CAMBIAR INVESTORS

CAMBIAR SMALL CAP VALUE COMMENTARY 3Q 2024

MARKET REVIEW

U.S. equities closed the third quarter at record highs, with the S&P 500 Index posting a 5.9% return. The market shrugged off what has historically been a more challenging period for equities, as investors bid up stocks in response to the Federal Reserve's move to lower rates in the September meeting. It was also encouraging to see the other 493 stocks in the S&P start to pull their weight, as the 9.6% return for the S&P 500 Equal Weighted Index bested the cap-weighted benchmark by a wide margin for the quarter. Small cap stocks also rebounded after a challenging 2Q, with the Russell 2000 Index posting a 9.3% return for the quarter. On a style basis, value stocks outpaced their growth counterparts for the period, but still have some ground to make up – as growth stocks continue to hold the upper hand for the year as well as over much of the past decade.

As expected, the Federal Reserve lowered rates at their September meeting. The only debate was one of magnitude, i.e., 25 or 50 bps. Was the decision to cut by 50 bps a veiled acknowledgment that they stayed too tight for too long? Looking ahead, the Fed stated that employment and inflation data will determine the pace and magnitude of future monetary policy normalization efforts while signaling for additional easing in their final two meetings of 2024 and continuing into 2025. An orderly path to lower rates seems appropriate, as inflation is nearing the 2% target and employment remains low in absolute terms.

BETTER TO TRAVEL THAN ARRIVE

While market participants are understandably upbeat by the prospects of a lower cost of capital, some caution about the forward path of equity returns may be warranted. To the extent that an inverted yield curve is closely linked with recessions, equity returns during the inversion period are typically positive. It is the un-inversion of the yield curve that brings with it the accompanying recession and increased market turbulence for equity investors. Granted, no two cycles are identical, and the current cycle has been even more unique with the inclusion of a global pandemic. The S&P 500 has an annualized return of 16% for the past five years, which includes the -18% drawdown in 2022. Any market pullbacks have been an opportunity to buy, as these dips have recovered to new highs. While above-trend equity gains may continue, one should guard against excessive complacency and continue to rebalance across asset classes as needed. Selectivity should also take on increased importance, and a value orientation may provide an additional tailwind to investors – given the outperformance of growth stocks in recent years. With no shortage of inputs to consider, Cambiar remains focused on constructing diversified portfolios that can perform double duty for our clients – i.e., participate in up markets while also providing a margin of safety in market drawdowns.

SMALL CAP VALUE

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Frontdoor	2.49	0.81
Atmus Filtration Technologies	2.22	0.61
Innovative Industrial Properties	2.48	0.56
Cabot Corporation	2.35	0.50
First American Financial	2.19	0.45

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Diodes	1.88	-0.19
Duckhorn Portfolio	1.16	-0.23
Gentex	2.05	-0.25
AMN Healthcare Services	1.63	-0.25
Rambus	1.65	-0.51

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.

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	3Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value (gross)	7.7%	6.0%	18.6%	4.7%	9.1%	7.1%	9.5%
Small Cap Value (net)	7.4%	5.3%	17.6%	3.8%	8.2%	6.1%	8.5%
Russell 2000 Value	10.2%	9.2%	25.9%	3.8%	9.3%	8.2%	7.3%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

The Cambiar Small Cap Value (SCV) strategy participated in the 3Q small cap rally, though not to the same magnitude as the benchmark. The relative performance shortfall was largely a function of the portfolio not keeping pace during the sharp up move in July, where the index gained over 12% for the month.

The surge in small cap stocks was in response to increased confidence that the Fed was poised to lower interest rates. The 'yields lower = equity multiples higher' relationship was a welcomed event for the stock market at large, but in particular for small cap companies which typically have a greater percentage of floating rate debt and should therefore be outsized beneficiaries of a lower cost of capital. Given our bias towards well-capitalized companies with strong balance sheets, the SCV portfolio did not incur the same degree of price gains vs. the index during July's risk-on rally. The overall performance objective is to deliver risk-adjusted excess returns over a longer arc via participating in up-markets and protecting capital during market drawdowns.

As the recent gains in small cap stocks highlight, attempting to time one's allocation to the asset class can be a tricky exercise. Despite their shorter-term outperformance vs. large caps, small cap returns continue to lag by a wide margin – could small cap leadership in 3Q be the beginning of a more persistent trend? We believe the Fed embarking on a rate-cut cycle could be an important catalyst to begin reversing the large caps > small caps relationship that has been in place. Strong earnings may be an additional inflection point for smaller cap companies, as the 'Mag 7' are poised to come up against difficult year-over-year comparisons, while the expectations bar is set fairly low for small caps. Given the more atomized nature of the small cap equity market, we continue to believe that thoughtful selectivity remains the cornerstone to generating outperformance over a market cycle.

