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# CAMBIAR LARGE CAP VALUE COMMENTARY 2Q 2024

ZEPHYR PSN Top Guns Award Q1 2024

Zephyr PSN Top Guns Award Manager of the Decade 4Q 2023

The Manager of the Decade rating was announced on February 21, 2024 and is based on the gross returns of the Large Cap Value composite for the ten year period ending on December 31, 2023. The 6 Star rating was announced on May 21, 2024 and is based on gross returns of the Large Cap Value composite for the five year period ending on March 31, 2024. Cambiar did not compensate Zephyr in order to achieve its ranking but did pay Zephyr a licensing fee to use its logo on Cambiar's website. Only firms that submitted PSN investment manager questionnaires were eligible for the award.

# MARKET REVIEW

U.S. equity markets turned in a mixed performance for the second quarter. While the S&P 500 Index notched a 4.3% return in 2Q, the gain was narrowly driven by the interdependent artificial intelligence (AI) trade in select mega cap technology stocks. The stock that received the most airtime was Nvidia, which gained 36% in the quarter. Nvidia has added $2 trillion in market cap in 2024, and is up almost ninefold since the end of 2022. The company's explosive earnings growth in recent quarters certainly validates much of the stock's gains – to what extent investors are extrapolating this growth into the future remains a key question. For the buyers of Nvidia's products, investors will at some point want to see a return on investment for the massive amount of capital that has been allocated to generative AI – but we are not there yet.

## SO MUCH FOR BROADENING MARKET BREADTH

Any hopes for asset class leadership outside of large cap (growth) have been dashed thus far in 2024, as the year-to-date gains for equities have been extremely top-heavy in nature. The key investment narratives from 2023 (i.e., AI and GLP-1 diet drugs) continue to lead the way in 2024. Market concentration is a condition, not a signal; that said, widening market breadth would certainly be a more healthy development. With a number of tech companies approaching logical market capitalization limits, durable upside from here is almost certainly going to be a function of broader market participation.

Beneath this select group of outperformers, equity returns have been considerably more mixed – with segments such as large cap value (Russell 1000 Value) and small caps (Russell 2000) posting outright declines. The widening gap between the performance of the average stock vs. the overall market is best expressed in the returns of the S&P 500 vs. it's equal-weighted version. As illustrated below, stocks are higher this year, but trailing the aggregate return by a healthy margin.

| Index | 2Q 2024 Return | YTD Return |
|---|---|---|
| S&P 500 | 4.3% | 15.3% |
| Equal-Weighted S&P 500 | -2.6% | 5.1% |
| | | |
| Russell 1000 Value | -2.2% | 6.6% |
| Russell 2000 | -3.3% | 1.7% |

Moderating inflation data has increased the odds that the Federal Reserve will begin easing in the back half of 2024. Yet why then are front line beneficiaries of lower rates such as small caps and regional banks performing so poorly? Small-cap companies utilize more leverage, with much of this debt being floating-rate. Given the forward-looking nature of the markets, small caps should be rallying in expectation of a lower cost of capital. Regional banks should similarly be performing better, as the prospect for lower rates will help to alleviate funding pressures and commercial real estate exposure. Yet the S&P Regional Banking ETF (KRE) was lower for both the quarter as well as on a year-to-date basis.

Consumer spending is the biggest driver of the economy; i.e., so as the consumer goes, so goes the economy. On this front, the data is more indicative of a K-shaped economy – whereby high earners with greater exposure to risk assets continue to show a propensity to spend, while lower income households are showing more restraint in their spend patterns. Despite positive wage gains, it seems declining consumer sentiment (as measured by the University of Michigan) may also be weighing on consumption. When nearly 80% of Americans consider fast food to be a 'luxury' purchase (results from a recent LendingTree poll), something is amiss as it relates to economic divergences in the U.S. A resilient consumer has been a key underpinning for above-trend economic growth – can it continue?

The bigger takeaway is that despite eye-catching headlines such as the S&P 500 notching new all-time highs and the tremendous growth in AI, the data and price action is considerably more mixed below the surface. The divergences in valuation present attractive risk/reward opportunities for investors who are willing to look beyond the ten largest companies. As the biggest input to one's investment return is price at attachment, smaller cap stocks may also be poised to outperform, given the low valuation/low expectation profile assigned to many companies in the down cap asset class.



