CAMBIAR SMALL CAP VALUE COMMENTARY 1Q 2023

MARKET REVIEW

The U.S. equity markets started 2023 on a positive note, with the S&P 500 Index registering a gain of 7.5% for the first quarter. After incurring a bruising drawdown in 2022, growth stocks paced the market advance and led value stocks by a wide margin in the quarter. The mega-cap FAANG+ stocks were notable outperformers, with seven stocks providing almost all of the uplift in the S&P 500 for the period. The increased appetite for tech stocks can be attributed to a number of factors – an anticipation of a pause/end to rate hikes, all things artificial intelligence (ChatGPT did not write this commentary), and safe haven status vs. the turmoil in the banks. Recent price strength notwithstanding, we cannot wonder if the newfound optimism towards big tech is warranted, as earnings remain under pressure for the group – i.e., the YTD gains are almost exclusively a function of multiple expansion. Small cap stocks also participated to the upside, although not to the same extent, with the Russell 2000 Index gaining 2.3% in 1Q.

Despite the appearance of a relatively healthy environment, intra-quarter price action showed a more tumultuous path for the equity markets. Hopes for the market to return to valuing stocks based on company-specific fundamentals vs. a fixation on Fed policy appear to be wishful thinking, as macro variables remain front and center for investors. A risk-on rally fueled by hopes of a Fed pivot in January gave way to selling pressure, as inflation data remained elevated and labor slack still tight. Two additional 25 bps rate hikes in the quarter resulted in the highest Fed Funds rate since October 2007, contributing to a liquidity crisis for regional banks in March as depositors sought higher return options. Yet the broader market shrugged off bank fears and rallied into quarter-end.

Global Financial Crisis – Part II?

As discussed in our 3Q 2022 commentary, policymakers viewed some economic pain to be an acceptable casualty in their efforts to rein in inflation. Said pain surfaced in the quarter, as fissures in the financial plumbing began to appear, highlighted by the failing of two regional banks and elevated stress across many others. The weakness in banks was not contained to the U.S., as low capital levels resulted in the forced merger of Credit Suisse with UBS – an unfortunate end for a bank that was founded in 1856.

In aggregate, Cambiar views the failures of Silicon Valley Bank and Signature Bank to be outlier events vs. a broader liquidity crisis within the banking system. Specific to Signature (and Silvergate), regulators sent a more pointed message: crypto-oriented financial companies are unlikely to receive government agency help if they have funding or capital problems.

While bank failures are not a new phenomenon, the size of these institutions and the speed in which the closures took place were notable. Given that most depositors can access their bank accounts via smartphone apps these days, the swiftness of the bank runs was exceptional. To their credit, the Federal Reserve acted quickly to provide a funding backstop via the newly created Bank Term Funding Program, which will provide unlimited access to liquidity via collateral pledges that will be valued (at par) vs. their current mark-to-market values. In 2008, the collateral was not good (at all), creating a systemic problem. That is not the case in this situation. This is not to suggest that caution is not warranted, as it is increasingly clear that after an extended period of low interest rates, vulnerabilities within the financial system are now surfacing in response to one of the sharpest hiking campaigns in history.

Another read-through from current events is that a Fed Funds rate in the 4.75% - 5.00% range is becoming overly restrictive. The steepest yield curve inversion since the peak rates of the Volcker era suggests that the market believes current Fed Funds rates are far above a longer-term neutral interest rate. It is entirely possible that the financial system "runs" better at a 3% 10-yr Treasury yield, a 2% Fed Funds rate, and 3% inflation going forward (vs. the Fed's 2% goal). This is just one hypothetical scenario, but we think it has a good chance at being correct. That would then entail interest rates becoming less onerous by 2025, but not revisiting the zero-interest rate environment and related asset price distorting features of the lowflation era.

Cambiar has had a more conservative allocation to banks across our domestic strategies, largely based on concerns that asset quality problems are likely to surface in areas that benefited from the prolonged accommodative posture that had been in place. The approximate $270 billion in commercial real estate mortgages coming due in 2023 (the highest figure on record according to data firm Trepp Inc.) is one such example. Tightening credit standards and higher savings rates to stem deposit flight will also crimp profitability. Net, while the disinflationary impulse that results from reduced loan activity should enable the Fed

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to take their foot off the gas pedal, we view the forward outlook for bank returns to be challenged vs. other areas of the market.

SMALL CAP VALUE

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Universal Display Corp	2.22	0.82
Rambus	2.22	0.82
PGT Innovations	2.24	0.76
Frontdoor	2.20	0.64
Cerence	1.65	0.61

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Forrester Research	1.95	-0.19
United Bankshares	2.00	-0.25
Prosperity Bancshares	1.96	-0.28
United Community Banks	1.95	-0.34
Texas Capital Bancshares	2.11	-0.41

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 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value (gross)	7.3%	7.3%	-2.0%	23.5%	8.4%	7.9%	9.6%
Small Cap Value (net)	7.0%	7.0%	-2.8%	22.5%	7.5%	7.0%	8.6%
Russell 2000 Value	-0.7%	-0.7%	-13.0%	21.0%	4.6%	7.2%	6.5%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

The Cambiar Small Cap Value (SCV) posted a strong margin of outperformance in the quarter. The excess return was a combination of positive stock performance in areas such as Technology and Healthcare, as well as low exposure to the meltdown in regional banks. The SCV portfolio remains ahead of the index over most trailing timeframes, illustrating the value that active management can provide in a diffuse market such as small cap equities.

As always, strategy performance should be evaluated in conjunction with expectations – i.e., given underlying market conditions and related factors, how should a strategy perform based on the manager's investment philosophy? For the SCV strategy, it is fair to say that the portfolio 'overperformed' to a certain extent in the quarter. That said, we believe our Quality/Price/Discipline (QPD) approach is well-suited in an environment of tightening liquidity conditions.

