CAMBIAR SMALL CAP VALUE COMMENTARY 3Q 2023

MARKET REVIEW

The U.S. equity markets incurred a modest drawdown in the third quarter, with the S&P 500 Index posting a return of -3.6%. After moving higher in July, stocks retreated in August and September, with the selling pressure accelerating into quarter-end (reinforcing September as the most difficult month for equities). Small cap stocks were similarly challenged in the quarter, evidenced by the -5.1% return for the Russell 2000 Index. Small cap stocks are on pace to once again trail their large cap counterparts in 2023, which would mark the sixth year out of the past seven…quite the relative performance drought for small caps.

The slide in stocks was a reaction function to changing market conditions that took place during the quarter; i.e., oil moved higher > stoking sticky inflation concerns > Fed reaffirms its focus on reducing inflation > yields jump > equity multiples move lower. Perhaps the yields higher/equities lower relationship was the real takeaway. Given bulging deficits, fiscal credibility is becoming a more relevant issue, and investors are demanding higher coupons in order to digest the massive supply of issuance. Market participants anticipating a return to the low-rate environment of yesteryear may be waiting for a while (and should also consider the recessionary pressures that would need to precipitate a sharp move lower in rates).

While still elevated vs. historical peak/trough levels, the one-year forward P/E multiple for the S&P 500 is now ~17.8x, incrementally more reasonable than the 19x range earlier in the year. Multiples within small cap equities have been more reasonable, although lower valuations did not offer much in the way of downside protection during the recent decline. One way Cambiar is thinking about attachment points during periods of valuation compression is to consider sector/industry multiples as a % of one's expected market multiple. For example, if banks typically trade at 50-60% of the market multiple, and the market ex-FAANGs trade at ~16.5x, a reasonable P/E valuation (in addition to Price/Tangible Book) for banks may be in the 8-10x range. Similarly, if high quality consumer franchises trade at 10-15% premiums to the broader market, a P/E of 17-19x may present an appropriate entry point. Some of the more favored sectors such as Technology can still hold high relative multiples, but reframing expectations to lower valuation levels is a necessary adjustment in light of a higher rate environment. There have been two distinct rounds of multiple expansion in recent years: the 2017-18 timeframe, and again in 2020-21. Yet real yields compressed to very low levels in both of these periods, catalyzing P/E expansion. As the opposite conditions are taking place now, it is imperative to make necessary attunements to entry/exit multiples.

SMALL CAP VALUE

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
HealthEquity Inc	2.21	0.32
Exelixis, Inc.	2.54	0.31
Texas Capital Bancshares	2.35	0.24
Gentex Corporation	2.22	0.22
Universal Display	2.31	0.22

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Perficient	0.78	-0.51
Forward Air Corp	0.96	-0.52
U.S. Physical Therapy	1.99	-0.53
Cerence	1.64	-0.57
Healthcare Services Group	1.68	-0.58

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.

	3Q 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value (gross)	-7.0%	0.9%	12.6%	10.7%	5.4%	6.2%	9.0%
Small Cap Value (net)	-7.2%	0.3%	11.7%	9.8%	4.5%	5.3%	8.0%
Russell 2000 Value	-3.0%	-0.5%	7.8%	13.3%	2.6%	6.2%	6.4%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

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The Cambiar Small Cap Value (SCV) strategy lost ground vs. the Russell 2000 Value Index in the quarter, while remaining ahead of the index on a year-to-date basis as well as over most rolling timeframes. The market backdrop was considerably more volatile than indicated by the full-quarter return, as stocks rallied sharply in July before selling off in August and September. For Cambiar, the bulk of the performance lag was sustained in July, as the portfolio's quality bias was able to provide a modest margin of safety when stocks retreated later in the quarter.

One by-product of the sharp rise in rates over the past 18 months has been a widening dispersion of returns at a sector and company level. Within the small cap value index, Financials, Healthcare, and the yield-proxy Utilities sector have all declined more than 10% in 2023. Meanwhile, the Industrials, Technology and Consumer Discretionary sectors have gained in excess of over 10% year-to-date. Energy has again been the big winner thus far in the year, with the sector gaining 22% in 2023 (almost all of the gain coming in 3Q).

At a company level, the gap between well-capitalized and highly leveraged businesses has similarly begun to widen. Corporate defaults are on the rise – another fallout of higher borrowing costs. Given the elevated number of non-earning 'zombie' companies that exist down cap, many of these businesses are likely to be severely handcuffed by the spike in interest costs when they attempt to access the debt market. One recent example of a company faced with higher funding costs is Mercer International, who recently issued a 5-year private bond offering at a coupon of 12.875%. As a point of reference, Mercer had a prior debt offering in 2021 with a coupon of 5.125%. We do not own this stock and have no opinion on their business. Yet consider the step up in interest expense that Mercer must now cover vs. a company who does not need to access the debt markets to fund their business. While less evident in the quarter, Cambiar continues to view our disciplined investment approach and preference for companies that possess strong balance sheets and persistent free cashflow to be particularly well-suited in the current environment of tightening liquidity and a high cost of capital.

