CAMBIAR SMID FUND COMMENTARY 4Q 2023

MARKET REVIEW

U.S. equity markets staged an impressive rally in the fourth quarter, as October fears of a massive budget deficit and 8% mortgage rates gave way to a continued decline in inflation data and a corresponding signal from the Federal Reserve for interest rate cuts in 2024.

In contrast to the narrow market leadership that had been in place for much of 2023, the upsurge in stocks (and all risk assets) was broad-based in nature. The S&P 500 Index gained 11.7% in the quarter, ending the year on a 9-week winning streak and closing the year just shy of a new all-time high. The price action in stocks was particularly explosive in small caps, with the Russell 2000 Index posting a 4Q return of 14.0%. Small cap stocks were largely shunned for much of 2023 due to recession fears and tighter credit conditions; as these headwinds may be poised to abate, we believe the outlook for the asset class should remain favorable.

After hampering stock valuations during the September/October timeframe, bond yields retreated in conjunction with the expectation for rate cuts – weakening the 'higher for longer' narrative that permeated the markets for much of the year. Upon briefly reaching the 5% level, the 10-year Treasury yield ended 2023 at 3.87% - almost exactly where it started the year (but still well above the July 2020 low of 0.55%). With inflation levels drawing closer to their 2% target, the Fed is in position to lower rates from current restrictive levels to something closer to a neutral level that can perform double duty in the economy; i.e., high enough to dissuade speculative behavior and excess risk-taking, while not so high so as to cause financial instability. Whether they can successfully thread this needle remains to be seen.

The end of the calendar year brings with it some reflection. There is a popular saying that markets climb a wall of worry, and this was certainly the case for U.S. equities in 2023. Entering the year, Cambiar anticipated that stocks would likely struggle to find direction, given uncertainties in corporate earnings, a high discount rate and the path of monetary policy. Our view for a somewhat rotational market characterized by multiple compression due to an elevated cost of capital generally held correct, with the P/E multiple of the equal-weighted S&P 500 compressing to 15x earnings at the end of October. We could not have anticipated the rapid failures of several major regional U.S. banks, nor the relatively smooth absorption by the financial system of their demises. Nor did we anticipate the significant multiple expansion of a narrow group of mega-cap tech stocks amidst this backdrop. We did anticipate that the mixed return outlook across sectors would be favorable for active management, which was largely the case.

While increased breadth to end the year is a positive development for the market, there is still more work to be done on this front. The top 10 stocks in the S&P 500 Index contributed 86% of the total return in 2023. The combined weight of just Apple and Microsoft (13.9%) is greater than the collective weight of four sectors (Energy, Basic Materials, Real Estate and Utilities). Proponents of greater stock market breadth may recall a quote of Roman poet Horace:

"Many shall be restored that now are fallen and many shall fall that now are in honor."

Looking ahead, it would be unusual for the narrow market breadth that reined in 2023 to continue for a second full year. As investors become more sanguine about the economic outlook, we would expect value to outperform growth and market breadth should continue to expand. Similarly, it would be unusual for industries that uniquely benefited from the extremely long period of ultra-low interest rates to reassert market leadership. Improved stock market breadth and less restrictive monetary policy likely coincide. We see a path toward such an environment in 2024.

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SMID FUND

	4Q 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception - Inv	Since Inception - Inst
CAMMX	10.11%	12.93%	12.93%	9.37%	13.43%	8.99%	9.98%	-
CAMUX	10.19%	13.01%	13.01%	9.46%	13.53%	-	-	9.38%
R2500V	13.76%	15.98%	15.98%	8.81%	10.79%	7.42%	8.78%	7.51%

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 12/31/23, 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.*

The Cambiar SMID Fund posted a strong 4Q return on an absolute basis, while trailing the Russell 2500 Value Index for the period. The strategy remains ahead of the benchmark over longer-term rolling timeframes.

A higher cost of capital has been a headwind for smaller cap stocks for much of the year. Not surprising then, the potential for alleviated funding pressures via lower rates provided an outsized boost to the asset class (vs. large caps) in the quarter.

The quarter was a rising tide lifting all boats (with energy stocks the sole exception). That said, the rally was somewhat skewed to more speculative companies. The higher risk appetite in the market is confirmed when reviewing index performance on a factor basis, as beta was the top-performing factor in the quarter by a wide margin. While we believe Cambiar's opportunistic investment approach provides the opportunity to outperform in a variety of market environments, our bias towards businesses with lower earnings variability and above-average internal financial/operating performance typically results in the SMID Fund not keeping pace in risk-on environments such as 4Q. We are comfortable with the tradeoff of sacrificing some margin of upside participation in euphoric upswings if we are able to protect capital in market drawdowns.

Portfolio buy/sell activity was fairly muted in the quarter, consisting of two liquidations and incremental adds/trims to existing positions. At a sector level, Financials (21%), Healthcare (21%), and Industrials (17%) comprised the portfolio's largest allocations at quarter-end. Government IT consultant Booz Allen was one of the 4Q sales, as the company reached our upside price target after posting strong results in both earnings and bookings backlog. While we continue to view Booz Allen to be a high-quality business, the current valuation does not adequately compensate for increasing risks such as potential government funding pressures and weaker near-term free cashflow.

