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CAMBIAR INVESTORS

CAMBIAR SMID FUND COMMENTARY 2Q 2024

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.

SMID FUND

	2Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception - Inv	Since Inception - Inst
CAMMX	-7.73%	-2.45%	3.25%	1.67%	8.66%	7.78%	9.38%	-
CAMUX	-7.69%	-2.41%	3.36%	1.75%	8.74%	-	-	8.60%
R2500V	-4.31%	1.50%	11.24%	2.15%	8.01%	6.77%	8.56%	7.27%

Inception Date: CAMMX (5.31.2011) | CAMUX (11.3.2014). All returns greater than one year are annualized. ***The performance quoted represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost, and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, please call 1-866-777-8227.***

As of 6/30/24, expense ratios are CAMMX: 1.11% (gross); 0.93% (net) | CAMUX 1.04% (gross); 0.85% (net). Fee waivers are contractual and in effect until March 1, 2025. Absent these waivers, total return would be reduced. *The Fund imposes a redemption fee of 2.00% on shares held less than 90 days. Your return will be lower if a redemption fee is applied to your account.*

The Cambiar SMID Fund lost ground relative to the strategy benchmark in the quarter, as holdings in Healthcare and Technology hampered relative performance.

Positive returns were tough to come by in the quarter, as all sectors registered a loss with the exception of Utilities. Smaller cap stocks continue to trade at reasonable valuations and may be poised to benefit from lower borrowing costs should the Fed move to an easing posture. While a wait-and-see approach is understandable given the relative underperformance of the asset class (vs. large cap stocks), we believe the current environment provides an attractive entry point for investors with a multi-year time horizon.

Receiving less notoriety relative to the Mag 7 stocks that are driving large cap returns, the small-mid asset class has similarly incurred a level of narrow market leadership over the past year. The risk-on tone in the market is further confirmed at a factor level – as companies with high momentum and high beta paced the smid value market in 2Q, while factors such as earnings quality lagged. When companies such as Gamestop, Carvana and AI energy play Vistra Corp are at the top of the benchmark leaderboard, it is somewhat evident that our Quality I Price I Discipline philosophy will be hard-pressed to keep pace. Despite the recent lag vs. a benchmark that has gained 11% over the past year, we continue to believe that a portfolio of advantaged, self-funding businesses that have a demonstrated track record of persistent profitability and low leverage is a proven path to excess returns (with lower volatility) over periods longer than 12-18 months. Stocks and sector returns routinely become un-moored from financial or valuation fundamentals over short intervals – both to the upside and the downside.

Trade activity in the quarter consisted of one liquidation and incremental adds/trims to existing positions. On the sale side, we made the decision to move on from Ulta, which is a retailer of beauty products. The company has high market share, clean balance sheet, and a history of good returns. Yet the stock has had a weak start to the year due to reduced discretionary spending as well as increased competition that could weigh on margins. We sold the position (near our original cost) due to the revelation of potentially increased competition, representing a change from our original thesis. While some of these headwinds are reflected in the company's lower valuation, any further weakening in fundamentals will likely be met with valuation erosion amidst a challenging narrative of an objectively weakening consumer and worsening market structure for beauty product sales. With only one holding in Consumer Discretionary as of quarter-end (Gentex Corp.), we will look to get more front-footed as opportunities in the sector present themselves over the coming quarters.

Healthcare stocks remain out of favor thus far in the year, with the sector's more defensive properties nowhere to be found in 2Q. Although Cambiar registered positive stock performance in Healthcare over the past year, setbacks in longer-term holdings Bruker and Molina Healthcare were a performance drag for the period. Bruker is a diverse life sciences company;

Diversification does not protect against market loss.

the stock's decline can be attributed to a combination of profit-taking after a strong run, a recent earnings report that fell short of consensus expectations, and heightened uncertainty surrounding recent M&A activity. Bruker's business strategy has been a combination of organic growth and the strategic acquisition of tuck-in assets. The company has been active on the M&A front in recent quarters, resulting in more uneven year-over-year comparisons for earnings, margins, etc. We are confident that Bruker's management has the expertise to successfully integrate these new lines of business, which should then be accompanied by a recovery in returns.

After delivering one of the strongest returns for the SMID Fund in 2023, managed healthcare insurer Molina Healthcare lost ground in 2Q due to a combination of temporary underwriting concerns and the potential for lower enrollments within the company's Medicaid client segment. We believe investors are taking an overly pessimistic view of Molina, and recently added to our position. Given the combination of attractive growth prospects, tenured management team, a net cash balance sheet, and strong free cashflow, Molina offers a compelling risk/reward once current overhangs are resolved.

