

CAMBIAR SMALL CAP VALUE COMMENTARY 4Q 2022



MARKET REVIEW

U.S. equities reversed their downward trajectory and turned in a solid gain for the fourth quarter. The S&P 500 Index posted a 4Q return of 7.6%, while the small cap proxy Russell 2000 Index gained 6.2%. The move higher was largely a front-end loaded event, with stocks reacting positively to declining inflation data in October and November before pulling back in December as the Federal Reserve remained steadfast in their more restrictive stance on monetary policy. On a style basis, value again outperformed growth in the quarter – a trend that was in place for much of the year. Aggressive monetary policy in 2022 resulted in a challenging year for all risk assets, but it was a particularly painful period for growth stocks.

From a starting point of 0% to a year-end range of 4.25-4.50%, rate hikes over the course of 2022 effectively repriced the entire spectrum of financial assets. While there is no way to sugarcoat the -18.1% decline in the S&P 500 Index for 2022, it is worth noting that the S&P 500 had a 5-year cumulative return of 91.2% and was trading at an all-time high entering the year. Given the extended valuations assigned to many stocks, some giveback was largely a matter of time. As we progressed through the year, investor obsession on the potential for a Fed pivot only added to the volatility.

Inflation (and therefore monetary policy) was the dominant driver of returns in 2022. On this note, a quote from Milton Friedman rings true:

“Inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.”

Given the sharp deceleration in money supply (M2) during the second half of 2022, there should be a coincident decline in inflation over the course of 2023. While efforts to rein in demand via higher rates is starting to be seen in areas such as the housing market and used car prices, the Fed’s reaction function has shifted from inflation to the labor market – which remains tight. Having been slow to act in responding to rising inflation, fears are now growing that the Fed may be compounding matters by overstaying its welcome on the back end, particularly given signs of disinflationary forces beginning to take hold.

The path forward for equities will continue to be influenced by Fed policy, although we anticipate that corporate earnings will be a more relevant consideration in 2023. This latter driver is where the Cambiar team is spending its time. We continue to focus on self-funding businesses with reasonable valuations, strong balance sheets, and through-the-cycle free cashflow. We believe these attributes will continue to be a winning combination – regardless of the macro backdrop.

SMALL CAP VALUE

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Rambus Inc.	2.27	0.82
RenaissanceRe	2.31	0.72
Monarch Casino & Resort	2.25	0.70
Envestnet, Inc.	2.08	0.67
Johnson Outdoors	1.98	0.52

DETRACTORS

Bottom Five	Avg. Weights	Contribution
WNS Holdings	1.96	-0.04
Hain Celestial Group	1.18	-0.04
NuVasive	1.53	-0.11
James River Group	2.35	-0.18
PGT Innovations	2.33	-0.30

The Top 5/Bottom 5 chart provided is based on a representative account managed in the strategy. The contribution to return is applied to gross 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.

	4Q 2022	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value <small>(gross)</small>	11.5%	-8.0%	-8.0%	6.5%	6.9%	8.3%	9.4%
Small Cap Value <small>(net)</small>	11.3%	-8.7%	-8.7%	5.7%	6.0%	7.4%	8.3%
Russell 2000 Value	8.4%	-14.5%	-14.5%	4.7%	4.1%	8.5%	6.7%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

The Cambiar Small Cap Value (SCV) strategy ended 2022 on a high note, as the portfolio benefited from successful stock selection to outpace the Russell 2000 Value Index for the fourth quarter. Although unable to sidestep the drawdown in small cap stocks for the year, the SCV portfolio demonstrated strong downside protection in 2022 and remained ahead of the index over most rolling timeframes.

Elevated inflation levels and aggressive monetary policy made for a turbulent backdrop for risk assets in 2022, with the selling pressure more acute in high multiple 'concept stocks' where earnings/free cashflow are in the distant future. While continuing to operate from the mindset of continuous improvement, we were generally pleased with how the SCV portfolio fared in 2022. Given the downward pressure that permeated the small cap asset class for much of the year, Cambiar's bias towards companies with strong balance sheets and relatively stable profit margins assisted in providing a margin of safety vs. the index. The portfolio's strong up capture in 4Q further illustrates that Cambiar's Quality | Price | Discipline (QPD) approach can add value in a variety of market environments.

From a portfolio management perspective, the intent is for the power of compounding to work for our clients over a long-term arc. Protecting capital during market

drawdowns is a critical input to this objective, as it allows the portfolio to then operate from a higher base as conditions normalize. On this latter point, what is normal? One could (should?) argue that the current monetary backdrop is closer to normal vs. the ultra-low rate environment that has been in place for much of the post-GFC environment. Given the number of small cap 'zombie' companies that are unable to generate sufficient operating revenue to satisfy their debt obligations, managing one's business in a 4.5% Fed funds rate will be a more challenging endeavor. In contrast, companies that generate free cashflow to sustain their business (vs. reliance on the credit markets) should be in a much stronger position in the event liquidity conditions continue to tighten.