Stock selection in Industrials was a notable bright spot for the SMID Fund – in both the quarter as well as on a full-year basis. The sector is extremely diverse by sub-industry and end market, resulting in a unique opportunity set of investment candidates for the strategy. Individual outperformers in the quarter included home improvement company Masco Corporation as well as Lincoln Electric, which provides welding equipment and related fabrication services. Lincoln is benefitting from strong end market demand trends, while Masco has protected margins via pricing and expense controls as they await an uptick in volume trends in the coming quarters.

While not comprising large allocations in the portfolio, Cambiar's holdings in Energy and Consumer Staples were additional value-adds in the quarter. Pipeline operator Targa Resources was able to buck the downward pull in energy stocks to post a positive return in the quarter. In contrast to higher beta services or E&P companies, Targa's business model is akin to a toll road provider. The company has a clean balance sheet, possesses attractive growth prospects, and generates strong free cashflow that should result in increased capital returns via dividends/share buybacks.

The prospect of accommodative monetary policy was particularly welcomed by the rate-sensitive Financial sector, which was negative for the year entering 4Q. Banks rallied sharply in the quarter, given the potential for lower deposit costs, higher net interest margins, and increased real estate/refi activity. Cambiar's lower allocation to banks subsequently weighed on relative performance in the quarter, while representing a key value-add on a full-year basis. Given the heterogenous nature of regional banks, our team has sought to complement the portfolio's bank positions with non-credit return drivers - examples include a derivatives exchange, property and casualty insurance, reinsurance, and a payments/transaction processing provider. While not averse to owning more banks, selectivity remains key. The potential for a downturn in the credit cycle that would likely accompany a recession (mild or otherwise) is another consideration as it relates to adding more bank exposure.

Cambiar's Technology positions generated a positive return in the quarter, while unable to keep pace with the index. Industrial laser manufacturer IPG Photonics and software services provider Amdocs are two longer-standing positions that lagged in the quarter. IPG continues to battle near-term cyclical pressures, while the company's strong market position and secular opportunities remain intact. Amdocs is a lower beta name in the portfolio's tech stack. The company's more consistent revenue/earnings profile served the name well in 2022, but limited Amdoc's upside participation (vs. higher beta peers) in the 4Q rally.

The resulting cash position (~4%) in the portfolio from Cambiar's net selling activity in the quarter was a drag on return vs. the fully invested index. As always, cash remains a by-product of the investment process. Clients should anticipate our team deploying cash as purchase candidates reach actionable attachment points.

There is growing comfort in the markets that the cost of capital has peaked. Yet the impact of higher rates is being felt in the corporate sector, as there were 591 bankruptcy filings in 2023 (one of the highest totals since 2011). Even if the Fed lowers rates as expected, borrowing costs will almost certainly remain at elevated levels vs. the ZIRP (zero interest rate policy) environment that had been in place for much of the past 15 years. We attempt to mitigate this unknown variable by attaching to self-funding companies who are not reliant upon the capital markets to sustain their operations. Such companies should be in good position to generate strong through the cycle returns with less volatility.

LOOKING AHEAD

U.S. equities closed out the year on a high note, with stocks rallying in response to continued progress on the inflation front and ongoing resilience in the economy and labor market. While the market may have been reasonably priced in October, the 4Q surge results in valuations that are closer to historical fair/full multiples at an index level. Given the high beta/momentum nature of the rally, investors showed a clear preference for risk-taking and chasing upside participation in the quarter. Some consolidation would not be unexpected as we head into the New Year.

The strength that the U.S. economy exhibited in the face of higher rates was certainly a surprise in 2023. Outside of a handful of regional banks, fears that Fed actions would 'break something' has yet to materialize. Softening inflation data now provides the necessary breathing room for the Federal Reserve to begin lowering interest rates. A reduced cost of capital should be a tailwind for stocks in the aggregate, but could create a catch up opportunity for smaller companies that were most negatively impacted by elevated refinancing rates and recession fears. On a style basis, growth stocks outpaced value by a wide margin in 2023, with the gap most pronounced in the large cap asset class. Yet lower bond yields and normalizing inflation pressures should be positive for multiple expansion within traditional value sectors in 2024.

Cambiar remains humble about our ability to make accurate macro forecasts; we instead channel our efforts on identifying competitively advantaged businesses that meet our Quality/Price/Discipline philosophy. We anticipate a wide range of outcomes for equities in 2024, with market volatility likely to be

Diversification does not protect against market loss.

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amplified by the upcoming Presidential election. The resulting backdrop should provide sufficient opportunity for active managers to add value via a combination of thoughtful stock-picking and abstention/selective avoidance. Cambiar remains vigilant in evaluating fundamentals vs. valuation at a company level, while portfolio construction efforts attempt to strike a consistent balance between conviction and prudent diversification.

We wish you a happy and healthy 2024 and 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 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 12.31.23, the Cambiar SMID Fund had a 2.1% weighting in Amdocs, 2.3% in IPG Photonics, 3.0% in Lincoln Electric, 2.5% in Masco Corporation, and 2.2% in Targa Resources. The Fund has a 0.0% weighting in Apple, Booze Allen, and Microsoft. 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.

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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