

## Quarterly Portfolio Commentary – Second Quarter 2025

### *Clifford Capital Focused Small Cap Value Portfolio*

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

	2 <sup>nd</sup> Quarter 2025	Year-to-Date	1-Year	3-year, annualized	5-year, annualized	Since Inception**
Portfolio, gross <sup>1</sup>	7.11%	3.26%	17.23%	9.78%	14.97%	9.52%
Portfolio, net	6.88%	2.81%	16.22%	8.82%	13.98%	8.56%
Russell 2000 Value, total return	4.96%	-3.16%	5.52%	7.42%	12.43%	8.05%

\* 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 Partners Focused Small Cap Value Portfolio (“the Portfolio”) outperformed in the second quarter, posting a solid bounce back after the sharp market declines of early April. The Portfolio posted particularly strong performance during the heart of the quarterly earnings reporting season in May, with several companies reporting better than expected earnings results. We’re encouraged by the performance of the Portfolio over the past twelve months, which has also improved the longer-term performance metrics. We also continue to believe the Portfolio has strong potential today, especially compared to large cap U.S. stocks that we believe are quite expensive.

The second quarter of 2025 was characterized by high market volatility beginning with early April’s “Liberation Day” tariff announcements (we discussed this period in our last letter). Even though the declines in early April were violent, the subsequent bounce on the easing of tariff concerns was even stronger, with many market indices approaching all-time highs by the end of the quarter.

We’ve observed that large swings in markets are becoming more common, and we believe a significant portion of short-term market action is driven by large traders, many of whom accentuate volatility by using high leverage. These traders attempt to rapidly change their positioning to take advantage of short-term stock market movements. When shocks such as unexpectedly high proposed tariffs hit the market, this volatility can reach extremes.

We believe that maintaining a long-term focus on the fundamentals of individual companies, while striving to take advantage of dislocations between their estimated fair values and current stock prices, is a prudent strategy for benefiting from the volatility driven by leveraged traders. Put more simply, we think the presence of large leveraged traders can lead to even greater opportunities for our strategy, despite the higher market volatility of which we are not immune. During the second quarter we strove to take advantage of the volatility by making several meaningful trades and we’re encouraged by the current positioning of the Portfolio.

Outside of stock market swings, the U.S. economy continues to produce mixed signals, with inflation steady, but continued uncertainty about the potential effects of tariffs. Trade policies have led to consternation for consumers, businesses, and capital markets, even though the level of concern has dissipated somewhat. Despite most large-cap stock indices hovering near all-time highs at the end of the quarter, we continue to believe there

<sup>1</sup> 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.

are unappreciated risks in today's stock market, especially among the most popular U.S. large cap companies, which continue to trade at historically high valuations.

***Second Quarter—and Especially June—Was Characterized by Growth and Riskier Stock Outperformance***

In a sharp reversal from the first quarter, growth stocks significantly outperformed value stocks in the second quarter, especially during the bounce back from the tariff panic declines early in the period. While this is the type of environment when the strategy typically struggles to outperform, we noted that positive fundamental events in individual stocks were rewarded by the market during the second quarter, which helped offset this “growth” headwind. As shown in **Table 1**, growth and value stocks performed roughly in line for the year-to-date period, but growth was more of a roller coaster.

**Table 1: Total Returns of Broad U.S. Value and Growth**

	Q1 2025	Q2 2025	YTD 2025
Russell 3000 Value <sup>2</sup>	1.64%	3.84%	5.55%
Russell 3000 Growth <sup>3</sup>	-10.00%	17.55%	5.79%
Difference	+11.64%	-13.71%	-0.25%

Source: Bloomberg Finance L.P. as of June 30, 2025

We also observed some particularly notable quantitative factor trading during the quarter, and especially during June, when the U.S. market rally was led by lower quality, riskier, and more volatile stocks. These factor trades had a varied effect on the strategy, given our mix of Core Value and Deep Value stocks (some Deep Value stocks could fall into the “riskier” categories) but were a strong headwind to our more defensive stocks such as many of our Health Care and Consumer Staples investments.

