CAMBIAR LARGE CAP VALUE COMMENTARY 4Q 2024

MARKET REVIEW

In like a lion, out like a lamb - U.S. equities turned in a mixed quarter to close out 2024. Stocks initially rallied in response to both the timeliness and outcome of the Presidential election, with investors cheering on the prospects of the incoming administration's pro-growth agenda. The positive sentiment subsequently reversed post-Thanksgiving, as higher yields and heightened policy uncertainty prompted investors to lock in profits. The S&P 500 Index posted a 4Q gain of 2.4%, the fifth consecutive quarter of positive returns.

In terms of equity leadership, the market returned to the mega-cap technology/AI investing playbook that has been in place for much of the past two years. The strong preference for growth stocks came at the expense of value equities, with the Russell 1000 Value Index posting a -2% decline for the quarter. Small cap stocks (as represented by the Russell 2000 Index) were the immediate big winners following the last Trump election win but posted a more subdued 0.3% 4Q return this time around.

The positive 4Q return caps another strong year of gains for the S&P 500, with the index posting a 25% return. This comes on the heels of a 26.3% return in 2023 – the first back-to-back years of +20% gains since 1998 (interesting parallel). The rally in stocks has been understandable, given a backdrop of above-trend productivity, low unemployment, robust economic growth, and accommodative monetary policy. Yet one needs to consider the 'pull-forward' effect of stock gains that now embed a high degree of optimism about the economy and corporate earnings.

With a one-year forward P/E of 22x for the S&P 500 (vs. ~17x at the start of 2024), the result is a more challenging starting point (for the S&P 500 Index) as we move into 2025. Valuation itself is often a poor predictor of returns in the short run, and it is worth noting that multiples are more reasonable below the surface. Should current concentration trends in the mega-cap tech space reverse, active managers who have demonstrated the ability to add value via a combination of stock selection/prudent avoidance may be well-positioned to outperform passive options.

The risk on bias that paced the markets in 2024 was further illustrated in areas such as single-stock leveraged ETFs, zero date to expiration options, and cryptocurrencies. It is one thing for a somewhat established cryptocurrency such as Bitcoin to march higher, but newly-launched Fartcoin (we wish this was a joke) reached a market cap of $1 billion in the quarter. While Cambiar is not in the business of calling out market tops (or bottoms), the speculative excesses permeating certain pockets of the market are indicative of bubbly environments that do not end well.

LARGE CAP VALUE

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Marvell Technology	1.40	0.10
Delta Air Lines	3.78	0.07
Amazon.com	2.82	0.05
JPMorgan Chase	2.92	0.04
Alphabet Inc	2.85	0.04

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Elevance Health	1.96	-0.04
Constellation Brands	2.34	-0.04
Uber Technologies	2.52	-0.06
Estee Lauder	1.71	-0.06
Centene	2.35	-0.06

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.

CAMBIAR INVESTORS

	4Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Large Cap Value (gross)	0.0%	15.6%	15.6%	8.1%	12.9%	11.2%	9.1%
Large Cap Value (net)	-0.1%	14.9%	14.9%	7.5%	12.2%	10.6%	8.6%
Russell 1000 Value	-2.0%	14.4%	14.4%	5.6%	8.7%	8.5%	7.4%

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

In what was a more challenging market environment for large cap value stocks, the Cambiar Large Cap Value (LCV) strategy provided a solid margin of downside protection vs. the Russell 1000 Value Index. The excess return in the quarter enabled the LCV portfolio to outperform for 2024, and the strategy continues to outpace the benchmark over all rolling timeframes – on both an absolute and risk-adjusted basis.

Although large cap stocks were positive in the aggregate for 2024, it was very much a tale of two markets between growth and value. This is evident when comparing the 14.4% return for the Russell 1000 Value Index vs. the 33.4% gain for the Russell 1000 Growth Index. Investors' optimism towards AI has been a key driver to returns in the growth space, and the favored stocks have delivered solid earnings growth – somewhat justifying higher valuations. In contrast, the lack of earnings growth in traditional value sectors such as Consumer Staples, Healthcare, and Energy contributed to the market's general disinterest. While easier year-over-year comparables within value may make for a lower hurdle in 2025, more tangible signs of earnings growth will be needed to improve sentiment towards these relatively unloved areas of the market.

Cambiar's excess return in the quarter (as well as on a full year basis) was almost exclusively a function of positive stock selection. Our team remains focused on constructing a diversified portfolio of quality businesses that we believe can perform double duty for our clients – i.e., participate in up markets, while also providing a margin of safety in drawdowns. This ongoing emphasis on balance and varying return drivers was particularly additive during the decline in December, as the portfolio held up considerably better than the benchmark.

Nine out of eleven sectors in the index ended lower for the quarter, illustrating the challenging environment for value. Cambiar's 4Q relative outperformance was generated across numerous sectors, led by holdings in Consumer Discretionary, Healthcare, and Industrials.

Within Consumer Discretionary, TJX and Amazon were notable outperformers – in both the quarter as well as on a full-year basis. With consumers becoming more discerning, we believe TJX's off-price business model (TJ Maxx, Marshalls, HomeGoods) continues to offer an attractive value proposition. Amazon set new highs in profitability during 2024, as the company registered strong sales growth and record margins across its various business segments. We trimmed our position in Amazon multiple times during the year, but continue to maintain an investment in this wide-moat business.

