

## Clifford Capital Focused Small Cap Value Fund

### Quarterly Commentary – Third Quarter 2023

#### Performance Summary

*Average Annual Returns as of September 30, 2023*

	3 <sup>rd</sup> Quarter	Year-to-Date	1-Year	3-Year	5-Year	Inception (10/1/2019)	Total Return, Inception (10/1/2019)
Institutional Class (FSVXX)	4.20%	4.40%	19.73%	13.33%	n/a	7.13%	31.70%
Russell 2000 <sup>®</sup> Value <sup>1</sup>	-2.97%	-0.58%	7.76%	13.28%	n/a	5.98%	25.95%

*Average Annual Returns as of September 30, 2023*

	3 <sup>rd</sup> Quarter	Year-to-Date	1-Year	3-Year	5-Year	Inception (1/31/2020)	Total Return, Inception (1/31/2020)
Super Institutional Class (FSVQX)	4.13%	4.43%	19.72%	13.39%	n/a	7.94%	32.32%
Investor Class (FSVRX)	4.03%	4.13%	19.30%	13.03%	n/a	7.59%	30.76%
Russell 2000 <sup>®</sup> Value	-2.97%	-0.58%	7.76%	13.28%	n/a	5.26%	20.50%

\*\*Expense Ratio Gross/Net: FSVXX 2.65%/1.05%; FSVQX 2.40%/0.97%; FSVRX 3.01%/1.30%

*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling (800) 673-0550.*

\*\*Clifford Capital Partners, LLC (the "Adviser") has contractually agreed to reduce fees and/or reimburse certain Focused Small Cap Value Fund expenses until January 31, 2024.

#### Performance Summary and Market Observations

The Clifford Capital Focused Small Cap Value Fund ("the Fund") increased over 4% during the second quarter, well ahead of its benchmark that declined about 3%. We were pleased with this performance in a tough market environment, and it also lifted the Fund's year-to-date results well ahead of the benchmark after a rough beginning to 2023 during the regional bank crisis.

Both the Core Value and Deep Value sleeves of the Fund outperformed the benchmark during the quarter, but Core Value was the standout performer. We are encouraged that the market environment no longer seems as sharply negative towards our investment style as it was earlier this year when less expensive and smaller-cap stocks fell sharply, and the market flocked to large cap technology stocks.

We are also becoming cautiously optimistic (only 'cautiously' because small cap value stocks have been out of favor for a long time!) that market participants are beginning to recognize the compelling valuations and prospects of many small cap companies. We've observed in recent months that stock-specific events for Fund holdings such as strong earnings reports, strategic transactions, and activist investor engagement are beginning to have more lasting positive effects on stock prices. We noted that many positive stock-specific events seemed to be ignored or overlooked during the regional bank crisis earlier this year, and at other times when large cap technology stocks led the U.S. stock market over the past few years. Given our high conviction, concentrated 25-35 stock portfolio, we expect stock-specific events to account for most of our long-term performance results, so we're encouraged that we're starting to see more company-specific moves, rather than whatever the popular trade du jour happens to be.

<sup>1</sup> The Russell 2000<sup>®</sup> Value Index ("RUJ") is a capitalization-weighted index which is designed to measure performance of Russell 2000 Index companies, respectively, with lower price-to-book ratios and lower forecasted growth values. Numbers presented include the reinvestment of dividends (total return).

