

# CAMBIAR INTERNATIONAL EQUITY ADR COMMENTARY 1Q 2024





# MARKET REVIEW

International equities moved higher in the first quarter, continuing the broad-based rally in global equities that began last November. The MSCI EAFE Index gained 5.8% in the quarter, vs. returns of 10.6% for the S&P 500 Index and 2.4% for the MSCI Emerging Markets Index.

On an individual country basis, Japan was a notable outperformer in the quarter, as the Nikkei Index surpassed 40,000 for the first time. After a prolonged period of deflation/lowflation, the Japanese economy is experiencing a virtuous cycle of higher prices and higher wage growth. The uptick in inflation data has enabled the Bank of Japan to begin normalizing monetary policy and move away from negative interest rates. While additional time is needed to see if these conditions are more a byproduct of global pricing pressures vs. a persistent change in Japan, the backdrop thus far has been positive for Japanese equities.

The surge in global risk assets has been largely predicated on the expectations for central banks to ease interest rates lower as inflation levels retrace to the targeted 2% range. Thus far only the Swiss National Bank has lowered rates, while it is anticipated that the European Central Bank, Bank of England, and U.S. Federal Reserve are all poised to cut rates at some point in 2024. The timing and number of rate cuts remain murky, as inflation impulses persist (and has begun to inflect upwards in the U.S.).

In Cambiar's view, we are most likely in a "it's better to travel than arrive" stock market. As opposed to letting a given macro narrative guide decision-making, the Cambiar team continues to lean into businesses that meet our Quality | Price | Discipline philosophy and preferably operate in less crowded areas of the market.

## INTERNATIONAL EQUITY ADR

### CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Fuji Electric	2.10	1.00
UCB	2.19	0.79
Taiwan Semiconductor	2.50	0.71
Tokyo Electron	1.70	0.66
Mitsubishi Estate Co	2.29	0.65

### DETRACTORS

Bottom Five	Avg. Weights	Contribution
Roche	2.78	-0.31
PUMA	1.36	-0.34
Deutsche Post	2.50	-0.38
AIA Group	1.59	-0.40
RWE	1.84	-0.61

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.

	1Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
ADR (gross)	7.1%	7.1%	13.8%	0.8%	3.9%	3.3%	5.2%
ADR (net)	6.9%	6.9%	13.1%	0.2%	3.2%	2.6%	4.4%
MSCI EAFE	5.8%	5.8%	15.3%	4.8%	7.3%	4.8%	4.4%

International Equity ADR Composite Inception Date: 2.28.2006 / See Disclosure –Performance

The Cambiar International Equity ADR strategy posted a solid gain in the first quarter – on both an absolute basis and relative to the MSCI EAFE Index. The excess return was generated via positive stock selection across a number of sectors; Cambiar’s sizable allocation to the top-performing Japanese equity market was an additional tailwind.

The headline for international equities in the first quarter was Japan. Positive developments such as improved corporate governance and an increased focus on shareholder returns have been on the upswing in recent years, but are only more recently being reflected in higher equity valuations. Improved economic growth in China (an important trading partner for Japan) could provide an additional boost, while the move away from negative interest rate policy may attract domestic capital that had previously been allocated outside of Japan in search of higher-yielding investments. Cambiar’s increased investment in Japan over the past 18 months is more a by-product of assessing individual companies and related industry/competitive dynamics than attempting to make a top-down call.

Buy/sell activity in the quarter consisted of one new purchase and one liquidation, in addition to a number of trims and adds to existing positions. Cambiar initiated a new position in Infineon, which provides semiconductor solutions to a range of automotive and industrial end markets. The company’s leading market share position in the power semi space is translating into high returns on capital and strong free cashflow. On the sale side, Cambiar parted ways with catering/services provider Compass Group in the quarter, as the stock reached our internal price target. The team added to existing positions ING and Diageo, as we view both companies to represent attractive risk/reward opportunities. Diageo owns a number of recognizable spirits brands, and is more of a slow burn story vs. the current gold rush mentality in AI stocks. The company’s Latin America operations have been impacted by overstocking issues in recent quarters, which have weighed on the stock price. We believe these excess inventories are poised to normalize, while the demand environment across Diageo’s other regions remains encouraging.

