

Quarterly Portfolio Commentary – Second Quarter 2022

Clifford Capital Focused Small Cap Value Portfolio

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

	2 nd Quarter 2022	Year-to-Date	1-year	3-year, annualized	5-year, annualized	Since Inception**
Portfolio, gross ¹	-13.66%	-14.66%	-20.48%	7.23%	4.91%	9.38%
Portfolio, net	-13.85%	-14.90%	-21.06%	6.33%	4.01%	8.41%
Russell 2000 [®] Value, total return	-15.28%	-17.31%	-16.28%	6.18%	4.89%	8.38%

* Individual account performance may differ slightly from the overall Composite.

** April 1, 2016

Portfolio and Market Observations

It was a difficult quarter for stocks—especially small-cap stocks—and the Clifford Capital Focused Small Cap Value Portfolio (“the Portfolio”) posted a meaningful loss during the quarter and the year-to-date period but has outperformed its benchmark during the same periods. In a continuation of a theme from the first quarter, we attribute most of the market’s weakness during 2022 to higher market interest rates and the Fed beginning to tighten monetary conditions as the country’s monetary policymaking officials are striving to fight inflationary forces. These effects were exacerbated, in our opinion, by extremely high stock valuations in certain subsets of the market coming into the year. As a side companion to those issues, investor worries about an economic recession have also risen, which did not help the stock market’s mood during the quarter, especially around smaller companies that are generally considered more economically sensitive.

Overall, the excess enthusiasm for stocks that we witnessed at points last year—especially among more speculative, exciting “story stocks”—has mostly evaporated. As we discussed in last quarter’s commentary, we believed the stock market’s former exuberance was driven by the fear of missing out—FOMO—which continues to be incrementally replaced by the fear of losing money. We believe these are natural, recurring cycles in markets and current negative sentiment (and the attractive valuations that often accompany such negativity) has led to some bargains already and we believe it could produce some more.

The Portfolio’s Core Value stocks outperformed the benchmark and its Deep Value stocks during the quarter and during the year-to-date period. Deep Value underperformance has been a trend over the last 12-14 months, which is reflected in the Portfolio’s disappointing one-year performance numbers, but our conviction remains strong in these investments. We continue to believe that the Portfolio’s best investment opportunities today lie in its currently underperforming Deep Value investments, many of which are trading at notably attractive levels, in our opinion. We continue to feel good about the current valuation level and the positioning of the Portfolio in today’s investment environment.

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.

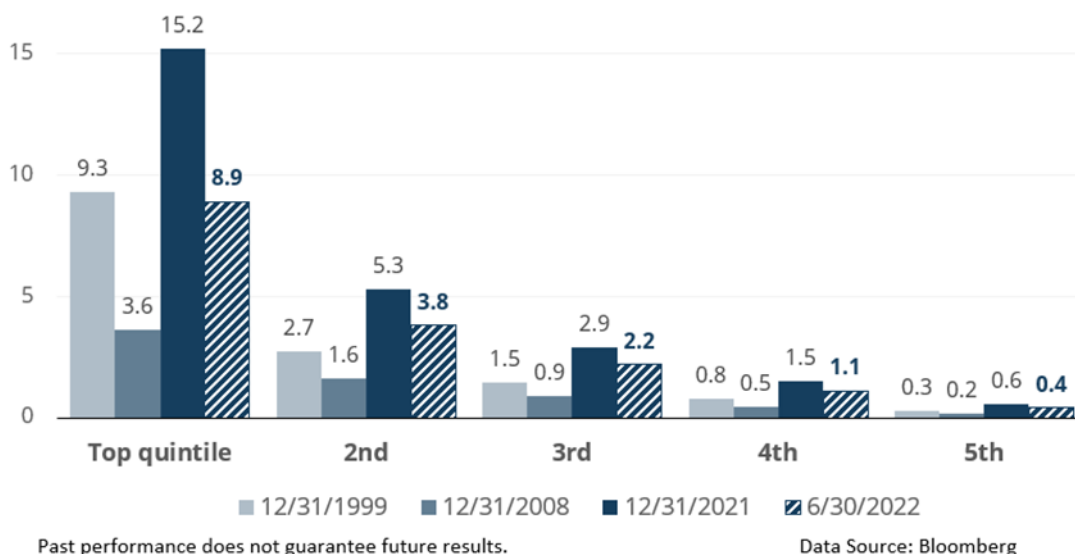
Revisiting Market Valuations After Another Rough Quarter – Are Stocks Cheap Yet?

