CAMBIAR SMALL CAP FUND COMMENTARY 2Q 2024

MARKET REVIEW

U.S. equity markets turned in a mixed performance for the second quarter. While the S&P 500 Index notched a 4.3% return in 2Q, the gain was narrowly driven by the interdependent artificial intelligence (AI) trade in select mega cap technology stocks. The stock that received the most airtime was Nvidia, which gained 36% in the quarter. Nvidia has added $2 trillion in market cap in 2024, and is up almost ninefold since the end of 2022. The company's explosive earnings growth in recent quarters certainly validates much of the stock's gains – to what extent investors are extrapolating this growth into the future remains a key question. For the buyers of Nvidia's products, investors will at some point want to see a return on investment for the massive amount of capital that has been allocated to generative AI – but we are not there yet.

SO MUCH FOR BROADENING MARKET BREADTH

Any hopes for asset class leadership outside of large cap (growth) have been dashed thus far in 2024, as the year-to-date gains for equities have been extremely top-heavy in nature. The key investment narratives from 2023 (i.e., AI and GLP-1 diet drugs) continue to lead the way in 2024. Market concentration is a condition, not a signal; that said, widening market breadth would certainly be a more healthy development. With a number of tech companies approaching logical market capitalization limits, durable upside from here is almost certainly going to be a function of broader market participation.

Beneath this select group of outperformers, equity returns have been considerably more mixed – with segments such as large cap value (Russell 1000 Value) and small caps (Russell 2000) posting outright declines. The widening gap between the performance of the average stock vs. the overall market is best expressed in the returns of the S&P 500 vs. it's equal-weighted version. As illustrated below, stocks are higher this year, but trailing the aggregate return by a healthy margin.

Index	2Q 2024 Return	YTD Return
S&P 500	4.3%	15.3%
Equal-Weighted S&P 500	-2.6%	5.1%
Russell 1000 Value	-2.2%	6.6%
Russell 2000	-3.3%	1.7%

Moderating inflation data has increased the odds that the Federal Reserve will begin easing in the back half of 2024. Yet why then are front line beneficiaries of lower rates such as small caps and regional banks performing so poorly? Small-cap companies utilize more leverage, with much of this debt being floating-rate. Given the forward-looking nature of the markets, small caps should be rallying in expectation of a lower cost of capital. Regional banks should similarly be performing better, as the prospect for lower rates will help to alleviate funding pressures and commercial real estate exposure. Yet the S&P Regional Banking ETF (KRE) was lower for both the quarter as well as on a year-to-date basis.

Consumer spending is the biggest driver of the economy; i.e., so as the consumer goes, so goes the economy. On this front, the data is more indicative of a K-shaped economy – whereby high earners with greater exposure to risk assets continue to show a propensity to spend, while lower income households are showing more restraint in their spend patterns. Despite positive wage gains, it seems declining consumer sentiment (as measured by the University of Michigan) may also be weighing on consumption. When nearly 80% of Americans consider fast food to be a 'luxury' purchase (results from a recent LendingTree poll), something is amiss as it relates to economic divergences in the U.S. A resilient consumer has been a key underpinning for above-trend economic growth – can it continue?

The bigger takeaway is that despite eye-catching headlines such as the S&P 500 notching new all-time highs and the tremendous growth in AI, the data and price action is considerably more mixed below the surface. The divergences in valuation present attractive risk/reward opportunities for investors who are willing to look beyond the ten largest companies. As the biggest input to one's investment return is price at attachment, smaller cap stocks may also be poised to outperform, given the low valuation/low expectation profile assigned to many companies in the down cap asset class.

SMALL CAP FUND

	2Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception - Inv	Since Inception - Inst
CAMSX	-2.63%	-2.02%	1.46%	0.09%	6.68%	4.32%	8.29%	-
CAMZX	-2.58%	-1.87%	1.62%	0.28%	6.87%	4.52%	-	10.21%
R2000V	-3.64%	-0.85%	10.90%	-0.53%	7.07%	6.23%	7.49%	7.28%

Inception Date: CAMSX (8.31.2004) | CAMZX (10.31.2008). 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 6/30/24, expense ratios are CAMSX: 1.27% (gross); 1.05% (net) | CAMZX 1.12% (gross); 0.90% (net). Fee waivers are contractual and in effect until March 1, 2025. 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.*

While unable to sidestep the broad-based decline in small cap equities in the quarter, the Cambiar Small Cap Fund was able to provide a margin of downside protection relative to the index.

After a brief period of outperformance in the fourth quarter of 2023, small cap stocks have returned to the bottom of the pecking order (vs. large caps) in 2024. According to Strategas, the only two periods that compare to the current divergence in performance between small/large caps were at the height of the dot-com bubble in the late '90s and the depths of the COVID lockdowns in 2020. While a wait-and-see approach is understandable given the duration and magnitude of the current cycle, we believe small caps offer an attractive attachment point for investors with a multi-year time horizon.

Positive returns were hard to come by in the quarter, with all benchmark sectors posting losses for the period. Technology, Utilities, and Financials were relative outperformers in the quarter, while Healthcare and Consumer Discretionary stocks lagged. The Small Cap Fund benefitted from positive stock selection in Healthcare, while an overweight allocation (and positive stock performance) in Technology was an additional value-add.

