Quarterly Portfolio Commentary – Third Quarter 2023
Clifford Capital All Cap Value Portfolio

Summary of the *Clifford Capital All Cap Value Portfolio* Composite Historical Return* (unaudited)

	3rd Quarter 2023	Year-to-Date	1-year	3-year *(annualized return)*	5-year	10-year	Inception**
Portfolio, net of fees[1]	-1.49%	-5.56%	7.59%	10.51%	5.71%	9.63%	11.93%
Russell 3000® Value, total return	-3.15%	1.64%	14.01%	11.17%	5.95%	8.27%	10.18%

* Individual account performance will differ from the overall Composite
** Inception Date: August 1, 2010, annualized
Past Performance does not guarantee future results.

Performance Summary and Market Observations

The Clifford Capital Partners All Cap Value Portfolio ("the Portfolio") was slightly negative in Q3 but performed better than its benchmark. We are encouraged by some early signs that the Portfolio's holdings—especially its Deep Value holdings—are starting to recover, and the market environment is no longer as sharply negative towards our investment style. However, the Portfolio continues to lag its benchmark so far in 2023, mostly due to its underperformance during the "bank crisis" market rotation over a 3-month period in March-May that we discussed in last quarter's letter.

While 2023 has been disappointing, we believe the difficult market environment earlier this year led to some very compelling investment opportunities, and we continue to think the future looks brighter than the recent past. We have strong conviction in the strategy's individual stocks, and we see solid long-term value in the Portfolio, despite some headwinds—including much higher interest rates—that we think may affect the overall stock market. Our conviction, as always, is based on the Key Thesis Points™ ("KTPs", which are long-term catalysts for fundamental improvement for every investment in the strategy) we identify through our research, which we think will move our stocks closer to our fair value estimates.

Market and Portfolio Observations

The biggest factor that affected the U.S. stock market in Q3, in our view, was a rapid increase in market interest rates as the Fed indicated that it was willing to hold interest rates higher than expected for longer than expected. Inflation—while tempered somewhat—has remained stubbornly high and the long-awaited U.S. recession that is expected to kill off high inflation has not materialized just yet, although we have seen signs of recessionary conditions among the companies we follow and within the communities we live in.

The increase in market interest rates that accelerated in August and September was remarkable, and stock and bond markets staggered late in the quarter as market participants contemplated the longer-term effects of higher rates. **Figure 1** shows the yield of the 10-year Treasury (a common rate used to value stocks and other financial assets) since the inception of the Portfolio in 2010. The 10-year Treasury has reached the highest levels, by far, since the inception of our firm, and the most recent spike took it well above levels it reached last year during a period of stress for the U.S. stock market.

1 Performance results for the All Cap Value composite reflect the reinvestment of dividends and other account earnings, are net of transaction costs and includes the deduction of advisory fees. Past performance does not guarantee future results.

The benchmark for the All Cap Value composite is the Russell 3000® Value index. The Russell 3000® Value index is a capitalization-weighted index which measures the performance of Russell 3000 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 will 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 charges, and other expenses.

Figure 1: 10-Year U.S. Treasury Yields
(August 1, 2010 – September 30, 2023)

Data Source: Bloomberg

We think stocks with lower valuations—the essence of value investing—should perform better in periods with higher interest rates. 2022 was a small example of this. When rates rose significantly during 2022, the market's more expensive stocks (Tech in particular) fell much more sharply than value stocks, and the Portfolio also held up better. As rates declined in early 2023 because of the regional bank crisis, this dynamic reversed, leading to strong headwinds for the Portfolio and value stocks overall. Now, with rates moving higher again, we've seen some signs of improvement in the performance of our individual stocks and the Portfolio's results.

