Clifford CAPITAL PARTNERS

Quarterly Portfolio Commentary – Second Quarter 2024
Clifford Capital Focused Small Cap Value Portfolio

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

	2nd Quarter	Year-to-Date	1-year	3-year, annualized	5-year, annualized	Since Inception**
Portfolio, gross[1]	-2.12%	-9.82%	6.77%	-3.50%	6.85%	8.62%
Portfolio, net	-2.34%	-10.22%	5.84%	-4.32%	5.94%	7.66%
Russell 2000 Value, total return	-3.65%	-0.86%	10.87%	-0.57%	7.03%	8.36%

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

Portfolio and Market Observations

The Clifford Capital Focused Small Cap Value Portfolio ("the Portfolio") outperformed its benchmark during the second quarter with a strong first half of the quarter being partially offset by slight underperformance in the second half. While we were encouraged by improved relative performance results during the quarter, and we saw some encouraging developments with several investments—including some M&A interest—our strategy and style continued to be mostly out of favor during the first half of 2024.

The Momentum trade (stocks with strong price momentum outperforming stocks with weak price momentum) we discussed in our last letter was not as strong of a factor during the first half of the quarter, but it regained strength around the time that Nvidia and other AI-related stocks began reporting earnings in mid-May. We observed a strong shift back towards Momentum during the second half of the quarter. When Momentum is a leading factor in the stock market, we would expect our performance to lag when it is strong, and outperform when it is weaker, given our price/value discipline (we tend to buy stocks with weak momentum and often trim/sell as momentum strengthens and stocks move near our fair value estimates).

This pattern was consistent with what we observed during the quarter. The Portfolio significantly outperformed its benchmark during the first half of the quarter (first 32 trading days ended on May 14, 2024) before underperforming slightly during the last half of Q2. Like we said last quarter, we do not attribute all of the outperformance/underperformance to the Momentum factor, but we believe it was a major contributing factor.

Table 1: Momentum Picked Up in the Back Half of Q2

Total Returns for periods indicated

	1st Half of Q2 (April 1 – May 14)	2nd Half of Q2 (May 15 – June 28)	Q2 2024	YTD 2024
MSCI USA Momentum Index[2]	-0.7%	5.3%	4.5%	25.7%
Russell 2000 Value Index	-0.7%	-3.0%	-3.6%	-0.9%
Difference	0.0%	8.3%	8.1%	26.6%

Source: Bloomberg Finance L.P. and Internal calculations

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.

2 MSCI USA Momentum Index is designed to reflect the performance of an equity momentum strategy by selecting stocks with high price momentum, which are selected from the MSCI USA Index, an index of large and midcap U.S. stocks.

In addition to the Momentum factor, we saw increased signs of weakness during the quarter—both within and outside of the Portfolio—in consumer-related companies. Recent economic data has shown that U.S. consumers (especially lower income Americans) are feeling a significant pinch from years of higher inflation and the burden of higher interest rates. We think investor concern over this weakness has begun to provide opportunities in select consumer-related stocks that we believe are more insulated from the broader pressures.

We're disappointed in performance results thus far in 2024, but we still have strong conviction in the Portfolio's investments. We believe there are risks brewing in today's momentum-driven stock market, which has led to well-publicized market concentration and expensive stocks within megacap U.S. stocks, especially AI-related companies. While we think generative AI has exciting potential, we believe the excitement over this 'potential' may be outrunning the ultimate economics implied in many of the stock prices.

Table 2: Portfolio Valuation is Much Lower than the Overall Market

(as of June 30, 2024)

	Price to Earnings[3]	Price to Sales[4]	Dividend Yield[5]
Magnificent 7 Index[6]	39.6	8.22	0.20%
Russell 3000 Index[7] *(proxy for entire U.S. stock market)*	25.4	2.59	1.33%
Russell 2000 Value	13.3	0.93	2.47%
Portfolio*	13.3	0.50	2.90%

* Portfolio ratios are from a representative account (the "Model") as calculated in Bloomberg

Source: Bloomberg Finance L.P.

We believe the Portfolio provides much lower valuations and strong diversification if AI excitement wanes and/or the Momentum factor were to reverse. We've seen this pattern historically, and we think the Portfolio is positioned very well for a weakening or reversal in the Momentum factor's strength.

