

Quarterly Portfolio Commentary – Fourth Quarter 2022

Clifford Capital Focused Small Cap Value Portfolio

Summary of the Focused Small Cap Value Portfolio Composite Historical Return* (unaudited)

	4 th Quarter 2022	2022	3-year, annualized	5-year, annualized	Since Inception**
Portfolio, gross ¹	14.86%	-10.24%	7.01%	4.19%	9.46%
Portfolio, net	14.63%	-10.84%	6.11%	3.28%	8.50%
Russell 2000 [®] Value, total return	8.39%	-14.50%	4.67%	4.10%	8.24%

* Individual account performance will differ slightly from the overall Composite.

** Inception Date: April 1, 2016, annualized

Past Performance does not guarantee future results.

Introductory Message from Ryan Batchelor

2022 was a year of transformation at Clifford Capital and I'm very excited for our firm's future and thankful to all of you for helping us grow. Recently, Wayne Pierson, Principal and co-founder of Clifford Capital, has begun his well-earned retirement and we're excited for the new adventures that await him! Wayne was instrumental in forming and building our business and I want to publicly express my deep appreciation for his efforts over the last decade and a half for helping turn a business idea into an actual business.

Also, effective January 1, Roger Hill was appointed Clifford Capital's President and CEO. Roger is a visionary leader with a tremendous work ethic, and our company is in very capable hands. Roger has been a member of our leadership team since he joined us in 2019 and he's running full speed ahead in his new role.

Both of these developments had been contemplated and planned for over several years, and it's been a seamless transition. Roger is now assuming many of the managerial responsibilities I once had, so I am thrilled to be spending more time doing what I love the most: investment research and managing portfolios as the Chief Investment Officer of the firm.

We also added additional talent in 2022 to the research, compliance, and operations teams, and made significant investments in back-office and trading technology that we think will allow us to serve you even better as we continue growing.

All of these changes have been made with one central goal in mind: to provide alpha for you—our clients and partners. We will continue striving to accomplish this goal through our differentiated investment process. I'm very thankful for your continued support of Clifford Capital and wish you all a very happy new year!

Performance Summary and Market Observations

The fourth quarter was a solid end to a tough year. Despite the year ending with a difficult December, October and November were strong months for the Clifford Capital Focused Small Cap Value Portfolio ("the Portfolio") and small cap value stocks overall. The Portfolio outperformed its benchmark during the quarter, leading to a full year outperformance as well. While we were pleased with the last quarter, 2022 was a disappointing year for the Portfolio and small cap value stocks. We attribute much of 2022's losses to inflationary pressures and the

¹ Portfolio, gross return represents the performance results for the Focused Small Cap Value composite including the reinvestment of dividends and other account earnings and are net of transaction costs, but do not reflect the effect of advisory fees, which would lower performance. Portfolio, net return includes the deduction of advisory fees, reflects the reinvestment of dividends and other account earnings and are net of transaction costs. Past performance does not guarantee future results.

The benchmark for the Focused Small Cap Value composite is the Russell 2000[®] Value index. This index is a capitalization-weighted index which measures the performance of Russell 2000 index companies, respectively with lower price-to-book ratios and lower forecasted growth values. Index returns include the reinvestment of dividends (total returns). Performance of the composite and the index may not be comparable due to differences amongst them including, but not limited to, risk profile, liquidity, volatility and asset composition. An investor cannot invest directly in an index. Moreover, index performance does not reflect the deduction of advisory fees, transaction fees, and other expenses.

Fed's actions to fight these pressures, coupled with angst about an impending recession, which is generally thought to affect smaller companies the most.

We are not macroeconomists, and our macro views rarely influence our investment decisions, but we do believe recession is a likely scenario (if we're not in one already) and we've witnessed recessionary conditions within some of our investment companies' results in recent quarters. We don't envy the Fed in its quest to achieve a soft landing for the economy that has been propped up in recent years by unprecedented fiscal stimulus and years of near-zero interest rates. To us, it's the equivalent of trying to land a 747 jumbo jet on a municipal airport runway that's meant for little Cessna prop planes – it's not impossible, but the chances of something bad (like a recession) happening are high!

