CAMBIAR SMALL CAP FUND COMMENTARY 3Q 2024

MARKET REVIEW

U.S. equities closed the third quarter at record highs, with the S&P 500 Index posting a 5.9% return. The market shrugged off what has historically been a more challenging period for equities, as investors bid up stocks in response to the Federal Reserve's move to lower rates in the September meeting. It was also encouraging to see the other 493 stocks in the S&P start to pull their weight, as the 9.6% return for the S&P 500 Equal Weighted Index bested the cap-weighted benchmark by a wide margin for the quarter. Small cap stocks also rebounded after a challenging 2Q, with the Russell 2000 Index posting a 9.3% return for the quarter. On a style basis, value stocks outpaced their growth counterparts for the period, but still have some ground to make up – as growth stocks continue to hold the upper hand for the year as well as over much of the past decade.

As expected, the Federal Reserve lowered rates at their September meeting. The only debate was one of magnitude, i.e., 25 or 50 bps. Was the decision to cut by 50 bps a veiled acknowledgment that they stayed too tight for too long? Looking ahead, the Fed stated that employment and inflation data will determine the pace and magnitude of future monetary policy normalization efforts while signaling for additional easing in their final two meetings of 2024 and continuing into 2025. An orderly path to lower rates seems appropriate, as inflation is nearing the 2% target and employment remains low in absolute terms.

BETTER TO TRAVEL THAN ARRIVE

While market participants are understandably upbeat by the prospects of a lower cost of capital, some caution about the forward path of equity returns may be warranted. To the extent that an inverted yield curve is closely linked with recessions, equity returns during the inversion period are typically positive. It is the un-inversion of the yield curve that brings with it the accompanying recession and increased market turbulence for equity investors. Granted, no two cycles are identical, and the current cycle has been even more unique with the inclusion of a global pandemic. The S&P 500 has an annualized return of 16% for the past five years, which includes the -18% drawdown in 2022. Any market pullbacks have been an opportunity to buy, as these dips have recovered to new highs. While above-trend equity gains may continue, one should guard against excessive complacency and continue to rebalance across asset classes as needed. Selectivity should also take on increased importance, and a value orientation may provide an additional tailwind to investors – given the outperformance of growth stocks in recent years. With no shortage of inputs to consider, Cambiar remains focused on constructing diversified portfolios that can perform double duty for our clients – i.e., participate in up markets while also providing a margin of safety in market drawdowns.

Diversification does not protect against market loss.

SMALL CAP FUND

	3Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception - Inv	Since Inception - Inst
CAMSX	7.34%	5.17%	17.33%	3.71%	8.04%	5.90%	8.56%	-
CAMZX	7.39%	5.38%	17.65%	3.92%	8.24%	6.10%	-	10.53%
R2000V	10.15%	9.22%	25.88%	3.77%	9.29%	8.22%	7.91%	7.70%

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 9/30/24, 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.*

The Cambiar Small Cap Fund participated in the 3Q small cap rally, though not to the same magnitude as the benchmark. The relative performance shortfall was largely a function of the Fund not keeping pace during the sharp up move in July, where the index gained over 12% for the month.

The surge in small cap stocks was largely a function of increased confidence that the Fed was poised to lower interest rates. The 'yields lower = equity multiples higher' relationship was a welcomed event for the stock market at large, but in particular for small cap companies which typically have a greater percentage of floating rate debt and should therefore be outsized beneficiaries of a lower cost of capital. Given our bias towards well-capitalized companies with strong balance sheets, the Fund did not incur the same degree of price gains vs. the index during July's risk-on rally. The overall performance objective is to deliver risk-adjusted excess returns over a longer arc via participating in up-markets and protecting capital during market drawdowns.

As the recent gains in small cap stocks highlight, attempting to time one's allocation to the asset class can be a tricky exercise. Despite their shorter-term outperformance vs. large caps, small cap returns continue to lag by a wide margin – could small cap leadership in 3Q be the beginning of a more persistent trend? We believe the Fed embarking on a rate-cut cycle could be an important catalyst to begin reversing the large caps > small caps relationship that has been in place. Strong earnings may be an additional inflection point for smaller cap companies, as the 'Mag 7' are poised to come up against difficult year-over-year comparisons, while the expectations bar is set fairly low for small caps. Given the more atomized nature of the small cap equity market, we continue to believe that thoughtful selectivity remains the cornerstone to generating outperformance over a market cycle.

In reviewing return drivers for the quarter, all sectors with the exception of Energy registered positive returns, illustrating the rising tide backdrop for equities. The downshift in interest rates boosted the more rate-sensitive sectors such as Real Estate, Utilities, and Financials.

