longer and coming public when they were more mature. Now that has reversed and companies are coming public prematurely thru SPACs and this could come back to bite their public equity investors. Based on the current outlook over the next 2-3 years, value looks to be scarce while growth should be plentiful. Looking out over the next decade, absolute returns should be lower than the last decade and hence, we believe plan sponsors should shift allocations to skill-based and opportunistic strategies.

Disclosures

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

Composite and benchmark returns reflect the reinvestment of income. The volatility of the Composite may be different than its respective benchmarks. Composite returns are presented gross and net of actual investment advisory fees. Performance is expressed in U.S. dollars. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Dividends are recorded gross of withholding taxes.

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

[2] Portfolio Ending Active Share: Measures the degree of active management by a portfolio manager.
$AS_f = | PW_f - BW_f | / 2$ where AS_f := Portfolio Ending Active Share; PW_f := Portfolio Ending Weight; and BW_f := Benchmark Ending Weight

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

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

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

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

Russell 2000 Value Index: The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower expected growth values.

Russell 2500 Value Index: The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower expected growth values.

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

Russell 2500 Growth Index: The Russell 2500 Growth Index is designed to measure the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Index: The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

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

Sapience Investments, LLC
Small Cap Value Equity Composite

As of December 31									
Year	Gross Returns (%)	Net Returns (%)	Russell 2000® Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	14.91	14.87	14.07	N/A	N/A	N/A	2	$223.99	$349.83
2017	3.06	2.46	7.84	0.19	N/A	N/A	14	$665.60	$771.66
2018	-17.33	-17.85	-12.86	0.17	N/A	N/A	14	$513.31	$647.68
2019	22.17	21.43	22.39	0.23	18.56	15.90	13	$610.15	$773.40
2020	7.11	6.41	4.63	0.20	33.32	26.49	12	$716.39	$760.25

*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, 2020. 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 sustainable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a two-to four-year investment horizon. The composite was created 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 actual investment advisory fees. Net returns are net of any performance-based fees. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing 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.
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SMID Cap Value Equity Composite

As of December 31									
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	9.83	9.34	N/A	N/A	N/A	1	$22.50	$349.83
2017	1.31	0.74	10.36	N/A	N/A	N/A	8	$106.06	$771.66
2018	-17.44	-17.94	-12.36	0.25	N/A	N/A	10	$134.36	$647.68
2019	28.19	27.48	23.56	0.09	17.46	14.43	8	$163.26	$773.40
2020	1.98	1.42	4.88	N/A	29.67	25.40	2	$43.86	$760.25

*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, 2020. 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 sustainable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a three-to five-year investment horizon. The composite was created 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 actual investment advisory fees. Net returns are net of any performance-based fees. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing 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, 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.
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