

CAMBIAR SMID VALUE COMMENTARY 3Q 2025



MARKET REVIEW

U.S. equities continued their ascent in the third quarter, with the S&P 500 Index gaining 8.1% to close at a record high. On a style basis, growth stocks outperformed their value counterparts, while small caps also joined the party – with the Russell 2000 Index posting a 3Q return of 12.4%. A lagging asset class for much of this cycle, small cap companies are viewed to be outsized beneficiaries of a decline in interest rates, given their higher debt ratios vs. large caps.

With the exception of a few brief wobbles, the melt-up in risk assets has been relatively unabated since the Liberation Day lows. Tailwinds include generally strong corporate earnings, a modest impact from tariffs on consumption trends, a more friendly M&A environment, and the potential for the One Big Beautiful Bill to stimulate economic growth via attractive tax incentives. Monetary policy is also shifting to an easing stance, with the Fed lowering its benchmark rate in September and likely on track for two additional cuts in the coming months. On the flip side, the economy is decelerating, consumer confidence is declining, and the employment backdrop is weakening. Investors thus far are maintaining a bullish bias, but clouds may be on the horizon.

On a valuation basis, small cap stocks are trading at reasonable levels, with the one year forward Price/Earnings ratio of the Russell 2000 Index at ~15x. In contrast, the large cap proxy S&P 500 is trading at valuations that have historically been difficult to sustain. The S&P is trading at a P/E of 23x (vs. a long-term average of 17-18x), while its forward Price/Sales (revenues cannot be manipulated) of 3.3x is above the 2.9x peak reached in the late 90s internet period. A final measure of current market exuberance is the Buffett Indicator, which is the total value of the U.S. stock market divided by GDP. This metric is now at an unprecedented 217%. It is worth noting that the operating margin for the S&P is also at a record high, providing some level of justification for lofty multiples. And valuation in isolation should not be a reason to sell, as it can remain elevated. That said, investors should acknowledge that the higher the valuation today, the lower the implied returns tomorrow.

Market concentration remains a concern, as the ten largest constituents in the S&P now comprise ~40% of the index and continues to do the heavy lifting on both an earnings and return basis (3Q return for the S&P 500 Equal-Weight Index was only 4.8%). With the exception of Berkshire Hathaway (#10), the top holdings are the well-known Mag7 and related

technology/AI companies. The margins, returns and free cash flow within these tech giants have been impressive, and their massive investments in data centers are creating a halo effect of sorts within the broader economy (e.g., construction, power generation, etc.). The market is currently viewing all of these tech franchises as ‘winners’ – but can that be the case, given the balance of opportunities and threats that are likely to emerge? For now, follow the capex spend from the big hyperscalers – as this remains a key driver for the rally in equities. Any downshift will be an important datapoint that the market may be nearing a top.

SMID VALUE

	3Q 2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
SMID Value (gross)	0.5%	-0.8%	-6.5%	8.8%	10.1%	9.9%	11.9%
SMID Value (net)	0.4%	-1.2%	-7.0%	8.1%	9.4%	9.2%	11.2%
Russell 2500 Value	8.2%	9.3%	9.0%	15.4%	15.0%	9.7%	10.4%

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

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
BorgWarner	2.88	0.78
Gentex Corporation	2.99	0.71
HF Sinclair	2.67	0.65
Packaging Corporation of America	2.88	0.43
Lattice Semiconductor	1.24	0.41

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Americold Realty Trust	2.17	-0.60
WillScot Holdings	2.54	-0.63
Molina Healthcare	1.27	-0.71
Align Technology	2.48	-0.93
ACV Auctions	2.17	-1.01

The Top 5/Bottom 5 chart provided is based on a representative account managed in the strategy and is derived from the account's gross performance which does not reflect the deduction of all fees and expenses that a client or investor would have paid. Please refer to the composite gross and net performance to understand the overall effect of fees. See Disclosure – Top 5/Bottom 5 Chart for more information.

The Cambiar SMID Value strategy posted a modest positive return in the third quarter, although it was unable to demonstrate the same level of upside participation as the strategy benchmark. Despite positive stock selection in areas such as Consumer Discretionary, Energy, and Materials, more challenged returns in Healthcare and Industrials (larger sectors for the portfolio) led to the relative performance lag.

The 3Q market environment was in many ways similar to the second quarter – i.e., top-performing factors were beta and momentum (where SMID has lower active exposure), while attributes that the portfolio favors (e.g., earnings quality) once again underperformed. Not unlike 2021, the speculative fervor in the markets remains a headwind for Cambiar's Quality | Price | Discipline approach.

Our core performance objective remains unchanged – we remain focused on providing attractive risk-adjusted returns across an economic cycle via an outsized emphasis on downside protection. In light of the SMID strategy's recent underperformance in strong up markets, there has been a lot of introspection within the team as it relates to aggregate portfolio positioning. More specifically, is there an opportunity to bring in the tails – such that the strategy can remain within our desired quality and profit metrics, but perhaps do

a better job participating in up markets? Yet even with some recent moves along this path (e.g., adding to Financials and Industrials, reducing Healthcare), the SMID portfolio is not built to keep pace in the current market backdrop where investors are chasing meme stocks and companies with little to no revenue while tied to the AI trade.