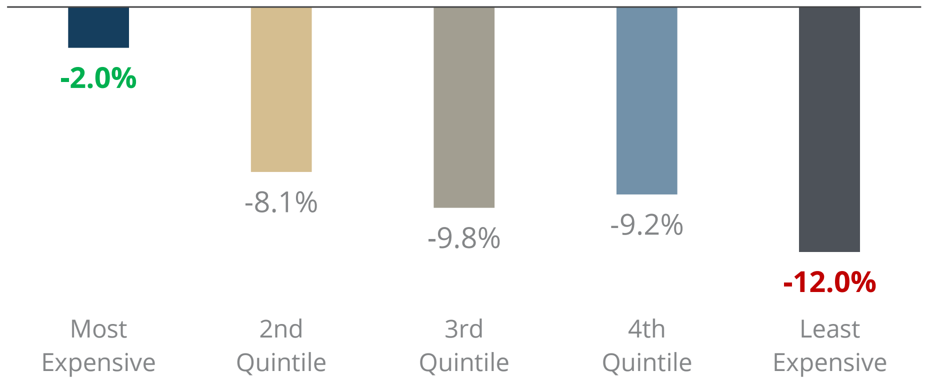
The reason we think stocks with lower valuations should outperform during periods of higher rates is attributable to relatively simple principles of finance. We think the fair value of a stock is the discounted value of all its future free cash flow. Since those free cash flows can only be estimated, investors use a discount rate to account for the uncertainty. All things equal, a higher discount rate (the 10-year Treasury is commonly used as a portion of the discount rate) equates to a lower fair value of a stock. And all things equal, if the free cash flow is lower today and higher in the future—essence of growth stocks—the value declines more sharply with higher rates than it does for stocks with more current free cash flow.

Put more simply, $100 of free cash flow received today is worth more than $100 of free cash flow received years in the future when it is discounted with a higher interest rate. So, paying less for that $100 of current free cash flow today—the essence of value investing—makes financial sense as rates increase, in our opinion.

We Think Higher Rates Have Led to Inexpensive Stocks Beginning to Outperform Expensive Stocks
Repeating some information from last quarter's commentary, we observed that during the heart of the regional bank crisis (the 3-month period from March 1 – May 31, 2023), the U.S. stock market's most expensive stocks significantly outperformed the least expensive stocks, as measured by the Russell 3000 Index[2] (see **Figure 2**). This 3-month period also corresponded to the Portfolio's largest period of underperformance relative to its benchmark (about -7.7%, net of fees).

2 The Russell 3000 Index measures the performance of ~3000 stocks and includes large-cap, midcap and small-cap U.S. equities, along with some microcap stocks. The combined market capitalization of these stocks represents ~96% of the value of U.S. equities.

Figure 2: Performance of Russell 3000 stocks by valuation quintile during bank crisis
(March 1, 2023 – May 31, 2023)



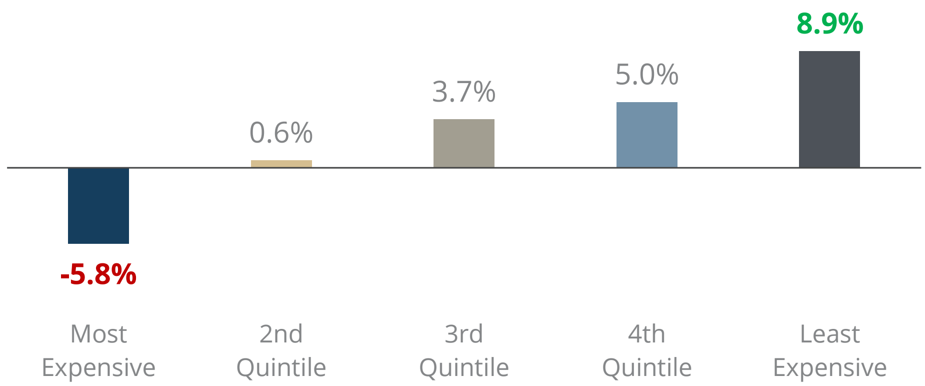
Valuation metric used was the Price to Sales ratio, which is the ratio of a company's or index's current market capitalization to its sales over the prior 12 months as of 12/31/2022. For this chart, the Russell 3000 Index was sorted by highest to lowest price to sales ratio in fifths (quintiles) for all index stocks with available price/sales data for each time period (about 93% of total Index constituents were included). The datapoint presented on the chart is the average performance (simple mean) from March 1, 2023 – May 31, 2023 of all stocks within each quintile (~558 stocks per quintile).