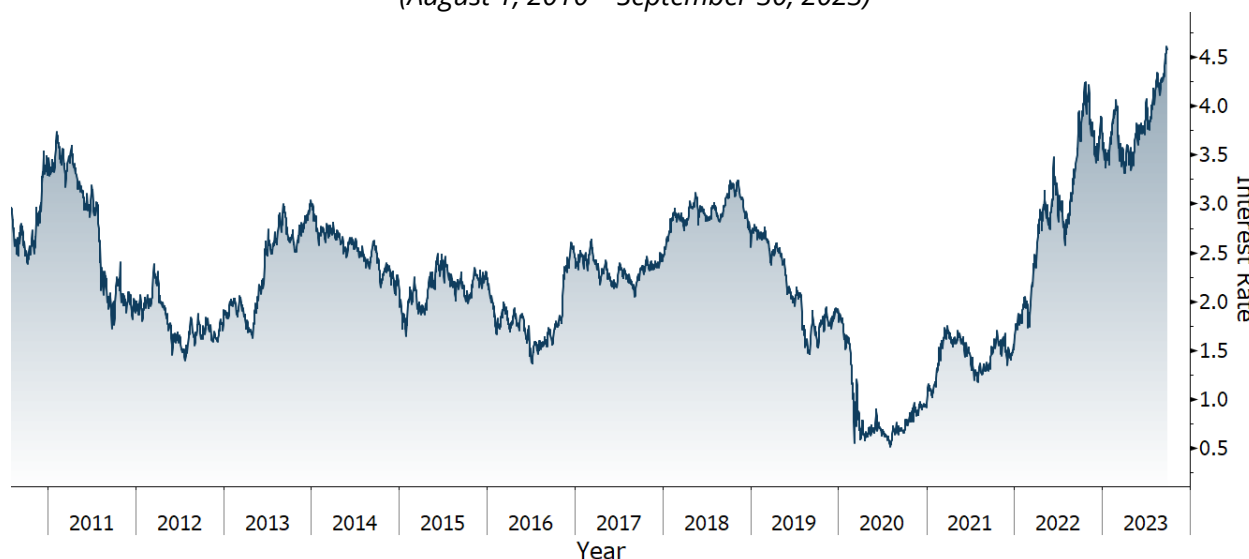
While 2023 has been a choppy year so far, we believe the difficult market environment earlier this year led to some very compelling investment opportunities, and we continue to think the future looks bright. We have strong conviction in the strategy’s individual stocks, and we see solid long-term value in the Fund, 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 Fund 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 we began managing money in August 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.

**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 Fund also held up relatively better. As rates declined in early 2023 because of the regional bank crisis, this dynamic reversed, leading to strong headwinds for the Fund 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 Fund’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

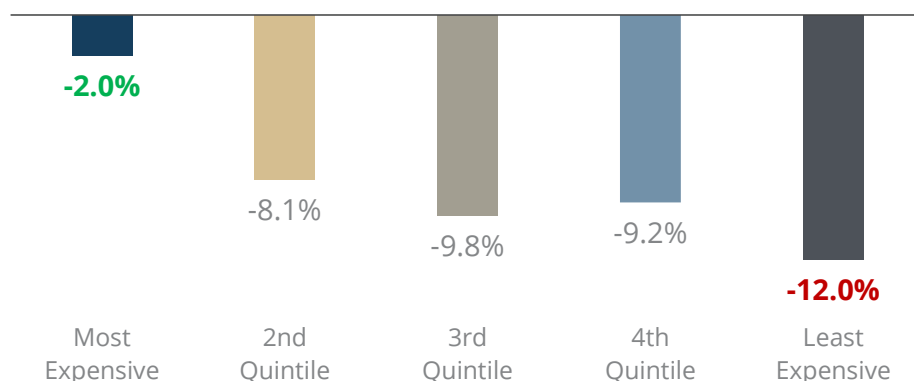
account for the uncertainty. All things equal, a higher discount rate (the 10-year Treasury is commonly used as a portion of the discount rate) equates to a lower fair value of a stock. And all things equal, if the free cash flow is lower today and higher in the future—essence of growth stocks—the value 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<sup>2</sup> (see **Figure 2**). This 3-month period also corresponded to a period of underperformance for the Fund relative to its benchmark (FSV VX underperformed its benchmark by 3.0% from March 1 – May 31, 2023).

**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

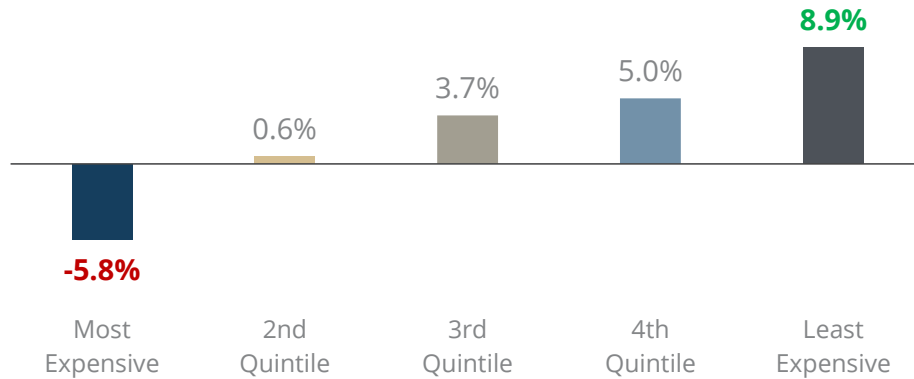
As the regional bank crisis abated and interest rates began increasing, we noted that the market’s least expensive stocks began outperforming (see **Figure 3**), while the most expensive stocks lagged. We think a good portion of this market action is related to the effects of higher interest rates (and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