**Table 2: Long/Short Returns of Key Quant Factors for the Bloomberg 2000 Value<sup>4</sup> Index**  
(measure of purchasing the top quintile and short selling the bottom quintile)

	Q2 2025	June
Volatility <sup>5</sup>	-12.1%	-7.8%
Dividend Yield	-7.5%	-2.6%
Value <sup>6</sup>	-6.2%	-2.1%
Quality <sup>7</sup>	-2.8%	-3.5%

Source: Bloomberg Finance L.P. as of June 30, 2025

As seen in **Table 2**, small cap value stocks with the highest volatility, lowest dividend yields, highest valuations, and lowest quality within the benchmark significantly outperformed during the quarter and especially in June. As such, we believe June was mostly a low-quality rally, and the Portfolio underperformed its benchmark during that month. On balance we think these factors were a quantitative headwind to the strategy for the entire quarter, but it was offset by solid stock-specific events as companies made progress toward their Key Thesis Points™.

We think this market action was a microcosmic example of the beforementioned influence of traders. There was very little company-specific news in the Portfolio during June, so performance was driven mostly by the “trade *du jour*” in the marketplace, which happened to be a factor-driven move towards riskier segments of the

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

3 The 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 return).

4 Bloomberg's proprietary index that is closely correlated to the Russell 2000 Value index

5 Measure of beta and relative volatility

6 Measure of several valuation metrics (price to book, price to sales, price to cash flow, and price to earnings)

7 Measure of profitability, leverage, and earnings variability

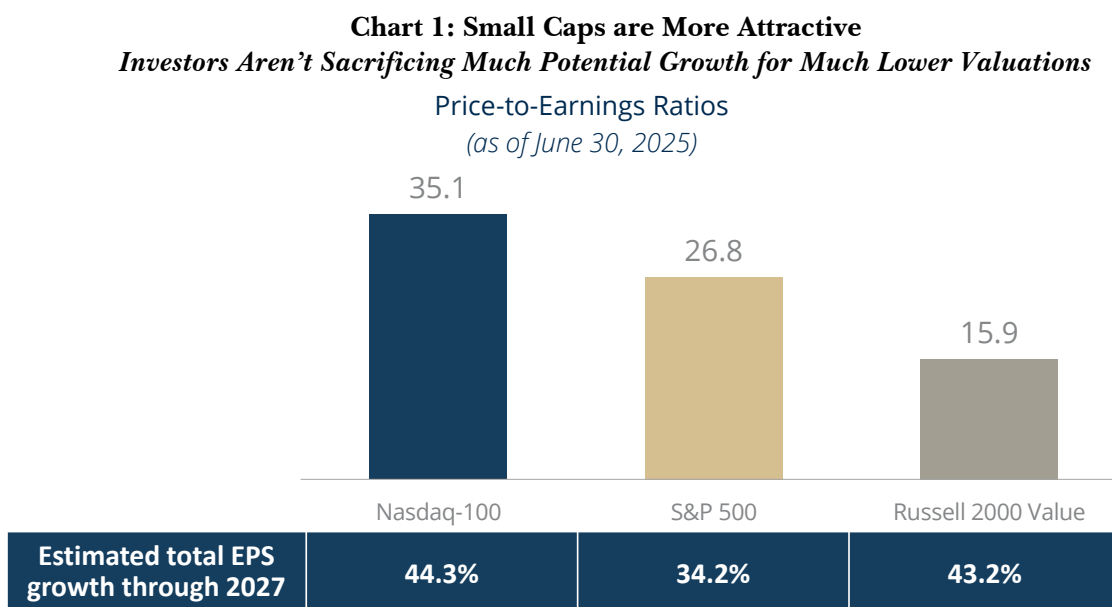
benchmark. These moves are sometimes extreme, which can lead to fundamental contrarian trading opportunities in individual stocks that either benefit from, or are hurt by, these non-fundamental factor trades.

Overall, we see signs that investor complacency and risk tolerance is very high today, with a proliferation of risk-seeking behaviors and risky new financial products gaining popularity (such as leveraged single-stock ETFs and zero-day options). In our experience, it makes sense to act more prudently in times when many investors are becoming more complacent.

