



# CAMBIAR SMALL CAP FUND COMMENTARY 1Q 2024



# MARKET REVIEW

U.S. equity markets continued to march higher in the first quarter, with the S&P 500 posting a 10.6% return for the period – surpassing the average election year return of 7.4%. The 5,200 level for the S&P reached at quarter-end is already higher than most Wall Street strategists’ full-year 2024 targets. Although the pendulum may be leaning more towards risk vs. reward at present, markets can stay in overbought conditions for some time. Rotating capital to stock market laggards simply because the market seems expensive in the moment is generally not a good plan. It is worth noting that valuations are more diffuse at an individual stock level.

Artificial intelligence continues to be a dominant investment theme for investors; that said, market participation is broadening beyond the mega cap tech stocks – as evidenced by the equal-weighted S&P Index outperforming the cap-weighted S&P in March. After taking the pole position in 4Q, small cap stocks participated in the broad-based rally, but not to the same magnitude as their larger cap counterparts. On a style basis, growth stocks led value, with the margin of outperformance more apparent down cap.

The unabated rally in stocks since last November was largely predicated on the expectation for six interest rate cuts by the Fed, and inflation levels retracing to the 2% target. Despite both of these catalysts unlikely to cooperate as expected, investors continue to bid up risk

assets. The record levels reached in the quarter were not limited to the S&P 500, as the Nikkei 225 Index, gold, and bitcoin also notched all-time highs.

The timing and number of rate cuts remain a key focus for the markets; that said, the ongoing resilience of the U.S. economy and employment has lessened the urgency on this front. With current short-term rates at somewhat restrictive levels, a move closer to neutral while financial markets are relatively calm is probably the right decision, versus waiting for a not peaceful moment before acting.

In Cambiar's view, we are most likely in a “it’s better to travel than arrive” stock market. As opposed to letting a given macro narrative guide decision-making, the Cambiar team continues to lean into businesses that meet our Quality | Price | Discipline philosophy and preferably operate in less crowded areas of the market.

# SMALL CAP FUND

	1Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception - Inv	Since Inception - Inst
CAMSX	0.63%	0.63%	5.16%	2.03%	8.17%	4.90%	8.54%	-
CAMZX	0.73%	0.73%	5.35%	2.22%	8.36%	5.10%	-	10.57%
R2000V	2.90%	2.90%	18.75%	2.22%	8.17%	6.87%	7.79%	7.58%

*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 3/31/24, 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.***

Small cap value stocks (as measured by the Russell 2000 Value Index) posted a first quarter gain of 2.9%. The Cambiar Small Cap Fund closed the quarter modestly higher, while trailing the benchmark for the period.

Thus far in 2024, the broader small cap asset class has been paced by a handful of companies that are geared to investment themes such as artificial intelligence, biotech, and cryptocurrencies. Given reduced exposure to these growthier trends, small value stocks subsequently exhibited more limited upside in the quarter. We view investors' lower appetite towards the small value space to be more a function of general neglect, vs. fundamental headwinds. More sustained outperformance vs. large cap stocks could provide an additional assist in elevating investor interest in the asset class.

Trade activity in the quarter was almost exclusively on the sales side, with no new positions initiated in 1Q. On the sell side, honorable discharges were granted to PGT Innovations and MDC Holdings, with the acquisitions of both companies closing in the quarter. The decision to move on from defense contractor Mercury Systems was a function of thesis drift. Mercury has incurred a number of cost overruns in a series of challenged projects that has resulted in a lower earnings outlook for the company. The turnaround currently undertaken by new management is likely to be a multi-year process, prompting our decision to move on from the position.

In reviewing performance drivers for the quarter, returns on a sector basis painted a mixed picture – Energy, Healthcare, and Industrials outperformed, while Financials, Technology, and Consumer Staples lagged. The Fund benefited from positive sector allocation in the quarter; however, these gains were offset by below-benchmark stock selection.

