CAMBIAR INVESTORS

CAMBIAR SMID VALUE COMMENTARY 3Q 2024

MARKET REVIEW

U.S. equities closed the third quarter at record highs, with the S&P 500 Index posting a 5.9% return. The market shrugged off what has historically been a more challenging period for equities, as investors bid up stocks in response to the Federal Reserve's move to lower rates in the September meeting. It was also encouraging to see the other 493 stocks in the S&P start to pull their weight, as the 9.6% return for the S&P 500 Equal Weighted Index bested the cap-weighted benchmark by a wide margin for the quarter. Small cap stocks also rebounded after a challenging 2Q, with the Russell 2000 Index posting a 9.3% return for the quarter. On a style basis, value stocks outpaced their growth counterparts for the period, but still have some ground to make up – as growth stocks continue to hold the upper hand for the year as well as over much of the past decade.

As expected, the Federal Reserve lowered rates at their September meeting. The only debate was one of magnitude, i.e., 25 or 50 bps. Was the decision to cut by 50 bps a veiled acknowledgment that they stayed too tight for too long? Looking ahead, the Fed stated that employment and inflation data will determine the pace and magnitude of future monetary policy normalization efforts while signaling for additional easing in their final two meetings of 2024 and continuing into 2025. An orderly path to lower rates seems appropriate, as inflation is nearing the 2% target, and employment remains low in absolute terms.

BETTER TO TRAVEL THAN ARRIVE

While market participants are understandably upbeat by the prospects of a lower cost of capital, some caution about the forward path of equity returns may be warranted. To the extent that an inverted yield curve is closely linked with recessions, equity returns during the inversion period are typically positive. It is the un-inversion of the yield curve that brings with it the accompanying recession and increased market turbulence for equity investors. Granted, no two cycles are identical, and the current cycle has been even more unique with the inclusion of a global pandemic. The S&P 500 has an annualized return of 16% for the past five years, which includes the -18% drawdown in 2022. Any market pullbacks have been an opportunity to buy, as these dips have recovered to new highs. While above-trend equity gains may continue, one should guard against excessive complacency and continue to rebalance across asset classes as needed. Selectivity should also take on increased importance, and a value orientation may provide an additional tailwind to investors – given the outperformance of growth stocks in recent years. With no shortage of inputs to consider, Cambiar remains focused on constructing diversified portfolios that can perform double duty for our clients – i.e., participate in up markets while also providing a margin of safety in market drawdowns.

SMID VALUE

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Fidelity National Financial	2.90	0.69
Masco Corporation	2.83	0.67
Waters Corporation	2.73	0.58
Atmos Energy	2.74	0.49
Cboe Global Markets	2.54	0.47

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Toro Company	2.06	-0.15
HealthEquity	2.64	-0.18
IPG Photonics	1.58	-0.21
Gentex Corporation	2.55	-0.32
Lamb Weston	2.03	-0.61

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

	3Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
SMID Value (gross)	7.6%	5.5%	16.4%	6.9%	11.3%	10.1%	13.3%
SMID Value (net)	7.4%	5.0%	15.7%	6.2%	10.6%	9.4%	12.6%
Russell 2500 Value	9.6%	11.3%	26.6%	6.1%	10.0%	8.5%	10.5%

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

The Cambiar Small-Mid (SMID) Value portfolio registered a solid gain for the third quarter while falling short of the strategy benchmark.

The improved appetite for smaller cap stocks was largely in response to the lower rate environment put into motion by the Fed during the quarter. With inflation data approaching their 2% target, the Fed initiated the easing process that investors have widely anticipated. The 'yields lower = equity multiples higher' relationship was a welcomed event for the equity market at large, but in particular for smaller cap companies which typically have a greater percentage of floating rate debt and should therefore be outsized beneficiaries of a lower cost of capital.

In reviewing return drivers for the quarter, all sectors with the exception of Energy registered positive returns, illustrating the rising tide backdrop for equities. The downshift in interest rates boosted the more rate-sensitive sectors such as Real Estate, Utilities, and Financials.

There were no material changes to sector positioning in the quarter, as Financials, Healthcare, and Industrials comprise the three largest sector allocations in the SMID portfolio. Trade activity was relatively light in the quarter, with the team initiating a new position in Willscot Holdings. Willscot is the largest provider of mobile office and storage solutions business in North America, and we view their scale to be a key competitive advantage in this more fragmented industry. The stock has underperformed in line with the drop in construction projects, resulting in what we view to be an attractive entry point. Lower rates should drive increased activity across Willscot's various business segments, which include commercial, industrial, energy, and government projects.

Positive contributors in the quarter included an overweight allocation to Utilities, as well as positive stock selection in the Materials and Energy sectors. After years of stagnant growth, electrical utility companies are seeing a bit of a renaissance via the massive power generation needs of AI and data centers that are due to come online. While much of the upward price action has been in the unregulated space, the associated earnings stream is more volatile as well. The SMID portfolio has adopted more of a 'slow and steady' approach within the sector, where our holdings include a regulated gas provider, water utility, and a regulated electric company.

