

Quarterly Portfolio Commentary – Second Quarter 2025
Clifford Capital International Value Portfolio

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

	2nd Quarter 2025	YTD	1-year	3-year, annualized	5-year, annualized	Since Inception**
Portfolio, gross ¹	10.86%	21.54%	24.26%	12.13%	13.43%	9.76%
Portfolio, net	10.63%	21.04%	23.23%	11.21%	12.45%	8.79%
MSCI EAFE Index	11.78%	19.45%	17.62%	15.95%	11.15%	8.61%

* Individual account performance will differ from the overall Composite.

** Inception Date: August 1, 2019, annualized

Past Performance does not guarantee future results.

International Markets

International markets performed well in Q2 with the EAFE index returning 11.78% and the Clifford Capital International Value Composite returning 10.86% (gross of fees). Volatility rose dramatically in the quarter and then eased as markets came to terms with potential US tariff changes. Last quarter we touched on the potential changes due to international trade relationships being redrawn and three months later those negotiations are still ongoing. Some deals have been done, but most have not and the initial tariff announcement on “Liberation Day” led to extreme market volatility followed by a strong bounce back, driven by the USA, and particularly the technology heavy NASDAQ. EAFE markets performed well, but performance in US\$ was driven as much by US dollar weakness as it was by stock performance. In the quarter the US\$ weakened by 9% vs. the Euro, 6% vs. the British Pound and by 5% vs. the Japanese Yen. We are not currency experts and will never construct the portfolio based on macroeconomic expectations, but these are significant moves on the back of similar, but more modest, moves in Q1. Moody’s downgraded the US from AAA to AA1 in the quarter, which may have contributed to this move, but most commentators believe that they were “late to the party” and this downgrade was just catching up with other agencies. We believe that capital flows have started to move across the Atlantic to European and EAFE markets but the recovery in US markets this quarter would indicate that appetite for US stocks remains strong, although it remains unclear to us how much of these moves are fueled by leverage rather than genuine capital investment.

Finally, the One Big Beautiful Bill Act was passed at the beginning of Q3, and expectations are that this will increase the budget deficit by between \$3Tr and \$5Tr over the next 10 years². Whether the market believes these estimates or has discounted an increase in the deficit and reduced exposure to the US\$ already is hard for us to tell but international markets are currently benefiting in US\$ terms.

We remain positive on International Markets and continue to see significant value in the portfolio. In this letter we discuss our attitude to risk and volatility and highlight some changes we made this quarter, particularly around the heightened volatility of Liberation Day. We remain committed to our process and philosophy, buying high quality Core Value companies when the market presents us with opportunities to do so and finding interesting Deep Value names that can provide superior idiosyncratic returns over slightly shorter periods. In both instances we expect to be contrarian, to be greedy when others are fearful and fearful when others are greedy, to quote Warren Buffet.

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.

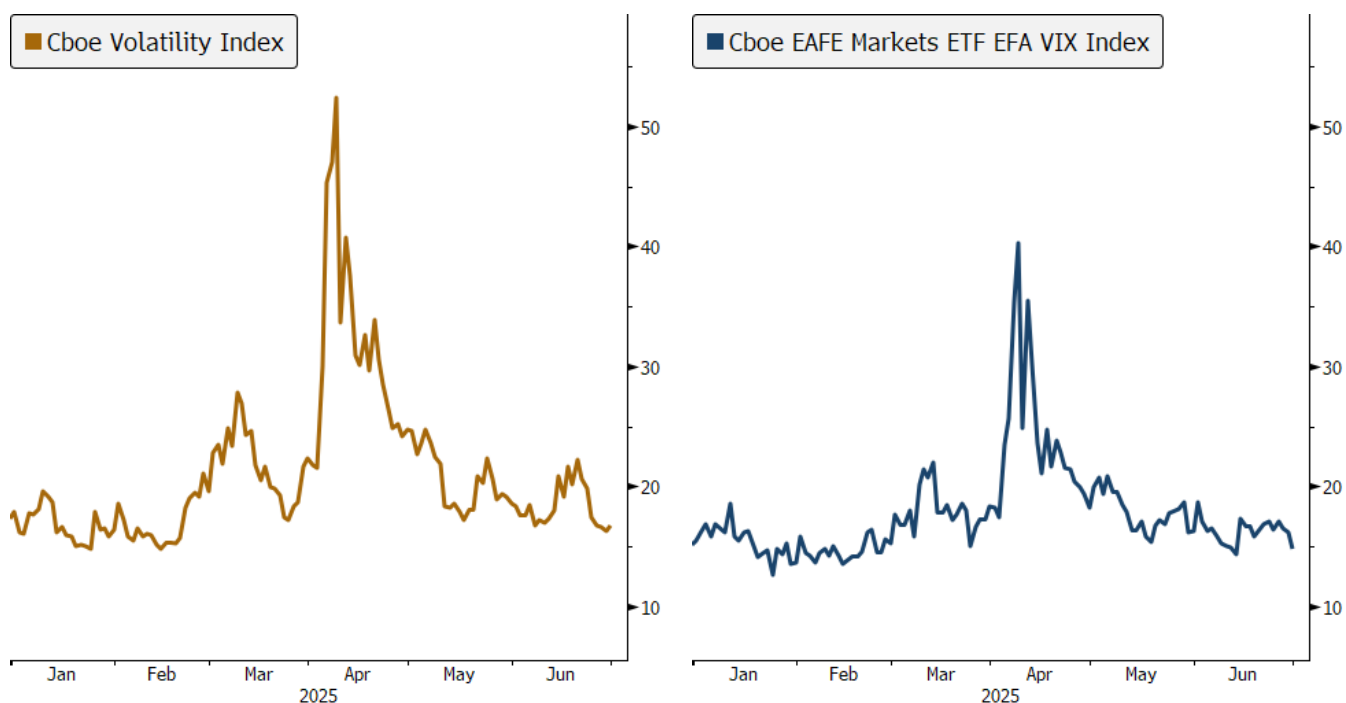
² Sources: Congressional Budget Office (CBO) and the Committee for a Responsible Federal Budget (CRFB).