### **We Think U.S. Small Cap Value is a Unique Opportunity**

We continue to believe the U.S. market's 'sweet spot' is found in smaller-cap companies. As one sign of this belief, our flagship All Cap Value product has more than three quarters of its Portfolio invested in companies with a market cap below \$50 billion as of June 30, 2025. We believe the outlook for smaller-cap U.S. companies is more favorable than larger-cap companies, which trade at historically high valuation levels, but do not possess materially better prospects in our view.

To that point, we recently compared the price-to-earnings ratios ("P/E") of several market indices to their earnings-per-share growth estimates through 2027<sup>8</sup>. As seen in **Chart 1** below, the expected earnings-per-share growth rate of the Russell 2000 Value index is very close to the expected growth rate of the Nasdaq-100 index (proxy for popular Technology stocks) and better than that of the S&P 500 (proxy for U.S. large cap stocks). Meanwhile, investors are paying a much higher P/E multiple for the Nasdaq-100 and S&P 500.



Source: Bloomberg Finance L.P.

Despite the expectation of solid upcoming growth, investors are not paying a high price for smaller-cap stocks, especially compared to large companies that we think are generally over-owned, over-followed, and over-valued today.

We continue to find our most attractive ideas among the market's smaller companies, and we think **Chart 1** is a big picture illustration of the opportunity we see as we scour the market for attractive investments. Importantly, we have identified catalysts (our Key Thesis Points™) for each of our individual investments that

<sup>8</sup> Estimated earnings per share before extraordinary items for companies with positive earnings. Estimates from Bloomberg L.P. as of June 30, 2025, compiled from 3rd party analysts for each index shown.

we believe will improve their fundamental results and their stock prices over time. And as we've noted in recent letters, slightly over half of our holdings at the end of June have activist investors who believe these companies are undervalued and are actively agitating for change, so we're not alone in identifying these opportunities.

## **Conclusion**

We are encouraged by the recent performance of the strategy, and we believe the Portfolio is well positioned. Although markets remain volatile (something we expect to continue, given the increasing influence of large leveraged traders and a general increase in risk-seeking behaviors), we think volatility can be a long-term ally to our strategy because of the opportunities we strive to take advantage of during volatile periods.

## **Significant Portfolio Changes**

During the second quarter we added three new Deep Value stocks: **Columbia Banking System** (ticker: COLB), **Core Natural Resources** (ticker: CNR), and **CVB Financial** (ticker: CVBF). We also sold four stocks: Core Value stocks **Seneca Foods** (ticker: SENE) and **WEX Inc.** (ticker: WEX), along with Deep Value stocks **KLX Energy** (ticker: KLXE) and **Liberty Energy** (ticker: LBRT).

## ***New Holdings***

**COLB:** Columbia Banking Systems is a regional bank based in the Pacific Northwest. We've been watching this company with interest as it integrated a significant acquisition, Oregon-based Umpqua Bank, which we believed added significant benefits. The opportunity to buy the stock arose when the company announced the acquisition of Pacific Premier Bancorp (ticker: PPBI), based in southern California. We think the deal has strong strategic merit because it expands Columbia's presence further south on the west coast and was financially attractive given that it was done with 100% stock at what we think was an attractively low price. We expect the company's earnings to grow significantly over the next few years as a result of these recent acquisitions.

**CNR:** Core Natural Resources is one of the largest coal producers in the U.S. and was formed by the combination of CONSOL Energy and Arch Resources in a merger of equals that was completed earlier this year. We watched this merger with interest, believing that the combination of the two companies would create a well-capitalized, highly cash-generative company with significant opportunity for cost savings. We think the demand for coal (both metallurgic coal used for steelmaking and thermal coal used for power generation) has been steadier than expected and should remain so for several years, leading to strong cash flows for coal companies. Consistent with the predecessor companies' histories, we expect most of the free cash flow generated by the company to be returned to shareholders through share repurchases and dividends.