Outperformance within Financials was a notable contributor in 1Q. The portfolio's positive separation relative to the index was a function of strong gains from the Fund's insurance and financial services positions. An active underweight allocation to banks was an additional value-add, as small cap banks closed lower for the quarter. Also of note was the divergence in performance between small cap vs. large cap banks, with the Invesco KBW Regional Bank ETF (KBWR) posting a 1Q return of -5.9%, vs. a 12.4% gain for the Financial Select Sector ETF (XLF). Cambiar's lower allocation to banks is based on varying considerations that include a focus on diverse return drivers within the portfolio (vs. the homogenous business model of banks),

as well as a view that potential left tail uncertainties (exposure to commercial real estate, stubbornly inverted yield curve, higher regulatory scrutiny) may weigh on valuations and associated upside potential.

The portfolio's overweight allocation to Healthcare was a positive contributor to performance in the quarter, although this impact was neutralized by uneven returns within the sector. Strong gains from HealthEquity and U.S. Physical Therapy were offset by drawdowns in InnovAge and AMN Healthcare. InnovAge is an in-house senior care provider; despite reporting earnings that were ahead of consensus on a number of items, the stock remains in 'show me' mode for investors. We are confident that sentiment will improve as InnovAge progresses towards turning positive on a free cash flow basis later this year. We similarly view the weakness in travel/temp nurse provider AMN Healthcare to be a transitory issue. After meeting with management, we are confident that the company is making the right moves across their various business verticals. Sizable insider purchases in the quarter were an additional positive development. Nursing shortages remain a structural unmet need, and AMN has shown to be a strong operator. Should the company execute as expected, we anticipate that investors will re-rate the stock accordingly.

Energy stocks rebounded in tandem with oil prices moving higher in the quarter; an uptick in M&A activity within the sector provided an additional boost to valuations. Cambiar's lower allocation to energy stocks was a drag on relative performance, despite the Fund's sole holding in the sector (Magnolia Oil & Gas) posting a strong 1Q. Magnolia continues to grow oil production while being mindful of capital expenditures – resulting in strong free cashflow that is being used to increase dividends and continue share buybacks. There are not many small cap companies that can boast the earnings quality and balance sheet attributes that Magnolia possesses – thus the portfolio's lower sector allocation. Our bias towards companies that can deliver positive through-the-cycle returns and profitability have generally been harder to come by in the sub-\$3 billion market cap segment of the market.

While we do not have a firm opinion on direction/magnitude of monetary policy, it is a near-certainty that the cost of capital will remain elevated vs. the low rate environment of years past. The strongest of business models can be impaired by high debt obligations– thus our aversion to companies with elevated leverage ratios. The Cambiar team continues to seek exposure to a

Diversification does not protect against market loss.

more focused set of profitable, consistent cash flow companies that can effectively perform double duty within the portfolio – i.e., participate in up markets as well as providing a margin of safety in market drawdowns.

## LOOKING AHEAD

Valuations within the U.S. equity market remain extended, with the first quarter gains for many stocks more a function of multiple expansion vs. organic earnings growth. Below the surface, there are pockets of opportunity – particularly in the smaller cap space that has remained largely out of favor for many investors. We continue to believe the diffuse nature of the small/mid cap segment of the market provides an attractive area for active managers to deliver alpha; that said, selectivity remains key.

With funding costs still at elevated levels, investors seeking exposure to the small cap asset class should favor companies with low leverage, consistent returns on capital, and steady free cashflow. Despite the relative performance lag of smaller cap stocks in recent years, an improving backdrop of moderating inflation, normalizing interest rates, and a still growing U.S. economy should provide a favorable catch-up opportunity for down cap equities.

We appreciate your continued confidence in Cambiar Investors.

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# 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](http://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 3.31.24, the Cambiar Small Cap Fund had a 2.3% weighting in AMN Healthcare, 2.4% in HealthEquity, 1.3% in InnovAge, 2.8% in Magnolia Oil & Gas, and 2.3% in U.S. Physical Therapy. The Cambiar Small Cap Fund had a 0.0% weighting in the Financial Select Sector ETF, KBW Regional Bank ETF, MDC Holdings, Mercury Systems, and PGT Innovations. Current and future holdings subject to risk.*

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