In our view, most of the Portfolio's holdings are trading as if a recession is already priced in, so we view the Portfolio's—and the benchmark's—2022 declines as simply a cyclical downturn in anticipation of a probable economic decline. We think stocks typically recover well before recessions officially end and at points that are difficult to ascertain beforehand (isn't the future always difficult to predict?!), so we're content holding on to our investments that are fighting recessionary conditions today, but whose long-term Key Thesis Points™ (“KTPs”) are still intact, coupled with valuations that are compellingly low, in our view.

The Portfolio's Core Value stocks were the bright spot in 2022, posting a full year positive return, based on our internal calculations, while its Deep Value stocks underperformed. That said, we remain bullish on the prospects of our Deep Value investments. We believe these investments have very compelling valuations, based on our analysis, coming into 2023.

Quite simply, many of our Deep Value stocks fell more than we thought they would during 2022, which we attributed mostly to recessionary concerns and in some cases because of relatively high (but manageable in our view) debt levels. While this performance was disappointing, we also believe that these companies' fundamental long-term prospects and our estimates of their intrinsic values did not decline much, if at all. As such, we think these Deep Value investments (which we believed were attractive when we purchased them) are even more compelling coming into the new year *because* of their underperformance. We view this as short-term pain for long term gain.

Consistent with our investment process, we took advantage of this opportunity by adding to our Deep Value investments during the year, resulting in a full year increase of about 5% to the Portfolio's Deep Value weighting. As such, the Portfolio entered 2023 with over a 43% weighting, which is near an all-time high. As a reminder, Deep Value investments are capped at 50% (Core Value stocks will always have a higher weighting: 50-75% of the Portfolio), so this positioning is reflective of our bullish views for Deep Value opportunities.

We strongly believe that the Portfolio—and especially its Deep Value stocks—are compelling today, even with recessionary concerns. And we think the Portfolio is well positioned to take advantage of the opportunities we see.

Core Value and Deep Value Dynamic Revisited

In our last quarterly commentary, we showed how the Portfolio's Core Value stocks had meaningfully outperformed and its Deep Value stocks had meaningfully underperformed over the prior 5 calendar quarters including Q3 2022, while exhibiting the exact opposite behavior during the 5 calendar quarters prior to that. Those statistics are reproduced in **Table 1**. We argued then—and still believe—that the heightened volatility we've witnessed, and the see-saw behavior between the two sleeves, is unusual and is likely related to pandemic-influenced and bubble-like market conditions over the past several years. We also think that much of 2022's volatility is due to macroeconomic conditions, rather than company-specific happenings. Quoting from last quarter's commentary:

So far in 2022 there has been significant upheaval in interest rates, investor expectations, and a clear slowdown in economic conditions that has moved investor focus more towards macro concerns rather than the long-term outlook for individual companies. As such, we've observed that some companies' clear progress towards long term KTPs has often been ignored this year. However, we believe most of these macro issues will eventually subside (or become fully discounted by the stock market) and our Deep Value "beach balls" (we likened our Deep Value stocks to beach balls being held under water) will lead the charge when our investment companies' performance improves, catalyzed, in our opinion, by KTPs.

Although it was only one quarter, we noted that Deep Value stocks rebounded strongly in Q4, catalyzed in our view by KTPs starting to come to fruition, and we think there's more to come! Core Value stocks also performed well during the quarter, a dynamic we welcome because we do not think that strong performance in one sleeve precludes good performance in the other. For 2022, we were certainly thankful for the Portfolio's Core Value investments, which enabled the Portfolio to outperform its benchmark, despite Deep Value's struggles. We also believe the time will come again when, like Q4, we'll be very thankful for our Deep Value investments, which we think are generationally compelling at the end of 2022.

Table 1: Core Value and Deep Value Sleeves Produce Different Performance Streams

	June 30, 2021- Sept. 30, 2022 (5 quarters thru Q3)	March 31, 2020 - June 30, 2021 (prior 5 quarters)	Q4 2022	2022
FSCV Composite, net of fees	-28.0%	131.9%	14.6%	-10.8%
Core Value stocks ²	-5.5%	66.8%	10.8%	3.0%
Deep Value stocks	-53.2%	304.8%	20.5%	-28.6%
Russell 2000 Value	-20.2%	106.0%	8.4%	-14.5%

Past Performance does not guarantee future results.