We acknowledge that the performance shortfall is not solely a function of our philosophy being out of lockstep with current market trends. A number of our holdings have not performed as expected, and we accept accountability on this front. Some comments on a few of the bigger individual laggards – and it is worth noting that we continue to maintain a position in these companies:

- **ACV Auctions:** ACV is a leading operator in dealer-to-dealer car sales (e.g., when leased vehicles are returned). This is a fairly recession-proof business model that continues to grow at over 15% per year, at 35% incremental margins. The industry is currently in a bit of a lull, with dealer-to-dealer sales troughing at around 6-7M vs. the typical 8-9M traded vehicles. We anticipate volumes to recover in 2026, which should result in re-accelerating revenue growth and associated multiple expansion.

We may have been early in our attachment, but we continue to maintain conviction in the core thesis.

- **Align:** Align is the leading manufacturer of clear aligners (i.e., Invisalign) in orthodontics. The company cut revenue guidance during 3Q in response to an unexpected slowdown in the number of prospective patients converted into final cases. The negative stock reaction was exacerbated by the fact that Align held an analyst day in early May during which they issued upbeat guidance for 2025, denting management credibility. We believe the longer-term growth opportunity for ALGN is intact, as 80% of teen cases are still performed with traditional wires/brackets. ALGN has unmatched scale, technology, and marketing advantages compared to its peers, in addition to a net cash balance sheet (\$900 mil in cash, no debt). Stock trades at <11x EPS, and insiders were significant buyers of the stock (post-decline).
- **Molina Healthcare:** Molina is a health insurer, with a focus on managed Medicaid (90% of premiums). Like other insurers, Molina had to cut EPS guidance due to elevated medical utilization. They are now contracting with state Medicaid agencies for higher reimbursements and should be able to recover some portion of lost revenues/margins. A disappointing setback, but not a broken story. Assuming Molina can get back to \$25 in EPS in the coming years (Cambiar views this as conservative, as we are assuming they recover only 75% of their normal pretax margin), a historical P/E multiple of 15x equates to a target stock price of \$375, well above its current price at the time of the writing of this commentary. Of course these are estimates, and the future may not develop as expected. There was also significant insider buying from management in the quarter.

Bright spots in the quarter included auto-related positions Gentex and BorgWarner (Consumer Discretionary), as well as HF Sinclair within the Energy sector. The portfolio also generated a strong return within Consumer Staples, while performance within Financials (the largest sector allocation at ~23%) was mixed. Buy/sell activity in the quarter consisted of three liquidations and one new purchase. We ended the quarter with a slightly elevated cash position (~8%), which we will seek to deploy as purchase candidates in our library reach actionable attachment points.

In a misery loves company moment, it is worth noting that we are not alone in our struggles to keep pace thus far in 2025. Jeffries recently put out a research piece

titled 'Everything Has Gone Wrong for Active, Including Positioning'. Momentum has been the single biggest component of portfolio returns over the past year, as assets continue to flow into favored stocks at the expense of unloved segments of the market.

The SMID portfolio is managed by a tenured team with decades of investment experience – we haven't forgotten how to pick stocks. We own a diverse collection of quality companies, many of which are trading at the intersection of trough valuations and low expectations. Given the current setup for many of our businesses, any indication of earnings stability could itself provide a positive upward catalyst. Similarly, a pause in the AI/tech melt-up trade and associated broadening into sectors that have not participated (e.g., Healthcare) would be an additional tailwind.

LOOKING AHEAD

Equity markets have surged higher since their April lows, with both small cap and large cap benchmarks solidly in positive territory on a year-to-date basis. The strength in equities despite a decline in job openings is a notable divergence, given the historically positive correlation between these data points. For now, investors continue maintain a glass half full bias, with downside protection a distant second in priority vs. upside participation.

While not at euphoric levels, equity markets reflect an abundance of optimism and heightened expectations. Upside participation has begun to broaden beyond tech leaders, although outperforming year-to-date sectors such as Industrials and Utilities are largely tied to the AI infrastructure buildout trend. How long the AI capex trade can continue to shoulder the load is a key question; that said, management teams in big tech view AI as existential to their future and thus remain committed to their capex plans for now. The Cambiar team remains focused on delivering attractive risk-adjusted returns by buying high-quality, wide-moat businesses that are trading at reasonable valuations. Our SMID Value portfolio is currently valued at a forward 1-Year P/E of ~14.7x, a fairly undemanding level vs. the broader market. Portfolio construction continues to emphasize diversification and a prudent balance of offense and defense.

Thank you for your continued confidence in Cambiar Investors.

DISCLOSURE

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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: The quarterly contributors and detractors are based on the gross performance of a representative account in the strategy composite. 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. Please refer to the net performance of the composite 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.

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