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CAMBIAR INVESTORS

CAMBIAR SMALL CAP VALUE COMMENTARY 2Q 2024

MARKET REVIEW

U.S. equity markets turned in a mixed performance for the second quarter. While the S&P 500 Index notched a 4.3% return in 2Q, the gain was narrowly driven by the interdependent artificial intelligence (AI) trade in select mega cap technology stocks. The stock that received the most airtime was Nvidia, which gained 36% in the quarter. Nvidia has added $2 trillion in market cap in 2024, and is up almost ninefold since the end of 2022. The company's explosive earnings growth in recent quarters certainly validates much of the stock's gains – to what extent investors are extrapolating this growth into the future remains a key question. For the buyers of Nvidia's products, investors will at some point want to see a return on investment for the massive amount of capital that has been allocated to generative AI – but we are not there yet.

Index	2Q 2024 Return	YTD Return
S&P 500	4.3%	15.3%
Equal-Weighted S&P 500	-2.6%	5.1%
Russell 1000 Value	-2.2%	6.6%
Russell 2000	-3.3%	1.7%

SO MUCH FOR BROADENING MARKET BREADTH

Any hopes for asset class leadership outside of large cap (growth) have been dashed thus far in 2024, as the year-to-date gains for equities have been extremely top-heavy in nature. The key investment narratives from 2023 (i.e., AI and GLP-1 diet drugs) continue to lead the way in 2024. Market concentration is a condition, not a signal; that said, widening market breadth would certainly be a more healthy development. With a number of tech companies approaching logical market capitalization limits, durable upside from here is almost certainly going to be a function of broader market participation.

Beneath this select group of outperformers, equity returns have been considerably more mixed – with segments such as large cap value (Russell 1000 Value) and small caps (Russell 2000) posting outright declines. The widening gap between the performance of the average stock vs. the overall market is best expressed in the returns of the S&P 500 vs. it's equal-weighted version. As illustrated below, stocks are higher this year, but trailing the aggregate return by a healthy margin.

Moderating inflation data has increased the odds that the Federal Reserve will begin easing in the back half of 2024. Yet why then are front line beneficiaries of lower rates such as small caps and regional banks performing so poorly? Small-cap companies utilize more leverage, with much of this debt being floating-rate. Given the forward-looking nature of the markets, small caps should be rallying in expectation of a lower cost of capital. Regional banks should similarly be performing better, as the prospect for lower rates will help to alleviate funding pressures and commercial real estate exposure. Yet the S&P Regional Banking ETF (KRE) was lower for both the quarter as well as on a year-to-date basis.

Consumer spending is the biggest driver of the economy; i.e., so as the consumer goes, so goes the economy. On this front, the data is more indicative of a K-shaped economy – whereby high earners with greater exposure to risk assets continue to show a propensity to spend, while lower income households are showing more restraint in their spend patterns. Despite positive wage gains, it seems declining consumer sentiment (as measured by the University of Michigan) may also be weighing on consumption. When nearly 80% of Americans consider fast food to be a 'luxury' purchase (results from a recent LendingTree poll), something is amiss as it relates to economic divergences in the U.S. A resilient consumer has been a key underpinning for above-trend economic growth – can it continue?

The bigger takeaway is that despite eye-catching headlines such as the S&P 500 notching new all-time highs and the tremendous growth in AI, the data and price action is considerably more mixed below the surface. The divergences in valuation present attractive risk/reward opportunities for investors who are willing to look beyond the ten largest companies. As the biggest input to one's investment return is price at attachment, smaller cap stocks may also be poised to outperform, given the low valuation/low expectation profile assigned to many companies in the down cap asset class.

SMALL CAP VALUE

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Globus Medical	2.40	0.64
Universal Display Corp	2.08	0.55
Tower Semiconductor	2.31	0.41
Addus HomeCare	2.75	0.36
Envestnet	3.19	0.27

DETRACTORS

Bottom Five	Avg. Weights	Contribution
AMN Healthcare Services	1.87	-0.40
Duckhorn Portfolio	1.42	-0.43
ASGN	2.33	-0.44
Johnson Outdoors	1.48	-0.46
Alamo Group	1.93	-0.61

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.

	2Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value (gross)	-2.4%	-1.5%	2.4%	1.0%	7.8%	5.5%	9.2%
Small Cap Value (net)	-2.6%	-2.0%	1.6%	0.2%	6.9%	4.6%	8.2%
Russell 2000 Value	-3.6%	-0.9%	10.9%	-0.5%	7.1%	6.2%	6.8%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

While unable to sidestep the broad-based decline in small cap equities in the quarter, the Cambiar Small Cap Value (SCV) portfolio was able to provide a margin of downside protection relative to the index.

After a brief period of outperformance in the fourth quarter of 2023, small cap stocks have returned to the bottom of the pecking order (vs. large caps) in 2024. According to Strategas, the only two periods that compare to the current divergence in performance between small/large caps were at the height of the dot-com bubble in the late '90s and the depths of the COVID lockdowns in 2020. While a wait-and-see approach is understandable given the duration and magnitude of the current cycle, we believe small caps offer an attractive attachment point for investors with a multi-year time horizon.