More importantly than a potential Momentum reversal (something outside of the control of our investment companies or us), we see our investments making solid progress towards their Key Thesis Points™ (or "KTPs"), which we believe will result in better-than-expected fundamental results. Additionally, we've seen increased mergers and acquisitions ("M&A") activity and significant actions from activist investors, which we believe can also catalyze better performance results.

Contrarian Investing, the "Low Momentum Basket", and Why We See a Brighter Future

Despite the difficulties so far this year, we see excellent value in the Portfolio today, so we are encouraged for the future. While valuation is not a good predictor of short-term returns, we think it's a strong predictor of long-term returns. Especially when low valuations are coupled with potential catalysts (our KTPs) that we think will drive results to better-than-expected levels.

There are times that popularity or trading factors, like Momentum, drive stock returns more than anything else. But we believe valuation always matters. Even the best company in the world could be a bad investment at too high a price, while a mediocre company could be an excellent investment at a low enough price.

3 Price to earnings ratio represents the current stock price divided by the prior 12 month's earnings per share, excluding extraordinary items and excludes companies without positive earnings for comparative reasons.

4 Price to sales ratio represents the current stock price divided by the prior 12 month's sales per share.

5 Dividend yield ratio represents the current gross dividend divided by current stock price.

6 The Bloomberg Magnificent 7 Total Return Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies, commonly known as the "Magnificent 7". These are Apple, Amazon.com, Google/Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

7 The Russell 3000 index is a capitalization-weighted index which measures the performance of Russell 3000 index companies, which represent ~98% of the investable U.S. stock market.

Buying unpopular stocks with low expectations (and often low Momentum) is the essence of a contrarian's investment philosophy, and we believe this contrarian mindset is a key differentiator for our investment process. We don't expect the stocks we own to be unpopular forever—that's why Key Thesis Points™ are so important to our process—but we firmly believe that some of the best investment bargains occur because of investors' impatience or frustration with companies that are temporarily struggling or are unpopular compared to whatever is considered exciting and new (or stocks that have been performing well) at the moment.

Speaking generally, contrarian value stocks have experienced difficult times in the recent past, so news headlines are not positive. Their stock prices have usually underperformed, so analyst expectations are low, and many investors feel frustrated or burned by the stock. There's often uncertainty about how a company may turn things around, and the stock market does not like uncertainty. These conditions are difficult on the psyche of investors, but they are a very fertile field for a value investor to find deeply undervalued bargains. We think this year's Momentum market is no exception for producing such bargains.

This type of contrarian investing requires cogent analysis, conviction, patience, and importantly, the temperament to persist when it feels like you're swimming against the current. It also requires humility to recognize when you may have gotten some things wrong and adjust. We strive to accomplish all of the above at Clifford Capital. The recent past has been an uncomfortable test of our resolve as contrarians, but we have conviction in our process and in the Portfolio today.

Our experience also shows that when investor sentiment inevitably shifts more positively towards these contrarian value investments that the stocks often make a rapid recovery, leading to large gains.

Low Momentum Basket

Last quarter we spent most of our commentary discussing the Momentum factor and its effects on the market and on the Portfolio. We noted that a commonly employed trading strategy, the "Momentum Trade", often involves selling or shorting stocks with negative momentum (not just buying stocks with strong price momentum). So, we've observed that out of favor stocks with weak recent performance often fall into the low momentum trading group that is sold/shorted (the "Low Momentum Basket").

These stocks often drop more sharply than we would normally expect them to because of this Momentum trading strategy. As contrarians, this hurts our investments that are still out of favor, and may lead to short-term performance challenges, but it can also result in the Low Momentum Basket stocks falling to even deeper discounts to our fair value estimates. This is where we see tremendous opportunity today. Ultimately, we expect our investments that currently reside in the Low Momentum Basket to eventually be removed from that basket, as their stock prices improve.

Two ways we see our stocks being removed from the Low Momentum Basket (with or without a reversal of the Momentum factor) are: 1) M&A and activist investor actions, and 2) Key Thesis Points™.