We were pleased to see a rebound within our Healthcare holdings from the first quarter, and the sector comprised the single largest contribution to performance in 2Q. Globus Medical advanced meaningfully after an encouraging earnings report eased investor fears of possible revenue dis-synergies stemming from the company's 2023 acquisition of NuVasive – a spine surgery specialist. While the stock is now closer to fair value, we believe Globus continues to offer a reasonable risk/reward. Additional outperformers in 2Q included Addus HomeCare and Innovage; both companies provide cost-saving services and moved higher after reporting positive earnings. Addus and Innovage strive to lower the cost of healthcare by serving patients in the home (Addus), or by providing regular maintenance visits at operated facilities for seniors (Innovage).

Within Technology, Cambiar received positive contributions from a number of holdings, highlighted by Universal Display Corp. Universal is seeing continued adoption of the company's organic light emitting diode (OLED) displays in key markets such as PCs, tablets, monitors, and notebooks. OLED technology has superior contrast ratios vs. traditional liquid crystal display (LCD), and Universal should continue to benefit from this trend.

Performance within Industrials was more challenged in the quarter, with Alamo Group and Forrester Research notable laggards for the period. Alamo Group sells a broad selection of agricultural, landscaping and industrial machinery, and has an impressive track record of returns and profitability. Despite reporting record net sales in its most recent earnings report, the stock declined in response to weaker sales in Alamo's Vegetation Management (i.e. farming) Division. Farmers have been impacted by a combination of higher financing rates and lower food prices, which is weighing on profit levels. While incrementally more cautious, we believe Alamo's management can navigate the current softness in Agriculture and protect margins via expense controls. It is also worth noting that order bookings within Alamo's Industrial unit remains strong.

Forrester Research provides research and advisory services across a wide spectrum of executive verticals. Forrester's offerings serve as a critical tool for Fortune 500 and 1000 companies as they look to navigate the fast-changing landscape of consumer preferences. Forrester shares have been under pressure over the last two years as corporate customers tighten budgets amidst a slowing growth environment. The company has also been undergoing a product transition, which has limited visibility amidst the downcycle. With Forrester providing valuable research services to corporate executives and expectations quite low amidst a now multi-year downturn, we believe the company possesses a skewed reward-to-risk opportunity as conditions improve.

The portfolio's lower allocation to Financials vs. the index (19% vs. 26% for the R2000V) was a modest performance headwind in light the sector's outperformance for the quarter. Given our focus on building a diversified portfolio with varying return drivers, it is unlikely that we would allocate ¼ of portfolio capital to this area of the market – i.e., there is not much differentiation within the small cap bank business model. Our insurance positions continue to complement our regional bank holdings, the latter of which lost ground in the quarter. The insurance space is benefitting from a combination of premium growth and higher investment income, which in turn contributes higher ROE and book value.

LOOKING AHEAD

U.S. equities continue to levitate higher as we reach the halfway point of 2024, with the S&P 500 already eclipsing forecasters' full-year return targets. Markets remain relatively complacent, evidenced by tight credit spreads and the VIX index probing multi-year lows. On a valuation basis, the S&P 500 Index is trading at a forward one-year P/E multiple of 21-22x, pulled higher by a narrow sleeve of mega cap tech stocks (and Eli Lilly). The increase in valuations for mega-cap tech stocks has been accompanied by strong earnings growth, but may be starting to reach logical limits. Nvidia, Apple and Microsoft have each surpassed the $3 trillion market cap level – what's next…$5 trillion? $6 trillion? It is worth noting that valuations are much more reasonable beyond the ten largest companies, with sectors such as Energy, Healthcare, and Financials all trading at attractive levels relative to their expected earnings power.

Small-to-mid cap companies continue to trade at a discount to the S&P 500, as investor sentiment towards the asset class remains tepid at best. Smaller cap stocks have been held back in recent years due to a combination of high inflation, recession fears and elevated rates. As these conditions continue to moderate, we believe there will be a favorable catch-up opportunity for down cap equities.

Markets may see a rise in volatility in the coming months, as Presidential debates and party conventions leading up to the November election become more front and center for investors. Heightened political instability in Europe may also add to widening spreads in asset prices.

There seems to be a growing chorus amongst investors that budget deficits and valuations don't matter – the outperformance of growth stocks (over value) strengthens this view. Suffice to say that we disagree with this viewpoint – the concepts of financial gravity and price discovery remain critical inputs to the buy/sell decision. The Cambiar team continues to channel our efforts on identifying high quality businesses that can offer an asymmetric investment opportunity over a forward 1-2 year timeframe. In our view, companies with durable business models, proven pricing power, and low leverage should be in good position to outperform regardless of the macroeconomic backdrop. In a nod to baseball season, the market seems preoccupied with finding the next homerun (i.e., Nvidia), while our team is more focused on hitting singles and doubles and minimizing strikeouts.

We appreciate your continued confidence in Cambiar Investors.

Diversification does not protect against market loss.

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. High short-term performance of the fund is unusual and investors should not expect such performance to be repeated.

The Russell 2000® Value Index measures the performance of those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. 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. 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 6.30.24, the Cambiar Small Cap Fund had a 2.8% weighting in Addus HomeCare, 2.0% in Alamo Group, 1.3% in Forrester, 3.1% in Globus Medical, 1.5% in Innovage, and 2.9% in Universal Display Corp. The Small Cap Fund has 0.0% in Apple, Disney, Eli Lily, Gamestop, Hulu, Microsoft, Netflix, NuVasive, and Nvidia. Current and future holdings subject to risk.

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