Data Source: FTSE Russell & Bloomberg

As the regional bank crisis abated and interest rates began increasing, we noted that the market's least expensive stocks began outperforming (see **Figure 3**), while the most expensive stocks lagged. We think a good portion of this market action is related to the effects of higher interest rates (and discount rates that we discussed earlier), which favors cheaper stocks.

We noted that the Portfolio's overall performance improved (+5.8%, net of fees, about 2.4% better than its benchmark) during this June 1 – September 30 period, led by its least expensive Deep Value stocks.

Figure 3: Performance of Russell 3000 stocks by valuation quintile since June 1
(June 1, 2023 – September 30, 2023)



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Data Source: FTSE Russell & Bloomberg

Higher Rates also Affected Companies with Higher Debt Loads and "Bond Proxies"

We are encouraged that the stock market is beginning to reward its least expensive constituents, but we also noted that the recent jump in interest rates had a negative effect on certain subsets of the U.S. stock market and some of the Portfolio's stocks.

Two notable observations were: 1) the stocks of U.S. companies with significant debt underperformed during the quarter (see **Table 1**), and 2) some stocks with higher dividend yields that we think may have been used as "bond proxies" struggled as well (**Table 2**). These trends were particularly strong in August and September when market interest rates surged.

Table 1: Performance of Russell 3000 Index Stocks with Higher Debt

	Total Return (simple avg) **for Q3**	**Total Return in August & September**
Significantly Levered Stocks *(more net debt than market cap)*	-7.8%	-14.2%
Stocks with No Leverage *(more net cash than debt)*	-4.5%	-11.3%
Median Russell 3000 Stock	-5.5%	-10.7%
Russell 3000 Index *(cap-weighted, official return)*	**-3.3%**	**-6.6%**

For this table, the Russell 3000 Index constituents were ranked highest to lowest by a measure of net debt to market capitalization, as of 12/31/2022. The total return datapoints presented on the table are the average performance (simple mean) from July 1, 2023 – September 30, 2023 and August 1, 2023 – September 30, 2023, respectively for the indicated leverage segments.

The market's aversion to companies with leverage is logical as interest costs are generally increasing and existing debt will need to be repaid or refinanced at higher rates. However, we do not think all leveraged companies are created equally and we think many can handle higher rates with relative ease. Only about 14% of the Portfolio is invested in companies with more debt than market cap as of September 30 (and we think some of the debt is misclassified/misunderstood for some of those holdings), so our exposure to heavily indebted companies is relatively low. However, we believe these companies are among our most attractive ideas today.

As contrarian investors, we think there are solid investment opportunities in select companies that have meaningful, but manageable, debt loads, whose stock prices have fallen to compelling prices because of the market's aversion to debt in a rising interest-rate environment. Some of these stocks have underperformed recently alongside higher interest rates, but we believe our KTPs are still valid and will overcome the pressures of higher interest rates.

Table 2: Performance of Russell 3000 Index "Bond Proxy" High Dividend Yield Stocks

	Total Return (simple avg) **for Q3**	**Total Return in August & September**
Dividend Yield over 3% *(as of 12/31/22)*	-6.8%	-11.1%
Dividend Yield under 1% *(as of 12/31/22)*	-3.6%	-9.6%
Median Russell 3000 Stock	-5.5%	-10.7%
Russell 3000 Index *(cap-weighted, official return)*	**-3.3%**	**-6.6%**

For this table, the Russell 3000 Index constituents were sorted by highest to lowest dividend yield, as of 12/31/2022. The total return datapoints presented on the table are the average performance (simple mean) from July 1, 2023 – September 30, 2023 and August 1, 2023 – September 30, 2023, respectively for the indicated dividend yield segments.

