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

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

	3rd Quarter	Year-to-Date	1-year	3-year, annualized	5-year, annualized	Since Inception**
Portfolio, gross[1]	11.29%	0.36%	13.64%	3.18%	9.49%	9.72%
Portfolio, net	11.05%	-0.30%	12.65%	2.35%	8.56%	8.76%
Russell 2000 Value, total return	10.15%	9.21%	25.86%	3.73%	9.25%	9.34%

* 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") had a solid quarter and outperformed its benchmark during the third quarter. While the Portfolio's performance results over the past 12 months have meaningfully lagged its benchmark, we believe there are signs of recent improvement, and we're encouraged by the Portfolio's holdings and believe it provides solid diversity to the overall U.S. stock market.

The "Great Rotation" of July
The third quarter of 2024 was eventful. It began with a soft inflation report on July 11 that resulted in an immediate market rotation away from popular large cap Tech and growth stocks into smaller-cap companies and value stocks that lasted until near the very end of July. We think this was driven by higher expectations of a potential rate cut by the Fed, which could benefit some areas of the market that had underperformed. The quarter then culminated with the Fed actually lowering interest rates by 0.50% at the end of the quarter. While the "great rotation" of July did not accelerate as the quarter progressed, we believe this market shift was notable and could portend a change in investor sentiment.

We also believe that the "great rotation" was driven, in part, by the unwinding of some popular—and crowded—trades that we've discussed in prior commentaries. We think many of these trades have dominated the U.S. stock market in recent periods, including two that we think were particularly powerful influences: the price momentum trade (buying stocks with high price momentum and shorting stocks with low price momentum), and a "long Tech short Small Cap" trade that buys large cap Tech stocks and shorts small cap value stocks. Even though the acute "great rotation" period only lasted about three weeks, the performance results were remarkable as shown in **Charts 1 and 2**, which led to a solid full quarter for smaller-cap and value market indices and for the Portfolio.

While we could not predict if, or when, this type of market rotation would occur, we hinted in our last commentary that such an event was possible. We still believe the Portfolio provides a diversified exposure to today's stock market, which continues to be very heavily influenced by megacap companies and is still driven by artificial intelligence ("AI") excitement. As stated in our last letter:

> *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*

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.

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.

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.

The "Great Rotation" of July

Chart 1: Value Outperformed Growth

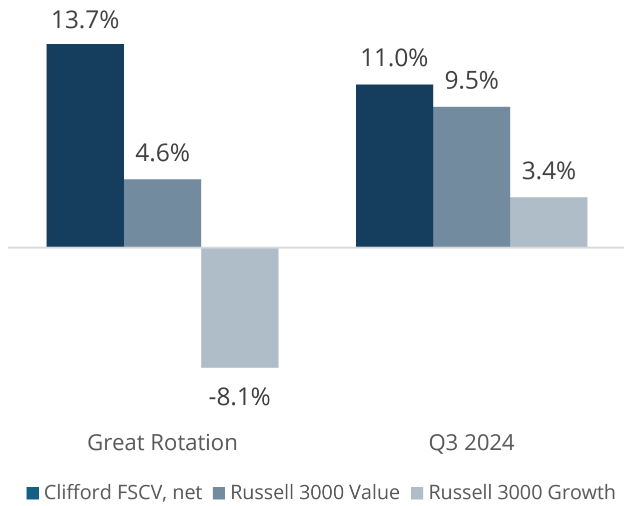
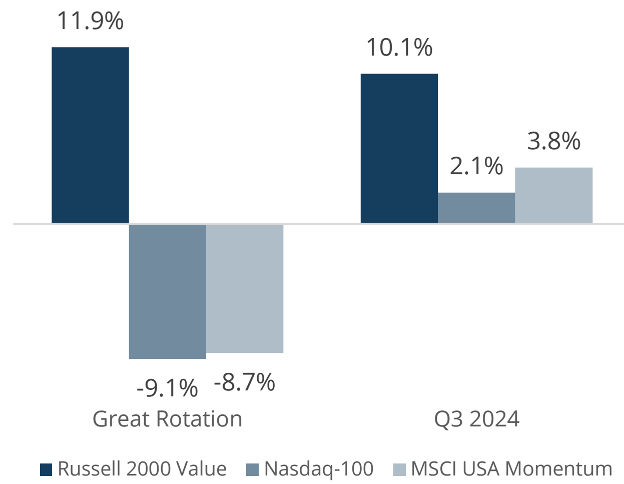