We do not believe that volatility is risk, but it should be embraced and regarded as an opportunity. This goes against our inherent biases as human beings, but we believe it is a trait that the best investors have often exhibited.

Volatility and Risk

Q2 2025 was an incredibly volatile quarter. The VIX³ jumped from 22 to 52 around Liberation Day and was the second highest level of volatility in the last 10 years, surpassed only by the peak of the COVID crisis in 2020. The lesser-known CBOE EFA ETF Volatility index⁴ showed a very similar pattern to the VIX, but less extreme, peaking at 40 in April. Both indices have subsequently recovered back to more normal levels of volatility, around the 15-17 mark (see **Chart 1**). But is this increase in volatility the same as an increase in inherent risk? At Clifford Capital we do not think so. Humans are hard-wired to be more concerned with loss than profit. When we discuss risk or volatility of the portfolio do we really care about upside volatility, or are we really discussing downside risk, which Benjamin Graham so eloquently described as “the permanent loss of capital⁵”?

Chart 1: Liberation Day Volatility



Source: Bloomberg Finance L.P., for the period 1/1/2025-6/30/2025

Fear is a very powerful emotion, as shown in a financial study by Bechara et al⁶ (2004) where they devised a game asking participants whether they want to invest or not, based on specific outcomes. Each participant had \$20 at the start and was asked if they wanted to invest. If they agreed a coin was tossed and if it came up heads, they lost \$1, if it came up tails, they won \$2.50. Three groups of participants were formed – those with damage to their neural circuitry that limited their fear response, patients with different types of brain lesions, and a control group. Despite logic dictating that you should play every time (as the likely outcome is +\$0.75 with a fair coin) the control patients only invested in 60.7% of rounds. Those with no fear response invested in 83.7% of rounds and perhaps most interestingly, the control patients only invested 46.9% of the time if the round before had been a loss. It appears

3 The CBOE Volatility Index (VIX) Index is a real-time market index that measures the market's expectations for volatility over the next 30 days. Specifically, it reflects anticipated fluctuations in the S&P 500 Index based on option prices.

4 The CBOE EAFE Markets ETF VIX Index is a VIX-style volatility index based on the iShares MSCI EAFE ETF. It measures the market's expectation of 30-day volatility in the EFA ETF, which tracks developed-market equities across Europe, Australasia, and the Far East.

5 Graham, Benjamin, *The Intelligent Investor*, 1949.

6 Montier, James, *Behavioural Investing: A Practitioner's Guide to Applying Behavioural Finance*, 2007.

that experiencing a loss resulted in a higher likelihood of risk aversion. This makes sense when we consider our emotional responses to loss events in life, even when logic would dictate a different course of action.