As shown in **Table 2**, stocks with higher dividend yields underperformed stocks with lower yields during Q3. This was surprising because we expect stocks with higher dividend yields to hold up better in market downdrafts, especially because they are often found among the market's more stable sectors such as health care, real estate (REITs), utilities, and consumer staples – areas of the market that are often considered 'defensive' sectors.

We think some investors have held higher dividend yielding stocks as bond proxies during the low interest rate environment over the past decade, given the generally stable fundamentals and cash flows of many of these companies. As market interest rates increased, these bond proxies became relatively less attractive, and we believe some market participants sold them and moved into bonds and cash, given higher interest rates. We attribute much of this price action to investor sentiment and positioning, rather than fundamental, observable changes in company results.

Several of our Core Value stocks in these bond proxy sectors declined more than we believed was warranted in Q3, given their solid fundamental results. We would normally expect Core Value stocks—especially those in the bond proxy sectors—to hold up well in difficult market environments, so this was a challenge for the Portfolio during Q3.

We think this 'bond proxy' selloff was a headwind to our Core Value stocks during the quarter and the Core Value sleeve underperformed during Q3. As always, there were a few stock-specific events as well—some negative and some positive—that also affected performance results, but we attribute the majority of the quarter's underperformance in the Core Value sleeve to the 'bond proxy' dynamic.

Conclusion

We were encouraged by the Portfolio's improved performance versus its benchmark in Q3, and we think higher interest rates may be the catalyst needed to spur a more normalized environment for value investing. We were also encouraged that the Portfolio's Deep Value stocks performed well in a tough market, which mostly offset the losses from the Core Value sleeve, and was responsible for the Portfolio's outperformance of its benchmark.

We see significant value in the Portfolio's individual stocks today, and we remain encouraged by the progress we see towards our individual companies' KTPs, which we think will catalyze future results. We're disappointed with the modest losses in the strategy so far in 2023, but we continue to believe the long-term outlook for the Portfolio is very compelling.

Significant Portfolio Changes

There were four new additions to the Portfolio: Core Value stocks Walt Disney Co. (ticker: DIS), Fidelity National Information Services (ticker: FIS), and Kenvue Inc. (ticker: KVUE), and Deep Value stock Forward Air (ticker: FWRD).

We also sold four stocks: Deep Value stocks First Citizens Banc. (ticker: FCNCA) and Qurate Retail (ticker: QRTEA), and Core Value stocks AutoZone (ticker: AZO) and Haleon PLC (ticker: HLN).

Purchases

DIS: Disney's stock has been out of favor lately with a variety of industrywide, and stock-specific challenges that have led to a very attractive stock price, in our view. We think the company's Disney+ streaming segment will reach profitability sooner than expected, given a heightened managerial focus on profitability over subscriber growth. We also believe the company has extremely attractive assets that may be monetized with the proceeds used to repurchase the company's inexpensive shares. We also believe the company's brand power is still extremely strong among its family-focused consumer, despite recent challenges.

FIS: Fidelity National Information Services is a solid financial technology company with a long history in core banking services. We think its core business has attractive financial attributes including extremely high retention rates and recurring revenue streams that make its earnings more predictable than many other companies. We think there is opportunity for meaningful debt reduction and share repurchases from the upcoming sale of a majority stake in its payment subsidiary, Worldpay. We believe the stock is very attractive today.

FWRD: Forward Air announced a transformational merger with privately held Omni Logistics during the quarter and the stock fell precipitously, leading to our buying opportunity. We think FWRD offered too high a price, but most of the deal will be financed with a fixed number of FWRD shares, so the deal price became much more reasonable after the stock had fallen. We think the merger cost synergies are easy to accomplish and should add significant free cash flow. Additionally, we think there's a possibility the merger may fail (several shareholders oppose the deal and Omni may not want the lower price, given FWRD's stock price reaction), which we think may result in a quick rebound in FWRD stock, or the potential for share repurchases at attractive levels if the stock does not rebound. We think with or without a deal, FWRD's stock is attractive today.

