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CAMBIAR SMALL CAP VALUE COMMENTARY 4Q 2024

MARKET REVIEW

In like a lion, out like a lamb - U.S. equities turned in a mixed quarter to close out 2024. Stocks initially rallied in response to both the timeliness and outcome of the Presidential election, with investors cheering on the prospects of the incoming administration's pro-growth agenda. The positive sentiment subsequently reversed post-Thanksgiving, as higher yields along with heightened policy uncertainty prompted investors to lock in profits. The S&P 500 Index posted a 4Q gain of 2.4%, while the small cap Russell 2000 Index managed to eke out a 0.3% return.

In terms of equity leadership, the market returned to the mega-cap technology/AI investing playbook that has been in place for much of the past two years. The strong preference for growth stocks came at the expense of value equities, with the Russell 1000 Value Index posting a -2% decline for the quarter. Small cap value stocks (as represented by the Russell 2000 Value Index) were the big winners following the last Trump election win (index was up 14.1% in 4Q16), but actually lost ground (-1.1%) this time around.

The positive 4Q return caps another strong year of gains for the S&P 500, with the index posting a 25% return. This comes on the heels of a 26.3% return in 2023 – the first back-to-back years of +20% gains since 1998 (interesting parallel). The rally in stocks has been understandable, given a backdrop of above-trend productivity, low unemployment, robust economic growth, and accommodative monetary policy. Yet one needs to consider the 'pull forward' effect of stock gains that now embed a high degree of optimism about the economy and corporate earnings.

With a one-year forward P/E of 22x for the S&P 500 (vs. ~17x at the start of 2024), the result is a more challenging starting point (for the S&P 500 Index) as we move into 2025. Valuation itself is often a poor predictor of returns in the short run, and it is worth noting that multiples are more reasonable below the surface. Should current concentration trends in the mega-cap tech space reverse, active managers who have demonstrated the ability to add value via a combination of stock selection/prudent avoidance may be well-positioned to outperform passive options. A broadening of market participation should also be beneficial for the small cap/SMID cap asset classes – which have trailed their larger cap peers by a wide margin over the past ten years (although positive).

The risk on bias that paced the markets in 2024 was further illustrated via the proliferation of single-stock leveraged ETFs, zero date to expiration options, and cryptocurrencies. It is one thing for a somewhat established cryptocurrency such as Bitcoin to march higher, but newly-launched Fartcoin (we wish this was a joke) reached a market cap of $1 billion in the quarter. While Cambiar is not in the business of calling out market tops (or bottoms), the speculative excesses permeating certain pockets of the market are indicative of bubbly environments that do not end well.

SMALL CAP VALUE

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Duckhorn Portfolio	1.64	0.74
Sportradar	1.82	0.57
Exelixis	2.62	0.48
Globus Medical	2.90	0.32
HealthEquity	2.46	0.32

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Cabot Corp	2.42	-0.34
AMN Healthcare Services	0.91	-0.39
InnovAge Holding	1.46	-0.42
Universal Display	1.96	-0.53
Innovative Industrial Properties	2.21	-0.99

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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	4Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Small Cap Value (gross)	1.2%	7.2%	7.2%	3.7%	7.9%	6.8%	9.4%
Small Cap Value (net)	1.0%	6.3%	6.3%	2.8%	7.0%	5.9%	8.4%
Russell 2000 Value	-1.1%	8.1%	8.1%	1.9%	7.3%	7.1%	7.1%

Small Cap Value Composite Inception Date: 11.30.2004 / See Disclosure

Small cap value stocks posted a modest loss in the fourth quarter, as initial strength following the election gave way to profit-taking. Small cap stocks remain highly sensitive to the path of interest rates, such that the likelihood for reduced rate cuts in 2025 also weighed on the asset class.

The Cambiar Small Cap Value (SCV) strategy was able to overcome a weak market environment for small cap stocks to register a positive gain for the quarter. Performance was also positive on a full-year basis, although not to the same extent as the index.

In aggregate, small cap stocks continue to undergo significant neglect, as investors remain focused on large cap equities – more specifically the mega-cap growth/AI stocks that have comprised most of the market gains over the past two years. While there are food chain opportunities to participate in the AI theme down cap, most of these stocks are well outside of our valuation parameters. The parallel between the current environment and the dot-com era of the late 90s is hard to ignore. Small caps also lagged during that time, before outperforming in the 2000-2010 decade.

In reviewing aggregate return drivers in 2024, we believe the SCV portfolio held its own in a market environment that was less conducive to our Quality l Price l Discipline framework. This is evident when reviewing small cap performance through a factor lens. For 2024, the top factors driving returns were momentum, volatility, and beta; in contrast, profitability was a negative performing factor for the year. Given our bias towards profitable businesses and lower earnings variability vs. a ‘risk on’ market backdrop, it should be somewhat expected that Cambiar lagged for the period. The strategy’s return expectations have not changed – i.e., we seek to outperform through-the-cycle via participation in up markets (even if not to the same extent as the index) and protecting capital in down markets.

Despite the modest negative return for the index, sector performance was more varied in the quarter. Technology, Consumers Staples, and Financials each posted positive returns in 4Q, while Healthcare, Consumer Discretionary, and Real Estate lagged the broader small cap market for the period.