In our last two commentaries, we’ve shown a chart of the valuation levels of the Russell 3000 index² (a good proxy for the entire U.S. stock market) which illustrated that the U.S. stock market was more expensive coming into 2022 than it was at the end of 1999 (near the end of the dotcom bubble), and significantly higher than it was at the end of 2008, (near the end of the Great Financial Crisis and what, in hindsight, was a great buying opportunity). We segmented the Russell 3000 Index constituents into five equal groups (quintiles) ranked on their price to sales ratio, which we believe is a simple valuation metric, but one that is less vulnerable to fluctuations in earnings/cash flow. The price to sales ratio is a simple answer to the question, “how many dollars are stock investors paying for each dollar of sales generated by a company?”

Given the declines in each of the first two quarters of 2022 (Russell 3000 index declined 21.1% during the first six months of the year), we’ve updated this chart again as of June 30 to show how much valuations have declined so far this year. The table and chart below show the average performance and price to sales ratios, respectively of the most expensive to least expensive quintiles of stocks for each of the four periods:

Price to Sales Ratios³ at the end of 1999, 2008, 2021 and June 30, 2022
(most expensive to least expensive quintiles)

Average YTD Return (1/1/2022 – 6/30/2022) of each quintile				
Top	2 nd	3 rd	4 th	5 th
-36.4%	-23.6%	-17.7%	-16.6%	-18.2%



As is clear from the chart above, U.S. stock valuations have meaningfully declined in 2022 so far, especially in the most expensive subset of the market, which has been hit the hardest. However, stocks continue to be valued at historically high levels and still close to the price/sales ratio coming into the year 2000, near the peak of the dotcom bubble. We’re pleased that some of the froth has been blown off the top of the market’s stein, but we also do not yet see a rich bounty of widespread undervalued bargains just yet. To be sure, we’re finding more

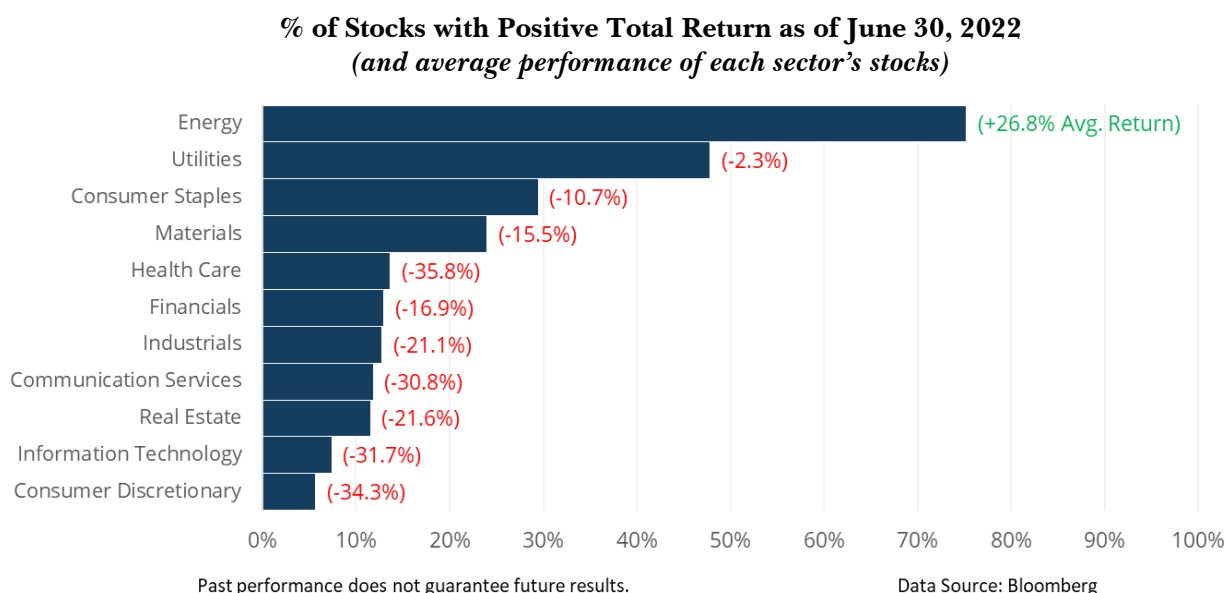
² The Russell 3000® Index is a capitalization-weighted index which is comprised of the stocks within the Russell 1000® and the Russell 2000® Indices. This index of securities represents approximately 98% of the investable U.S. equity market. Numbers presented include the reinvestment of dividends (total return). An investor cannot invest directly in an index. Moreover, index performance does not reflect the deduction of advisory fees, transaction charges, and other expenses.

