Clifford
CAPITAL PARTNERS

Quarterly Portfolio Commentary – Fourth Quarter 2023
Clifford Capital Focused Small Cap Value Portfolio

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

	4th Quarter 2023	2023	3-year, annualized	5-year, annualized	Since Inception**
Portfolio, gross[1]	13.23%	19.15%	9.70%	10.94%	10.66%
Portfolio, net	12.99%	18.11%	8.78%	9.98%	9.69%
Russell 2000 Value, total return	15.25%	14.58%	7.89%	9.96%	9.04%

* Individual account performance will differ from the overall Composite.
** Inception Date: April 1, 2016, annualized
Past Performance does not guarantee future results.

Performance Summary

The Clifford Capital Focused Small Cap Value Portfolio ("the Portfolio") increased strongly in the final quarter of 2023 but did not keep pace with the benchmark in the last two months, leading to underperformance for the full quarter. For the full year, the Portfolio outperformed its benchmark and posted a solid return of over 18%, net of fees, which was a pleasing outcome to us after a difficult start to the year during the regional bank crisis and the accompanying market rotation away from less expensive stocks. We remain encouraged that market conditions have improved for the least expensive U.S. stocks (where we find most of the Portfolio's investments).

While it ended well overall, 2023 was not a year of smooth sailing. The first five months were difficult, primarily due to the regional bank crisis that dominated the three-month period of March 1 – May 31. Then the final seven months of the year were much improved, even though there was a sharp market drop during the three-month period of August 1 – October 31 (a period the Portfolio outperformed by over 8%, net of fees).

Table 1: Portfolio and Benchmark Performance

	Jan 1 – May 31	June 1 – Dec 31	Full Year 2023
Portfolio, net	-7.82%	28.13%	18.11%
Russell 2000 Value Index	-5.07%	20.70%	14.58%
Difference	-2.75%	+7.43%	+3.53%

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 2023 than we've witnessed in the recent past. Quoting from last quarter's commentary:

> *We've observed in recent months that stock-specific events for Portfolio 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*

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.

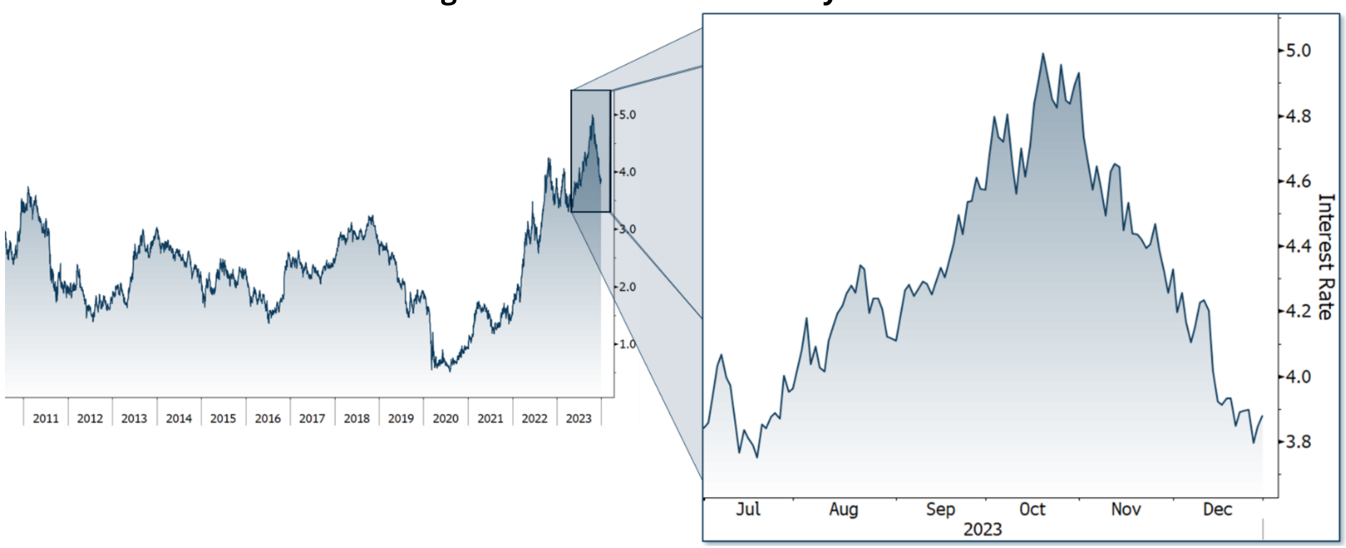
regional bank crisis earlier this year, and at other times when large cap technology stocks led the U.S. stock market over the past few years. Given our high conviction, concentrated 25-35 stock portfolio, we expect stock-specific events to account for most of our long-term performance results, so we're encouraged that we're starting to see more company-specific moves, rather than whatever the popular trade du jour happens to be.

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



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, we observed that the stocks of Russell 2000 Value companies that are not profitable (a meaningful subset that accounts for about 38% of total index constituents) 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. The Portfolio has relatively low exposure to unprofitable companies (less than 10% as of December 31, 2023, including one new holding), so this price action was a headwind to the Portfolio at the end of the year.

Table 2: Unprofitable Russell 2000 Value Companies Outperformed in November and December

	Total Return in Nov. and Dec. 2023
Unprofitable Companies* *(stocks with negative 12-month profit margin)*	33.2%
Median Russell 2000 Value Stock	22.1%
Russell 2000 Value Index *(cap-weighted, official return)*	22.6%

* Companies within the Russell 2000 Value index as of 12/31/22 that had a negative reported trailing 12-month profit margin as of December 31, 2023.

The total return datapoints presented are the average performance (simple mean) from November 1 – December 31, 2023 for the indicated dataset.

