Quarterly Portfolio Commentary – Second Quarter 2024
Clifford Capital International Value Portfolio

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

	2nd Quarter 2024	YTD 2024	1-year	3-year, annualized	Since Inception**
Portfolio, gross[1]	0.22%	0.21%	1.23%	2.72%	7.02%
Portfolio, net	0.00%	-0.21%	0.41%	1.87%	6.06%
MSCI EAFE Index	-0.42%	5.34%	11.54%	2.89%	6.85%

* Individual account performance will differ from the overall Composite.

** Inception Date: August 1, 2019, annualized

Past Performance does not guarantee future results.

Performance Summary and Market Observations

The Clifford Capital International Value Portfolio's ("the Portfolio") performance improved this quarter, slightly surpassing the MSCI EAFE Index. However, this result was disappointing to us because it had a significant lead over its benchmark until geopolitical events impacted the final weeks.

Geopolitics

In 2024, there are over 60 elections worldwide, with several significant ones occurring this quarter. In India, Narendra Modi's BJP party won fewer seats than expected, necessitating reliance on coalition partners. This initially unsettled the market, but it has since recovered. In Mexico, Claudia Sheinbaum's landslide victory for her Morena party created concerns about potential constitutional changes, leading to a market and peso sell-off. Though we lack direct exposure, we have indirect exposure through Banco Santander, owning one of Mexico's largest banks, and Telefonica, owning the third-largest wireless operator.

In South Africa, the African National Congress ("ANC") failed to secure over 50% of the vote for the first time since Apartheid ended. The market dipped but recovered when the ANC partnered with the business-friendly Democratic Alliance instead of a fringe party. We have no direct exposure, but Vodafone, owns 65% of Vodacom, South Africa's largest telecom, and consolidates its results.

The UK called a snap election for July 4, which hasn't impacted the Portfolio so far in Q3. However, the European Parliamentary elections hurt the Portfolio's performance results during Q2 as far-right parties did well in France and Germany, prompting France's president to announce snap parliamentary elections. This led to a French market sell-off and a significant widening of the interest rate differential between French and German bonds (see **Chart 1**).

In Europe, banks must mark government debt holdings to market, unlike in the United States. This requirement led to a sell-off in French banks, including Societe Generale, as they will need to record losses on French government bonds. The ripple effect caused bank stocks in other European countries to fall, impacting our Spanish bank holding,

1 Portfolio, gross return represents the performance results for the International 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.

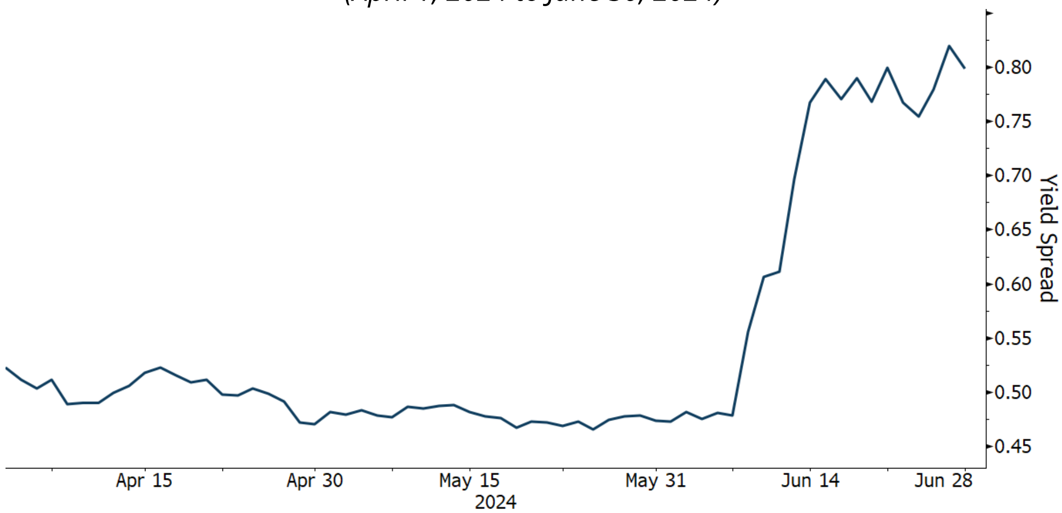
The benchmark for the International Value composite is the MSCI EAFE Index. The index captures large and mid cap securities across developed markets countries around the world, excluding the U.S. and Canada. Index returns include the reinvestment of dividends (total returns). Performance of the composite 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.

Banco Santander. Portfolio holding HSBC saw minimal impact due to its primary operations in Britain and Asia and the recent sale of its French business.

Our overweight position in France, including Engie, our French utility, hurt results. This was likely due to Engie's focus on renewable energy, which might be unfavorable under a far-right government, and higher refinancing interest rates. We had already reduced our position earlier in the quarter.