Performance within the Technology sector remains a work in progress. While encouraged by the rebound in Littlefuse (which lagged in 1Q), the SMID Fund was impacted by a decline in engineering and software development provider EPAM Systems. EPAM sold off after disclosing a guide-down in revenues, taking the market (and Cambiar) by surprise. We first initiated a position in EPAM in 2Q23, after earnings were impaired due to the Russia-Ukraine conflict (where a number of their key employees were located). EPAM made the necessary adjustments to personnel, setting the stage for a recovery in 2024. The rebound now appears to be pushed out to 2025, as the focus on AI is creating a crowding-out effect for traditional IT spending. While disappointed by this development, the negative price action in the quarter appears overdone, as EPAM remains a leader in digital transformation services, which should eventually lead to new business opportunities to facilitate the coming AI platform investments by its corporate customers. The company also has a net cash balance sheet and 100% free cashflow conversion. We continue to monitor the situation closely but view the stock to be sufficiently de-risked and the return to growth a matter of when (not if).

As mentioned, Utilities was the only sector to deliver a positive return in the quarter; Cambiar's overweight allocation was thus a positive contributor to performance. After years of underinvestment in the country's electrical grid, utilities may be poised to experience a return to growth in the coming years. Additional value-adds in the quarter included positive stock selection in the Real Estate and Energy sectors. Within Real Estate, Americold Realty moved higher in response to a strong earnings report and raised guidance. Americold has a fairly differentiated business model that provides temperature-controlled warehouses and logistics services.

Energy has been a bright spot for Cambiar in 2024, highlighted by continued strength in Targa Resources. Targa is a midstream pipeline company; the bulk of its business involves the transportation of natural gas and natural gas liquids, mostly from the Permian basin. We remain attracted to the company's relatively lower risk profile vs. the traditional exploration/production business model and management's focus on balancing volume growth with free cashflow/shareholder returns.

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, 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.

Small-to-mid cap companies continue to trade at a discount to the S&P 500, as investor sentiment towards the asset class remains tepid at best. Smaller cap stocks have been held back in recent years due to a combination of high inflation, recession fears and elevated rates. As these conditions continue to

Diversification does not protect against market loss.

moderate, we believe there will be a favorable catch-up opportunity for down cap equities.

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.

IMPORTANT INFORMATION

To determine if a Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Fund's summary or full prospectus, which may be obtained by calling 1-866-777-7227 or by visiting our website at www.cambiar.com. Please read the prospectus carefully before investing.

Risk Disclosures

Mutual fund investing involves risk including loss of principal. The Fund pursues a "value style" of investing. If the Adviser's assessment of market conditions, or a company's value or prospects for meeting or exceeding earnings expectations is inaccurate, the Fund could suffer losses or produce poor performance relative to other funds or market benchmarks. In addition, "value stocks" can continue to be undervalued by the market for long periods of time, and may never achieve the Adviser's expected valuation." In addition to the normal risks associated with investing, investments in small companies typically exhibit higher volatility. A company may reduce or eliminate its dividend, causing losses to the fund. There is no guarantee the fund will achieve its stated objective. Diversification does not protect against market loss.

The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500™ Index companies with lower price-to-book ratios and lower forecasted growth values. Index returns do not reflect any management fees, transaction costs or expenses. The Russell 2000® Index is a float-adjusted, market capitalization weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which consists of 3,000 of the largest U.S. equities. Indexes are unmanaged and one cannot invest directly in an index. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index, with each stock's weight in the Index proportionate to its market value. The S&P 500 Equal-Weight Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a an equal-weighted index, with each stock's weight in the Index proportionate to one another. Indexes are unmanaged and one cannot invest directly in an index.

As of 6.30.24, the Cambiar SMID Fund had a 2.7% weighting Americold Realty, 2.3% in Bruker, 2.2% in EPAM Systems, 3.0% in Gentex, 3.0% in Littlefuse, 2.4% in Molina Healthcare, and 3.4% in Targa Resources. The SMID Fund has 0.0% in Apple, Carvana, Disney, Eli Lily, Gamestop, Hulu, Microsoft, Netflix, Nvidia, Ulta, and Vistra Corp. Current and future holdings subject to risk.

Price/earnings ratio – The ratio for valuing a company that measures its current share price relative to its per-share earnings.

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