Cambiar's low allocation to the lagging Energy sector was a value add in the quarter. Smaller cap energy companies are more sensitive to swings in underlying commodity prices (vs. large caps, which can have both upstream and downstream operations) – this elevated unpredictability is one reason for our limited allocation to the space. We continue to look for unique investment opportunities within Energy but are comfortable with our current positioning.

While our underweight Energy position was a positive in the quarter, Cambiar's lower exposure to the top-performing Real Estate and Financial sectors limited the strategy's upside participation vs. the index. It is worth noting that Cambiar registered positive stock selection in both sectors for the period; i.e., the performance lag was exclusively a function of allocation. On this note, Financials comprise ~28% of the index, vs. ~22% for the Small Cap Fund. Given our 25% sector maximum, the portfolio will always have a lower weighting vs. the benchmark. The result may be a modest lag in narrow periods where Financials outperform; we are comfortable with this tradeoff in our pursuit of constructing a more diversified portfolio.

Additional positives in the quarter included strong gains from Cabot Corp (Basic Materials) and Frontdoor (Consumer Discretionary). Chemical company Cabot provides the carbon black reinforcement agent that is found in tires and rubber tubing for mechanical use cases. The company also has a higher value add 'performance' segment that sells into the building and construction segment. Both verticals are performing well, enabling Cabot to post strong earnings. While the stock has performed well in 2024, it has been accompanied by corresponding strength in fundamentals and earnings – warranting our continued investment in this well-managed business.

Home warranty provider Frontdoor moved higher in response to strong earnings and positive forward guidance. While the weaker real estate market remains a drag, Frontdoor has done a good job protecting gross margins via process improvements. We believe the company remains attractively valued and a recovery in residential real estate activity that may come with lower rates would be an additional catalyst for further gains.

Although positive in the aggregate for the quarter, technology stocks trailed their more classic value counterparts for the period. The Fund was thus hampered by our higher allocation to Tech as well as lagging returns within the sector from Rambus and Diodes. Despite the short-term price action in semiconductor manufacturer Diodes, we believe the backdrop continues to improve – as the inventory backlog is poised to sunset and orders increase within certain endmarket segments. We believe similar green shoots are taking place for Rambus and their position in the DRAM (dynamic random access memory) market. Diodes and Rambus both have net cash balance sheets, which should provide an additional backstop as we wait for the cycle to turn in their favor.

Cambiar's higher allocation to Healthcare similarly weighed on relative performance in the quarter, as the sector registered a positive return, while trailing the returns in Utilities and Financials. In contrast to the big pharma players that comprise the large cap space, the smaller cap healthcare arena is a much more disparate universe of businesses that cover a wide array of products, services, and end-markets.

Diversification does not protect against market loss.

Cambiar's performance within the sector remains uneven, as a strong return for in-home senior care provider InnovAge Holding Corp. was offset by pullbacks in AMN Healthcare (temporary nursing provider) and HealthEquity, which is the largest non-bank custodian of healthcare savings accounts (HSAs). We anticipate improving performance for AMN as the temporary nurse industry continues to normalize, while ongoing adoption of HSAs should provide an ongoing tailwind to HealthEquity.

LOOKING AHEAD

U.S. equities continue their year-long advance, bolstered by easing monetary policy and increased confidence in a soft landing for the economy. Thus far, the soft landing scenario is playing out – inflation has continued to trend downwards, with unemployment remaining low on a historical basis. Market breadth has also begun to strengthen, which could fuel additional gains.

While not at euphoric levels, investors' optimism towards corporate earnings is reflected via elevated market multiples, with the current one-year forward P/E for the S&P at 21.5x. Do valuations reflect economic reality, or are expectations overly bullish? Time will tell. It is worth noting that more reasonably-priced investment opportunities exist below the surface – this is where the Cambiar team is focusing our research efforts.

We acknowledge the supportive backdrop for the equity markets; that said, we are equally focused on potential risks at the company level and uncertainties such as the upcoming Presidential election, increased global geopolitical tensions, and an unsustainably high U.S. debt-to-GDP ratio. Equity markets do not appear to be priced for any of these uncertainties. Broad portfolio diversification, attentiveness to valuation, and the consistent implementation of Cambiar's Quality | Price | Discipline approach remain valuable risk mitigation tools

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. 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 9.30.24, the Cambiar Small Cap Fund had a 1.3% weighting AMN Healthcare, 2.5% in Cabot Corp, 2.0% in Diodes, 3.0% in Frontdoor, 1.8% in InnovAge Holdings, and 1.6% in Rambus. Current and future holdings subject to risk.

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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