CAMBIAR SMID FUND COMMENTARY 3Q 2023

MARKET REVIEW

The U.S. equity markets incurred a modest drawdown in the third quarter, with the S&P 500 Index posting a return of -3.6%. After moving higher in July, stocks retreated in August and September, with the selling pressure accelerating into quarter-end (reinforcing September as the most difficult month for equities). Small-mid cap stocks were similarly challenged in the quarter, evidenced by the -4.8% return for the Russell 2500 Index. While there was no return differentiation by style in large caps for the quarter, smaller cap value benchmarks held up better vs. growth in the period.

The 3Q slide in stocks was a reaction function to changing market conditions that took place during the quarter; i.e., oil moved higher > stoking sticky inflation concerns > Fed reaffirms its focus on reducing inflation > yields jump > equity multiples move lower. Perhaps the yields higher/equities lower relationship was the real takeaway. Given bulging deficits, fiscal credibility is becoming a more relevant issue, and investors are demanding higher coupons in order to digest the massive supply of issuance. Market participants anticipating a return to the low-rate environment of yesteryear may be waiting for a while (and should also consider the recessionary pressures that would need to precipitate a sharp move lower in rates).

While still elevated vs. historical peak/trough levels, the one-year forward P/E multiple for the S&P 500 is now ~17.8x, incrementally more reasonable than the 19x range earlier in the year. Multiples within smaller cap equities are more reasonable, although lower valuations did not offer much in the way of downside protection during the recent decline. One way Cambiar is thinking about attachment points during periods of valuation compression is to consider sector/industry multiples as a % of one's expected market multiple. For example, if banks typically trade at 50-60% of the market multiple, and the market ex-FAANGs trade at ~16.5x, a reasonable P/E valuation (in addition to Price/Tangible Book) for banks may be in the 8-10x range. Similarly, if high quality consumer franchises trade at 10-15% premiums to the broader market, a P/E of 17-19x may present an appropriate entry point. Some of the more favored sectors such as Technology can still hold high relative multiples, but reframing expectations to lower valuation levels is a necessary adjustment in light of a higher rate environment. There have been two distinct rounds of multiple expansion in recent years: the 2017-18 timeframe, and again in 2020-21. Yet real yields compressed to very low levels in both of these periods, catalyzing P/E expansion. As the opposite conditions are taking place now, making the necessary attunements to entry/exit multiples is paramount.

SMID FUND

	3Q 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception - Inv	Since Inception - Inst
CAMMX	-3.88%	2.56%	17.72%	13.35%	8.57%	9.22%	9.34%	
CAMUX	-3.88%	2.56%	17.75%	13.44%	8.63%	-	-	8.47%
R2500V	-3.66%	1.95%	11.34%	13.32%	3.99%	6.95%	7.84%	6.18%

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 9/30/23, expense ratios are CAMMX: 1.09% (gross); 0.92% (net) | CAMUX 1.02% (gross); 0.85% (net). Fee waivers are contractual and in effect until March 1, 2024. 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.*

CAMBIAR INVESTORS

The Cambiar SMID Fund trailed the Russell 2500 Value Index by a small margin in the quarter, while remaining ahead of the benchmark for the year as well as over all rolling timeframes. The performance shortfall was sustained during the market surge in July, as the portfolio's quality bias provided solid downside protection during the subsequent decline in August and September.

The sharp move in rates over the past 18 months has resulted in a widening gap between companies that are well-capitalized vs. highly leveraged businesses. Corporate defaults are on the rise – another fallout of higher borrowing costs. Given the elevated number of non-earning 'zombie' companies that exist down cap, many of these businesses are likely to be severely handcuffed by the spike in interest costs when they attempt to access the debt market. One recent example is a 5-year private debt issue by Mercer International that has a 12.875% coupon. As a point of reference, Mercer had a prior debt offering in 2021 with a coupon of 5.125%. We do not own this stock and have no opinion on their business. Yet consider the step up in interest expense that Mercer must now cover vs. a company that does not need to access the debt markets to fund their business. Cambiar's preference for companies that possess strong balance sheets and persistent free cashflow should be well-suited in the current environment of tightening liquidity and a high cost of capital.

Cambiar's holdings in Healthcare were a relative bright spot in the quarter. Despite their more defensive tendencies (perhaps this view is more applicable to large caps), Healthcare stocks provided little in the way of downside protection in the third quarter, with the sector lagging the broader small cap market by a wide margin. Cambiar's Healthcare positions held up relatively well in the quarter, resulting in a positive contribution to performance.

The negative sentiment towards Healthcare can be attributed to a number of factors – uncertainty surrounding potential drug pricing, the impact of higher interest rates on funding for biotech, labor shortages, and slowing comps for utilization-rate sensitive equipment/supplies. Investors are also looking ahead to possible ripple effects from the weight loss drugs that have come to market – i.e., will their success result in reduced utilization in areas such as cardiovascular, diabetes, and sleep apnea? Within the SMID Fund, HealthEquity and Molina Heathcare both posted solid gains for the quarter, offsetting weakness in Bruker Corporation. While remaining cognizant of longer-term shifts that may occur in the sector, we view the current overhang to be a bit of an overreaction. If we are correct in the earnings trajectory for our companies, the stock price should follow.