³ Price to Sales ratio is the ratio of a company’s or index’s current market capitalization to its sales over the prior 12 months as of the date of the analysis. For this chart, the Russell 3000® Index was sorted by highest to lowest price to sales ratio in fifths (quintiles) for all index stocks with available price/sales data for each time period (about 90%, 95%, and 92% of total Index constituents were included for 1999, 2008, and 2021, respectively). 6/30/2022 data was obtained from the same constituents as at 12/31/2021 for comparability. The datapoint presented on the chart is the median price/sales ratio for each quintile.

potential investment ideas today, but in many areas of the market, we believe that valuations have simply moved from “silly” to “reasonable” levels.

Other Market Observations

- **Declines are widespread – an environment becoming conducive for finding contrarian investment ideas.** We recently read that we just experienced the worst first-half stock market decline (using the S&P 500 as a proxy) since the 1960s and among the worst in modern stock market history. To illustrate how tough it has been to find winners this year, we noted that only ~16% of the Russell 3000 constituents⁴ had a positive total return during the first six months of 2022. For many sectors of the market, the percentages were even lower as shown in the table below. Energy was the only sector with positive performance driven by much higher oil prices (a little summertime Texas Tea, anybody?). Outside of Energy, there were more money losers than winners in every sector of the market so far in 2022. There just haven’t been many areas to hide lately:



As contrarian value investors, we believe this type of widespread market decline can be ideal for finding undervalued stock opportunities both within the Portfolio (by purchasing more of our current holdings) or outside (new ideas). For the Portfolio’s holdings that have declined significantly this year—of which there have been several—if we conclude that our Key Thesis Points™ are still valid (stock specific catalysts that we believe will improve long-term fundamentals) we will typically hold on to the stock or purchase more. This has been the case so far for the Portfolio’s holdings in the current downdraft.

We also believe that if these conditions continue, we’ll continue finding more opportunities in the market outside of the Portfolio that may be better than what we currently own. As value investors we typically find our best ideas in tough markets, where we believe the probabilities of mispricing increase because of investor overreactions and the fear that accompanies widespread market declines.

- **Economic worries seem valid, but we think many of our stocks already reflect worse times ahead.** Looking again at the chart above, sectors considered more economically sensitive have struggled in 2022 as recession worries have begun to permeate the market’s psyche. We have seen evidence of a slowing economy in many earnings reports in recent months and with a multitude of headwinds (e.g., higher interest rates, inflationary pressures, “wealth effect” degradation from declines in stock, bond and other

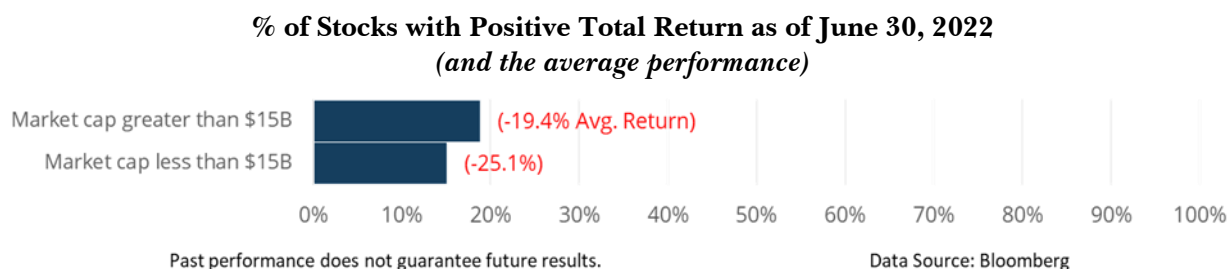
⁴ Using Russell 3000 constituents as of 12/31/21 that were still actively traded as of 6/30/22.

asset prices, and lower consumer sentiment), we would not be surprised to see a recession soon. As such, there have been strong headwinds for Consumer Discretionary, Financials, Technology, and Industrials stocks this year, given their sensitivity to economic conditions. Even Energy stocks have begun to decline in recent months after a red-hot start to the year. It is in these areas, however, that we hold some of our highest conviction investments today, even though several have declined meaningfully.