On occasion, the best investments can be the most basic businesses; one such example is Packaging Corporation of America (PKG), which produces packaging boxes. The company moved higher in response to a positive earnings report that showed strength in volume and pricing. We view PKG to be a best-in-class operator based on a record of strong capital discipline and high returns.

While not comprising a sizable percentage of aggregate portfolio capital (~5.3% as of quarter-end), Cambiar's holdings in the Energy sector were a notable positive in the quarter. Energy stocks often tend to ebb and flow in line with underlying commodity prices – this elevated unpredictability is one reason for our more limited allocation to the space. Despite the downward pressure in commodity prices during 3Q, pipeline operator Targa Resources posted a solid gain for the period. Targa's business model is more about transporting volume through its network, and earnings are thus less impacted by price. Our other holding in the sector is Magnolia Oil and Gas, a more traditional exploration and production operator. As an unhedged producer, Magnolia is more susceptible to oil/gas price fluctuations; however, the company has a longstanding history of cost discipline and prioritizing free cashflow that can be used for a combination of debt reduction, share buybacks, and dividends.

Stock selection was more challenged in Consumer Staples, where french fry producer Lamb Weston fell in response to a disappointing earnings report. After adding capacity in recent years due to high demand, Lamb Weston is now seeing this imbalance shifting to excess supply, weighing on prices. The company has significant exposure to the quick service restaurant (QSR) space, and McDonald's is the company's largest customer. Consumers have balked at menu price inflation in recent years, so less fries are being sold. The reintroduction of value meals results in higher traffic, and Lamb Weston has taken action to reduce costs and reduce capacity. These announced moves helped the stock recover some lost ground, but investors will likely remain on the sidelines until more tangible signs of progress are evident. In conversations with management, we believe the company is taking the appropriate steps to restructure the business in light of the lower demand outlook, which should set the stage for incremental earnings improvements in the coming quarters.

With the broader small-mid market up ~10% for the period, any cash position will result in a drag on relative performance – which was the case for the SMID portfolio in the quarter. We reduced the portfolio's dry powder with the purchase of Willscot, ending the quarter with ~5% in cash. As discussed previously, cash is a by-product of the investment process; i.e., we are not attempting to be tactical with our cash position. We will look for opportunities to deploy our cash position further as investment candidates reach actionable attachment points.

The Real Estate space was a notable area of strength in the quarter, as investors were drawn to the higher yields in the sector in response to the anticipation of lower rates in the fixed income market. Cambiar's REIT holdings closed higher in the quarter while trailing the index. The portfolio's lower allocation to the sector was an additional headwind relative to the index for the period.

The sizable performance lag for small/smid companies vs. their large cap counterparts in recent years has led to a material divergence in valuation, with small caps at one of the widest discounts over the past 40 years. We believe the Fed embarking on a rate-cut cycle could be an important catalyst to begin reversing this dynamic. Strong earnings may be an additional inflection point for smaller cap companies, as the 'Mag 7' are poised to come up against difficult year-over-year comparisons, while the earnings expectations bar is set fairly low for small caps. Given the more atomized nature of the small/smid equity market, we continue to believe that thoughtful selectivity remains the cornerstone to generating strong risk-adjusted returns and downside protection over a market cycle.

LOOKING AHEAD

U.S. equities continue their year-long advance, bolstered by easing monetary policy and increased confidence in a soft landing for the economy. Thus far, the soft landing scenario is playing out – inflation has continued to trend downwards, with unemployment remaining low on a historical basis. Market breadth has also begun to strengthen, which could fuel additional gains.

While not at euphoric levels, investors' optimism towards corporate earnings is reflected via elevated market multiples, with the current one-year forward P/E for the S&P at 21.5x. Do valuations reflect economic reality, or are expectations overly bullish? Time will tell. It is worth noting that more reasonably-priced investment opportunities exist below the surface – this is where the Cambiar team is focusing our research efforts.

We acknowledge the supportive backdrop for the equity markets; that said, we are equally focused on potential risks at the company level and uncertainties such as the upcoming Presidential election, increased global geopolitical tensions, and an unsustainably high U.S. debt-to-GDP ratio. Equity markets do not appear to be priced for any of these uncertainties. Broad portfolio diversification, attentiveness to valuation, and the consistent implementation of Cambiar's Quality I Price I Discipline approach remain valuable risk mitigation tools.

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.

For the periods of 2013 and forward, the composite's gross returns include accounts with gross and "pure" gross performance and are presented as supplemental information. From 2010 to 2012, the composite only contained accounts whose gross performance is 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, which waive commission costs or bundle fees including commissions (SMAs). 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 7.28% (gross) and 7.09% (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.