Chart 2: Reversals of the Long Tech/Short Small Cap Trade and the Momentum Trade



Please see definitions below.[2]

While the "great rotation" didn't accelerate like we'd hoped it might, we are optimistic that the stock market is beginning to recognize some of the value in areas outside of what's been popular. We're certainly not declaring any victories—and we've still got some work to do to improve our performance results—but we believe our disciplined approach to investing is a prudent way to compound wealth over the long term. Importantly, we also believe that the Portfolio looks and acts differently than the overall stock market, providing diversification against some of the risks we see in a market that is still dominated by a handful of popular megacap stocks.

Most importantly, we continue to see our investments making solid progress towards their Key Thesis Points™ ("KTPs"), which we believe will result in better-than-expected fundamental results over time. And as mentioned before, we continue to see increased activist investor campaigns and mergers and acquisitions ("M&A") activity among our holdings, which we believe can also catalyze better performance results.

2 Portfolio performance is based on a representative Focused Small Cap Value account, managed within the Focused Small Cap Value composite (a "Representative Account". Performance of the Representative Account is net of the highest applicable fee (0.9%) charged to institutional clientele, accrued daily. Returns for the Representative Account are based on end of day holdings versus transaction values as in the actual composite. Therefore, composite returns will deviate from Representative Account performance.

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.

Russell 3000 Growth Index is a capitalization-weighted index which measures the performance of Russell 3000 index companies, respectively with higher price-to-book ratios and higher forecasted growth values. Index returns include the reinvestment of dividends (total returns).

Nasdaq-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial issues listed on the NASDAQ.

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.

Rates, Realities, and Elections

The biggest story of the quarter was the Fed's decision to lower interest rates in a move that was only surprising in its magnitude (0.50% cut was as large as almost anybody was expecting). We think interest rates are a critical input in determining asset prices, including stocks, so we're not surprised at the stock market volatility we've seen surrounding the Fed's movements—including the "great rotation" in July—as investors and traders strive to position their accounts appropriately to take advantage of the "new" interest rate environment.

Even though we are fundamental, bottom-up stock investors, not macro economists, we're often asked our opinion on the macroeconomic environment and Fed policies. Based on what we see today, the realities of today's economic and stock market environment are basically unchanged after the Fed's move because we are witnessing significant crosscurrents for the positive and negative in the U.S. economy today. As a few anecdotal examples of these crosscurrents, we see signs of consumer stress (higher credit card and vehicle delinquencies and muted spending by certain subsets), but also strong overall consumer spending metrics. We see many companies struggling to grow revenues as quickly as hoped (lots of downward revisions to revenue estimates), but cost cutting resulting in solid profit growth. We see ample access to capital markets for debt and equity issuance, but also an increase in distressed companies and some bankruptcies.

Given these mixed economic signals, we do not anticipate the Fed to aggressively lower interest rates in the near term, and we certainly don't see many paths to go back to the near-zero interest rates of the past, barring some sort of very negative economic shock. So, we wouldn't be surprised if Fed policies begin to have less of an influence on U.S. stock markets in upcoming periods. If this premise is correct, we think it would be a positive development for stock picking because the fundamentals of, and valuations of, individual companies will begin to matter more than simply positioning for whatever trade is going to be the most lucrative based on the Fed's next moves.

