

CAMBIAR SMALL CAP 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 led the way with the Russell 2000 Index posting a 3Q return of 12.4%. A lagging asset class for much of this cycle, small cap companies should be outsized beneficiaries from 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, only 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 dropping, and the labor market 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 forward Price/Sales (can't manipulate revenues) of 3.3x is above the 2.9x peak reached in the late 90s internet period. 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.

SMALL CAP VALUE

	3Q 2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value (gross)	6.6%	8.5%	9.8%	13.6%	12.1%	8.7%	9.5%
Small Cap Value (net)	6.4%	7.8%	8.9%	12.6%	11.1%	7.8%	8.5%
Russell 2000 Value	12.6%	9.0%	7.9%	13.6%	14.6%	9.2%	7.3%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Rambus Inc.	2.54	1.34
Tower Semiconductor	2.39	1.28
BorgWarner	2.82	0.79
Gentex Corporation	2.90	0.74
Advanced Energy Industries	2.43	0.64

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Acuren Corporation	0.07	-0.22
Alamo Group	2.17	-0.26
Phreesia, Inc.	2.33	-0.41
Align Technology	2.32	-0.93
ACV Auctions	2.20	-1.06

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.

After posting solid margins of excess return in the first two quarters of 2025, the Cambiar Small Cap Value (SCV) strategy was unable to match the strong rally in small cap stocks that paced the Russell 2000 Value Index in the third quarter. Despite positive stock selection in areas such as Technology and Consumer Discretionary, more challenged returns in Healthcare and Industrials – as well as an elevated cash position in the quarter – led to the relative performance lag.

All sectors posted a positive return for the quarter, illustrating the broad-based nature of the rally in small caps. Notably, the more speculative/higher beta pockets of the asset class led to the upside. Examples included gold exploration companies, bitcoin miners, and nuclear/alternative power producers. The leadership of lower quality issues (i.e., non-earners, levered balance sheets) is not all that surprising, given the risk on underpinnings and recognition that these companies will benefit from a decline in borrowing costs. This is not to suggest that small caps with strong financials and demonstrated free cash flow did not participate in the up-move; it was more about magnitude.

With sentiment running high towards all things AI, technology stocks were very strong in the quarter – for both the index as well as the SCV portfolio.

Two individual highlights were Rambus and Tower Semiconductor, as both companies have become beneficiaries of the AI capex boom. We have owned Rambus since 2016; the company makes chips that go onto DRAM memory boards (DRAM = dynamic random access memory). Rambus more recently won other sockets on the memory board, such as power management and clock drivers. AI requires massive amounts of memory, thus the boost to Rambus. Consensus earnings have moved higher, but we anticipate continued upside from current levels.

Tower Semi is an analog foundry with a strong position in specialty materials fabrication, enabling high-performance communications applications (wireline and wireless). Tower has established a first mover status in 1.6t silicon photonics (sipho) components, which we believe are being sole sourced to Nvidia for their next generation offerings. The demand for optics in AI datacenters is very high, which should lead to upward revisions in both earnings and price targets for Tower.

As mentioned, stock selection within Healthcare and Industrials was disappointing, with holdings in these two sectors comprising the bulk of the strategy's lag in return. Some comments on two individual

underperformers – and it is worth noting that we continue to maintain a position in both 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, and continues to grow >15%/year @ 35% incremental margins. Industry is in a bit of a lull at present, with dealer-to-dealer sales troughing @ ~6-7M vs. 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 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 to final cases. The negative stock reaction was exacerbated by Align's 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 vs 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).

We are encouraged by the more recent outperformance in small caps. After an extended period of lagging their larger cap peers, could this be the beginning of a more durable opportunity for the asset class? Time will tell on this front, yet we believe small cap in general (and more specifically the Cambiar SCV portfolio) may be poised to benefit in two ways – higher earnings and multiple expansion. Our team continues to focus on well-managed businesses that possess strong balance sheets, steady margin profiles, and high returns on invested capital.

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 to maintain a glass half full bias, with downside protection a distant second in priority vs. upside participation.

While not at euphoric levels, equity markets (particularly large caps) reflect an abundance of optimism and heightened expectations. Upside participation has begun to broaden beyond the 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 to be existential to their future and thus for now remain committed to their capex plans.

The Cambiar team remains focused on delivering attractive risk-adjusted returns by buying quality wide moat businesses that are trading at reasonable valuations. Our SCV Value portfolio is currently valued at a forward 1-Year P/E of ~15.5x, 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 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.

For the periods of 2005 to 2013 and 2022 and forward, the composite's gross returns include accounts with gross and "pure" gross performance and are presented as supplemental information. Prior to 2005 and for the periods of 2014 to 2021, 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 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: 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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