

# CAMBIAR SMALL CAP VALUE COMMENTARY 2Q 2025



# MARKET REVIEW

U.S. equities rebounded sharply in the second quarter, with the S&P 500 Index posting a gain of 10.9% for the period. Small cap stocks also finished higher for the quarter, although not to the same extent, as the Russell 2000 Index notched a 2Q return of 8.5%. On a style basis (regardless of market cap), growth outperformed value by a wide margin – a complete reversal from the first quarter.

Price action in the second quarter was truly a tale of two markets – stocks incurred a sharp April drawdown in response to the initial Liberation Day tariff agenda, only to close at all-time highs as the Trump administration softened many of the more restrictive measures and trade tensions with China de-escalated. The reversal from a bearish posture in early April to new record highs at quarter-end was a stunning turnaround. According to Strategas, the 55 trading days from the April 8th low to the new market high on June 27th marked the fastest roundtrip following a 15% correction in history. Given this euphoric recovery – in tandem with outsized gains in recent years – the obvious question is whether investors are becoming too complacent/optimistic in their return expectations for equity markets.

It has been Cambiar's view that the extreme tariff rates initially put forth were largely a function of negotiating

leverage, with the final outcome more likely a flat rate in the 10% range (perhaps higher for mercantilist countries such as China). While ongoing trade decrees remain very much in flux, we believe this general view will likely prevail.

Although the rally in equities was broad-based in nature, more speculative pockets of the market led the way; examples include AI stocks, meme stocks, crypto, and quantum computing companies. A stronger IPO market provided additional fuel for the markets.

With stock prices in the quarter propelled by momentum and headlines vs. company-specific attributes, it should not be all that surprising that Cambiar's Quality I Price I Discipline approach did not keep pace with the broader market returns. While market averages may continue to push higher from here, rallies of this nature are susceptible to a reversal as market momentum subsides and/or investors return to valuing stocks on some combination of revenues and earnings. Our team was opportunistic during the quarter; however, we resisted the urge to chase performance in the more speculative pockets that do not meet our quality and valuation criteria.

## SMALL CAP VALUE

	2Q 2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value <small>(gross)</small>	7.3%	1.8%	10.8%	9.2%	11.6%	6.4%	9.3%
Small Cap Value <small>(net)</small>	7.1%	1.3%	9.9%	8.3%	10.6%	5.5%	8.3%
Russell 2000 Value	5.0%	-3.2%	5.5%	7.5%	12.5%	6.7%	6.8%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

### CONTRIBUTORS

Top Five	Avg. Weights	Contribution	Bottom Five	Avg. Weights	Contribution
Frontdoor, Inc.	3.09	1.39	ASGN Incorporated	1.44	-0.39
Advanced Energy Industries	2.35	0.87	HealthStream	2.55	-0.41
Healthcare Services Group	1.84	0.77	Magnolia Oil & Gas	0.94	-0.53
Sportradar Group	2.41	0.68	Insperity	1.39	-0.63
Exelixis	2.31	0.54	Globus Medical	2.72	-0.64

### DETRACTORS

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.

The Cambiar Small Cap Value (SCV) strategy posted a solid margin of excess return in the second quarter, benefiting from a combination of positive stock selection and favorable sector allocations. The SCV strategy has now outpaced the index for three consecutive quarters and is ahead of the benchmark on both a trailing 1- and 3-year basis.

The quarter saw a decisive swing in sentiment, as investors moved from a risk-off posture in the initial days following the tariff rollout to a clear risk-on bias. The shift from bearish to bullish was largely in anticipation of less detrimental trade policy, while the growing chorus for interest rate cuts added to the Pollyannaish underpinning in the equity markets. Visibility on both of these events unfolding as expected are far from assured – yet positive momentum continued to power stocks higher.

Buy/sell activity in the SCV portfolio was more active in the quarter, as the team attempted to take advantage of the elevated price volatility to adjust aggregate positioning. Much of the trade activity was concentrated in the Healthcare sector; HealthEquity and Exelixis approached our fair value targets and were sold, while new positions were established in Phreesia and Align Technology. Align meets many of our desired investment attributes – the company possesses wide brand awareness with their Invisalign product, a favorable margin profile, and track record of investment/innovation. After registering strong growth in the post-COVID/work from home timeframe, Align has more recently incurred a deceleration in revenue, resulting in a compression in valuations to ten-year lows. We believe the company is taking the right steps to grow the business, with an outsized focus on growing market share in the teens segment (which is ~70% of the orthodontic market). Success on this front would likely drive an upward valuation re-rating for Align.

In reviewing sector performance within the small cap value index, Technology was the top performer by a wide margin – a reversal from the first quarter. Pro-cyclical sectors such as Consumer Discretionary, Industrials, and Communication Services also led to the upside, while safe haven sectors such as Healthcare, Utilities, and Consumer Staples all lagged for the quarter.