We draw the line at considering surgery to remove our brain's fear response but being aware of our natural tendencies to stay away from losses and not take risks even when logic dictates otherwise is something we at Clifford Capital strive for. We aim to be contrarian and be greedy when others are fearful. The snap back in markets was extreme with only a few days of lows before the recovery rally took hold. At Clifford Capital Partners we maintain a list of approximately 175 core value names that we are constantly monitoring, waiting for these high-quality businesses to fall into value range. Liberation Day provided that opportunity and we were consequently able to add three core value names at very timely prices. To quote the phrase widely credited to Benjamin Franklin, "by failing to prepare, you are preparing to fail". This quarter, our preparation allowed us to move swiftly and decisively. This quarter we added four new stocks to the portfolio: three new Core Value names in **Shin-Etsu Chemical** (4063 JP), **Komatsu** (4301 JP) and **Barry Callebaut** (BARN SW) and one Deep Value name, **Alstom** (ALO FP). Shin-Etsu, Komatsu and Alstom were all bought shortly after Liberation Day and were companies that we have either invested in historically or were well known to us. The volatility in April provided us with the opportunity to pick up these stocks at very attractive valuations and to move out of some names that had done well and were nearing our fair value target. Principal sells in the quarter were Core Value stocks **BT Group** (BT/A LN) and **Astellas Pharmaceutical** (4503 JP).

Shin-Etsu is the world's largest producer of PVC (polyvinyl chloride) and a global leader in the production of semiconductor silicon wafers as well as providing other products such as silicones, cellulose derivatives, rare earth magnets and lithography material for photoresists and mask blanks. Near-term demand for building materials has affected the outlook for sales, but longer-term we still believe that PVC's cost and weight advantage over traditional building materials will lead to superior growth prospects. Their exposure to the electronics and semiconductor markets should lead to double digit growth in time and the efficiency drives that Shin-Etsu has made has led to EBIT margins of 30%-35%, which should allow them to generate excess cash for further buy-backs, dividends and M&A. Shin-Etsu had over 20% of their equity value in cash at the time of our purchase and despite falling on the threat of US tariffs on Japanese businesses, they produce over 50% of their products overseas, with a major manufacturing plant in Louisiana (Shintech, PVC USA). The market concerns led the stock to fall sharply around Liberation Day, and we initiated a position in what we consider to be a high-quality chemicals business with a very strong balance sheet.

With Japan being one of the worst performing markets in Q1, we were naturally drawn to see if value had emerged and along with Shin-Etsu we decided to take a position in Komatsu, the second largest global heavy equipment maker after Caterpillar. Technological change drives their business in the long run but with shorter term concerns over economic growth and investment in mining and construction, the stock fell to around 10x PE as fear over global trade grew. Komatsu generates almost 60% of profits from aftermarket sales and servicing, with around 777,000 units in service making their business model more robust than the market was giving them credit for. Again, the noise and fear around Liberation Day gave us the opportunity to buy a quality business that we have owned before, at a very attractive price.

Last quarter we discussed the possibility of European governments starting to take control of their own destinies and increasing defense and infrastructure budgets, as evidenced by recent announcements from Germany, France and Poland. With that background in mind, we became interested in Alstom after they missed results in May, and their stock fell 17%. This felt like an overreaction to us and after careful consideration we decided to take a position. Our perception of needed investment in the German and French railways, coupled with Alstom's strong market position and low historic multiple presented us with another opportunity when the market was fearful.

Lastly, we took a position in chocolate and cocoa manufacturer Barry Callebaut. Barry Callebaut has historically been a very steady business, with robust demand for chocolate and cocoa products generating a healthy (~15%) RoE business. However, the price of cocoa has quadrupled in the last 3 years as demand has stayed strong, but crop shortages have led to a supply / demand imbalance. With such strong raw material price increases, demand has

started to wane, but only by 5%-7% when prices are up over 50% y-on-y. The market chose to focus on the decline in volumes but with cocoa futures down 30% this year and an expected improvement in crop yields in H2 we view this situation as temporary. The high price of cocoa has also led to an increase in inventory as they must buy cocoa at a higher price before selling chocolate at a commensurate high price. This looks like an increase in debt, which may screen Barry Callebaut out of many investors' potential lists, but we see significant recovery potential having fallen by almost 70% in the last 4 years.

We do not want to compromise on quality when finding new ideas for the portfolio, but we hope these stock ideas highlight how we are prepared to be contrarian, to be greedy when others are fearful and fearful when others are greedy. Timing is sometimes a challenge but buying with a significant margin of safety when the market is overly concerned with short-term news will, over time, produce superior results for the portfolio, in our opinion.