Source: FTSE Russell & Bloomberg Finance L.P.

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:

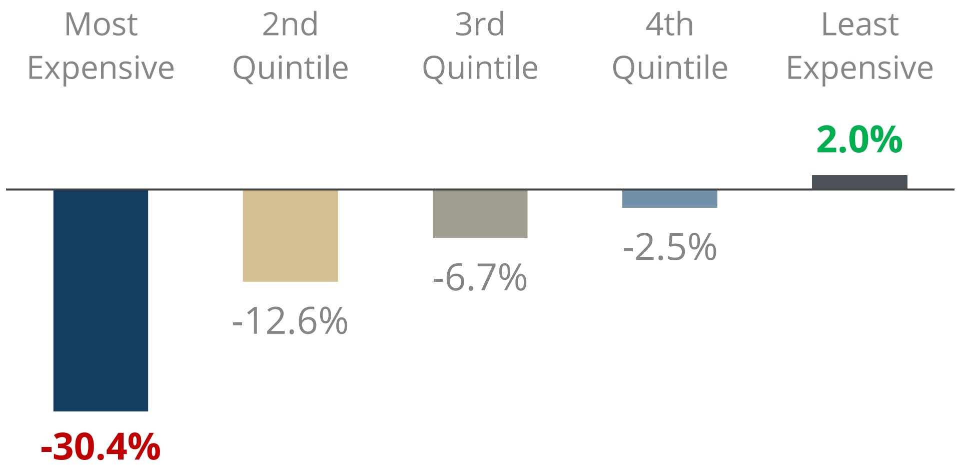
> *We've also discussed in prior letters how we think some of the market's preference for growth stocks was due to a long period of low interest rates, led by loose monetary policies and conditions. We believe that higher interest rates (perhaps driven by inflation and the Fed's reaction to inflationary 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 the Russell 3000 Index[2], which is a proxy for the entire U.S. stock market (see **Figure 2**).

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 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. 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.

The Portfolio benefited from this move towards the market's cheapest stocks. During this two-year period, the Portfolio was up about 5.3% (total return, net of fees), about 7.3% higher than its benchmark. While this performance is respectable, we believe that we should have done better. 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.

Over 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 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
We were pleased that 2023 turned out to be a positive year for the Portfolio, and we're encouraged by its potential coming into 2024. We think the Portfolio's valuation is still very attractive, 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 three new holdings, and we completely sold two stocks in the Portfolio during Q4. We made two new purchases: Deep Value stock Douglas Elliman (ticker: DOUG) and Core Value stock Sealed Air, which is a repeat holding for the Portfolio (ticker: SEE). NCR Atleos (ticker: NATL) is also a new holding, but it was the result of legacy NCR Corp splitting itself into two separate publicly-traded companies. We sold the other split-off business, NCR Voyix (ticker: VYX) and we also sold NextGen Healthcare (ticker: NXGN) because it was purchased by a private equity firm.

Purchase
DOUG: Douglas Elliman is a residential real estate brokerage company that specializes in high-end homes in expensive locales. Despite a slowdown in real estate recently because of higher mortgage rates, we think the company is protected better than most because of an excellent balance sheet and a high proportion of buyers who pay cash (less interest rate sensitive). DOUG was spun out of Vector Group (ticker: VGR) in December 2021, and we think the ending of some two-year restrictions on capital allocation should result in some shareholder-friendly actions in 2024. We also believe the company's recent cost cuts should help the company weather the storm if the real estate market does not improve in the next two years.

SEE: Sealed Air's results were hurt recently by circumstances that we believe are mostly temporary and cyclical and should begin to improve in the next few quarters, in our view. The company also replaced its CEO (the event that led to our purchase) and is embarking on a cost-cutting initiative that we believe will be successful in improving the company's profit margins. We think Sealed Air is less cyclical than its results (and its stock price) suggest, and the stock looks very attractive to us again.

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.

NXGN: NextGen was acquired by Thoma Bravo—a private equity firm—for $23.95/share during the quarter, which was a reasonable price, in our opinion.

Individual Stock Performance

Top Contributors[3] – Q4 2023	Largest Detractors – Q4 2023
Pitney Bowes (PBI)	WW International (WW)
Westamerica Bancorp (WABC)	Western Union (WU)
Douglas Elliman (DOUG)	Commercial Vehicle Group (CVGI)
CVB Financial (CVBF)	Forward Air (FWRD)
Community Trust Bancorp (CTBI)	Compass Minerals (CMP)

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.

WW: Weight Watchers posted results that were better than our expectations in the last quarter, but its nascent weight loss telehealth offering (service that offers GLP-1 drugs like Ozempic and Wegovy) did not grow as quickly as some investors hoped because of shortages of these popular compounds. We still think the company's brand is strong and the combination of medication with WW's traditional behavior-based program has merit. We expect subscriber trends, and cash flows, to improve in 2024 and beyond.

WU: Western Union's earnings in the most recent quarter showed some bright spots but the quarter was also aided by revenue increases in the Middle East that were unsustainable. We think investors became cautious about the prospect of tougher future comparisons from this one-time boost, so the stock declined. We think the

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.

For informational purposes only. The specific securities shown represent only the top contributors and detractors for the reporting period discussed in this Commentary, and do not represent all of the securities purchased, sold or recommended for the representative account or Portfolio. The reader should not assume that an investment in any of these securities, or in the Portfolio, was or will be profitable. Past performance is not a guarantee of future results.

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.

company is making good progress winning more digital customers in its core business of cross-border currency transactions, given its strong global brand. We were also pleased that the company reinvested its earnings from the one-time boost in the Middle East to accelerate its progress. We think its fundamental progress overshadows the prospect of tougher "comps" in 2024.

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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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.`*

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