Data Source: Bloomberg, as of 12/31/2022

Will 2023 be the Year of the Bargains? We Think Investors are Starting to Care about Valuations Again.

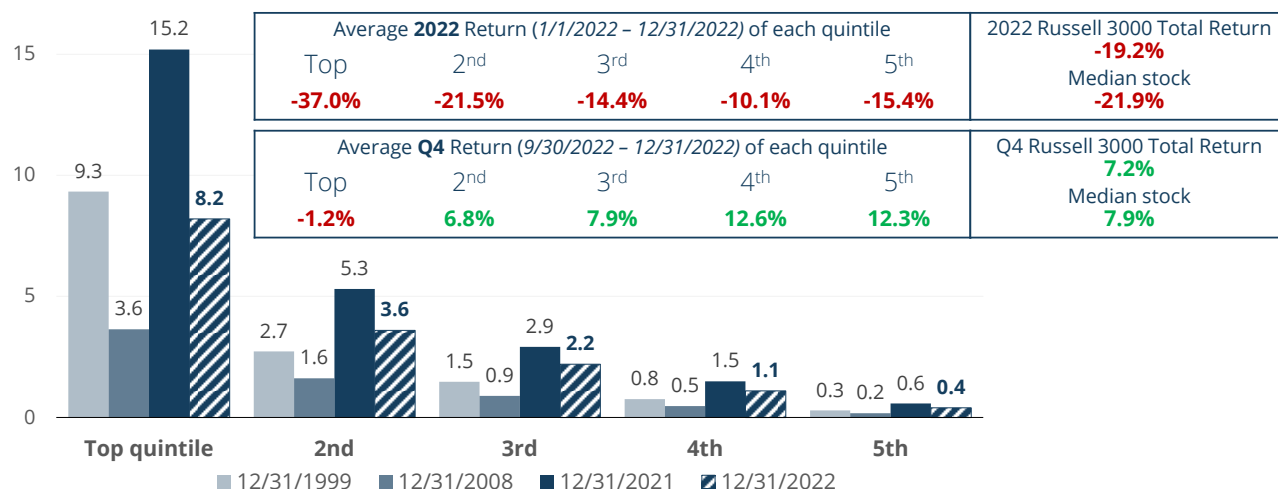
In our commentaries throughout 2022 we've shown a graphic (see **Figure 1**) that depicts the valuation levels of the Russell 3000 Index³, which is generally considered to be a proxy for the entire U.S. stock market, sorted into valuation quintiles (most expensive to least expensive 1/5 of the stock market, ranked by the price to sales ratio). The data showed that the market was much more expensive coming into 2022 than it was at the end of 1999 (near the end of the dotcom bubble), and significantly higher than it was at the end of 2008, (near the end of the Great Financial Crisis and what, in hindsight, was a great buying opportunity). After 2022's stock market declines, valuations have indeed improved meaningfully, but we note that valuations remain higher at 12/31/2022 than they were at 12/31/1999 for every quintile except for the most expensive one.

Also as shown in **Figure 1**, the market's most expensive stocks declined sharply and underperformed the U.S. stock market in 2022 while the less expensive quintiles were still down but outperformed. This dynamic was particularly acute in Q4 when the market's cheapest two quintiles posted solid performance. We think this dynamic was a tailwind to the Portfolio's Deep Value holdings in Q4.

2 The Core Value and Deep Value performance is presented net of fees and is based on the holdings of a representative account within the Focused Small Cap Value composite, and shows the performance of the Core Value and Deep Value stocks, respectively, as if they were stand alone portfolios. Data generated from Bloomberg and does not include any effects of estimated cash holdings (ex-cash). Past performance does not guarantee future results.

3 The Russell 3000® Index is a capitalization-weighted index which is comprised of the stocks within the Russell 1000® and the Russell 2000® Indices. This index of securities represents approximately 98% of the investable U.S. equity market. Numbers presented include the reinvestment of dividends (total return). An investor cannot invest directly in an index. Moreover, index performance does not reflect the deduction of advisory fees, transaction charges, and other expenses.

