

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

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

	4 th Quarter	2023	annualized return			
			3-year	5-year	10-year	Inception**
Portfolio, net of fees ¹	11.53%	5.33%	7.18%	11.68%	9.94%	12.60%
Russell 3000 [®] Value, total return	9.80%	11.61%	8.76%	10.81%	8.25%	10.76%

* Individual account performance will differ from the overall Composite

** Inception Date: August 1, 2010, annualized

Past Performance does not guarantee future results.

Performance Summary

The Clifford Capital Partners All Cap Value Portfolio (“the Portfolio”) had a strong final quarter of 2023, outperforming its benchmark. For the full year, however, the Portfolio lagged its benchmark due to the very difficult start to the year during the regional bank crisis and the accompanying market rotation away from smaller companies and less expensive stocks (both areas the Portfolio was highly exposed to). During the final 7 months of the year, market conditions meaningfully improved for small-cap stocks and the least expensive stocks, which was an encouraging development for the strategy, and a hopeful sign for 2024 and beyond.

While the year ended well, 2023 was not a period of smooth sailing. The first 5 months were difficult, primarily due to the regional bank crisis that dominated the 3-month period of March 1 – May 31. Then the final 7 months of the year were much improved, even though there was a sharp market drop during the 3-month period of August 1 – October 31 (a period when the Portfolio outperformed its benchmark).

Table 1: Portfolio and Benchmark Performance

	Jan 1 – May 31	June 1 – Dec 31	Full Year 2023
Portfolio, net	-10.71%	17.97%	5.33%
Russell 3000 Value Index	-1.65%	13.48%	11.61%
Difference	-9.06%	+4.49%	-6.28%

Source: FTSE Russell and internal records

Interest rates, inflation, and speculation about the Fed’s intentions for monetary conditions were the primary driver of the U.S. stock market in 2023, in our view. However, we were encouraged to see that individual company fundamentals seemed to carry more weight in late 2023 than we’ve witnessed in the recent past.

We’ve observed recently that some stock-specific events such as strong earnings reports, strategic transactions, and activist investor engagement are beginning to have longer-lasting positive effects on stock prices. We noted that several 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

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.

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 trade is currently the most popular in the market.

We believe the Portfolio's holdings have compelling valuations and solid prospects, which we expect to be recognized over time by market participants. We saw some of this in 2023 and we're hopeful that 2024 will continue this trend.

Quarterly Market and Portfolio Observations

The biggest story during the quarter was an improvement in U.S. inflation and signals from the Fed in early November that they are finished raising interest rates and will likely begin cutting rates in 2024. Just one quarter ago, we wrote about how market interest rates had spiked higher, and the stock market was deeply concerned about interest rates and inflation remaining "higher for longer". This negative sentiment rapidly reversed into exuberance in early November. Stock and bond prices leaped upward (i.e. bond yields declined – see **Figure 1**) in November and December, fully offsetting weakness in the months preceding Q4 when bond yields spiked, and stocks shuddered.

Figure 1: 10-Year U.S. Treasury Yields



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This "Fed is Done" rally in the last two months of 2023 was rapid and violent to the upside and was broadly positive to the market and the Portfolio, but it particularly benefited some of the market's weakest companies. For example, within the Russell 3000 Index², which is a proxy for the entire U.S. stock market, unprofitable companies and companies with significant leverage strongly outperformed the overall index during the last two months (see **Table 2**). We think these types of companies are more sensitive to interest rates (and are generally riskier), so we see logic in the market's reaction to the expectation of looser financial conditions. However, similar to the interest-rate driven selloff in August – October, we attribute much of this market price action to knee-jerk investor sentiment and positioning, rather than fundamental, observable changes in company results.

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.

Table 2: Riskier Companies Outperformed in November and December

	Total Return in Nov. and Dec. 2023
Unprofitable Companies* <i>(stocks with negative 12-month profit margin)</i>	32.4%
Highly Levered Companies** <i>(companies with more net debt than market cap)</i>	28.1%
Median Russell 3000 Stock	20.5%
Russell 3000 Index <i>(cap-weighted, official return)</i>	15.1%

* Companies within the Russell 3000 Value index as of 12/31/22 that had a negative reported trailing 12-month profit margin as of December 31, 2023. Source: FTSE Russell & Bloomberg Finance L.P.

** 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 are the average performance (simple mean) from November 1 – December 31, 2023 for the indicated dataset.

Even though we think the market’s initial reaction to the prospect of lower interest rates was disproportionately beneficial to lesser-quality companies, we believe lower market interest rates would be helpful to a broad swath of U.S. stocks, including higher quality companies. So, we expect markets to differentiate between companies more idiosyncratically now that the initial “relief rally shock” has been recognized.

