CAMBIAR SMALL CAP FUND 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 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 FUND

	1Q23	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception - Inv	Since Inception - Inst
CAMSX	6.98%	6.98%	-2.89%	22.31%	7.27%	6.75%	8.73%	-
CAMZX	7.02%	7.02%	-2.71%	22.54%	7.45%	6.95%	-	10.94%
R2000V	-0.66%	-0.66%	-12.96%	21.01%	4.55%	7.22%	7.23%	7.01%

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 3/31/23, expense ratios are CAMSX: 1.31% (gross); 1.10% (net) | CAMZX 1.11% (gross); 0.90% (net). Fee waivers are contractual and in effect until March 1, 2024. 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.*

The Cambiar Small Cap Fund 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 Fund 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 Small Cap Fund, 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 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 Fund benefited from both an

Diversification does not protect against market loss.

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 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 Small Cap Fund, 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 Small Cap Fund 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.

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. 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 3.31.23, the Cambiar Small Cap Fund had a 1.6% weighting in Cerence, 2.4% in Rambus, and 2.4% in Universal Display. Cambiar had a 0.0% weighting in Cathay General Bancorp, Signature Bank, Silicon Valley Bank, and Silvergate. Holdings subject to change. Current and future holdings subject to risk.

For characteristics and risk definitions, please visit www.cambiar.com/definitions.

This material represents the portfolio manager's opinion and is an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice or a specific recommendation of securities. There is no guarantee that any forecasts made will come to pass.

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