Figure 1: Price to Sales Ratios⁴ at the end of 1999, 2008, 2021, and 2022
(most expensive to least expensive quintiles)



Past performance does not guarantee future results.

Data Source: Bloomberg

Why Do We Think Cheaper Stocks Will Continue to Outperform?

In an environment like today's, we continue to believe that owning investments with low valuations makes sense. Borrowing from commentary two quarters ago that we think bears repeating:

We think owning stocks with lower valuations is always prudent, but especially today in an environment where many investors are taking a more skeptical view of the future. From a pragmatic viewpoint, we think companies with lower valuations have more options to improve their stock prices. For example, share repurchases made at low valuations can result in material share count reductions and earnings per share accretion, dividend yields become more meaningful, and we believe activist investors and strategic/financial buyers become more interested in cheaper companies, leading to mergers and acquisitions activity.

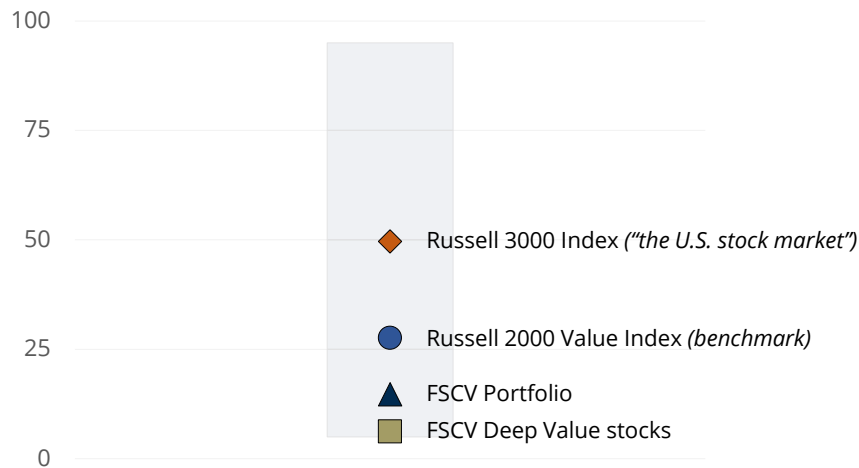
We have seen some of these types of shareholder-friendly actions happen already and it helped the Portfolio's fourth quarter results. In particular, we've seen an uptick in activist shareholders agitating for change in some of the Portfolio's least expensive holdings, which has resulted in higher stock prices. We view inexpensively valued stocks as fertile ground for activists to begin planting seeds, and also for companies' management teams to seek ways to improve shareholder returns.

Many of our investment KTPs revolve around shareholder-friendly capital allocation (e.g. spin-offs, share repurchases, dividend increases, debt paydowns, etc.) that we expect to occur and we've seen evidence of this starting to happen within the Portfolio's investments. We believe certain segments of the market (including the Portfolio's Deep Value investments) have appealingly low valuations, and we think these inexpensive stocks will continue to garner attention from investors, which we believe could lead to 2023 being a banner year for shareholder-friendly actions.

The Portfolio continues to be positioned inexpensively at the end of 2022. The overall Portfolio and its Deep Value stocks were valued in the lowest quintile of the overall U.S. stock market based on price to sales, well below its benchmark (see **Figure 2**). We think the Portfolio's cheaper positioning (coupled with KTPs for each stock because statistical cheapness is not enough for us) is a great place to be if less expensive stocks continue to outperform, as we think they will.

⁴ Price to Sales ratio is the ratio of a company's or index's current market capitalization to its sales over the prior 12 months as of the date of the analysis. For this chart, the Russell 3000® Index was sorted by highest to lowest price to sales ratio in fifths (quintiles) for all index stocks with available price/sales data for each time period (about 90%, 95%, and 92% of total Index constituents were included for 1999, 2008, and 2021, respectively). 12/31/2022 data was obtained from the same constituents as at 12/31/2021 for comparability. The datapoint presented on the chart is the median price/sales ratio for each quintile.

Figure 2: Price to Sales
(% Rank, High to Low)



Based on Russell 3000 Index constituents with price to sales data at 12/31/2022.