Additionally, the U.S. presidential election is nigh, which results in significant conjecture and guesswork about how the stock market will react to the ultimate victor. In that spirit of providing our own prognostication, we think the Portfolio would likely benefit more from a Republican victory than a Democratic victory, but we have not positioned the Portfolio significantly in either direction.

Our blueprint for investing in today's environment with uncertainty about rates, economic realities, and the election is to stay the course. We strive to build a portfolio that is well balanced against macroeconomic and political factors in environments like today's, and we believe our investments' KTPs are catalysts for fundamental improvements that should transcend these non-stock-specific issues over time.

Conclusion

We were encouraged by the Portfolio's progress in the third quarter. We believe the Portfolio continues to provide a strong diversifying exposure to today's stock market, and we think it's trading at an attractive level today with a solid reward to risk ratio, based on our fundamental analysis.

Significant Portfolio Changes

During Q2 we added four new stocks: Core Value stocks OPENLANE (ticker: KAR) and Solventum (ticker: SOLV), and Deep Value stocks Delek US Holdings (ticker: DK) and Walgreens Boots Alliance (ticker: WBA).

We sold three stocks: Core Value stock Stericycle (ticker: SRCL) and Deep Value stocks Urban Outfitters (ticker: URBN) and WW International (ticker: WW).

New Holdings

KAR: OPENLANE is a leading digital wholesale vehicle auction company that specializes in auctioning off-lease vehicles from dealerships. The company has longstanding relationships with many of the largest dealerships and brands in the country, and the firm's business model is characterized by low capital intensity and solid margins. The investment opportunity in KAR arose because of an anomaly in used car pricing over the past several years, which resulted in a historically high percentage of lessees purchasing their vehicle at the end of their lease term because used car prices were so high that the lessees had significant equity in their vehicle (i.e. lessees could buy a vehicle at the end of the lease at the contractual residual price baked into the lease and then immediately sell the car for a profit). We've seen evidence that the used car market is normalizing, and lease turn-in rates are reverting closer to historical averages. This shift back to a "normal" lease environment should result in significant benefits for KAR's auction business, which we expect to accelerate revenue and profit growth. Although there's still uncertainty about the volume of new leases being originated (another key input into the company's profit equation), we think the reversion of the lease market back to normalized lease turn-in rates should outweigh potential negatives, leading to better-than-expected profit growth.

SOLV: Solventum is a health care products business that was spun out of 3M Corp (ticker: MMM) earlier this year. We believe the spin off led to significant technical selling pressure because of SOLV's smaller market cap size, and because it was spun out with a significant—but manageable, in our view—debt load that consumes a significant portion of the company's ample free cash flow. We believe the company is poised to rapidly deleverage over the next few years through organic free cash flow and through strategic divestitures. We also think the company has opportunities to accelerate growth in some of its product areas that were neglected under its 3M parent. Finally, we were encouraged that Nelson Peltz's firm took an activist stake in the company during the quarter, which we think will catalyze even faster changes and improved the sentiment around the stock.

DK: Delek Holdings owns and operates four oil refineries in Texas and the Gulf Coast region and owns over 72% of a publicly traded pipeline operator Delek Logistics (ticker: DKL). Delek is a special situation where the current market capitalization of the company trades below the value of its stake in DKL, essentially valuing the refineries below zero. Management and the board are aware of this disconnect and are striving to eliminate this "sum of the parts" discount. We initiated a position shortly after the company announced that they had sold their convenience store operations and a small pipeline to DKL for total proceeds of over $500 million, which is enough to completely repay all of DK's net debt and provide dry powder for significant share repurchases. Shortly after the announcement of the sale of the convenience stores, the company announced an additional share repurchase authorization that would allow the company to repurchase over 40% of its outstanding stock. We believe the company is seeking ways to eventually realize its inherent value by selling, or spinning off, its stake in DKL and repurchasing stock in the meantime to take advantage of the undervaluation of the company. We also think the company's refineries are valuable but have some room for improvement, and recent investments should help improve the operations and profitability of these plants.