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# LARGE CAP VALUE

## CONTRIBUTORS

| Top Five | Avg. Weights | Contribution |
|---|---|---|
| Alphabet | 3.07 | 0.60 |
| Texas Instruments | 3.26 | 0.38 |
| Goldman Sachs | 3.18 | 0.29 |
| Applied Materials | 2.05 | 0.29 |
| Williams Companies | 2.31 | 0.24 |

## DETRACTORS

| Bottom Five | Avg. Weights | Contribution |
|---|---|---|
| PPG Industries | 2.91 | -0.40 |
| Diageo | 2.44 | -0.41 |
| Centene | 2.77 | -0.47 |
| Bristol-Myers Squibb | 1.22 | -0.53 |
| Airbus | 2.06 | -0.58 |

The Top 5/Bottom 5 chart provided is based on a representative account managed in the strategy. The contribution to return is based on net returns and considers factors including the individual security's total return and the average weight of the holding during the quarter. See Disclosure – Top 5/Bottom 5 Chart for more information.

| | 2Q 2024 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception |
|---|---|---|---|---|---|---|---|
| Large Cap Value (gross) | -2.0% | 7.2% | 15.6% | 6.4% | 13.8% | 10.5% | 9.0% |
| Large Cap Value (net) | -2.2% | 6.9% | 14.9% | 5.7% | 13.2% | 9.9% | 8.4% |
| Russell 1000 Value | -2.2% | 6.6% | 13.1% | 5.5% | 9.0% | 8.2% | 7.2% |

Large Cap Value Composite (Institutional) Inception Date: 12.31.1998. See Disclosure – Performance

After a strong start to the year, value stocks pulled back in the second quarter. The Cambiar Large Cap Value (LCV) portfolio was unable to sidestep the broad-based decline and posted a modest loss for 2Q. Strategy performance remains in positive territory on a year-to-date basis, and longer-term returns (our primary focus) are also ahead of the benchmark over all rolling timeframes.

While not exhibiting the same level of year-to-date upside participation as its AI-charged large cap growth counterpart, the 6.6% gain for the Russell 1000 Value Index is a solid first-half return and illustrates the opportunities that exist outside of the mega-cap tech space. We believe one advantage of Cambiar's Quality I Price I Discipline philosophy is that it enables our team to cast a wider net relative to deep or traditional value disciplines. Attractive value opportunities are often created by some combination of outright investor neglect and/or vague negativity with respect to certain investment themes. While Cambiar has benefited from select representation in Technology and Communication Services, the portfolio's larger sector allocations as of quarter-end are in overlooked sectors such as Healthcare and Financials. We continue to believe a diverse portfolio that possesses varying return drivers can provide prudent ballast and generate strong risk-adjusted returns over an economic cycle.

Buy/sell activity was light in the quarter and included the sale of Rockwell Automation and purchase of Comcast. Industrial automation provider Rockwell is a well-managed company and has been a good performer for the portfolio since our initial purchase in 2018. The sale decision was based on a combination of factors: elevated valuation, M&A activity that resulted in a weaker balance sheet, and declining market share. On the buy side, Comcast is a diversified cable and media business, with an array of assets that we believe are undervalued relative to their combined earnings power. The bear case for the stock is declining growth in Comcast's traditional cable bundle, as more consumers are 'cutting the cord' in favor of non-linear options such as Netflix, Hulu, and Disney+. However, a fast and reliable internet connection remains a necessity, and Comcast's cable internet service is a valuable solution. Comcast has additional assets that include its own non-linear offering (Peacock), original content (Universal Studios), theme parks, and a bundled mobile phone business. Given the company's strong balance sheet and free cashflow, in tandem with relevant valuation metrics such as P/E and EV/EBITDA that are at a deep discount to the broader market, we believe Comcast offers an attractive upside opportunity.

In reviewing notable performance drivers in the quarter, Cambiar's stock performance within Technology was



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a key positive, as semiconductor holdings Texas Instruments and Applied Materials both posted strong returns. We initiated our investment in Texas Instruments last year on the expectation for a bottoming in semi demand for autos/industrials (two primary endmarkets for TXN). While we were a few quarters early, the company believes it is nearing the end of the inventory destocking cycle that has weighed on earnings – triggering the rebound in the stock price. After posting impressive returns in 2023, Applied Materials has continued the positive price momentum thus far into 2024. The company remains a key beneficiary of the explosive growth in AI chip manufacturing, while also residing at the center of non-AI secular growth drivers such as hybrid/EV production and clean energy solutions. We remain disciplined in trimming our exposure into strength but maintain an ongoing investment in this wide moat business.