In reviewing return drivers for the quarter, all sectors with the exception of Energy registered positive returns, illustrating the rising tide backdrop for equities. The downshift in interest rates boosted the more rate-sensitive sectors such as Real Estate, Utilities, and Financials.

Cambiar's low allocation to the lagging Energy sector was a value add in the quarter. Smaller cap energy companies are more sensitive to swings in underlying commodity prices (vs. large caps, which can have both upstream and downstream operations) – this elevated unpredictability is one reason for our limited allocation to the space. We continue to look for unique investment opportunities within Energy but are comfortable with our current positioning.

While our underweight Energy position was a positive in the quarter, Cambiar's lower exposure to the top-performing Real Estate and Financial sectors limited the strategy's upside participation vs. the index. It is worth noting that Cambiar registered positive stock selection in both sectors for the period; i.e., the performance lag was exclusively a function of allocation. On this note, Financials comprise ~28% of the index, vs. ~19% for the SCV portfolio. Given our 25% sector maximum, the portfolio will always have a lower weighting vs. the benchmark. The result may be a modest lag in narrow periods where Financials outperform; we are comfortable with this tradeoff in our pursuit of constructing a more diversified portfolio.

Additional positives in the quarter included strong gains from Cabot Corp. (Basic Materials) and Frontdoor (Consumer Discretionary). Chemical company Cabot provides the carbon black reinforcement agent that is found in tires and rubber tubing for mechanical use cases. The company also has a higher value add 'performance' segment that sells into the building and construction segment. While the stock has performed well in 2024, it has been accompanied by corresponding strength in fundamentals and earnings – warranting our continued investment in this well-managed business.

Home warranty provider Frontdoor moved higher in response to strong earnings and positive forward guidance. While the weaker real estate market remains a drag, Frontdoor has done a good job protecting gross margins via process improvements. The company remains attractively valued and a recovery in residential real estate activity that may come with lower rates would be an additional catalyst for further gains.

Although positive in the aggregate for the quarter, technology stocks trailed their more classic value counterparts for the period. The SCV portfolio was thus hampered by our higher allocation to Tech as well as lagging returns within the sector from Rambus and Diodes. Despite the short-term price action in semiconductor manufacturer Diodes, we believe the backdrop continues to improve – as the inventory backlog is poised to sunset and orders increase within certain endmarket segments. We believe similar green shoots are taking place for Rambus and their position in the DRAM (dynamic random access memory) market. Diodes and Rambus both have net cash balance sheets, which should provide an additional backstop as we wait for the cycle to turn in their favor.

Cambiar's higher allocation to Healthcare similarly weighed on relative performance in the quarter, as the sector registered a positive return, while trailing the returns in Utilities and Financials. In contrast to the big pharma players that comprise the large cap space, the smaller cap healthcare arena is a much more disparate universe of businesses that cover a wide array of products, services, and end-markets. Cambiar's performance within the sector remains uneven, as a strong return for in-home senior care provider InnovAge Holding Corp. was offset by pullbacks in AMN Healthcare (temporary nursing provider) and HealthEquity, which is the largest non-bank custodian of healthcare savings accounts (HSAs). We anticipate improving performance for AMN as the temporary nurse industry continues to normalize, while ongoing adoption of HSAs should provide an ongoing tailwind to HealthEquity.

LOOKING AHEAD

U.S. equities continue their year-long advance, bolstered by easing monetary policy and increased confidence in a soft landing for the economy. Thus far, the soft landing scenario is playing out – inflation has continued to trend downwards, with unemployment remaining low on a historical basis. Market breadth has also begun to strengthen, which could fuel additional gains.

While not at euphoric levels, investors' optimism towards corporate earnings is reflected via elevated market multiples, with the current one-year forward P/E for the S&P at 21.5x. Do valuations reflect economic reality, or are expectations overly bullish? Time will tell. It is worth noting that more reasonably-priced investment opportunities exist below the surface – this is where the Cambiar team is focusing our research efforts.

We acknowledge the supportive backdrop for the equity markets; that said, we are equally focused on potential risks at the company level and uncertainties such as the upcoming Presidential election, increased global geopolitical tensions, and an unsustainably high U.S. debt-to-GDP ratio. Equity markets do not appear to be priced for any of these uncertainties. Broad portfolio diversification, attentiveness to valuation, and the consistent implementation of Cambiar's Quality | Price | Discipline approach remain valuable risk mitigation tools.

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 7.09% (gross) and 6.89% (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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