Within the Cambiar SCV portfolio, stock selection in Consumer Discretionary was a notable value add for the quarter, as Frontdoor and Sportradar generated returns of 53% and 32%, respectively. Frontdoor sells home warranties through various brands (e.g., American Home

Shield). The stock rebounded in 2Q after a positive earnings report and raised full-year guidance. While a sharp decline in the residential real estate market is a risk to their business (and an area we are monitoring), Frontdoor's growing customer base provides good revenue visibility, and the company is expanding into adjacent markets (e.g., HVAC services).

Sportradar has been a strong performer since our initial attachment in 4Q 2024. The company has carved out a dominant niche as the leading data collector for various sports leagues; this data is then sold to media companies and sports betting operators. Sportradar has been successful in building a wide moat that has contributed to strong margins and growing free cashflow. We have trimmed our exposure in light of the YTD price gain, but continue to maintain a position in Sportradar.

Additional positive contributors in the quarter included positive stock performance in Healthcare, as well as active underweight positions in the lagging Consumer Staples and Real Estate sectors. Healthcare stocks remain out of favor with investors, with the sector posting negative returns on both a trailing 1-year and 3-year basis. We have been able to sidestep this weakness by focusing on unique franchises that offer essential drugs/services to a stable/growing client base. Exelixis is a good example, as the company was able to grow earnings via sales of its key cancer drug (Cabozantinib – Cabo). While Cabo has additional revenue opportunities from newer approvals in areas such as renal care carcinoma and advanced neuroendocrine tumors, the risk/reward had become less attractive, prompting our exit from the position.

Detractors in the quarter included below-benchmark performance in the Materials and Industrials sectors; laggards included Cabot Corp., Insperity, and Hub Group. While most price action in small caps is generally more idiosyncratic to the specific company/business, the uncertainty regarding tariffs has been a common headwind for some of the portfolio's underperformers. Cabot (specialty chemicals) and Hub Group (transport, logistics/trucking) both highlighted tariffs as a contributing factor for weaker demand environments. Cabot and Hub Group have responded by increasing efficiencies/cost savings to help offset lower volumes, yet forward profits (and valuation) are positively correlated to volumes. It is worth noting that both companies have strong balance sheets and are generating free cashflow, which should enable them to navigate the current slowdown. With valuations at



the lower end of their respective peak/trough levels, we anticipate a recovery in share prices as trade fears recede.

Cambiar's elevated cash position also hampered upside participation as stocks rallied in May and June. While our team was active in sourcing investment opportunities throughout the quarter, the sharp rebound caused some candidates to move away vs. our attachment point. As opposed to engaging in a chasing exercise, we anticipate cash levels coming down as stocks are likely to consolidate in the coming weeks.

## LOOKING AHEAD

Stocks wrapped up the first half of 2025 at new all-time highs, a stark reversal from the risk-off environment that was in place during the first quarter. Similar to the COVID crash in 2020 and the market correction in September 2023, the recovery time for markets is speeding up, now spanning weeks versus what used to take months. The 'buy the dip' playbook continues to pay dividends.

Despite the bullish sentiment in the market, we believe a more balanced approach is appropriate, given lingering uncertainties regarding trade policy, heightened geopolitical tensions, and softening labor/economic data. The full effects of tariffs have yet to be fully felt in the U.S. economy; on this front, the upcoming earnings season will be an interesting indicator of how companies are coping with the shifting sands of trade policy. Large cap companies may be able to offset cost increases in other segments of their business, but will small and mid-sized firms have adequate financial depth to absorb potential price increases from tariffs?

The fiscal backdrop remains generally supportive for equities, as policy priorities have shifted away from DOGE and spending cuts to now prioritizing growth as the path to addressing the deficit. On the monetary front, the Fed has thus far resisted pressure from the White House to lower rates – choosing instead to maintain a wait and see position. We anticipate that Fed Chair Powell will attempt to reset the Fed's monetary policy framework at the Jackson Hole Economic Policy Symposium in late August, with the likelihood of one to two rate cuts in the back half of the year.

In considering how the second half of 2025 will unfold, a 'Curb Your Enthusiasm' approach may be one's best course of action. Given the euphoric run in equities

to close out the quarter, we would not be surprised if there were a consolidation period. A significant amount of good news is currently priced into the market, which could leave stocks vulnerable should elevated expectations not materialize as expected.

This is not to say that attractive investment opportunities do not exist below the surface, and the Cambiar team has been opportunistic in areas outside of the AI/tech craze. We remain focused on generating strong through-the-cycle returns via constructing diversified portfolios of high-quality businesses that are trading at reasonable valuations.

Thank you for 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:** 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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