Chart 1: OATs vs. Bunds Yield Spread[2]

(April 1, 2024 to June 30, 2024)



Japan vs. China

Japan's market outperformance and our underweight position negatively impacted the Portfolio in 2023 and the first quarter of 2024. Similarly, our overweight position in China hurt performance. However, this trend reversed in the second quarter. Japan's market declined slightly in yen terms and about 7.7% in dollar terms, while the Hong Kong index rallied, and our Chinese stocks performed well. By the end of the quarter, the Japanese Nikkei index remained significantly ahead of the Hong Kong index in local terms for the year, but they were nearly equal in dollar terms, which is more relevant for the Portfolio. This trend began to reverse again in the last few days of the quarter.

Improved Results and Activists

From mid-April to the end of May, the Portfolio experienced one of its best short term performance periods both in absolute terms and relative to the index, showcasing its potential. Several of our stocks, particularly previous underperformers, saw significant gains due to improved results and activist involvement. For details on BT and Philips, see the individual stock commentary that follows.

In addition to these, shortly after we purchased Rentokil Initial for the Portfolio in May, Nelson Peltz' firm, Trian Partners, announced it had taken a stake in the company. Bluebell Capital also announced a stake in Reckitt Benckiser, engaging with management on business improvements and projecting the stock could double in the next 12-24 months. The activists involved with both companies proposed redomiciling all or part of their businesses to the U.S. to benefit from higher valuation multiples. Rentokil's largest competitors, Rollins and Ecolab, trade at 49 and 36 times 2024 expected earnings[3], respectively, compared to 19 times for Rentokil.

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2 The spread is calculated as 10-year French Government Bonds ("OATs") yield minus 10-year German Government Bonds ("Bunds") yield.

3 As calculated by Bloomberg. Expected earnings is the consensus estimate for adjusted earnings, using the mean of sell-side analyst estimates.

Significant Portfolio Changes

In the quarter, we sold one Core Value stock, Rolls-Royce Holdings (ticker: RR/ LN) and one Deep Value stock, Takeda Pharmaceutical Co. (ticker: TAK US), and bought one Core Value stock, Rentokil Initial (ticker: RTO LN).

Rolls-Royce has been a standout performer over the past 18 months, frequently ranking among our top two stocks. After multiple stake trims and fair value estimate increases due to better-than-expected performance, we decided to liquidate the position, believing the upside was minimal relative to the downside risk.

Takeda has potential but continues to face setbacks. At the end of its March fiscal year, management canceled several drug development programs, including seven in phase 3 trials, to focus on the most promising candidates. However, on June 17, one of those drugs, Soticlestat, failed to meet its primary endpoint in two phase 3 trials, likely resulting in at least a $100 million write-down. Additionally, Takeda's Dengue fever vaccine cannot meet global demand for several years. Given these challenges and better opportunities elsewhere, we sold our Takeda position.

Rentokil, the world's largest pest control company, acquired Terminix in 2022, making it the largest in the U.S. The integration of Terminix with its existing U.S. business aims to enhance scale and margins, a strategy Rentokil has successfully employed globally. The firm also has a smaller but global hygiene and wellbeing business.

Individual Stock Performance

Top Contributors[4] – Q2 2024	Largest Detractors – Q2 2024
Philips NVR (PHG US)	Airbus (AIR FP)
BT Group PLC (BT/A LN)	Continental AG (CON GR)
HSBC Holdings PLC (HSBC US)	Schlumberger (SLB US)
Ericsson (ERIC US)	Societe Generale (GLE FP)
Shell PLC (SHEL US)	Carrefour (CA FP)

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

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

Philips reported Q1 results indicating continued improvement, notably with strong margin enhancement. The company reached a $1.1 billion settlement concerning its Respironics division's CPAP (a machine used to treat sleep-related disorders, including sleep apnea) recall, a figure significantly lower than anticipated. The firm's core business, which includes manufacturing machines for hospitals such as MRI and CT scan machines, along with its personal care division, are performing well and collectively represent a significantly larger portion of the business compared to the Respironics division.

The previous stock sell-off due to issues in the Respironics division, coupled with the success of the rest of the company, appears to have insulated Philips' stock from the end-of-quarter sell-off experienced by other CPAP machine companies following the latest data from GLP-1 producers showing a decrease in sleep apnea.

4 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.

The securities identified do not represent all of the securities purchased, sold, or recommended for advisory clients.

Please contact us at (385) 387-1212 or support@cliffordcap.com to obtain information about (i) the calculation methodology; and (ii) a list showing the contribution of each holding in the representative account to the account's performance during the measurement period.

During the quarter, Philips' two largest shareholders increased their holdings. EXOR, the investment arm of theavi Agnelli family—founders of Fiat and the largest shareholders in Stellantis and Ferrari—increased its position to 17.5%[5]. Artisan Partners also increased its stake, taking it from 5.1% to 10.0%[6].

BT Group reported better-than-expected results for its fiscal year ending in March. New CEO Allison Kirkby announced that the company had reached its peak capital expenditures[7] (“capex”) for the year, and capex will decline moving forward, which is anticipated to enhance free cash flow[8] (“FCF”). Historically, the stock has been among the Portfolio’s worst performers, so its recent improvement is noteworthy. More importantly, its Key Thesis Points™, or potential catalysts, are proving effective.

