



# CAMBIAR SMID VALUE COMMENTARY 1Q 2024

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**PSN**

Top Guns Award



4Q 2023



# MARKET REVIEW

U.S. equity markets continued to march higher in the first quarter, with the S&P 500 posting a 10.6% return for the period – surpassing the average election year return of 7.4%. The 5,200 level for the S&P reached at quarter-end is already higher than most Wall Street strategists’ full-year 2024 targets. Although the pendulum may be leaning more towards risk vs. reward at present, markets can stay in overbought conditions for some time. Rotating capital to stock market laggards because the market seems expensive in the moment is also generally not a good plan. It is worth noting that valuations are more diffuse at an individual stock level.

While artificial intelligence continues to be a dominant investment theme, market participation is broadening beyond the mega cap tech stocks, evidenced by the equal-weighted S&P Index outperforming the cap-weighted S&P in March. After taking the pole position in 4Q, small cap stocks moved higher in the quarter, but faded a bit vs. their large cap counterparts; the Russell 2000 Index advanced 5.2% for the period. On a style basis, growth stocks led value, with the margin of outperformance more apparent down cap.

The unabated rally in stocks since last November was largely predicated on the expectation for six interest

rate cuts by the Fed, and inflation levels retracing to the 2% target. Despite both of these catalysts unlikely to cooperate as expected, equities continued to churn higher. The record highs have not been limited to the S&P 500, as the Nikkei 225 Index, gold, and bitcoin also notched all-time highs in the quarter.

The timing and number of rate cuts remain a key focus for the markets; that said, the ongoing resilience of the U.S. economy and employment has lessened the urgency on this front. With current short-term rates at somewhat restrictive levels, a move closer to neutral while financial markets are relatively calm is probably the right decision versus waiting for a not peaceful moment before acting.

In Cambiar's view, we are most likely in a “it’s better to travel than arrive” stock market. As opposed to letting a given macro narrative guide decision-making, the Cambiar team continues to lean into businesses that meet our Quality | Price | Discipline philosophy and preferably operate in less crowded areas of the market.

## SMID VALUE

### CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Bruker Corporation	2.78	0.74
Arch Capital Group	2.78	0.61
Targa Resources	2.25	0.60
HealthEquity Inc	2.65	0.55
Lincoln Electric	3.15	0.53

### DETRACTORS

Bottom Five	Avg. Weights	Contribution
EPAM Systems	3.01	-0.21
Littelfuse	2.22	-0.22
Mercury Systems	0.70	-0.39
IPG Photonics	2.00	-0.40
Americold Realty Trust	2.34	-0.44

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.

	1Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
SMID Value <small>(gross)</small>	5.9%	5.9%	16.2%	6.9%	12.4%	10.5%	13.9%
SMID Value <small>(net)</small>	5.8%	5.8%	15.4%	6.2%	11.7%	9.8%	13.2%
Russell 2500 Value	6.1%	6.1%	21.3%	5.4%	9.4%	7.7%	10.6%

SMID Value Composite Inception Date: 7.31.2010 / See Disclosure – Performance

The Cambiar Small-Mid Value (SMID) strategy posted an in-line return for the first quarter. Strategy performance remains strong on both an absolute and relative basis over most rolling timeframes, and we remain focused on delivering through-the-cycle excess returns with an outsized emphasis on margin of safety.

Performance across sectors was generally positive for the quarter, with Real Estate and Communication Services the only sectors to finish lower. There were no notable themes when evaluating sector returns; pro-cyclicals such as Energy and Industrials outperformed, but so did Utilities. Consumer Discretionary was an additional upside performer, while Financials and Technology lagged.

Aggregate buy/sell activity was low in the quarter, and portfolio construction continues to prioritize broad diversification both across and within sectors. The SMID strategy made one new purchase, one liquidation, and incremental adds/trimms to existing positions. On the sell side, we moved on from defense contractor Mercury Systems after a challenged holding period. The investment thesis has simply not panned out as expected, and the turnaround currently undertaken by new management may be a multi-year process.

On the buy side, Cambiar initiated a position in electric utility Pinnacle West (PNW). Our general investment criteria in the utility space includes rate base investment tailwinds, a clean balance sheet, solid regulatory relations, and reasonable valuation. We believe that PNW possesses all of these attributes. The company's Arizona footprint is seeing positive trends in both population growth and corporate investment, which should result in positive forward load growth (i.e., utilization). Modest multiple expansion, in combination with a current 4.75% dividend yield, equates to an attractive total return profile over a forward 1-2 year timeframe.

In reviewing strategy return drivers for the quarter, Cambiar's outperformance within Financials was a notable contributor. The positive separation relative to the index was a function of strong gains from the portfolio's insurance and financial services positions, in addition to an active underweight to banks (which declined in the quarter). Our lower participation in the banking space is based on varying considerations that include a focus on diverse return drivers (vs. the homogenous business model of banks) as well as a view that potential left tail uncertainties (exposure to commercial real estate, stubbornly inverted yield curve, higher regulatory scrutiny) may weigh on valuations and associated upside potential.

Cambiar's exposure to the Energy sector has been somewhat limited in recent years, given a smaller opportunity set of companies that meet our quality bias. Comprising approximately 5% of the SMID portfolio, the energy positions that we do own (Targa Resources and Magnolia Energy) both posted strong gains in the quarter. The outperformance was a combination of strong company-specific execution and a more general uptick in M&A activity that provided a boost to smaller operators with good acreage, such as Magnolia. Targa is a midstream pipeline company with operations across the U.S. The company's tollkeeper business model is based on volume flowing through their assets, making them less impacted by commodity price fluctuations. Magnolia continues to grow oil production while being mindful of capital expenditures – resulting in strong free cashflow that is being used to increase dividends and continue share buybacks.