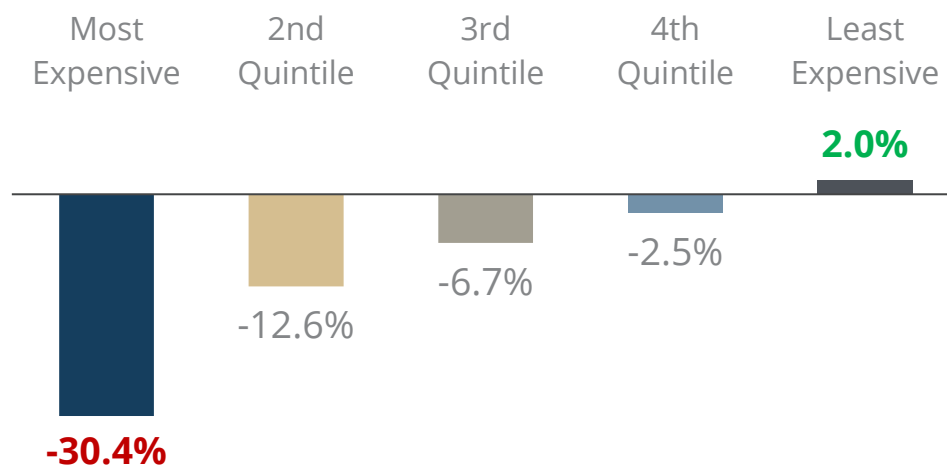
Looking Back and Looking Forward. Interest rates and inflation were the story over the past two years, will 2024 be known as the year of the deal?

Looking Back: In our Q4 commentary two years ago, we observed how growth stocks were much more popular than value stocks and how a large portion of the stock market looked historically expensive to us. We believed at the time that higher interest rates, potentially driven by sticky inflation, could also be a future benefit to less expensive stocks. While this seemed like a prediction, it was really just an observation that inflation was already baring its teeth and that the Fed would likely be forced to confront it with higher interest rates. Quoting from that Q4 2021 commentary:

We’ve also discussed in prior letters how we think some of the market’s preference for growth stocks was due to a long period of low interest rates, led by loose monetary policies and conditions. We believe that higher interest rates (perhaps driven by inflation and the Fed’s reaction to inflationary pressures) could increase investor interest in investments trading at reasonably low multiples to current, or near-term cash flows, rather than stocks trading at high multiples of cash flows that are lower (or nonexistent) today but are expected to grow rapidly in the future. We believe the former is a decent description of a “value” stock while the latter is a reasonable description of a “growth” stock.

As shown earlier in **Figure 1**, market interest rates indeed rose significantly, and interest rates and inflation were the dominant theme over the past two years. During this two-year period, the market’s most expensive stocks struggled while the cheapest stocks outperformed, as measured by Russell 3000 Index constituents (see **Figure 2**).

Figure 2: Performance of Russell 3000 stocks by valuation quintile over the last two years
(January 1, 2022 – December 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 12/31/2021. 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 92% of total Index constituents were included). The datapoint presented on the chart is the median performance from Jan. 1, 2022 – Dec. 31, 2023 of the stocks within each quintile (~563 stocks per quintile).

Source: FTSE Russell & Bloomberg Finance L.P.

Even including the last two months of 2023 when the market's most expensive quintile was the strongest performing subset of the Russell 3000, cheaper stocks meaningfully outperformed more expensive stocks over the last two years during a period of higher interest rates.

We think the data in **Figure 2** may be surprising to many stock market observers because it has been mostly obscured by a handful of relatively expensive, mega cap technology stocks that have performed spectacularly well in 2023. Namely, the "Magnificent 7": Apple, Alphabet/Google, Amazon.com, Meta Platforms, Microsoft, Nvidia, and Tesla. – none of which are owned in the Portfolio. Despite the rally in 2023 among these select behemoths, many of the market's most expensive stocks at the end of 2021 still have a long way to go to make up for their losses over the past two years.

We think the Portfolio also benefited somewhat from this move towards the market's cheapest stocks, but we believe we should have done better. During this two-year period, the Portfolio was up about 1.6% (total return, net of fees, from Jan. 1, 2022 – Dec. 31, 2023), about 1.1% lower than its benchmark. There were a few individual stocks that materially detracted from the Portfolio's performance over the past couple of years. Despite these laggards (most of which we still own and have high conviction in), we've felt the underlying positive effects of improved market sentiment towards our strategy and style in the recent past, and we're very encouraged about the Portfolio's prospects. 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 their fair value estimates.

Looking Forward: We believe there will be a significant increase in shareholder activism and mergers and acquisition ("M&A") activity in the U.S. stock market and among the Portfolio's holdings over the next few years. And we wouldn't be surprised to see several deals among the Portfolio's stocks in 2024. Given the market's almost universal consensus that the Fed has finished its interest rate increase cycle, we think private equity and other strategic and financial investors will be more emboldened to engage in M&A because the costs of financing should be much less uncertain. Of course, there is always a risk that interest rates and debt markets may not cooperate as smoothly as the market expects (the last several years have provided many surprises that upended capital markets!), but we do think the odds are very high today that the Fed won't be aggressively raising rates anytime soon.

By our reckoning, the debt markets were essentially frozen at least four times over the past two years because of various factors: the Russian invasion of Ukraine in early 2022; high inflation leading to several aggressive federal funds rate increases (50bps twice and 75bps four times) beginning in May 2022 through the end of the year; the regional bank crisis in early 2023; and a sudden rise in long-term interest rates in the late summer/early fall of 2023. Additionally, we felt an underlying fear in the market that inflation may spiral, and the Fed might become even more aggressive, which had a chilling effect on deal making.

