CAMBIAR SMALL CAP VALUE COMMENTARY 1Q 2025

MARKET REVIEW

U.S. equities posted mixed returns in the first quarter, as heightened uncertainties regarding trade policy, sticky inflation data, and a retrenchment in government spending prompted investors to move to the sidelines. The S&P 500 Index registered a -4.3% return for the quarter, while the smaller cap Russell 2000 Index fell -9.5%.

On a style basis, growth stocks bore the brunt of the selling in the quarter, with the tech-heavy Nasdaq Composite logging its worst quarterly return (-10.4%) in three years. The quarter was a good reminder of what can happen when the momentum comes out of momentum stocks, as the AI trade that has buoyed markets stumbled hard over concerns of possible overinvestment and the launch of a lower cost AI model (DeepSeek).

The quarter saw a sharp reversal in sentiment, as optimism with regards to tax cuts, potential deregulation, and a more robust M&A environment subsequently gave way to growth-negative policies in the form of tariffs, reduced fiscal support, and tightening immigration. With a number of mega-cap growth stocks (that comprise a large weighting in passive indices) priced for perfection, the market was susceptible to a drawdown. While valuations don't necessarily convey what the future will bring, they do tell you what expectations are – in this regard, expectations were extremely elevated outside of more downtrodden areas such as the healthcare and consumer sectors.

Tariffs – Although not unexpected, the unveiling of tariffs has created a sharp air pocket in stocks, as the magnitude of the tariff hikes is causing corporations to pull back on investments and hiring. No one wins in a trade war, and the market must now adjust to a revised forecast of lower economic growth – with the potential for retaliatory actions by U.S. trade partners only adding to the uncertainty. The result is a widening distribution of economic outcomes and a corresponding widening distribution of equity return outcomes. Valuations will need to be recalibrated lower to account for the downshift in growth and murky economic outlook.

A more hands-off/passive approach may make sense during calm and upward trending periods; that said, active managers should be in a good position to adapt to the rapid change in market conditions. We believe that Cambiar's Quality I Price I Discipline framework is well-suited for the current environment, and our team's long tenure and expertise in covering their sectors are additional value-adds in making prudent capital allocation decisions.

SMALL CAP VALUE

	1Q 2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value (gross)	-5.2%	-5.2%	0.8%	1.6%	15.0%	5.8%	9.0%
Small Cap Value (net)	-5.4%	-5.4%	0.0%	0.8%	14.1%	4.9%	8.0%
Russell 2000 Value	-7.7%	-7.7%	-3.1%	0.1%	15.3%	6.1%	6.6%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Sportradar Group	3.58	0.68
Axis Capital	3.47	0.44
WNS Holdings	1.79	0.41
Exelixis	2.74	0.33
NETSTREIT	2.02	0.27

DETRACTORS

Bottom Five	Avg. Weights	Contribution
U.S. Physical Therapy	2.31	-0.43
ASGN Inc	1.94	-0.48
Diodes Inc	1.51	-0.50
Tower Semiconductor	2.12	-0.70
Frontdoor	3.05	-0.95

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.

CAMBIAR INVESTORS

While unable to sidestep the decline in small cap equities during the quarter, the Cambiar Small Cap Value (SCV) strategy was able to provide a margin of protection vs. the benchmark. Despite fairly muted investor interest in small cap equities, the SCV portfolio has delivered strong annualized returns over the trailing 5-year period. Perhaps the transition of the MAG 7 to the LAG 7 will provide an uptick in sentiment toward the asset class.

After a strong post-election run in equities, investor priorities shifted from upside participation to loss aversion during the quarter. Although Cambiar's lower beta skew and focus on profitable businesses hampered relative performance in 2024's risk on environment, this same positioning should provide a margin of safety in periods of elevated market stress – which was the case in the first quarter.

Portfolio construction efforts continue to prioritize a prudent balance of varying exposures and associated return drivers across/within sectors. Trade activity was limited to incremental adds/trims to existing positions – there were no new buys/sells during the quarter. Given the more volatile market backdrop, our team remains on the lookout for opportunities to further high-grade the portfolio should quality businesses in our research library become unanchored vs. underlying fundamentals/normalized earnings. (Update: We have already made a few moves in early April).