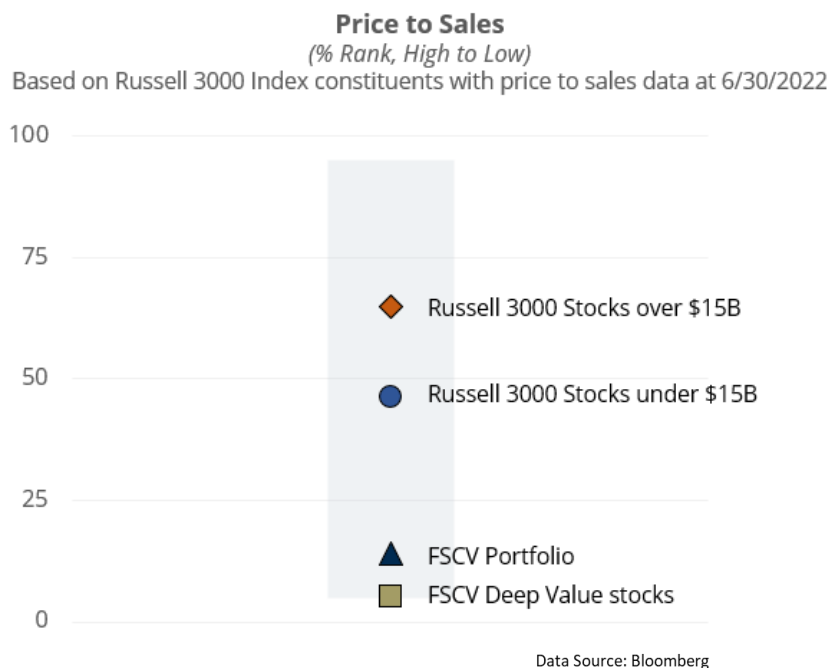
We believe that in many cases the valuation ratios of our investments—especially the Portfolio’s Deep Value stocks, which tend to be more economically sensitive—already assume a much weaker operating environment and investor sentiment has soured significantly. In some cases, the Portfolio’s investments are at, or near, all-time valuation lows. Although there are no assurances, we believe that even if earnings/cash flows decline because of recessionary conditions, we would not expect to see much, if any, further declines in valuation multiples for many of these stocks, helping to mitigate potential future losses. Conversely, we continue to shy away from companies with high valuation multiples that also sport historically high profit/cash flow margins. Similar to what we’ve already witnessed this year, the combination of a significant decline in high valuation multiples and deteriorating fundamentals can lead to bad outcomes.

We believe having a long-term view of a company’s normalized, mid-cycle earnings potential (how much we believe a company could conservatively earn during a typical normal-growth economic environment) helps us look past the short-term effects of temporarily weaker economic conditions. Even though we think the probability of recession is high today, it’s not a guarantee (we joke in our office that the market has successfully predicted at least 10 of the last 2 recessions!). Also, in our experience, even if a recession does occur, stock prices typically begin improving well before the recession is over. As such, we’ll continue to stick to our discipline of selecting stocks that trade at what we think are low valuations when we see strong long-term promise by virtue of the Key Thesis Points™ we’ve identified through our fundamental research. We think this bottom-up approach makes sense, even in recessionary times.

- ***Small cap underperformance is leading to an even more attractive opportunity, in our view.*** Small cap stocks have lagged the overall stock market this year, despite being more attractively valued coming into the year. We attribute this underperformance to investor worries about economic deterioration, similarly to the sector performance noted earlier. As shown in the chart below, smaller companies in the Russell 3000 index underperformed their larger counterparts by both the percentage of stocks increasing and by the average decline so far in 2022. We believe the continued underperformance of smaller companies only enhances their long-term potential and should ultimately benefit the Portfolio.



The graphic below shows that the valuation of the market’s smaller companies remains significantly lower than larger-cap companies, which also illustrates the opportunity we see in smaller-cap companies. The Portfolio’s stocks—especially its Deep Value stocks—also continue to be valued more attractively (lower) relative to the overall market. The Portfolio’s price to sales ratio on June 30, 2022 was in the market’s least expensive 15% of stocks, with its Deep Value investments near the bottom 5%.



We think owning stocks with lower valuations is always prudent, but especially today in an environment where many investors are taking a more skeptical view of the future. From a pragmatic viewpoint, we think companies with lower valuations have more options to improve their stock prices. For example, share repurchases made at low valuations can result in material share count reductions and earnings per share accretion, dividend yields become more meaningful, and we believe activist investors and strategic/financial buyers become more interested in cheaper companies leading to mergers and acquisitions activity.

Conclusion

We continue to believe the Portfolio is positioned well with attractive valuations and solid long-term prospects. The Portfolio also continues to have a significant overweight to Deep Value stocks (~43% weighting with a 50% maximum), which are among the market's least expensive stocks and for which we have identified Key Thesis Points™ that we believe will act as long-term catalysts for value realization.

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

Disclosures

Identifying undervalued securities and other assets is difficult, and there are no assurances that such a strategy will succeed. Any fair value estimates are subject to actual known and unknown risks, uncertainties, and other factors that could cause actual results to differ materially from those projected. Information is as of the period stated in this letter and is subject to change. Clifford Capital Partners undertakes no obligation to update this information if circumstances or management's estimates or opinions should change.

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.