The company has successfully built fiber-to-the-home infrastructure for over 14 million premises, likely surpassing the combined efforts of all its competitors. With the increase in FCF, BT has raised its dividend for the first time in three years. Additionally, Carlos Slim, Mexico’s wealthiest individual and the controller of America Movil—Mexico’s largest telecom firm—and several other businesses, announced his acquisition of a 3.2% stake in BT[9]. This brings the total share of BT held by other telecom investors to almost 40%[10]. While the broader market may not yet recognize BT's value, informed telecom firms are taking notice.

Airbus: After a nearly 50% increase in its stock from October 2023 through March 2024, Airbus experienced a pullback due to concerns about meeting its ramp-up schedule for new planes. On June 25, management announced a reduction in production expectations for 2024, lowering the target from 800 new planes to 777. Additionally, the company will not be able to increase its production rate for the popular A320 model to 75 per month until 2027, instead of 2026. The reduced production will primarily impact margins more than revenue, as the company had staffed for the larger production runs.

Airbus continues to face supply chain issues, particularly a shortage of critical parts needed to increase production. This problem has persisted since the post-Covid surge in demand for air travel. Engine shortages are a significant issue, affecting supply from Safran and GE Aerospace’s joint venture, Raytheon’s Pratt & Whitney division, and, to a lesser extent, Rolls-Royce. This is unfortunate given the strong current demand for new planes, with the firm sold out of most models through the end of the decade.

Following the announcement, Airbus' stock fell 9.4%, with additional declines through the end of the month. A more significant factor in the stock's decline was management's announcement of a EUR 900 million write-down in its space division, following a EUR 600 million write-down in the fourth quarter. This has severely impacted management's credibility in the space division, leading the market to question the rationale for retaining it. While we trimmed our position early in the quarter, we believe there is still significant upside potential in the stock as production increases.

Continental's stock declined in the second quarter due to recession fears and a slowdown in car sales, particularly BEVs (“battery electric vehicles”), for which it supplies original equipment manufacturer tires. EU tariffs on Chinese BEV cars and potential Chinese retaliation exacerbated these concerns, further impacting production.

5 According to Bloomberg HDS Function and EXOR NV’s most recently filed 13F with the United States Securities & Exchange Commission. https://www.sec.gov/Archives/edgar/data/1589122/000095012324006433/0000950123-24-006433-index.htm

6 As reported by Bloomberg on 7/3/2024. https://blinks.bloomberg.com/news/stories/SG1FHKT0G1L8

7 Capital expenditures is the amount a company spends on the purchase of tangible fixed assets.

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

9 As reported by Bloomberg on 6/12/2024. https://blinks.bloomberg.com/news/stories/SEZER8T0AFB4

10 According to Bloomberg HDS Function as of 7/11/2024: Altice (Patrick Drahi) owns 24.5%, Deutsche Telekom (aka T-Mobile Holdings Ltd.) owns 12.0%, plus the new 3.2% from Carlos Slim is 39.7%.

Final Comments

We appreciate your investment in Clifford Capital Partners. Although the Portfolio outperformed the index this quarter, we were disappointed that the margin was not greater. Our enthusiasm stems from its current positioning, and we are invested right alongside you. We will continue to focus on building long-term wealth through diligent and prudent portfolio management.

Sincerely yours,

Allan C. Nichols, CFA
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 Mid-Cap Securities. *Investing in the securities of mid-cap companies generally involves substantially greater risk than investing in larger, more established companies.*

Risks of Large-Cap Securities. *Prices of securities of larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the Fund's value may not rise as much as the value of funds that emphasize companies with smaller capitalizations.*

Focused Investment Risk. *The International Value strategy is a focused strategy and generally holds stocks of between only 25 and 45 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.*

Economic and Political Risks. *These effects may be short-term by causing a change in the global markets that is corrected in a year or less, or they may have long-term impacts which may cause changes in the markets that may last for many years. In any given country, some factors may affect changes in one sector of the economy or one stock, but don't have an impact on the overall market. The particular sector of the economy or the individual stock may be affected for a short or long-term.*

Emerging Markets Risk. *Emerging market securities may present issuer, market, currency, liquidity, volatility, valuation, legal, political, and other risks different from, and potentially greater than, the risks of investing in securities of issuers in more developed markets.*

Non-U.S. Investment Risk. *Securities of non-U.S. issuers (including American depository receipts ("ADRs") and other securities that represent interests in a non-U.S. issuer's securities) may be less liquid, more volatile, and harder to value than U.S. securities.*

Foreign Currency Risk. *Foreign securities often are purchased with and make any dividend and interest payments in foreign currencies. Therefore, the portfolio's value could decline solely as a result of changes in the exchange rates between foreign currencies and the U.S. dollar, particularly if the portfolio invests a significant percentage of its assets in foreign securities or other assets denominated in currencies not tightly pegged to the U.S.*

Inflation Risk. *When a substantial portion of the portfolio is held in cash or cash equivalents, there is the risk that the value of the cash account, including interest, will not keep pace with inflation, thus reducing purchasing power over time.*

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.*

About Us

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