We noted that the Fund’s overall performance also markedly improved during this June 1 – September 30, 2023 period (FSV VX increased 13.2%, about 8.4% better than its benchmark). Given our focus on investing in companies trading with low valuations (coupled with catalysts), we were encouraged—and not surprised—that the Fund performed well when the market’s least expensive stocks outperformed.

We believe the primary difference in recent months is that fundamental improvements in smaller—and cheaper—stocks have started to be recognized in a positive way. We observed that during the regional bank crisis earlier this year, many positive developments were either ignored or were underappreciated among small cap stocks and the market’s least expensive companies. We think these events were swamped by negative sentiment and a the large cap trade rotation that we discussed at length in our last commentary. We’re encouraged that individual stock events appear to be having an impact again.

<sup>2</sup> 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 3: Performance of Russell 3000 stocks by valuation quintile since June 1**  
(June 1, 2023 – September 30, 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 June 1, 2023 – September 30, 2023 of all stocks within each quintile (~558 stocks per quintile).

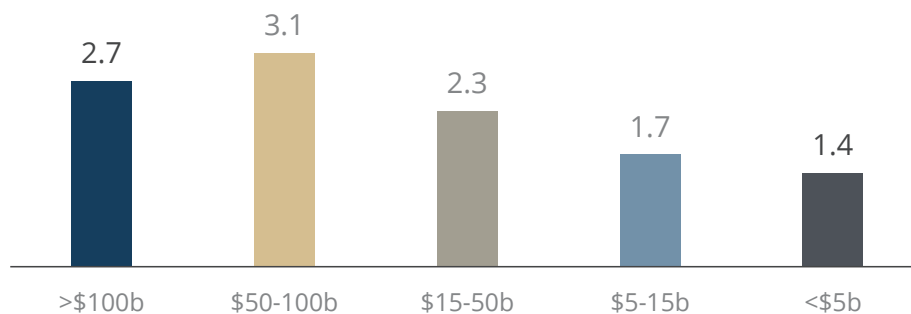
Data Source: FTSE Russell & Bloomberg

**...And Small Cap Value Stocks are Less Expensive**

Small cap value stocks (less than \$5B in market cap) traded at roughly half the valuation of their large cap value counterparts as of September 30, 2023 (see **Figure 4**). While there are certainly some reasons for investors to prefer large cap stocks, we simply ask, “is it worth paying two times more per dollar of sales for the comfort of owning a larger business?”

We have heard some opinions that smaller companies may be affected more by higher interest rates, which may help explain part of the current valuation discrepancy. However, we believe that many of our small cap companies can successfully manage higher rates by virtue of their strong balance sheets and ample cash flows, not much differently than larger companies. Although *some* smaller companies may have less access to capital, and potentially be more affected by higher interest costs, we believe this creditworthiness determination is a company-specific exercise, not a market-wide event. So, when the broad small-cap market falls on such beliefs, it can lead to individual investment opportunities in smaller companies that are creditworthy.

**Figure 4: Median price to sales ratio of Russell 3000 Value<sup>3</sup> stocks by market cap**  
(September 30, 2023)



Median price to sales ratio at 9/30/2023 for Russell 3000 Value constituents that were found within the market capitalization bands shown in the figures. Market capitalizations were sorted by 12/31/2022 values.

Data Source: FTSE Russell & Bloomberg

<sup>3</sup> 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.

### 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 Fund’s stocks.

Two notable observations were: 1) the stocks of U.S. companies with significant debt underperformed during the quarter (**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**

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

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. Less than 1/4 of the Fund 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 we think our exposure to indebted companies is modest and manageable.

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**

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

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 think a few of our Core Value stocks were caught in this "bond proxy" selloff and they 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 these stocks detracted somewhat during the quarter.

We attribute much of this price action to investor sentiment and positioning, rather than fundamental, observable changes in company results. As a result, we think these types of declines can lead to contrarian investment opportunities—both within and outside of the Fund.