Buy/sell activity was light in the quarter, and there were no material changes to overall portfolio positioning. We liquidated our position in specialty chemical company Cabot Corp; Cabot had been a strong performer and thus offered a less attractive risk/reward – particularly given the company's heightened sensitivity to economic growth expectations. In aggregate, portfolio construction continues to emphasize broad diversification across and within sectors. The intent is to build a portfolio that can provide multiple shots on goal vs. dependence on a given macro outcome. The portfolio ended the quarter with a cash position of

~5%. Cash was a drag on performance in 4Q, although positive on a full year basis.

Cambiar's positive stock selection in 2022 was particularly evident in the healthcare sector; the sector was also a positive contributor to performance in the fourth quarter. The small cap healthcare sector is comprised of a wide array of companies – including unprofitable businesses such as early-stage biotechs. The SCV portfolio benefited from a preference for healthcare businesses that have demonstrated some combination of persistent stable/growing revenues, low leverage and are on a path toward positive free cashflow (if not already achieved). Representative holdings include outpatient/physical therapy clinic operator, medical supplies, and in-house senior care services.

Representing the largest sector allocation (~22%) in the SCV portfolio, Cambiar's holdings in the financials sector were an additional value-add – in the quarter as well as on a full-year basis. Reinsurance holdings such as Reinsurance Group of America (RGA) posted very strong returns in 2022, benefiting from a combination of stronger pricing and rising rates that translated into higher investment income. Despite the stock's recent march higher, RGA remains an attractive risk/reward – as the company continues to trade at a discount to book value despite ROE targets in the 10-12% range. While comprising a sizable allocation in the index, banks remain underrepresented in the SCV portfolio, largely a function of peaking net interest margins (deposit costs are rising faster) and the potential for lower loan growth as the economy slows. Although the market remains wary of rising credit losses in the event of a recession, we believe the portfolio's bank holdings are well-capitalized. Cambiar's diversification efforts also contributed to the lower exposure to banks; i.e., small cap banks are a relatively homogenous group vs. alternative opportunities that can provide more unique return drivers to the portfolio.

We were further encouraged by the 4Q rebound within the portfolio's technology holdings, although the gains were not enough to offset a challenging 2022 for the sector. Rambus and Envestnet were notable bright spots in the quarter, each returning over 30%, respectively. While the rise in rates triggered broad multiple compression in equities during 2022, valuations in the tech sector were particularly hard-hit. Despite the portfolio not having exposure to the more speculative areas of tech, company-specific headwinds contributed to drawdowns in positions such as Cerence and Cognyte Software – both of which weighed on performance during the year. Cognyte was sold upon

review in 2Q, while we continue to maintain a position in Cerence.

Cambiar's adherence to our Quality | Price | Discipline approach has led to a lower allocation to energy companies, given a history of inconsistent returns, low capital discipline and higher leverage ratios. Small cap energy stocks have generally had two speeds over the past few years – sharp gains to the upside or getting hammered to the downside. The sector was in overdrive for 2022, bolstered by the rise in oil and natural gas prices and more measured output gains (vs. prior cycles). Although the SCV portfolio has representation via a position in Magnolia Energy, the lower relative exposure to this top-performing sector was a drag on performance for the year. Looking ahead, commodities have tended to underperform in global recessions, given high price elasticity to small changes in supply/demand. Is this time different owing to inflation and geopolitical dynamics? We continue to monitor fundamentals in the sector but are comfortable with our current positioning.

LOOKING AHEAD

Suffice to say that investors are more than ready to turn the page on 2022. As we look ahead to the coming year, one can envision a range of outcomes for the equity markets. A growing consensus is calling for a retest of market lows in the first quarter, followed by a rally in the second half of the year as forward earnings are reset and monetary policy becomes more neutral. It is worth noting that back-to-back years of negative returns for the S&P 500 are highly unusual (only four previous occasions, dating back to 1928). Of course, this is not to suggest that we are in any way out of the woods as it relates to the prevailing market headwinds.

While acknowledging the current investor pessimism, one should consider to what extent concerns such as slowing economic growth and an elevated rate environment are reflected in lower equity valuations. Although uncomfortable in the moment, the sell-off in small cap equities results in a reasonable attachment point for investors with a multi-year time horizon. Selectivity remains paramount in this regard. As opposed to trying to time a market bottom, Cambiar believes that adherence to a longer-term asset allocation strategy is the more appropriate path. Waiting for the 'all clear' signal will likely result in missed gains, given the potential for equities to have already begun re-rating to the upside. As Peter Lynch once said, "Everyone has the brainpower to make money in stocks. Not everyone has the stomach."

The Cambiar team remains focused on identifying durable businesses that can execute their business plan regardless of the current environment. We remain biased towards companies with strong balance sheets, steady free cashflow and low leverage – as financial strength can enable these franchises to widen their competitive moats during periods of market stress. We also want to remain opportunistic to the extent our team can take advantage of outsized dislocations between valuations and normalized earnings that often take place within the small cap asset class. 2022 saw a wide dispersion of returns across and within sectors. Such an environment is almost certain to continue in 2023, resulting in a supportive backdrop for active management.

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 10.77% (gross) and 10.56% (net). The net fee 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.

A complete description of Cambiar's performance calculation methodology, including 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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