Every sector, with the exception of Utilities, registered a negative return for the quarter, illustrating the broad-based nature of the drawdown. The pain was more acute in cyclically-sensitive areas such as Technology and Energy, while Financials, Real Estate, and Consumer Staples were relative outperformers.

The SCV strategy's excess return in the quarter was a function of positive stock selection, with the portfolio registering above-benchmark performance in Industrials, Energy, Healthcare, and Consumer Discretionary. Within Industrials, business services provider WNS Holdings rebounded in response to a positive earnings report and raised guidance. After incurring a more challenging earnings environment in 2024, WNS has indicated that IT service demand has begun to inflect higher, which should lead to more proposals/sales opportunities for the company. While not dismissive of the risks to the business (i.e., AI displacement), the upside potential in earnings (and possibly the multiple) warrants our continued investment in WNS.

Additional bright spots in the portfolio included Magnolia Oil and Gas (Energy) and Exelixis (Healthcare). Magnolia is a conservatively-managed oil and gas producer, with assets in the Eagle Ford basin (south Texas). The company has a track record of consistent production growth and steady free cashflow – the latter of which is used to fund share buybacks and dividends. While Magnolia's earnings are not immune to moves in commodity prices, the company's 'steady-Eddie' production approach, strong balance sheet, and shareholder-friendly capital return policies contribute to our continued ownership of this high-quality business.

The Healthcare space has generally been a target-rich environment for the SCV portfolio over time, and our holdings in the sector were a positive contributor to performance in the quarter. While selectivity remains paramount, healthcare stocks should be somewhat buffered from the tariff concerns that are roiling other segments of the equity market. Specialty pharmaceutical Exelixis has been a notable bright spot for the portfolio – registering a strong gain in 2024 and moving higher in the first quarter. The boost in share price has been a combination of higher uptake in the market for their cancer drugs, as well as efforts to reduce R&D (resulting in higher earnings/free cashflow). Cabometyx is the company's top drug, with high market share in the bladder cancer market. After trimming the position during the quarter, our continued hold is a function of reasonable valuations, patent protection through 2029 for Cabometyx, and an interesting pipeline that could unlock additional upside.

Performance detractors in the quarter included our absence in Consumer Staples (one of the 'less bad' sectors), and a higher allocation to Technology – which struggled in the period. Food and beverage companies that comprise Consumer Staples typically are large cap companies – the sector only comprises ~2% of our small cap value benchmark. So while we are not averse to participation in the sector, the opportunity set down cap is fairly limited.

The portfolio's struggles in the tech sector were primarily sustained by our semiconductor holdings – Diodes and Tower Semiconductor. Diodes continues to see a more sluggish demand environment in many of the company's key end markets (e.g., autos/industrials). The company has done a good job bringing down expenses, such that the resulting operating leverage should be a tailwind to earnings as visibility/demand improves. After representing the top individual contributor to portfolio performance in 2024, Tower Semi pulled back in 1Q in response to a mixed earnings report. Similar to Diodes, Tower is still waiting for a recovery in their end markets (smart phones, consumer sensors, displays, autos). Yet Tower is benefiting from its exposure to AI, which continues to represent an attractive growth opportunity. With several of the company's traditional client segments in various stages of troughing/recovery, we believe the company is well-positioned to post a ramp in earnings in the back half of the year.

LOOKING AHEAD

As we entered 2025, small/mid-cap businesses were poised to benefit from a combination of a broadening profits cycle, lower cost of capital via ongoing rate cuts, and supportive economic growth. Yet thus far this optimistic outlook has been overshadowed by tariffs and related trade uncertainty which has had a negative impact on business confidence and equity valuations.

Market conditions are rapidly changing – such that the road forward will almost certainly be a bit bumpier vs. recent history. With ~58% of assets held in passive vehicles, stocks may be poised to exhibit the downside of indexation – i.e., similar to uptrends, indiscriminate liquidations pay no heed to price discovery. Smaller cap businesses may undergo further pressure – depending on business model, supply chains and associated margin pressures due to higher cost-of-goods-sold from tariffs.

The Cambiar team is reviewing portfolio exposures with a more discerning eye toward holdings that may be more vulnerable in a global slowdown (e.g., commodity stocks). While it has been some time, our tenured team has experience investing in adverse market environments. Above all, we remain focused on protecting client capital while taking advantage of potential market dislocations as asset markets seek to find some level of equilibrium in a backdrop of lower economic activity and reduced growth expectations.

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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