Now, we think that even if the Fed does not cut rates in 2024, buyers will have more confidence to do M&A because there is little perceived risk of a rapid increase in interest rates. Rate stability is good enough, in our opinion, to keep the debt markets open for business.

We have already seen evidence in early 2024 of an increase in announced M&A, and we recently read that global shareholder activism reached an all-time high in 2023, so we think there are already a lot of agitators for change receiving attention in corporate board rooms today.

Almost half of the Portfolio's individual stocks have either a rumored or confirmed activist investor presence or M&A interest as of the end of 2023. As such, we would not be surprised to see an increase in deals in 2024 and beyond, which we would expect to be a benefit to the Portfolio, assuming the deal prices are reasonably close to our fair value estimates.

We believe our investment process of seeking companies trading at a discount to a reasonable fair value estimate coupled with KTPs, is a similar process employed by many private equity firms and other M&A buyers. As such, we're not surprised that many of our holdings are being targeted by activists or potential buyers. To be clear, we never have a KTP that is predicated, or dependent, on the speculation of M&A. Our KTPs are catalysts that we've identified that we think will improve the fundamentals of the companies we invest in (e.g. higher cash flows, higher earnings per share, improved balance sheet), which we think will subsequently improve their stock prices. We simply believe these KTPs and attractive valuations may entice other investors—including those who prefer M&A.

Conclusion

While 2023 was a tough year overall, we were happy that it ended better than it began, and we're encouraged by the Portfolio's potential coming into 2024. We see strong value in the Portfolio's investments today, and its individual stocks each have KTPs that we believe will translate into better future results and potentially accretive M&A transactions.

Significant Portfolio Changes

There were two new holdings added to the Portfolio, and we completely sold one stock. NCR Corporation split into two separate publicly-traded Deep Value companies: NCR Atleos (ticker: NATL), which we retained as a new holding, and NCR Voyix (ticker: VYX), which we sold. We also added a new position in Core Value stock Pfizer (ticker: PFE).

Purchases

PFE: Pfizer's stock was significantly out of favor in 2023 as this pharmaceutical giant struggled with reduced demand for its Covid vaccines and related drugs, and market skepticism about its growth prospects. We think the company's aggressive cost cuts (~\$4B) provide it with capital to fund promising new cancer treatments for its recently acquired Seagen business, and cushion to meet its modest earnings guidance. We believe Pfizer remains one of the best pharmaceutical businesses in the world and the skepticism around its stock was excessive, leading to an attractive buying opportunity.

NATL: This position was added because of a split-off rather than a new purchase, but we also added to the Portfolio's position in NCR Atleos during the quarter, based on our belief that the company has several avenues for future growth. Atleos is the ATM-focused business of legacy NCR Corp., an area that produces significant

cash flow. We believe the company's ATM-as-a-service business has strong potential to increase cash flow and margins over time, and we also expect significant debt repayment that should benefit shareholders.

Sales

VYX: NCR Voyix is the self-checkout and restaurant management software business of legacy NCR Corp. We think this is a decent business, but we did not identify enough Key Thesis Points to justify continuing to own it.

Individual Stock Performance

Top Contributors ³ - Q4 2023	Largest Detractors - Q4 2023
Pitney Bowes (PBI)	Schlumberger (SLB)
Westamerica Bancorp. (WABC)	Forward Air (FWRD)
CVB Financial (CVBF)	Compass Minerals (CMP)
American Express (AXP)	Cisco Systems (CSCO)
Community Trust Bancorp (CTBI)	NCR Voyix (VYX)

Past performance does not guarantee future results.

Source: Bloomberg as of 12/31/2023

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

PBI: Pitney Bowes announced early in the quarter that its embattled CEO would be stepping down, which was one of the key steps desired by the new members of the board of directors, who are part of an activist investor group that is one of the largest shareholders of the company. The company's most recent earnings report also showed signs of progress.

WABC: Westamerica Bancorp continues to post strong earnings results as a direct result of the company's funding cost advantages over other regional banks, and its low exposure to riskier loans. We think WABC is much different—and much higher quality—than most of its regional bank peers.

SLB: Schlumberger declined during the quarter alongside oil prices. Oil prices have been volatile lately because of geopolitical concerns and economic concerns. We think fossil fuel production trends—the key driver of SLB's business—should remain relatively robust because energy companies have been less enthusiastic than normal during this most recent up cycle, so we expect a less volatile “boom and bust” cycle for energy.

FWRD: Forward Air—a relatively new holding to the Portfolio—modestly declined during the quarter as there is still significant uncertainty over its pending merger with privately-held Omni Logistics. While the original terms of the deal were untenable, in our view, we think the significant drop in FWRD's stock before we purchased it significantly reduced the dilution of the transaction. As such, we would prefer the deal not to occur, but even if it does, we think FWRD's stock is very attractive today.

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

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.

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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.*

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