The portfolio's holdings in Consumer Discretionary comprised an additional value-add, as TJX Companies and Amazon both moved higher in the quarter (vs. a negative return for the index). Investors bid up off-price apparel and home goods retailer TJX in response to a strong earnings report, with both revenues and margins coming in ahead of consensus expectations. TJX's value proposition should be even more compelling in the event consumers become more discerning with their spend decisions. Amazon continues to perform well across the company's varying lines of business, highlighted by strong sales growth in their Advertising Division as well as Amazon Web Services (AWS). Within Amazon's core retail segment, higher expenses incurred during the 2020-21 buildout of a robust fulfillment network are now paying dividends in the form of expanding margins. We believe Amazon offers a balanced risk/reward, while providing an attractive complement to the portfolio's more cyclically geared positions.

Performance within Healthcare lagged in the quarter, a continuing trend from 2023. Sentiment towards healthcare stocks (outside of diet drug manufacturers) remains low, as investors appear willing to 'weight' it out – despite low valuations and attractive shareholder returns via dividends and share buybacks. Health insurance provider Centene (a current holding) is one such example – despite executing well and posting strong earnings, the stock posted a double digit decline in 2Q. Centene is the #1 market share leader in the three important government insurance markets, as well as in the individual health insurance vertical (Marketplace). Each of these business segments offers the potential for multi-year expansion opportunities.

Centene is also three years into an operational turnaround in which significant non-core operations were divested and expenses reduced – setting the company up for additional margin gains. An announced $3 billion share buyback (8% of current market cap) is an additional catalyst. In aggregate, we see significant value in Centene, with the stock currently trading at a 10-year low forward P/E of 9.7x relative to the company's 14% earnings growth estimates over the next three years.

Additional laggards in the quarter included Airbus (Industrials) and Diageo (Consumer Staples). Airbus declined in response to lower earnings guidance due to a non-cash charge for the company's satellite business as well as reduced aircraft production. The drop in plane deliveries results from an ongoing shortage in engines and other essential components, factors that are somewhat out of Airbus' control. We viewed the decline in the stock to be an over-reaction, and subsequently added to our position. While improved execution is necessary, Airbus has a 10-12 year order backlog, and the company is led by a well-regarded CEO who we believe can overcome the current production shortfalls.

Diageo is one of the largest and most diversified spirits companies, with a broad mix of brands and price points. The stock's recent weakness in recent quarters is due to a mix of factors – GLP-1 related demand concerns, general destocking trends, and modest price resistance/trading down activity given the end of the stimulus boost. As North America represents Diageo's largest market, recovering volume growth in the U.S. is a key driver for Diageo's earnings, valuation, and stock price. We believe the stock's current multiple embeds an abundance of negativity, such that any signs of stabilizing volumes will be well-received by investors. The arrival of a new CFO Nik Jhangiani is also a positive, given Mr. Jhangiani's exceptional track record at Coca-Cola Europacific Partners. Although disappointed by the recent price action, we anticipate brighter days ahead for Diageo.

# LOOKING AHEAD

U.S. equities continue to levitate higher as we reach the halfway point of 2024, with the S&P 500 already eclipsing forecasters' full-year return targets. Markets remain relatively complacent, as evidenced by tight credit spreads and the VIX index probing multi-year lows. On a valuation basis, the S&P 500 Index is trading at a forward one-year P/E multiple of 21-22x, pulled higher by a narrow sleeve of mega cap tech stocks (and Eli Lilly). The increase in valuations for mega-cap tech stocks has been accompanied by strong earnings growth but may be starting to reach logical limits. Nvidia, Apple and Microsoft have each surpassed the $3 trillion market cap level – what's next…$5 trillion? $6 trillion? It is worth noting that valuations are much more reasonable beyond the ten largest companies, with sectors such as Energy, Healthcare and Financials all trading at attractive levels relative to their expected earnings power.

Markets may see a rise in volatility in the coming months, as Presidential debates and party conventions leading up to the November election become more front and center for investors. Heightened political instability in Europe may also add to widening spreads in asset prices.

There seems to be a growing chorus amongst investors that budget deficits and valuations don't matter – the outperformance of growth stocks (over value) strengthens this view. Suffice to say that we disagree with this viewpoint – the concepts of financial gravity and price discovery remain critical inputs to the buy/sell decision. The Cambiar team continues to channel our efforts on identifying high quality businesses that can offer an asymmetric investment opportunity over a forward 1-2 year timeframe. In our view, companies with durable business models, proven pricing power, and low leverage should be in good position to outperform regardless of the macroeconomic backdrop. In a nod to baseball season, the market seems preoccupied with finding the next homerun (i.e., Nvidia), while our team is more focused on hitting singles and doubles and minimizing strikeouts.