Buy/sell activity was elevated in the quarter, consisting of six purchases and five sales. As is typically the case, there was no thematic underpinning to the names entering the portfolio; rather, the team continues to implement a stock-by-stock underwriting process. On the sales front, we had a combination of stocks hitting their price target (i.e., a good sale) as well as a few situations where the investment case was impacted by a negative development. IT services provider Perficient (Technology) is a good example here, as the company announced disappointing earnings and also communicated that their long-time (youngish) CEO would be transitioning out of the position. A soft earnings report is never ideal, but somewhat understood in light of the weaker macro environment. CEOs seldom depart at the top of a cycle – given our high opinion, his unexpected departure reduced our confidence and resulted in the decision to exit the position. While never the preferred outcome, not every investment will go our way. The goal is to be good at being wrong and preserving capital to the extent possible.

A good portion of the performance delta in the quarter can be attributed to sector positioning that was out of lockstep with the market. Examples include an overweight to Healthcare and Technology (both of which underperformed in 3Q), as well as a lower allocation to the top-performing Energy sector. Energy stocks rallied in response to higher oil prices and tightening inventories. OPEC's decision to extend production cuts into 2024 added further fuel to the up-move. Cambiar's current hesitation in adding more capital to the Energy sector stems from our preference to hold differentiated businesses in the SCV portfolio – which is more difficult to obtain in the energy stack. And while we have seen positive moves from management teams in the form of restrained capex budgets and higher capital return practices, there are still a number of leveraged businesses who will need to deal with higher financing costs and tighter lending conditions. We continue to monitor the sector for potential investment opportunities that will complement current portfolio exposures; however, we view the opportunity set for small cap energy companies that meet our quality/leverage criteria to be more limited vs. other areas of the market.

Mixed returns within Industrials comprised an additional detractor in the quarter. Representing ~20% of portfolio capital, the focus in Industrials is to build a portfolio within a portfolio – given the wide range of diffuse businesses and service providers that make up this sector. Although the portfolio did have a number of outperforming positions in the quarter, these gains were overshadowed by a handful of sharper drawdowns. Integrated freight/logistics provider Forward Air Corporation is one example, as the stock sold off after the company announced a large acquisition. The motivation to do a deal of this nature is questionable, as synergies are not immediately obvious and the multiple they are paying for this business is high. Thoughtful capital allocation is a critical element in our evaluation of management teams, and this move raised serious questions in that regard. Upon discussion, the position in Forward was liquidated and the sales proceeds were redeployed within the sector to Hub Group. Hub is a combination of intermodal, logistics/brokerage and dedicated truckload transportation assets. We have owned Hub on multiple occasions in the past, and welcomed the opportunity to re-attach to this high quality business.

Despite its more defensive tendencies (perhaps this view is more applicable to large caps), Healthcare was anything but defensive in the third quarter, with the sector lagging the broader small cap market by a wide margin. The more recent negative sentiment towards smaller cap healthcare companies can be attributed to a number of factors – uncertainty surrounding potential drug pricing, the impact of higher interest rates on funding for biotech, labor shortages, and slowing comps for utilization-rate sensitive equipment/supplies. Investors are also looking ahead to possible ripple effects from the weight loss drugs that have come to market – i.e., will their success result in reduced utilization in areas such as cardiovascular, diabetes, and sleep apnea? Cambiar has had a longstanding bias toward Healthcare in light of the unique intellectual property and diverse opportunity set that exists in the sector. For the quarter, the portfolio benefitted from above-benchmark stock selection resulting in an overall positive contribution to performance. Exelixis and HealthEquity were two individual bright spots in the quarter, as both stocks posted solid gains. While not being dismissive of longer-term shifts that may occur, we view the current overhang facing the sector to be largely transitory in nature. Ultimately, if we are correct in the earnings trajectory for our companies, the stock price should follow.

Banks and related financials managed to shrug off the selling pressure in the market and post a small positive gain in the quarter. Valuations within regional banks have become more attractive relative to historical levels; that said, an attractive upside case remains elusive. Headwinds include higher deposit costs, exposure to commercial real estate and constrained loan activity. And these conditions are in a relatively strong economy – the pressure on banks may only increase should a recession come to pass. While banks have some representation in the SCV portfolio, the balance of our exposure within Financials is in diversified insurers/reinsurers.

LOOKING AHEAD

The strength that the U.S. economy has exhibited in the face of higher rates has been a surprise thus far in 2023. That equities have moved higher in the face of a rising 10-year Treasury yield is a bit of a disconnect vs. history – i.e., equity valuations typically compress in the face of a higher cost of capital. Is this cycle different? Or is the lag simply longer vs. past cycles?

As we transition into the final three months of 2023, we view the Small Cap Value portfolio to be well-positioned for the current environment. The financial reality of a higher for longer cost of capital will be a difficult transition for many companies that have had an over-reliance on low rates. In contrast, Cambiar's bias towards businesses with strong balance sheets, persistent margins, and steady free cashflow should enable our holdings to sidestep funding concerns and focus on executing their business and growing market share.

We believe the current environment places a premium on price discovery and fundamental analysis, which in turn should favor active managers who can add value from both stock selection and abstention. This is particularly the case in the small cap space, given the varying quality of companies that make up the asset class. Our team remains focused on the consistent implementation of Cambiar's Quality | Price | Discipline approach at a company level, while portfolio construction efforts continue to emphasize balance and diversity of return drivers.

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 -7.00% (gross) and -7.18% (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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