CAMBIAR INVESTORS

CAMBIAR SMID VALUE COMMENTARY 4Q 2024

MARKET REVIEW

In like a lion, out like a lamb - U.S. equities turned in a mixed quarter to close out 2024. Stocks initially rallied in response to both the timeliness and outcome of the Presidential election, with investors cheering on the prospects of the incoming administration's pro-growth agenda. The positive sentiment subsequently reversed post-Thanksgiving, as higher yields along with heightened policy uncertainty prompted investors to lock in profits. The S&P 500 Index posted a 4Q gain of 2.4%, while the small cap Russell 2000 Index managed to eke out a 0.3% return.

In terms of equity leadership, the market returned to the mega-cap technology/AI investing playbook that has been in place for much of the past two years. The strong preference for growth stocks came at the expense of value equities, with the Russell 1000 Value Index posting a -2% decline for the quarter. Small cap value stocks (as represented by the Russell 2000 Value Index) were the big winners following the last Trump election win (index was up 14.1% in 4Q16), but actually lost ground (-1.1%) this time around.

The positive 4Q return caps another strong year of gains for the S&P 500, with the index posting a 25% return. This comes on the heels of a 26.3% return in 2023 – the first back-to-back years of +20% gains since 1998 (interesting parallel). The rally in stocks has been understandable, given a backdrop of above-trend productivity, low unemployment, robust economic growth, and accommodative monetary policy. Yet one needs to consider the 'pull forward' effect of stock gains that now embed a high degree of optimism about the economy and corporate earnings.

With a one-year forward P/E of 22x for the S&P 500 (vs. ~17x at the start of 2024), the result is a more challenging starting point (for the S&P 500 Index) as we move into 2025. Valuation itself is often a poor predictor of returns in the short run, and it is worth noting that multiples are more reasonable below the surface. Should current concentration trends in the mega-cap tech space reverse, active managers who have demonstrated the ability to add value via a combination of stock selection/prudent avoidance may be well-positioned to outperform passive options. A broadening of market participation should also be beneficial for the small cap/SMID cap asset classes – which have trailed their larger cap peers by a wide margin over the past ten years (although positive).

The risk on bias that paced the markets in 2024 was further illustrated via the proliferation of single-stock leveraged ETFs, zero date to expiration options, and cryptocurrencies. It is one thing for a somewhat established cryptocurrency such as Bitcoin to march higher, but newly-launched Fartcoin (we wish this was a joke) reached a market cap of $1 billion in the quarter. While Cambiar is not in the business of calling out market tops (or bottoms), the speculative excesses permeating certain pockets of the market are indicative of bubbly environments that do not end well.

SMID VALUE

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
HealthEquity	1.61	0.59
Targa Resources	1.02	0.31
EPAM Systems	2.20	0.30
Sportradar	1.03	0.15
Packaging Corporation of America	3.08	0.14

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Maximus, Inc	2.28	-0.47
Dentsply Sirona	1.43	-0.51
Americold Realty Trust	2.35	-0.62
Bruker Corporation	1.07	-0.64
Innovative Industrial Properties	0.85	-1.02

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.

	4Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
SMID Value (gross)	-5.7%	-0.5%	-0.5%	2.3%	8.3%	9.2%	12.6%
SMID Value (net)	-5.9%	-1.2%	-1.2%	1.6%	7.6%	8.5%	11.9%
Russell 2500 Value	-0.3%	11.0%	11.0%	3.8%	8.4%	7.8%	10.3%

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

The Cambiar Small-Mid (SMID) Value portfolio lost ground relative to the benchmark for the quarter, closing out one of the more challenging calendar years for the strategy.

We operate in a performance-based business and recognize that there are no shortage of investment options competing for your capital. Entering 2024, the SMID Value strategy had outperformed the benchmark in five out of the past seven calendar years – a period that included both up and down years for the SMID equity markets. Suffice to say that performance in 2024 fell short of expectations – yours and ours. So what happened?

Market Environment

The investing backdrop for much of the year had a 'risk on' underpinning, which has generally been a more challenging environment (on a relative basis) for Cambiar, given our skew towards profitable businesses and focus on capital preservation. When the top-performing factors are momentum and beta, and big index movers include companies like Carvana and Robinhood – it should be somewhat expected that Cambiar may struggle to keep pace. That said, the magnitude of the performance shortfall is admittedly wider than we would have expected.

Stock Selection

Strategy performance will be heavily influenced by stock selection, with sector over/underweighting historically having a lesser impact. Our willingness to be patient with lagging positions such as Dentsply and EPAM Systems clearly worked against us during the year. Both of these holdings declined on an absolute basis in 2024, representing a meaningful drag vs. the 11% return for the index.

Where do we go from here? We are hesitant to make reflexive decisions based on shorter-term price movement, nor are we going to engage in a chasing exercise. Actions were taken in cases of thesis drift and/or negative developments. Despite a more disappointing performance stretch, our investment conviction has not wavered – it is worth noting that the SMID portfolio continues to own eight out of the bottom ten performers from the past twelve months (including Dentsply and EPAM). Our research team remains confident in the above-average business quality, medium-term earnings growth prospects, and low investor expectations as implied by compressed valuations. While painful in the moment, these conditions have historically been helpful in driving attractive forward returns. We do not believe these businesses are value traps. While stock price movement suggests otherwise, we are cognizant that the strong 2024 momentum factor performance works both ways – i.e., momentum can take strong performers potentially beyond rational upside levels and similarly move share prices of companies with transitory issues below reasonable floors.