Although the Trump win has largely been a positive catalyst for the equity markets, it has thus far been a negative for healthcare stocks. Some portion of investor angst lies with the potential appointment of Robert F. Kennedy, Jr. as head of the Department of Health and Human Services. Mr. Kennedy's past criticisms of healthcare policy, in tandem with a bipartisan focus on lowering costs, prompted investors to move to the sidelines. While unable to fully sidestep the weakness in the sector, Cambiar's healthcare stocks outperformed in the aggregate, as Bristol-Myers Squibb and Labcorp registered positive returns for the quarter. Our team also used the weakness to initiate a position in Elevance (see additional details below). Looking ahead, we believe the varying uncertainties facing the healthcare space are reflected in current valuations. Given the low bar in place, any upside in the way of earnings (or better-than-feared policy outcomes) could trigger a commensurate re-rating in the sector.

Financials represented a notable bright spot in the quarter, as banks and insurance companies were boosted by an uninverting yield curve, in addition to the potential for less regulation and lower capital requirements via the incoming Trump administration. Financials comprised ~20% of the LCV portfolio as of quarter-end (our largest exposure at a sector level). While the portfolio's aggregate holdings in the sector trailed the index by a small margin for the quarter, stock selection was positive on a full-year basis. We used the post-election price strength to trim positions in American Express and Goldman Sachs, as both have been strong performers throughout 2024 and were nearing the upper end of their respective valuation ranges.

One sector where stock selection fell short (for the quarter and the full year) was Consumer Staples. Estee Lauder declined in response to a lower earnings outlook and dividend cut. While disappointed with this shorter-term setback, we believe the key tenets to our investment thesis (improved distribution, heightened focus on profit margins, increased innovation) remain in place. Our investments in spirits companies Constellation Brands and Diageo also lagged in the quarter, as both companies continue to adjust from a period of above-trend consumption trends to an environment of lower sales and associated trade down activity. In our view, the company management is taking the proper steps to stabilize supply/demand dynamics, which should be more evident in the coming quarters.

Buy/sell activity in the quarter consisted of four new purchases and four liquidations. The team also used more elevated price movements to make select adds/trims to existing positions. There were no major changes to sector positioning, as Financials, Industrials, and Healthcare continue to comprise the portfolio's largest allocations as of year-end.

Sales in the quarter included pipeline operator The Williams Companies and semiconductor company Marvell Technology, as both companies moved above our internal estimates of fair value. Williams' tollkeeper business model received a boost from the 'pending datacenter buildouts will need a lot of (gas) power' trade. Although Williams should be a natural beneficiary of increased gas demand, this catalyst is more than reflected in the valuation – leaving not much room for error. Marvell was sold after a positive earnings report that showed continued strength in the company's AI solutions. While we would not be surprised to see additional upside in the stock price, the combination of elevated expectations and customer concentration (Amazon) contributed to our decision to move on from this high-quality operator.

On the buy side, Cambiar initiated a position in health insurance provider Elevance (formerly Anthem Health). The company insures ~46 million people through government sponsored, individual, and employer-sponsored health plans. The attachment opportunity arose in response to a profit warning related to Elevance's Medicaid business, which has been an industry-wide issue. The combination of fewer Medicaid members and higher costs resulted in a decline in free cashflow and profitability. We view this setback to be a transitory issue for Elevance that can be offset via pricing actions and higher reimbursement from state governments. The company continues to benefit from secular tailwinds in the forms of aging population trends and increased life expectancy, which should continue to drive long-term demand for healthcare services. Given current valuation trough of 11x P/E and 5.6% FCF yield, we view Elevance to offer an attractive risk/reward profile. The company also announced a large share buyback program that translates to approx. 11% of outstanding shares at current prices.

LOOKING AHEAD

The past two years have been a rewarding period for equity investors, as market averages continued to march higher with low volatility. The Magnificent 7 cohort did a lot of the heavy lifting in 2024, benefiting from a positive flywheel of robust capex budgets, strong earnings growth, and positive price momentum. On a concentration basis, the top ten stocks in the S&P 500 now comprise approximately 38% of the index – one of the highest levels in history. Just as these names carried the index in recent years, any slippage can result in a proportionate impact on performance to the downside.

A key question is whether the upward trajectory for equities can continue into 2025, or are risk assets nearing the euphoric phase that typically coincides with the end of a bull market? Diversification has been less additive vs. keeping one's assets in the S&P 500 in recent years, yet we believe broader participation beyond the ten largest stocks will be needed in order to maintain the upward trend in equities.

The rise in bond yields is another development that should be on the front burner for investors. While the impact on equities has been marginal thus far, the nearly 100 basis point rise in the benchmark 10-year Treasury yield since the Fed pivot began in September is a potentially worrisome divergence. The rise in yields is largely a function of our nation's widening budget deficit and rising inflation data – which in turn led to a more hawkish reduction in anticipated rate cuts for 2025. Continued strength in yields is likely to be a headwind for the residential real estate market, the general economy, and equity valuations.

The transition to a new calendar year brings with it no shortage of predictions – equity returns, Fed policy, budget deficits, and inflation. Cambiar's view on this prediction exercise harkens back to a Warren Buffet quote that the only value of stock forecasters is to make fortune tellers look good. Our in-house research efforts continue to focus on the underlying fundamentals of our companies and the associated risk/reward that is expressed in current valuations. Portfolio construction seeks to optimize our bottom-up research by building diversified portfolios that can both capture returns and manage risk. In seeking to consistently implement our Quality/Price/Discipline approach, we anticipate that the ‘D’ will take on increased importance in the coming year.

We wish you a happy, healthy, and prosperous 2025! Thank you for 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.

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 0.00% (gross) and -0.12% (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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