**CVBF:** CVB Financial is a repeat holding for the strategy. We think CVBF is one of the best regional banks in the country, and the headwind it was facing from interest rate pressures is in the rearview mirror. Importantly, we expect the firm to start deploying its significant excess capital through either accretive acquisitions (which it has a long history of successfully accomplishing) or through share repurchases, or ideally by doing both. We bought the stock shortly after the company announced its most meaningful share repurchase activity in years, which was a clear signal to us that management is committed to deploying capital in shareholder friendly ways.

## ***Sales***

**SENE:** We sold Core Value stock Seneca Foods after the stock had reached our fair value estimate, and we believed we had better options for the capital in other stocks. Consistent with our Key Thesis Point expectations, the company made significant progress reducing its inventory levels (and paying down debt from the proceeds), which was positively reflected in the stock price.

**WEX:** As discussed in our last letter, we sold Core Value stock WEX in early April, given the rapid emergence of three major risks connected with tariff-related market challenges that we felt would challenge WEX's future results. The most important of these risks was an unintended increase in the company's leverage because of an unfortunately timed accelerated share repurchase that increased the company's leverage to levels we believed would be uncomfortable.

**KLXE and LBRT:** We sold KLX Energy and Liberty Energy after OPEC+ surprised us—and many market participants—by deciding to significantly increase oil production despite weakening demand trends, which led

to sharply lower oil prices. Because of these actions, we believed that new oil drilling activity would likely be curtailed for the remainder of the year or longer, putting pressure on oilfield services companies like LBRT and KLXE. Additionally, the remaining Key Thesis Points for these two companies were insufficient, in our view, to compensate for the potential effects of lower oil prices, so we sold the stocks.

KLXE was a particularly disappointing investment as we believed the company's earnings potential and the value of its hard assets far exceeded the value of the publicly traded company. However, a series of poor management decisions (including selling stock at low prices and a dilutive debt refinancing) led to significant stock price declines. That, combined with a prolonged period of low prices for oilfield services providers in U.S. shale oil fields, resulted in the stock lagging longer than anticipated. We finally lost confidence in the management team and believed the unfavorable pricing dynamic would likely persist, so we moved on to more compelling ideas.

### Individual Stock Performance

Top Contributors <sup>9</sup> – Q2 2025	Largest Detractors – Q2 2025
Everus Construction Group (ECG)	Liberty Energy (LBRT)
Delek Holdings (DK)	Global Medical REIT (GMRE)
IES Holdings (IESC)	Chemed (CHE)
Perdoceo Education (PRDO)	WEX Inc. (WEX)
OPENLANE (KAR)	Reynolds Consumer Products (REYN)

Past performance does not guarantee future results.

Source: Bloomberg as of 6/30/2025

### Commentary on the Top Two Contributors and Bottom Two Detractors

**ECG:** Everus Construction performed well as demand for the company's construction services—including continued robust demand for its data center services—was stronger than expected in its most recent earnings report. We think the stock fell to a very attractive level around our original entry point, given confusion over its initial guidance as a standalone company. That confusion seems to be dispelled now, and the company is executing well.

**DK:** Delek reported some strategic actions that moved the company closer to recognizing the value of its assets. Specifically, we believed that the firm's ~64% ownership of publicly traded midstream company Delek Logistics (ticker: DKL) was worth significantly more than DK's standalone value, but the market was not recognizing the "sum of the parts" value because DKL received a significant portion of its earnings from DK. Over the past several years, DKL's mix of non-Delek revenues has grown, and DK and DKL management have proposed or executed some actions that are getting the companies closer to a separation and deconsolidation. The stock has begun re-rating more favorably as progress is more evident. We still see significant upside potential.

**LBRT:** As discussed above, we sold LBRT stock, given deterioration in its markets.

**GMRE:** Global Medical REIT fell during the quarter due primarily to the company cutting its dividend by ~29% during the quarter, given the expectation that it will need to pay higher interest rates when it refinances its debt. While the dividend cut was meaningful, the dividend yield of about 8.6% as of June 30, 2025 is still quite attractive, and we're encouraged by the company's prospects and a new CEO.

<sup>9</sup> 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.

## 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 less than 50 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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