While the broader market posted positive returns in the quarter, Financials were a notable outlier to the downside, as contagion fears reverberated across the regional banks. The outright closure of two banks and going concern fears for others resulted in an aggregate return (within the index) of -17% for small cap banks. Given this sharp decline relative to all other sectors of the market, one's allocation to banks played an outsized role in performance for the quarter. Although the SCV portfolio was not able to fully sidestep the weakness in the banks, an underweight allocation and efforts to diversify our financials exposure into non-bank areas such as reinsurance enabled the portfolio to hold up better than the index.

The events in the quarter prompted a review of our exposure to regional banks and subsequently led to the sale of Cathay General Bancorp, which is likely to incur increased funding costs and has higher exposure to commercial real estate. Looking ahead, the combination of higher deposit costs, lower loan growth, and increased regulation result in a more challenging risk/reward for banks in the intermediate term.

Technology stocks were the standout performers in the quarter, as investors bid up the sector after a challenging 2022. The SCV portfolio benefited from both an overweight allocation to tech, as well as strong returns from our holdings in the sector. Individual bright spots included Universal Display, Rambus, and Cerence – each of which gained over 40% during the quarter. We trimmed Universal and Rambus during the quarter, yet remain constructive on the forward outlook for these companies. Possessing strong balance sheets, stable/growing TAMs (total addressable markets), and defensible moats via patents/licensing portfolios, we view our tech holdings to be relatively defensive vs. the more speculative options in the small cap tech sector.

Cambiar's holdings in Healthcare have been a strong value-add for the SCV portfolio in recent years, and the sector was again a positive contributor in the quarter. The portfolio's higher allocation to Healthcare (16% vs. 10% in the index) is primarily a function of the unique businesses that we have identified in the sector. The more acyclical nature of these companies has also proven to be complementary to the portfolio's more economically sensitive positions.

Performance detractors in the quarter included non-participation in Materials, and a modest lag from the portfolio's holdings in Energy and Real Estate.

The team remains comfortable with the overall positioning of the SCV portfolio, with a continued focus on balanced exposures both within and across sectors. Trade activity was low in the quarter, consisting of one liquidation (the aforementioned Cathay General Bancorp), in addition to adds/trims. Portfolio cash was slightly elevated at quarter-end (~8%), although we anticipate there will be opportunities to deploy as first quarter earnings season gets under way.

LOOKING AHEAD

Although U.S. equity indices are positive to start the year, the gains thus far have been largely driven by narrow, top-heavy leadership. Whether the rally in growth stocks and related speculative instruments (e.g., Bitcoin) is a sign of resilience or denial remains to be seen. Given a declining earnings backdrop and the higher probability of the economy slowing (vs. accelerating), recent price strength in the more speculative pockets of the market is all the more tenuous in our view. While pleased with how the Cambiar SCV portfolio fared in the first 90 days of the year, our primary focus remains on the persistent implementation of our Quality/Price/Discipline approach.

The Federal Reserve and monetary policy continue to take center stage for many investors. Adding to a growing list of questionable decisions, the Fed's most recent move to continue tightening in the face of a potential banking crisis may result in a 'win the battle but lose the war' outcome. Economic signals are sending a mixed message – while the rise in interest rates has begun to filter its way into the economy via lower output in manufacturing activity and residential construction, consumer spend patterns remain strong and unemployment is low. Elevated borrowing costs are almost certain to suppress economic activity – which we do not believe to be fully priced into the equity markets. Yet underneath the surface, there are an increasing number of companies that, in our view, possess reasonable upside as conditions begin to normalize. The potential may be even greater in small cap equities on a risk/reward basis, given lower absolute valuations vs. history, as well as relative to large caps.

For Cambiar, portfolio buy and sell decisions remain based on company-specific fundamentals vs. macroeconomic predictions. We believe the current environment provides a two-sided opportunity to generate excess returns – via the companies we own as well as through selective avoidance. The recent turmoil in banks illustrates that alpha can be as much a function of abstention as it is stock selection. Portfolio construction continues to favor self-funding companies with durable business models that we believe can generate strong through-the-cycle returns.

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 Small Cap 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-cap companies. Cambiar's Small Cap Value Composite includes portfolios that primarily invest in stocks with a market capitalization range between $500 million and $5 billion. The typical number of securities in the small cap value portfolio is 45-55 holdings. As of January 1, 2022, the Cambiar Small Cap Value Composite (Institutional) was renamed the Cambiar Small Cap Value Composite and was redefined to include portfolios that are part of broker-affiliated or broker-sponsored programs, including wrap programs. Prior to this redefinition, for the period 2014-2021, the composite included only institutional and high net worth portfolios that were not part of these programs. Prior to 2014, the composite included all institutional, high net worth and program small cap accounts. These program accounts have been reintroduced because they are managed with similar policies, objectives, and holdings. There is no minimum asset level for the composite. From 2014 to March 2020, the minimum asset level for the composite was $1,000,000 and prior to this timeframe it was $100,000. The Small Cap Value Composite includes proprietary assets.

From 2014 to 2021, the composite contained accounts with only gross performance. Prior to 2014 and as of January 1, 2022, the gross returns reflect accounts with both 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 Small Cap Value Composite are evaluated against the Russell 2000® Value Index. The Russell 2000 Value Index is a float-adjusted, market capitalization weighted index comprised of firms in the Russell 2000® Index that experience 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 index assumes no management, custody, transaction or other expenses. The Russell 2000 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 2000 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 6.86% (gross) and 6.66% (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 only 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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