Data Source: Bloomberg as of 12/31/2022

Conclusion

While we were disappointed in the Portfolio's 2022 losses, we think the strategy is well positioned headed into 2023 with a portfolio of what we believe to be attractively valued stocks coupled with catalysts for fundamental improvement (our Key Thesis Points™) that we think will be recognized and rewarded by the stock market. We are particularly bullish on the Portfolio's Deep Value stocks (an atypically high ~43% weighting), which have significant potential for future appreciation, in our opinion.

Significant Portfolio Changes

We purchased one new Core Value stock, Western Union (ticker: WU) and we sold one Core Value stock, Wesbanco (ticker: WSBC) and one Deep Value stock, AMC Networks (ticker: AMCX).

Purchases

WU: Western Union is best known for its money transfer business, which is used primarily for cross-border cash transactions. We think Western Union's brand is powerful in its core markets and will help the company build up its growing digital transfer business in a more profitable way than most market participants believe. We think the company has the potential—by virtue of its ample free cash flow⁵—to make significantly accretive purchases of other financial technology businesses that are now being priced more realistically. We also expect the company's impressive track record of share repurchases to support its earnings-per-share growth at a faster pace than is currently reflected in the company's low valuation.

Sales

AMCX: We sold AMC Networks during the quarter as new information arose that contradicted some of our main Key Thesis Points™. Importantly, the firm's chairman announced in conjunction with a companywide layoff memo that the monetization models for entertainment content was in disarray (one of our primary KTPs was that the firm's content had significant value that would be monetized in some form within the next 2 years). In addition, his memo suggested that the company's niche streaming services were not growing quickly enough to make a significant impact on the firm's overall profits, which was another one of our KTPs. As such, we sold the stock despite it having a very low current valuation.

WSBC: We sold Wesbanco—a regional bank—to provide capital for other investments that we believed had better reward/risk profiles. We also sought to lower the Portfolio's regional bank weighting, which had grown

⁵ Free cash flow is generally defined as cash flow from operations minus capital expenditures. It is a measure of profitability used to determine how much excess profit a company generates that may be used for distribution among its security holders (i.e. debt payments, dividends, share repurchases, acquisitions).

during 2022 from strong performance, and WSBC’s loan book was the most economically sensitive of our regional bank investments, so we believed it would be the best candidate to sell.

Individual Stock Performance

Top Contributors ⁶ – Q4 2022	Largest Detractors – Q4 2022
KLX Energy (KLXE)	Qurate Retail Preferred (QRTEP)
Pitney Bowes (PBI)	Millicom Intl. Cellular (TIGO)
Commercial Vehicle Group (CVGI)	Qurate Retail Common (QRTEA)
Perdoceo Education (PRDO)	AMC Networks (AMCX)
Thermon Group (THR)	Big Lots (BIG)

Past performance does not guarantee future results.

Source: Bloomberg as of 12/31/2022

Commentary on the Top Two and Bottom Two Contributors and Detractors to the Portfolio’s Total Return

KLXE: KLX Energy’s earnings and liquidity profile continued to improve during the quarter and the company generated significant cash flow, which alleviated many investor concerns. We expect KLXE’s business to continue improving in 2023, as oilfield services companies are in the early stages of benefiting from improved pricing and higher activity levels.

PBI: Pitney Bowes announced several significant new business wins in its ecommerce shipping business, that it expects will drive that segment to break-even cash flows, or better, in 2023 (one of our primary KTPs). Additionally, an activist investor has been agitating for change, which increased investor interest in the company and led, in our view, to a late-year pop in the stock.

QRTEP: Qurate Retail’s preferred stock (which pays a \$2 quarterly dividend) fell alongside Qurate Retail common stock during the quarter, given continued weak results from the ecommerce retailer. Industrywide supply chain issues plus the complete loss of its largest distribution center in a fire late last year significantly disrupted Qurate’s 2022 results. We think the company is on the path to improved financial results in the second half of 2023 and has significant financial flexibility despite relatively high debt (a trait common to companies associated with John Malone, who is a key board member of the firm), which gives the company time to turn around its results. Our KTPs remain valid, in our opinion, so we added to the preferred stock during the quarter.