Catalysts for Stocks Bouncing Out of the Basket

Coming into 2024 we believed that we'd see a meaningful uptick in M&A. We've already observed an increase in deals overall in the U.S., but in the second quarter the Portfolio also participated. Stericycle (ticker: SRCL) received a buyout offer from Waste Management (ticker: WM) at $62/share, which represented a premium of about 38% to where it was trading shortly before the offer. Millicom Intl. Cellular (ticker: TIGO US) received a $24/share offer from its largest shareholder, which is about 50% higher than where it was trading in February before it started showing improved results. DXC Technology (ticker: DXC) also was rumored to have received a buyout offer during the quarter at a 40-50% premium to where it was trading prior to the rumor, which mitigated some of the stock's year to date losses. While we aren't particularly fond of the prices offered (or rumored) for these three companies, the deals are a microcosm of how we think undervalued Low Momentum Basket stocks can quickly be removed from the basket.

Quite simply, we think many of the Portfolio's stocks are too cheap to ignore, and they are beginning to receive more interest from strategic and financial buyers. Just over 50% of the Portfolio's weighting has activist investor or M&A interest at the end of June, and we expect more to come.

The Portfolio also benefited from the actions of activist investors during the quarter. Pitney Bowes (ticker: PBI) showed substantial progress in improving its business during the last quarterly earnings report, much of which we attribute to the efforts of its new board of directors, which was installed under Hestia Capital's activist influence. We expect more changes to come, including the resolution of its money-losing e-commerce segment that we expect to be sold, restructured, or shut down in the near term. Resolving this segment should result in a substantial increase in free cash flow and a higher stock price, in our opinion.

While activists may accelerate changes, and M&A can result in quick pops in stock prices, the most common way we'd expect our stocks to move out of the Low Momentum Basket is by making substantial progress on the Key Thesis Points™ that we've identified through our research. We believe these KTPs will improve the fundamental results of the businesses we've invested in, leading to improved stock price performance. NCR Atleos (ticker: NATL) is an example of this during the quarter. The company's progress in cutting costs, deleveraging the business, and growing its ATM-as-a-service business (all elements of our KTPs) started to gain recognition during the quarter, and the stock appreciated strongly.

Conclusion

We're disappointed with performance so far this year, but highly encouraged by the value we see in the Portfolio. We think other investors, including activists and M&A participants, are also becoming more aware of the substantial value of the Portfolio's holdings, and we've seen an uptick in interest. While the Momentum trade continues to be a unique headwind to our contrarian investment process, we've been through this before, and we think performance should improve markedly when/if the Momentum factor dissipates.

We continue to believe the Portfolio provides strong diversification against what is most popular in today's stock market, and we think the long-term future of the strategy looks much brighter than the recent past.

Significant Portfolio Changes

During Q2 we added four new stocks: Core Value stocks Allison Transmission (ticker: ALSN), MSC Industrial (ticker: MSM), and Seneca Foods (ticker: SENEA), and Deep Value stock VF Corp (ticker: VFC).

We sold two stocks: Core Value stock Sealed Air (ticker: SEE) and Deep Value stock Paramount (ticker: PARA).

Purchases

ALSN: Allison Transmission is the market leader in automatic transmissions for large trucks. We think the large truck market should benefit over the next few years from new emissions requirements going into effect in 2027, which we think will frontload demand. We believe ALSN will use the resulting increase in free cash flow to repurchase shares, which we think will lead to higher-than-expected earnings per share growth. The company has reduced its total sharecount by over 50% since 2015 through opportunistic share repurchases, which we applaud.

MSM: MSC Industrial is a supplier of manufacturing supplies and tools for metalworking and other industrial customers. The company stocks a wide variety (~2 million products) of supplies and is one of the largest direct suppliers in the country. The firm recently reduced its financial guidance because of a botched website rollout and general weakness in the industrial economy, which led to a buying opportunity in our view. We think the website issue is fixable and should lead to much better results relatively quickly. We also think the company is relatively less cyclical than it used to be because of growth in stickier services such as vending machines and in-plant programs that are imbedded in customer processes.

SENEA: Seneca Foods is the largest canned vegetable company in the U.S. and its recent acquisition of the Green Giant brand consolidated its market share even more strongly. We think its enviable competitive position in a slow, but steady, canned vegetable market should result in better margins in the future than it's had in the past. Additionally, inventory levels are currently abnormally high but have a long shelf life with little risk of spoilage or obsolescence, so we expect cash flow to meaningfully expand over the next 12-18 months as this inventory is sold to customers.