We appreciate your continued confidence in Cambiar Investors.

# DISCLOSURE

Cambiar Investors, LLC (Cambiar) is an independent registered investment adviser with the United States Securities and Exchange Commission. Registration does not imply a certain level of skill or training. Cambiar claims compliance with the Global Investment Performance Standards (GIPS®).

Cambiar's Large Cap Value Composite (Institutional) includes discretionary, tax-exempt and taxable institutional and high net worth portfolios that are not part of broker-affiliated or broker-sponsored programs, including wrap programs, that waive commission costs or bundle fees including commission costs. Effective July 31, 2021, the Cambiar Large Cap Value Composite (Institutional) was redefined to include taxable portfolios. Prior to this date, the composite excluded taxable portfolios due to the impact of tax loss harvesting, which has been lessened through composite membership policy changes. The records of the portfolios in the composite are maintained on Cambiar's systems. Portfolios in the composite invest in large cap equities. Cambiar's Large Cap Value Composite (Institutional) primarily invests in stocks with a market capitalization greater than $10 billion. The typical number of securities in the large cap value portfolio is 35-45 holdings. The Large Cap Value Composite (Institutional) contains proprietary assets. As of April 2020, there is no minimum asset level for the composite. From July 2016 to March 2020, the minimum asset level for the composite was $1,000,000. From 1998 to June 2016, the minimum asset level for inclusion in the composite was $5,000,000.

Returns are presented gross (g) and net (n) of management fees. Gross and net returns have been reduced by transaction costs. Net returns are also reduced by actual investment advisory fees and other expenses that may be incurred in the management of the account. Net of fees performance reflects a blended fee schedule of all accounts within the Large Cap Value Composite (Institutional). Cambiar clients may incur actual fee rates that are greater or less than the rate reflected in this performance summary. Fees will vary based on the assets in the accounts. Returns are reported in U.S. dollars.

Performance results for the Large Cap Value Composite (Institutional) are evaluated against the Russell 1000® Value Index. The Russell 1000 Value Index is a float-adjusted, market capitalization weighted index of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which consists of 3,000 of the largest U.S. equities. The index assumes no management, custody, transaction or other expenses. The Russell 1000 Value Index is a broadly based index that reflects the overall market performance and Cambiar's returns may not be correlated to the index. The index is unmanaged and one cannot invest directly in an index. Cambiar's performance and the performance of the Russell 1000 Value Index include the reinvestment of all income.

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For additional information, including a GIPS Composite Report for the strategy presented herein and/or a list of composite descriptions, please contact: Cambiar Investors LLC, 200 Columbine Street, Suite 800, Denver, CO 80206, 1.888.673.9950, info@cambiar.com. **Past performance is no indication of future results and, as is the case with all investment advisors who concentrate on equity investments, Cambiar's future performance may result in a loss.** All information is provided for informational purposes only and should not be construed as an offer to buy or as a solicitation to buy or sell. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. **This communication is intended for non-wrap use only.**

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**Top 5/Bottom 5 Chart:** For the quarter, the total portfolio return for the representative account was -1.97% (gross) and -2.09% (net). The net performance is calculated assuming the highest applicable fee rate currently being offered to prospective clients for the strategy. As compared to the representative account, the composite performance shown is the asset-weighted performance of related accounts which may include accounts of varying types including pooled vehicles/mutual funds, separate accounts, and retail/wrap (directed) accounts. Cash flows, holdings and other activities may vary across accounts in the composite which can result in materially different performance between the composite (or other accounts in the composite) and the representative account.

The net contribution for individual holdings is calculated by determining each security's contribution to return as a percentage of the account's gross performance, then multiplying that percentage by the account's net performance. Fees and expenses are not charged to individual investments, and net performance of individual holdings are provided for illustrative purposes and to meet regulatory requirements. Different calculation methodologies can result in materially different net returns for individual holdings. Please refer to the net performance of the representative account, which best represents the net performance an investor would have received if they had invested in the strategy for the period shown.

A complete list of each security that contributed to the performance of the Cambiar portfolio mentioned above is available upon request. Please contact Cambiar at 1.888.673.9950 for additional information.

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