Within the SCV portfolio, stock selection within Consumer Discretionary was a bright spot – for both the quarter as well as on a full-year basis. Home warranty provider Frontdoor and data analytics company Sportradar were two individual outperformers in the quarter. Sportradar is a recent addition to the portfolio; the company aggregates data from over 400 sports leagues around the world and then packages this content to media partners and betting operators. We believe Sportradar is a unique business model and represents a compelling opportunity to indirectly participate in the growing sports gambling market.

Although the Trump win has largely been a positive catalyst for the equity markets, Healthcare stocks were an exception, as the sector closed lower for the quarter. Some portion of investor angst lies with the potential appointment of Robert F. Kennedy, Jr. as head of the Department of Health and Human Services. Mr. Kennedy’s past criticisms of healthcare policy, in tandem with a bipartisan focus on lowering costs, prompted investors to move to the sidelines. While unable to fully sidestep the weakness in the sector, Cambiar registered an aggregate positive return from our Healthcare positions in both the quarter and for the year. Looking ahead, we believe the varying uncertainties facing the healthcare space are reflected in low valuations. Given the low bar in place for many healthcare businesses, any upside in the way of earnings (or better-than-feared policy outcomes) could trigger a commensurate re-rating in the sector.

Detractors in the quarter included below-benchmark performance in Industrials and Technology, as well as our underweighting in Financials (one of the better-performing sectors in 4Q). Within the tech sector, Universal Display lost ground in response to a lowered earnings outlook; the company is dealing with a slowdown in demand patterns from some of its customers (e.g., Apple). Management views the current guide-down as a transitory issue, and new product innovations within the company’s IT and auto verticals remain on track. The stock has been a good performer

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for the portfolio in recent years; while inclined to remain patient, continued end market weakness will likely result in a reassessment of the investment case.

The SCV portfolio was also impacted by our investment in Innovative Industrial Properties (Real Estate), which sold off in response to non-payment from one of its largest tenants. While investors (including Cambiar) were disappointed by this unanticipated news, we view the negative price action in the stock to be excessive. Innovative has a number of options moving forward, and the default action could also be a negotiating tactic. The company is well-managed and in strong financial condition (albeit less so now). We continue to maintain our position, but are monitoring the situation. An announced resolution would clearly be well-received by investors.

As of year-end, the relative underperformance drought for small caps (Russell 2000) trailing large caps (S&P 500) reached its fourth consecutive year, and eight out of the past ten years. While returns have been positive in small cap, investors continue to chase outsized gains in large cap. Individual stocks such as Nvidia and Apple are now worth more than all of the companies that comprise the Russell 2000 Index(?). We are hesitant to offer a catalyst or timeframe to when this large cap > small cap trend will reverse, but view the seemingly abandonment of small cap stocks to result in what we view to be an attractive risk/reward opportunities for the asset class. The Cambiar team remains focused on identifying well-managed businesses that possess strong balance sheets, steady return profiles, and a differentiated product or service that provides a margin of pricing power.

LOOKING AHEAD

The past two years have been a rewarding period for equity investors, as market averages continued to march higher with low volatility. The Magnificent 7 cohort did a lot of the heavy lifting in 2024, benefiting from a positive flywheel of robust capex budgets, strong earnings growth, and strong price momentum. On a concentration basis, the top ten stocks in the S&P 500 now comprise approximately 38% of the index – one of the highest levels in history. Just as these names carried the index in recent years, any slippage can result in a proportionate impact on performance to the downside.

A key question is whether the upward trajectory for equities can continue into 2025, or are risk assets nearing the euphoric phase that typically coincides with the end of a bull market? This consideration is more relevant for U.S. large cap growth investors, as areas such as small/mid cap (and value) trade at much more reasonable valuations. Diversification has been less additive vs. keeping one's assets in the S&P 500 in recent years; that said, we believe broader participation beyond the ten largest U.S. stocks will be needed in order to maintain the upward trend in equities.

The rise in bond yields is another development that should be on the front burner for investors. While the impact on equities has been marginal thus far, the ~100 basis point rise in the benchmark 10-year Treasury yield since the Fed pivot began in September is a potentially worrisome divergence. The more elevated cost of capital is particularly relevant for smaller cap businesses, as this segment of the equity market is more exposed to floating rate debt.

The transition to a new calendar year brings with it no shortage of predictions – equity returns, Fed policy, budget deficits, and inflation. Cambiar's view on this prediction exercise harkens back to a Warren Buffet quote that the only value of stock forecasters is to make fortune tellers look good. Our in-house research efforts continue to focus on the underlying fundamentals of our companies and the associated risk/reward that is expressed in current valuations. Portfolio construction seeks to optimize our bottom-up research by building diversified portfolios that can both capture returns and manage risk. In seeking to consistently implement our Quality I Price I Discipline approach, we anticipate that the 'D' will take on increased importance in the coming year, given the potential for higher volatility.

We wish you a happy, healthy, and prosperous 2025! 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: For the quarter, the total portfolio return for the representative account was 0.88% (gross) and 0.69% (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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