VFC: V.F. Corp. is a consumer apparel and footwear company that has several well-known brands such as North Face, Timberland, Vans, Supreme, and Dickies. The company's products are sold through wholesale arrangements in specialty stores, mass merchants, department stores etc., and directly to consumers through its websites and a network of almost 1200 physical stores. After a period where Vans had tremendous popularity, we think VFC had some strategic missteps that led to a degradation of results. In July 2023, the company hired a new CEO, Bracken Darrell, who we think has outlined a solid plan to improve results. We expect a combination of better execution, brand divestments, and cost cuts to result in meaningful debt reduction and higher free cash flow, which we think will increase the value of the shares. We also note that activist investors have a significant presence in this company, and we believe they are aligned with our thoughts on the value inherent in the business and how to unlock it.

Sales

SEE: Sealed Air was a very profitable investment for the Portfolio since inception, but our most recent purchase roughly six months ago was unremarkable. We expected the company's results to steadily improve in the second half of 2024, continuing into 2025 as SEE's customers finished rationalizing their excess inventories. However, we obtained new information that suggested this inventory destocking was unlikely and client demand was weak, so given that one of our main KTPs was disproven, we sold the stock.

PARA: Paramount was also a short-lived investment for the Portfolio. While we made some money in the stock, we were disheartened by the rumored, and actual, actions of Paramount's controlling shareholder, Shari Redstone towards the nonvoting shareholders of the B class of shares that the Portfolio owned. We believed the likelihood of the nonvoting shareholders being treated unfairly increased significantly as Shari negotiated with Skydance, who was interested in taking over Paramount and its attractive assets. Additionally, we thought the loss of Bob Bakish as CEO was detrimental to our investment thesis, so we sold the stock.

Individual Stock Performance

Top Contributors[8] – Q2 2024	Largest Detractors – Q2 2024
NCR Atleos (NATL)	KLX Energy (KLXE)
Millicom Intl. Cellular (TIGO US)	Green Plains (GPRE)
Perdoceo Education (PRDO)	Commercial Vehicle Group (CVGI)
Pitney Bowes (PBI)	Evertec (EVTC)
Stericycle (SRCL)	Douglas Elliman (DOUG)

Past performance does not guarantee future results. Source: Bloomberg as of 6/30/2024

8 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.

Commentary on the Top Two Contributors and Bottom Two Detractors
NATL: As mentioned in the commentary above, NCR Atleos showed substantial progress in its last earnings report. We also think that the stock benefited from additional sell side analyst coverage to help generate more interest in the company.

TIGO: Also as mentioned above, the company received a buyout offer from its largest shareholder at $24/share. We think this price is too low and the company has publicly announced the same sentiment, so we believe the offer will be increased. Fundamental results have also improved with free cash flow coming in stronger than originally expected.

KLXE: The company's most recent earnings were weak because of weather-related issues and some customers cutting back on oil and gas spending. The trajectory had begun to improve towards the end of the quarter, but the stock underperformed alongside other oilfield services companies. Additionally, we believe there was significant technical selling pressure towards the end of the quarter because the company was below the market cap threshold for the Russell 2000 Index. We think this exacerbated the pressure on the stock.

GPRE: Recent earnings were disappointing, and the company's high protein segment (an area we think will generate meaningful profits over the next few years) hit a soft patch. We think the company has several other initiatives that should increase its free cash flow potential over the next 12-18 months (e.g. clean sugar, carbon capture projects, sustainable corn oil yields).

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

---

warranties, expressed or implied, are made regarding the data's accuracy, reliability or completeness nor its appropriateness for any use which any recipient may choose to make of it.

This document may also contain certain forward-looking statements. Such statements are subject to several assumptions, risks and uncertainties which may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements or projections. Readers are cautioned not to invest based on these forward-looking statements. Any prospective investment, projection, forecast or return on investment illustrations herein is for illustrative purposes only, and actual investments and returns may vary materially from those illustrated or anticipated.

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.*

***Price-to-Earnings Ratios.** Ratio used to compare a stock's market price to its earnings per share. It is calculated by dividing the current price of the stock by the last 12-months' earnings per share.*

About Us

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