KVUE: Kenvue is the consumer health business that was spun out from Johnson & Johnson (ticker: JNJ) during the quarter. We received shares in KVUE at a discount from the spin-off and we also purchased more stock in the open market. We think the company's underperforming Beauty segment has potential for improvement over the next few years and we think the company's ample free cash flow will be used to reduce debt, which should benefit shareholders.

Sales

AZO: AutoZone is an excellent business run by capable managers and has been performing well, but we felt that its valuation more than fully reflected its qualities and we saw a few potential stumbling blocks for its business in the next couple of years, so we sold it to provide capital for more attractive ideas. AutoZone was a solid investment for the Portfolio.

FCNCA: We sold First Citizens near our fair value estimate in early July. The company's acquisition of the remnants of Silicon Valley Bank was very accretive, in our opinion, but also entailed significant integration risks, so we sold the stock after it had increased materially from the acquisition.

HLN: We sold Haleon stock to purchase more Kenvue, which we believe is a similar company with a more attractive valuation.

QRTEA: We sold Qurate during the quarter as the stock's significant declines—many of which were a result of supply chain issues and a fire in its largest warehouse—led to an increased risk of a highly dilutive event for common shareholders, given the company's high debt load. This was a disappointing investment for us. While we recognized the risks of buying a company with substantial debt, we did not anticipate the stock declining as much as it did. While it's small comfort, given the magnitude of recent losses in the stock, we did note that since 2020 we received over 80% of our original purchase price back in the form of special cash dividends and a preferred stock that we sold above par. This helped mitigate some of the long-term effects of the stock price decline.

Individual Stock Performance

Top Contributors[3] – Q3 2023	Largest Detractors – Q3 2023
Perdoceo Education (PRDO)	Big Lots (BIG)
Liberty Energy (LBRT)	RTX Corp. (RTX)
CVB Financial (CVBF)	DXC Technology (DXC)
Schlumberger (SLB)	American Express (AXP)
Westamerica Bancorp. (WABC)	General Mills (GIS)

Past performance does not guarantee future results. Source: Bloomberg as of 9/30/2023

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

PRDO: Perdoceo—a for-profit higher education firm—posted better-than-expected results and also initiated a substantial initial dividend. More than half of the company's market capitalization as of the end of Q3 is held in net cash and we think the company is performing well despite operating in a tough regulatory environment.

LBRT: Liberty—an oilfield services provider—is performing well and benefited from higher oil prices during the quarter. We still believe LBRT is benefiting from its bargain acquisition of Schlumberger's (ticker: SLB) U.S. operations, which is manifested in the company's increasing free cash flow. Our Key Thesis Points remain valid, and we think the stock continues to be undervalued.

BIG: Even though Big Lots stock continues to languish, we saw signs of improvement in its most recent quarterly earnings report and we believe that upcoming quarters will show continued progress. Importantly, the company posted positive free cash flow in Q2 (even though it posted negative EPS) and increased its available liquidity with a sale/leaseback transaction of some of its owned real estate. We think several of the biggest issues facing the company are beginning to normalize, which should result in better results than the market currently expects. The stock has fallen more than we expected it could, given negative reported earnings and some debt, and is a relatively small position in the Portfolio today, but we still believe it can have a meaningful positive impact on the Portfolio as its results continue to show improvement.

RTX: RTX—formerly known as Raytheon—announced a costly manufacturing defect in one of its Pratt & Whitney engines during the quarter, which will result in reduced free cash flow over the next two years as they fix the issue for their airline customers' planes (we estimate the total costs to be in the range of $4-6 billion). While disappointing, we think the market reaction (stock declined 26% during the quarter – a loss of about $38 billion of market cap) was excessive for this issue, which will easily be covered with the company's ample free cash flow.

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

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3 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.

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You may obtain information about (i) the calculation methodology; and (ii) a list showing the contribution of each holding to the overall performance of the representative account during the reporting period discussed in this Commentary by contacting us at (385) 387-1212 or support@cliffordcap.com.

Disclaimers & Disclosures

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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 All 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.*

About Us

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