Returning to return drivers for the quarter, index performance was mixed at a sector level. Energy, Technology, Financials, and Consumer Staples posted gains in the period, while Healthcare, Real Estate, and Industrials closed lower.

On an attribution basis, Cambiar's holdings within Financials lagged the benchmark in the quarter. Despite having a benchmark weighting to Financials, the portfolio's underlying mix of companies are fairly different than the index. This is most obvious in the underweight to banks, which comprise almost 10% of the benchmark, but only 3% of the SMID portfolio. Our lower allocation to regional banks is largely driven by the less differentiated nature of the industry, as well as a preference for a more diverse mix of financials that include insurance, payment businesses and exchanges. This positioning has served the portfolio well over time (notably during the Silicon Valley Bank-related weakness in 2023) but was a headwind in the quarter. The 4Q up move in banks was largely tied to optimism around lower regulation/capital requirements as well as an uninverted yield curve and abating pressure on spread income. We acknowledge the improved operating backdrop and continue to monitor the banking space for potential investment opportunities.

The portfolio also incurred weaker-than-expected performance in Industrials – for both the quarter and on a full-year basis. The Industrials sector covers a broad mix of companies and industries; many of the outperformers in the sector during 2024 were associated beneficiaries from the expected capex bulge in areas such as data centers, power generation and related infrastructure projects. Cambiar had some exposure to these end markets but sold at levels that we believe to have represented full valuation. Our research efforts continue to focus on businesses that have a resilient margin profile, defensible market position, and reasonable valuations – a more challenging intersection as of late.

Toro Company (mower/landscape equipment) and J.B. Hunt (intermodal transport services) are two examples of quality industrial businesses that meet many of our desired investment attributes but are dealing with transitory headwinds. Toro has been adjusting to more normalized demand patterns after over-earning in the post-COVID period. The company continues to maintain a high market share and has a number of value-creation catalysts, including autonomous mowing. J.B. Hunt provides a helpful barometer on the overall economy, given the company's toll taker position in the transportation space. While volume growth and spot rates were stagnant for much of 2024, both metrics have begun to inflect higher, which should translate into stronger earnings for J.B. Hunt. Although disappointed by the sluggish price action in a number of our Industrial positions, we believe these businesses are in good position to deliver improved performance in 2025.

Positives in the quarter included Sportradar (Consumer Discretionary) and a modest recovery in french fry producer Lamb Weston. Sportradar is a data and analytics company serving the sports industry. Sportradar aggregates data rights from over 400 sports leagues around the world; they then package this content to media partners and betting operators. We believe the company represents a unique opportunity to indirectly participate in the growing sports gambling market.

Lamb Weston remains a work in progress, as the company continues to strike a balance between slowing end market demand and a more competitive pricing environment. The company raised its dividend and upsized a current share repurchase program, demonstrating confidence on improving free cashflow expectations. While Lamb Weston may be a 'show me' story for investors, we believe the appropriate steps are being taken to get the company back on track. Although not a key consideration in our decision to continue maintaining a position, the presence of activists and related M&A rumors further illustrate the underlying value in the company.

To summarize, we acknowledge the challenging performance period over the past year and believe the necessary portfolio attunements have been made as we look ahead to 2025. The key underpinnings that have contributed to the SMID strategy's longer-term outperformance remain very much in place. Please be assured that our sole focus remains on generating strong risk-adjusted returns that you have come to expect.

LOOKING AHEAD

The past two years have been a rewarding period for equity investors, as market averages continued to march higher with low volatility. The Magnificent 7 cohort did a lot of the heavy lifting in 2024, benefiting from a positive flywheel of robust capex budgets, strong earnings growth, and strong price momentum. On a concentration basis, the top ten stocks in the S&P 500 now comprise approximately 38% of the index – one of the highest levels in history. Just as these names carried the index in recent years, any slippage can result in a proportionate impact on performance to the downside.

A key question is whether the upward trajectory for equities can continue into 2025 or are risk assets nearing the euphoric phase that typically coincides with the end of a bull market? This consideration is more relevant for U.S. large cap growth investors, as areas such as small/mid cap (and value) trade at much more reasonable valuations. Diversification has been less additive vs. keeping one's assets in the S&P 500 in recent years; that said, we believe broader participation beyond the ten largest U.S. stocks will be needed in order to maintain the upward trend in equities.

The rise in bond yields is another development that should be on the front burner for investors. While the impact on equities has been marginal thus far, the ~100 basis point rise in the benchmark 10-Year Treasury yield since the Fed pivot began in September is a potentially worrisome divergence. The more elevated cost of capital is particularly relevant for smaller cap businesses, as this segment of the equity market is more exposed to floating rate debt.

The transition to a new calendar year brings with it no shortage of predictions – equity returns, Fed policy, budget deficits, and inflation. Cambiar's view on this prediction exercise harkens back to a Warren Buffet quote that the only value of stock forecasters is to make fortune tellers look good. Our in-house research efforts continue to focus on the underlying fundamentals of our companies and the associated risk/reward that is expressed in current valuations. Portfolio construction seeks to optimize our bottom-up research by building diversified portfolios that can both capture returns and manage risk. In seeking to implement our Quality | Price | Discipline approach consistently, we anticipate that the 'D' will take on increased importance in the coming year, given the potential for higher volatility.

We wish you a happy, healthy, and prosperous 2025! Thank you for 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 -5.66% (gross) and -5.83% (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.

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