



# CAMBIAR SMALL CAP VALUE 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 VALUE

### CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Atmus Filtration Technologies	2.02	0.45
HealthEquity	2.48	0.30
Magnolia Oil & Gas	2.14	0.29
Envestnet	2.67	0.26
Axis Capital Holdings	2.30	0.24

### DETRACTORS

Bottom Five	Avg. Weights	Contribution
Forrester Research	1.55	-0.22
WNS Limited	1.85	-0.24
AMN Healthcare Services	2.27	-0.25
InnovAge Holding	1.56	-0.28
Marcus & Millichap	1.88	-0.29

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 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value <sub>(gross)</sub>	0.8%	0.8%	6.2%	3.0%	9.3%	6.1%	9.5%
Small Cap Value <sub>(net)</sub>	0.6%	0.6%	5.3%	2.1%	8.4%	5.2%	8.4%
Russell 2000 Value	2.9%	2.9%	18.8%	2.2%	8.2%	6.9%	7.1%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

Small cap value stocks (as measured by the Russell 2000 Value Index) posted a first quarter gain of 2.9%. The Cambiar Small Cap Value strategy 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 SCV portfolio 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 portfolio'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 portfolio'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 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.

# 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 0.47% (gross) and 0.28% (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 and 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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