WBA: We think the investment opportunity in Walgreens arose because of two issues the company is currently grappling with: a weaker economic environment that is affecting its retail sales in the U.S., and reimbursement pressures in its pharmacy division, which is an industry-wide phenomenon. Additionally, the company was removed from the Dow Jones Industrial index, which we think led to some nonfundamental selling pressure in the stock. While the economic backdrop may continue to be weak, we think expectations are sufficiently low for Walgreen's retail sales. We also believe the price of WBA's stock today reflects almost zero equity value for WBA's U.S. retail pharmacy business (its largest segment), given the value of WBA's other segments, and we expect the firm to complete some strategic sales of parts of, or all, these segments, which should significantly reduce the company's debt and lead to a higher stock price. We also believe the company's decision to shutter underperforming stores is a solid strategic plan, which should begin producing meaningful benefits over the next couple of years.

Sales

SRCL: We sold Stericycle as the stock was near the price of its buyout offer from Waste Management (ticker: WM). While the buyout price was about 38% higher than where SRCL had been trading shortly before the offer, we believe the final purchase price was a bit of a disappointment, given that we estimated a higher intrinsic value for the company.

URBN: We exited URBN after it had been performing well despite a weakening consumer backdrop. We believed performance had peaked, so we took profits.

WW: We sold WW after its most recent earnings report suggested that its clinical (GLP-1 telehealth) business was not growing sufficiently to offset weakness in its core weight loss program (a key tenet of our original thesis).

Individual Stock Performance

Top Contributors[3] – Q3 2024	Largest Detractors – Q3 2024
Pitney Bowes (PBI)	Commercial Vehicle Group (CVGI)
Douglas Elliman (DOUG)	Dolby Labs (DLB)
Solventum (SOLV)	Liberty Energy (LBRT)
Fresh Del Monte (FDP)	Green Plains (GPRE)
VF Corp (VFC)	Western Union (WU)

Past performance does not guarantee future results. Source: Bloomberg as of 9/30/2024

Commentary on the Top Two Contributors and Bottom Two Detractors

PBI: Pitney Bowes announced during the quarter that it will shut down its e-commerce division, which had been losing a substantial amount of money. The cost of this shutdown was lower than we expected, which was a positive, and we think the company now has current earnings power of over $1 per share compared to a share price that ended September around $7. The stock increased on the news of this strategic action, and we think the management team and the board—under the direction of activist investor Hestia Capital—is aggressively managing costs and improving operations to increase the firm's cash flows.

DOUG: Douglas Elliman—a high end real estate brokerage—had a mixed quarter, fundamentally, as the firm raised capital in a fairly large convertible debt issuance that shored up its ample finances even more, but also diluted some shareholder upside potential. However, the outlook for lower Fed rates and an improved housing market resulted in a good quarter for the stock. Despite the dilution from its convertible debt deal, we still see healthy upside in the stock today.

CVGI: CVGI's fastest growing segment—Electrical Systems—experienced continued weakness among its agricultural and construction customers (macroeconomic weakness), which led to a financial guidance cut. We think a major shareholder exited the stock because of this, leading to a meaningful decline in the stock price during the quarter. We expect Class 8 large truck production (still a major business for CVGI) to be stronger than expected going into 2025 because of new emissions regulations that should pull forward demand in 2025 and 2026. We see evidence that customers are moving quicker because of continued concerns about supply chains and potential shortages similar to those experienced during the pandemic. Additionally, the company sold a non-core business for a relatively significant amount ($40M, which will reduce the company's debt significantly), which gives the company plentiful cushion until its end markets recover and recent new business wins begin bearing fruit.

DLB: Dolby's stock declined slightly during the quarter. Dolby is a high-margin, steady Core Value company, but consumer weakness globally has dragged down its recent growth rates. We still expect its higher-growth

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.

products (led by Dolby Atmos, and Dolby Vision) to accelerate the company's overall growth rates within the next 12-18 months.

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.*

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.*

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