TIGO: Millicom’s stock declined modestly during the quarter because of relatively weak quarterly earnings and its industry being out of favor. We believe the firm’s capital allocation will improve meaningfully in the next 12-24 months through share repurchases and potentially a meaningful dividend, which we think will improve the valuation of the stock. We also think the primary reason for TIGO’s underperformance in 2022 was the consolidation of one of its segments, which was a prudent action, but required a rights offering (common stock issuance) that significantly pressured the price of the stock, in our view, for nonfundamental reasons.

Final Comments

Thank you for your investment with Clifford Capital. We will continue to focus on building long-term wealth through disciplined portfolio management.

Sincerely yours,

Ryan Batchelor, CFA, CPA
Principal and Portfolio Manager
Clifford Capital Partners, LLC

⁶ Portfolio holdings are from a representative account managed within the investment composite. The representative account is selected based on account characteristics that Clifford Capital believes accurately represent the investment strategy as a whole. Should these characteristics change materially, Clifford Capital may select a different representative account. Holdings may change daily and may vary among accounts, which may contribute to different investment results.

The securities identified do not represent all of the securities purchased, sold, or recommended for advisory clients.

Please contact us at (385) 387-1212 or support@cliffordcap.com to obtain information about (i) the calculation methodology; and (ii) a list showing the contribution of each holding in the representative account to the account’s performance during the measurement period.

Disclosures

Identifying undervalued securities and other assets is difficult, and there are no assurances that such a strategy will succeed. Any fair value estimates are subject to actual known and unknown risks, uncertainties, and other factors that could cause actual results to differ materially from those projected. Information is as of the period stated in this letter and is subject to change. Clifford Capital Partners undertakes no obligation to update this information if circumstances or management's estimates or opinions should change.

Information about Risk

Risks of Investing in Equity Securities. *Overall stock market risks may affect the value of an equity portfolio. Factors such as domestic economic growth and market conditions, interest rate levels, and political events affect the securities markets. When the value of the portfolio investments goes down, the portfolio decreases in value and you could lose money.*

Risks of Small-Cap and Mid-Cap Securities. *Investing in the securities of small-cap and mid-cap companies generally involves substantially greater risk than investing in larger, more established companies.*

Focused Investment Risk. *The Focused Small Cap Value strategy is a focused strategy and generally holds stocks of between only 25 and 35 companies. Focused strategies may invest a larger portion of their assets in the securities of a single issuer compared to a more diversified strategy. Focusing investments in a small number of companies may subject the portfolio to greater price volatility and therefore a greater risk of loss because a single security's increase or decrease in value may have a greater impact on the portfolio's value and total return.*

Sector Risk. *The portfolio may emphasize investment in one or more particular business sectors at times, which may cause the value of portfolio to be more susceptible to the financial, market, or economic events affecting issuers and industries within those sectors than a strategy that does not emphasize investment in particular sectors.*

Management Style Risk. *Because the strategy invests primarily in value stocks (stocks that Clifford Capital believes are undervalued), the strategy's performance may at times be better or worse than the performance of stock funds or strategies that focus on other types of stock strategies (e.g., growth stocks), or that have a broader investment style.*

Definitions

Core Value Stocks

We define Core Value stocks as high-quality companies with sustainable competitive advantages and long-term records of strong returns on capital. These companies tend to have stable and predictable cash flows as well as steady growth in the intrinsic value of their stock.

Deep Value Stocks

We define Deep Value stocks as opportunistic investments in deeply discounted shares of businesses that do not meet the high requirements of a Core company. Deep Value investments are deemed by us to have high potential returns with acceptable downside risks. These investments may be considered traditional value stocks with low price multiples, and low near-term investor and analyst expectations.

Price-to-Book Ratios

Ratio used to compare a stock's market value to its book value. It is calculated by dividing the current price of the stock by the latest quarter's book value per share.

Clifford Capital Partners LLC ("CCP") is an investment adviser in Alpine, Utah. CCP is registered with the Securities and Exchange Commission ("SEC"). Registration of an investment adviser does not imply any specific level of skill or training and does not constitute an endorsement of the firm by the Commission. CCP only transacts business in states in which it is properly registered or is excluded or exempted from registration. A copy of CCP's current written disclosure brochure filed with the SEC which discusses among other things, CCP's business practices, services and fees, is available through the SEC's website at www.adviserinfo.sec.gov.