Stock selection within Consumer Discretionary was an additional value-add in the quarter, as auto supplier Gentex gained on a positive earnings release. We moved on from Burlington Stores during the quarter, redeploying the proceeds into Ulta Beauty. Burlington has been an opportunity cost in the portfolio and the underlying thesis has simply not unfolded as expected. Specialty retailer Ulta (cosmetics, beauty products) is a proven operator that we have owned in the past, and recent weakness in the stock provided an attractive attachment point to re-engage in the name.

Two sectors where the SMID Fund incurred below-benchmark stock performance were Technology and Consumer Staples. Individual positions that lagged were IPG Photonics in Tech and Lamb Weston in Staples. Despite reporting above-consensus earnings, french fry producer Lamb Weston lost ground due to elevated expectations as well as a decline in volumes. We are less concerned with the volume issue, as the company has intentionally exited lower profitability segments to drive higher margins. We remain constructive on the forward outlook for the company. IPG manufactures industrial lasers that are used in a wide array of applications, and has a secular opportunity in areas such as electric vehicles and renewables. Yet the company is still sensitive to a weakening economy and the related slowdown in capital investment, which was the catalyst for a guide-down in earnings. Our investment in IPG has been akin to the one step forward/one step back variety; that said, this is a niche operator with significant intellectual property and solid market share. Looking ahead, IPG's strong balance sheet and continued free cashflow should provide some cushion as we await the manufacturing investment cycle to improve.

Comprising ~18% of total portfolio capital, Financials is one of the larger sector allocations within the SMID portfolio. Cambiar's exposure in the sector continues to skew away from banks, and instead favors areas such as insurance companies, payment solution providers, and an exchange. Performance was mixed in the quarter, as strong gains from Fidelity National and CBOE Global Markets were offset by a sharp pullback in Euronet. The weakness in Euronet stemmed from a slowdown in the company's ATM business in Europe. Upon discussion with management, we view the current challenges in the ATM segment to be transitory, and Euronet's other segments are compounding at a high single-digit growth rate.

A final comment on banks, given our underweight to the space. Although valuations within regional banks have become more attractive relative to historical levels, an attractive upside case remains elusive. Banks must still contend with higher deposit costs, exposure to a weak commercial real estate market, and constrained loan activity. Ancillary segments such as mortgage refi activity has also dried up in light of current mortgage rates. And all of these conditions exist in what has been a relatively strong economy – the pressure on banks may only increase should a recession come to pass. We have some representation via our position in BOK Financial, but remain guarded in allocating additional capital to banks at present.

LOOKING AHEAD

The strength that the U.S. economy has exhibited in the face of higher rates has been a surprise thus far in 2023. That equities have moved higher in the face of a rising 10-year Treasury yield is a bit of a disconnect vs. history – i.e., equity valuations typically compress in the face of a higher cost of capital. Is this cycle different? Or is the lag simply longer vs. past cycles?

As we transition into the final three months of 2023, we view the SMID Fund to be well-positioned for the current environment. The financial reality of a higher for longer cost of capital will be a difficult transition for many companies that have had an over-reliance on low rates. In contrast, Cambiar's bias towards businesses with strong balance sheets, persistent margins, and steady free cashflow should enable our holdings to sidestep funding concerns and focus on executing their business and growing market share.

We believe the current environment places a premium on price discovery and fundamental analysis, which in turn should favor active managers who can add value from both stock selection and abstention. This is particularly the case in the small-mid cap space, given the varying quality of companies that make up the asset class. Our team remains focused on the consistent implementation of Cambiar's Quality | Price | Discipline approach at a company level, while portfolio construction efforts continue to emphasize balance and diversity of return drivers.

We appreciate your continued confidence in Cambiar Investors.

Diversification does not protect against market loss.

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 Nasdaq 100 is a stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.

As of 9.30.23, the Cambiar SMID Fund had a 2.5% weighting in BOK Financial, 2.6% in Bruker Corporation, 0.0% in Burlington Stores, 2.7% in CBOE Global Markets, 0.0% in Euronet, 2.5% in Fidelity National, 3.0% in Gentex, 2.8% in HealthEquity, 2.4% in IPG Photonics, 2.2% in Lamb Weston, 0.0% in Mercer International, 3.0% in Molina Healthcare, and 2.5% in Ulta Beauty. Holdings subject to change. 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.

Price/tangible book - This is the Current Price divided by the latest annual Tangible Book Value Per Share. Tangible Book Value Per Share is defined as Book Value minus Goodwill and Intangible Assets divided by the Shares Outstanding at the end of the fiscal period. For characteristics and risk definitions, please visit www.cambiar.com/definitions.

FANNGs – Acronym that refers to the stocks of prominent U.S. tech companies – Meta (Facebook), Amazon, Apple, Netflix, Alphabet (Google).

The With Intelligence Awards was judged based on 2022 performance and flows. Funds must have at least $50 million in assets under management.

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