Outlook and positioning

As discussed, there is much uncertainty in financial markets and so we remain vigilant and measured when constructing the portfolio. We are still relatively defensive with overweight positions in Healthcare and Consumer Staples, but we have increased our Industrials exposure opportunistically this quarter. Tariff uncertainty remains high but our focus on high quality businesses with competitive advantages should allow the portfolio to weather the storms ahead. We continue to see EAFE countries discussing increased investment plans and reducing their reliance on the US economy and with valuations at approximately a 30% discount to the US with expected growth rates converging, we believe that EAFE markets are still well positioned. The recent changes in the portfolio have improved our expected upside/downside ratio as well as improving active share whilst, in our opinion, maintaining a diversified portfolio with strong idiosyncratic risk exposure.

Performance Summary and Market Observations

During the quarter, the Clifford Capital International Value strategy slightly underperformed the EAFE index. This last quarter was driven by a recovery in growth stocks as the market returned to a "risk-on" mindset despite the volatility caused by US tariffs. The EAFE Growth index outperformed the EAFE Value index by 3.2% in Q2 and whilst we consider ourselves an all-weather fund with a clear value investment style, we are encouraged that we outperformed the EAFE Value Index this quarter.

In addition to the purchases already discussed, we sold out of BT Group and Astellas Pharmaceutical. BT had performed well, and we felt it was nearing our fair value estimate. Astellas was a conscious decision to reduce our pharmaceuticals exposure by selling a business that had not performed as hoped and was facing significant patent expiry headwinds in the next few years. Consequently, our Telecoms exposure fell, as did our overweight in Healthcare, but our Consumer Staples and Industrials weights increased.

Significant Portfolio Changes

As discussed above, we bought three new Core Value stocks, **Shin-Etsu**, **Komatsu**, **Barry Callebaut**, and one new Deep Value stock, **Alstom** during the quarter. We also sold two Core Value stocks, BT Group and Astellas Pharmaceutical.

Shin-Etsu is a global chemicals company that produces synthetic resins and other chemical compounds. They are the world's largest PVC producer but also produce silicon for a diverse range of goods including semiconductor wafers, as well as rare earth magnets and synthetic quartz used in the semiconductor industry.

Komatsu is a global producer of construction and mining machinery, including bulldozers, excavators and wheel loaders. They are the global no.2 to Caterpillar and produce around 60% of profits from aftersales and servicing.

Barry Callebaut is a manufacturer of cocoa and chocolate products. They market to industrial food manufacturers, chocolatiers, pastry chefs, bakers and retailers globally. They also offer product development, processing, training and marketing services.

BT Group is a provider of fixed and mobile telecommunications and related products, solutions and services, predominantly in the UK.

Astellas Pharmaceutical is a Japanese pharmaceutical company focusing on the fields of urology, immunology including transplantation and infectious diseases, oncology, euroscience and metabolic diseases.

Individual Stock Performance

Top Contributors ⁷ – Q2 2025	Largest Detractors – Q2 2025
Banco Santander (SAN UN)	Schlumberger (SLB US)
Societe Generale SA (GLE FP)	Sanofi (SNY US)
Continental AG (CON GR)	Liberty Global (LBTYA US)
JDE Peet's NV (JDEP NA)	Roche Holding AG (ROG SW)
BAE Systems PLC (BA/ LN)	Shell PLC (SHEL US)

Past performance does not guarantee future results.

Source: Bloomberg as of 6/30/2025

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

Banco Santander reported strong Q1 results, following on from a strong FY 2024. EPS rose 26% Y-on-Y with a strong capital ratio (CET1) of 13%. Still trading at less than 8x P/E the shares continued to perform well in the quarter and as one of our largest positions was the top contributor for the quarter.

Societe Generale reported similar results to Santander with the Q1 CET ratio reported at 13.4% and the reported net income doubling in Q1 2025. Trading around 8x P/E and 0.6x P/B Societe Generale continued to perform well with costs under control and the valuation remaining attractive.

Schlumberger was the largest detractor of the quarter, falling around 18%, which occurred mainly around "Liberation Day" and closely tracked the price of oil. This is a small position in the portfolio and a business that we still consider to be significantly undervalued, but the geopolitical tensions and uncertainty over trade have led to some short-term volatility.

Sanofi was also a modest detractor, finishing down 9% in the quarter. We reduced our exposure to the stock in the quarter as we reduced our overall weight to pharmaceuticals given the uncertainty over potential tariffs on drugs entering the US.

Final Comments

Thank you for your investment with Clifford Capital Partners. We will continue to focus on building long-term wealth through diligent and prudent portfolio management.

Sincerely yours,

James Harper, CFA, Roger Hill, and Allan C. Nichols, CFA
Portfolio Managers
Clifford Capital Partners, LLC

⁷ 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.

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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 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.

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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