Additional bright spots in the quarter included positive stock performance in Materials and Healthcare. Investor pessimism/neglect towards healthcare stocks in 2024 provided an opportunity for Cambiar to increase our allocation in the sector – which currently represents approximately 20% of the SMID portfolio. In a market where many stocks are trading at elevated valuations, we believe healthcare offers an attractive return profile via a combination of earnings growth and multiple expansion.

Mixed stock selection in Industrials comprised the largest detractor from performance in the quarter. The aforementioned Mercury Systems was the primary downside outlier for the portfolio, followed by modest pullbacks in Expeditors International and Toro. Expeditors is an asset-light freight and logistics service provider. The company has been a strong long-term compounder and possesses many of our desired corporate characteristics: management with a track record of strong capital allocation, consistent profitability, net cash balance sheet, and high free cashflow. Toro provides turf and landscape equipment, with a variety of models geared to professional and residential use. The company's sales cycle and earnings are often uneven due to the seasonality of the company's product offerings, but Toro has overall continued to execute in line with our expectations.

Stock performance was also more challenged in Technology for the quarter; Littelfuse and IPG Photonics were two individual laggards. Littelfuse is the largest circuit protection company in the world and a key beneficiary of the long-term trend towards electrification. However, the company's shorter-term revenues have been negatively impacted



by excess inventories with some of their customers. In conversations with management, we are confident that fundamentals are nearing a bottom and should improve in the second half of the year. IPG is a global leader in fiber laser technology that is used in varying industrial applications. Not unlike Littelfuse, IPG's earnings power has been weaker in recent quarters due to a slowdown in various end markets (e.g., electric vehicles), which has been subsequently reflected in a lower stock price. We are continuing to monitor the situation, as IPG is poised to benefit as current cyclical pressures abate. The company's strong balance sheet (~25% of the current market cap is cash) should provide an additional backstop.

As evidenced by the low turnover within the SMID portfolio in recent quarters, we remain relatively constructive on the strategy's aggregate exposures and sector positioning. While not detached from prevailing macro/top-down considerations, we believe our time is better spent assessing individual companies and related industry/competitive dynamics. We remain focused on identifying quality businesses that can generate persistent returns and free cashflow, coupled with strong balance sheets and capable management teams. Such attributes may not be as additive in periods of elevated risk tolerance but are critical inputs to delivering strong risk-adjusted returns (with less volatility) over a longer arc.

## LOOKING AHEAD

Valuations within the U.S. equity market remain extended, with the first quarter gains for many stocks more a function of multiple expansion vs. organic earnings growth. Below the surface, there are pockets of opportunity – particularly in the smaller cap space that has remained largely out of favor for many investors. We continue to believe the diffuse nature of the small/mid cap segment of the market provides an attractive area for active managers to deliver alpha; that said, selectivity remains key.

With funding costs still at elevated levels, investors seeking exposure to the small/mid cap asset class should favor companies with low leverage, consistent returns on capital, and steady free cashflow. Despite the relative performance lag of smaller cap stocks in recent years, an improving backdrop of moderating inflation, normalizing interest rates, and a still growing U.S. economy should provide a favorable catch-up opportunity for down cap equities.

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 SMID Value Composite includes discretionary, taxable and tax-exempt portfolios, including portfolios that are part of broker-affiliated or broker-sponsored programs, including wrap programs, that waive commission costs or bundle fees including commission costs. The records of the portfolios in the composite are maintained on Cambiar's systems. Portfolios in the composite invest in equity securities of small- to mid-sized companies. Cambiar's SMID Value Composite primarily invests in stocks with a market capitalization between \$2 and \$12 billion. The typical number of securities in the SMID Value portfolio is 35-45 holdings. The SMID Value Composite contains proprietary assets. As of April 2020, there is no minimum asset level for the composite. Prior to April 2020, the minimum asset level for the composite was \$100,000.

The composite contains accounts with gross and "pure" gross performance. Gross returns are reduced by transaction costs. "Pure" gross returns do not reflect the deduction of any expenses, including transaction costs. "Pure" gross returns are applicable to separately managed accounts that are part of broker-affiliated or broker-sponsored programs, including wrap programs, that waive commission costs or bundle fees including commissions (SMAs). "Pure" gross returns are supplemental information. Net returns are reduced by transaction costs and actual investment advisory fees and other expenses that may be incurred in the management of the account. SMAs often incur bundled fees, charged by the wrap sponsor or affiliated broker, that may include transaction costs, investment management, portfolio monitoring, consulting services, and custody fees. Net returns for SMAs are calculated by deducting the investment advisory fees from the client's account as reported by the wrap sponsor or affiliated broker, or as received by Cambiar. 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 SMID Value Composite are evaluated against the Russell 2500™ Value Index. The Russell 2500 Value Index is a float-adjusted, market capitalization weighted index comprised of firms in the Russell 2500™ Index that experience lower price-to-book ratios and lower forecasted growth values. The Russell 2500 Index is a float-adjusted, market capitalization weighted index that measures the performance of the 2,500 smallest 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 2500 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 2500 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 5.87% (gross) and 5.69% (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 description of Cambiar's performance calculation methodology, including 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.

PSN Top Gun: The complete list of PSN Top Guns and an overview of the methodology can be located at <https://psn.fi.informais.com/>. Registration is required. The 6 Star ratings were announced on February 21, 2024, and are based on gross returns of the Cambiar SMID Value composite for the five-year period ending on December 31, 2023. 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.

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