Positive returns were hard to come by in the quarter, with all benchmark sectors posting losses for the period. Technology, Utilities, and Financials were relative outperformers in the quarter, while Healthcare and Consumer Discretionary stocks lagged. The SCV portfolio benefitted from positive stock selection in Healthcare, while an overweight allocation (and positive stock performance) in Technology was an additional value-add.

We were pleased to see a rebound within our Healthcare holdings from the first quarter, and the sector comprised the single largest contribution to performance in 2Q. Globus Medical advanced meaningfully after an encouraging earnings report eased investor fears of possible revenue dis-synergies stemming from the company's 2023 acquisition of NuVasive – a spine surgery specialist. While the stock is now closer to fair value, we believe Globus continues to offer a reasonable risk/reward. Additional outperformers in 2Q included Addus HomeCare and Innovage; both companies provide cost-saving services and moved higher after reporting positive earnings. Addus and Innovage strive to lower the cost of healthcare by serving patients in the home (Addus), or by providing regular maintenance visits at operated facilities for seniors (Innovage).

Within Technology, Cambiar received positive contributions from a number of holdings, highlighted by Universal Display Corp. Universal is seeing continued adoption of the company's organic light emitting diode (OLED) displays in key markets such as PCs, tablets, monitors, and notebooks. OLED technology has superior contrast ratios vs. traditional liquid crystal display (LCD), and Universal should continue to benefit from this trend.

Performance within Industrials was more challenged in the quarter, with Alamo Group and Forrester Research notable laggards for the period. Alamo Group sells a broad selection of agricultural, landscaping and industrial machinery, and has an impressive track record of returns and profitability. Despite reporting record net sales in its most recent earnings report, the stock declined in response to weaker sales in Alamo's Vegetation Management (i.e. farming) Division. Farmers have been impacted by a combination of higher financing rates and lower food prices, which is weighing on profit levels. While incrementally more cautious, we believe Alamo's management can navigate the current softness in Agriculture and protect margins via expense controls. It is also worth noting that order bookings within Alamo's Industrial unit remains strong.

Forrester Research provides research and advisory services across a wide spectrum of executive verticals. Forrester's offerings serve as a critical tool for Fortune 500 and 1000 companies as they look to navigate the fast-changing landscape of consumer preferences. Forrester shares have been under pressure over the last two years as corporate customers tighten budgets amidst a slowing growth environment. The company has also been undergoing a product transition, which has limited visibility amidst the downcycle. With Forrester providing valuable research services to corporate executives and expectations quite low amidst a now multi-year downturn, we believe the company possesses a skewed reward-to-risk opportunity as conditions improve.

The portfolio's lower allocation to Financials vs. the index (17% vs. 26% for the R2000V) was a modest performance headwind in light the sector's outperformance for the quarter. Given our focus on building a diversified portfolio with varying return drivers, it is unlikely that we would allocate ¼ of portfolio capital to this area of the market – i.e., there is not much differentiation within the small cap bank business model. Our insurance positions continue to complement our regional bank holdings, the latter of which lost ground in the quarter. The insurance space is benefitting from a combination of premium growth and higher investment income, which in turn contributes higher ROE and book value.

LOOKING AHEAD

U.S. equities continue to levitate higher as we reach the halfway point of 2024, with the S&P 500 already eclipsing forecasters' full-year return targets. Markets remain relatively complacent, evidenced by tight credit spreads and the VIX index probing multi-year lows. On a valuation basis, the S&P 500 Index is trading at a forward one-year P/E multiple of 21-22x, pulled higher by a narrow sleeve of mega cap tech stocks (and Eli Lilly). The increase in valuations for mega-cap tech stocks has been accompanied by strong earnings growth, but may be starting to reach logical limits. Nvidia, Apple and Microsoft have each surpassed the $3 trillion market cap level – what's next…$5 trillion? $6 trillion? It is worth noting that valuations are much more reasonable beyond the ten largest companies, with sectors such as Energy, Healthcare, and Financials all trading at attractive levels relative to their expected earnings power.

Small-to-mid cap companies continue to trade at a discount to the S&P 500, as investor sentiment towards the asset class remains tepid at best. Smaller cap stocks have been held back in recent years due to a combination of high inflation, recession fears and elevated rates. As these conditions continue to moderate, we believe there will be a favorable catch-up opportunity for down cap equities.

Markets may see a rise in volatility in the coming months, as Presidential debates and party conventions leading up to the November election become more front and center for investors. Heightened political instability in Europe may also add to widening spreads in asset prices.

There seems to be a growing chorus amongst investors that budget deficits and valuations don't matter – the outperformance of growth stocks (over value) strengthens this view. Suffice to say that we disagree with this viewpoint – the concepts of financial gravity and price discovery remain critical inputs to the buy/sell decision. The Cambiar team continues to channel our efforts on identifying high quality businesses that can offer an asymmetric investment opportunity over a forward 1-2 year timeframe. In our view, companies with durable business models, proven pricing power, and low leverage should be in good position to outperform regardless of the macroeconomic backdrop. In a nod to baseball season, the market seems preoccupied with finding the next homerun (i.e., Nvidia), while our team is more focused on hitting singles and doubles and minimizing strikeouts.

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.

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: For the quarter, the total portfolio return for the representative account was -1.79% (gross) and -1.98% (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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