### **Conclusion**

We were encouraged by the Fund's improved performance in Q3, and we think higher interest rates may be the catalyst needed to spur a more normalized environment for value investing. We see significant value in the Fund'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.

### **Significant Fund Changes**

During the quarter, we bought one new Core Value stock, Forward Air (ticker: FWRD – 3.35% of the Fund at 09/30/2023) and had no full sales.

#### ***Purchase***

**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.

#### **Individual Stock Performance**

**Contributors:** The two greatest contributors during the quarter were Core Value stock NextGen Healthcare (ticker: NXGN – 4.08% of the Fund at 9/30/2023) and WW International, aka Weight Watchers (ticker: WW – 3.00% of the Fund at 9/30/2023).

**NXGN:** NextGen announced that it would be acquired by Thoma Bravo—a private equity firm—for \$23.95/share. This was about a 38% premium to where it was trading prior to the announcement. While the acquisition price is slightly lower than what we believed the company was worth, we think this was a reasonable offer and we expect it to be approved.

**WW:** Weight Watchers' acquisition of Sequence earlier this year (a telehealth provider for weight loss injectables) and better trends in its subscriber base (including its first ever increase in subs from Q1 to Q2), has led to more positive investor sentiment, which we think has driven the stock more than its fundamental improvements so far. However, we expect the fundamentals of the business to significantly improve over the next several years.

**Detractors:** The two largest detractors were Deep Value stocks Commercial Vehicle Group (ticker: CVGI – 2.86% of the Fund at 9/30/2023) and VOXX International (ticker: VOXX – 1.97% of the Fund at 9/30/2023).

**CVGI:** Commercial Vehicle Group posted better-than-expected earnings results again during the quarter, but it also guided to some incremental slowdowns in its core Class 8 large truck business in the latter-half of the year. Even though the company still expects solid results for the full year, the stock underperformed after its earnings announcement. We continue to believe the company's new business wins in electric vehicle platforms are beginning to generate meaningful cash flows, which we think will be used to enrich shareholders.

**VOXX:** VOXX has recently struggled with lower demand for its consumer electronics products and various disruptions affecting its auto manufacturing customers. These issues have overshadowed recent new business wins in its automotive segment and the effects of a bargain purchase of a strong consumer electronics brand.

**Final Comments**

Thank you for your investment in the Fund. We have high conviction in the Fund's stocks, and we are invested alongside you. We appreciate your support, and we will continue to strive to prudently manage your money.

Sincerely yours,

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

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*The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling (800) 673-0550, or by going to the Clifford Capital Funds website at [cliffordcapfunds.com](http://cliffordcapfunds.com) and clicking on the "Prospectus" link. Read it carefully before investing.*

*Fund holdings are subject to change at any time and should not be considered a recommendation to buy or sell any security.*

### **Definitions**

**Core Value Stocks.** Investments in companies the Adviser believes are high-quality companies that earn high returns on capital. These stocks will represent 50-75% of the Partners Fund's holdings.

**Deep Value Stocks.** Opportunistic investments in companies the Adviser believes are deeply-undervalued. These stocks, plus the Fund's cash holdings, will represent the remaining 25-50% of the Partners Fund.

**Free Cash Flow.** A measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow represents the cash a company is able to generate after laying out the money required to maintain or expand its asset base.

### **Information about Risk**

**Risks of Investing in Equity Securities.** Overall stock market risks may affect the value of the Fund. Factors such as domestic economic growth and market conditions, interest rate levels, and political events affect the securities markets. When the value of the Fund's investments goes down, your investment in the Fund 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 Fund is a focused fund and generally holds stocks of between only 25 and 35 companies. Focused funds may invest a larger portion of their assets in the securities of a single issuer compared to a more diversified fund. Focusing investments in a small number of companies may subject the Fund to greater share 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 Fund's value and total return.

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

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

**New Fund Risk.** The Fund is recently formed. Accordingly, investors in the Fund bear the risk that the Fund may not be successful in implementing its investment strategy, may not employ a successful investment strategy, or may fail to attract sufficient assets to realize economies of scale, any of which could result in the Fund being liquidated at any time without shareholder approval and at a time that may not be favorable for all shareholders. Such liquidation could have negative tax consequences.

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