Performance within the Industrials sector was a key driver to the portfolio’s outperformance in the quarter; Fuji Electric and Hitachi were two individual standouts. After divesting a number of lower margin businesses in recent years, Fuji Electric is now a more balanced company with an attractive mix of traditional industrial end markets, as well as exposure to growing areas such as semiconductors, data centers, and

renewables. Hitachi is similarly experiencing a lift to margins and returns after a corporate restructuring. While there is more work to be done on this front (the company’s earnings report is still comprised of 14 various subsegments), Hitachi’s more narrowed focus should be evident via higher ROE, which can then lead to additional multiple expansion. An improved balance sheet provides additional optionality via share buybacks. Given their outsized share price gains in 1Q, both positions were trimmed back to policy weight but remain high conviction holdings.

Additional value drivers in the quarter included Mitsubishi Estate (Real Estate) and UCB (Healthcare). Mitsubishi Estate has a diverse portfolio of tier-1 office buildings, nursing homes, and residential properties. Our investment thesis at purchase in August 2023 was based on a view the company was trading at an excessive discount vs. historical Price/Book valuation. The company has thus far been a strong performer for the portfolio, as rental market dynamics in Tokyo remain very strong (i.e., core vacancy rates in the 2% range) and Mitsubishi Estate raised guidance in their most recent earnings report. Shares in biopharma UCB rallied in response to positive earnings and improved investor optimism regarding the company’s ongoing launch of psoriasis drug bimekizumab (‘Bimi’) – which is a key underpinning to the investment case. UCB’s stock price has been a bit of a rollercoaster in recent years, as the delayed launch of Bimi in the U.S. created some volatility to earnings. With this headwind resolved, the market has gained increased confidence in the forward earnings power of UCB – thus the positive reaction in the stock price.

Cambiar’s holdings in Consumer Discretionary trailed the index in the quarter, resulting in a drag on relative performance for the period. Sony and Puma were notable laggards, as both stocks posted modest losses in the quarter. We view the pullback in Sony to be more of a ‘sell the news’ event, as the stock outperformed in 2023 and the company’s most recent earnings report met/exceeded consensus expectations. The drawdown in Puma was in response to an earnings guide-down, as Puma was negatively impacted by broader destocking as well as the company’s operations in Argentina incurring a somewhat unusual accounting adjustment due to the high inflation levels in the country. We view this latter issue to be a one-off event, while channel destocking within the industry should also be largely complete. More recent headwinds notwithstanding, we believe Puma continues to perform well in the aggregate – taking share from Adidas and Nike, while trading at a valuation discount to both companies.

Additional performance detractors in the quarter included cash drag (performance impact of ~29 bps) and below-benchmark performance from RWE in Utilities. RWE has been negatively impacted by the ~30% decline in European liquified natural gas (LNG) prices, which subsequently hampered results for RWE's trading and flexible generation businesses and resulted in lower overall earnings. While fluctuations in commodity prices may impact shorter-term results, we believe the overall investment thesis for RWE remains intact. The company's strong balance sheet and free cashflow enables RWE to continue investing in higher margin renewable generation assets that should be accretive to earnings over a longer arc.

## LOOKING AHEAD

After closing out 2023 on a high note, international equities have continued their upward trajectory thus far in 2024. While there are signs of excessive market exuberance within pockets of the U.S. equity markets, the international equity asset class continues to offer an attractive risk/reward for investors with a multi-year time horizon. As inflation continues to moderate from peak levels in Europe, the resulting tailwinds of easing monetary policy, higher economic growth, and improving corporate profits should provide a supportive environment for expanding valuations in non-U.S. equities.

Cambiar continues to anticipate a wide range of outcomes for international equities over the balance of the year, with market volatility likely to be amplified by over 50 national elections in 2024. The resulting backdrop should provide sufficient opportunity for active managers to add value via a combination of thoughtful stock-picking and abstention/selective avoidance. The Cambiar team continues to focus their efforts on wide-moat businesses that possess strong balance sheets, persistent profitability, and trade at a reasonable valuation relative to their forecasted earnings. We then marry this rigorous underwriting process at the company level with portfolio construction efforts that emphasize prudent balance and broad diversification 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 International Equity ADR 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 predominantly in foreign securities through American Depositary Receipts ("ADRs") and other securities which are traded on U.S. exchanges. Cambiar's International Equity ADR Composite primarily invests in stocks with a market capitalization greater than \$5 billion. The typical number of securities in the International Equity ADR portfolio is 40-50 holdings. As of April 2020, there is no minimum asset level for the composite. Prior to April 2020, the minimum asset level for the composite was \$100,000.

Prior to 2009 and for the periods of 2011 and forward, the composite's gross returns include accounts with gross and "pure" gross performance and are presented as supplemental information. From 2009 to 2010, 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 International Equity ADR Composite are evaluated against the MSCI EAFE Index. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted, market capitalization weighted index that is designed to measure developed market equity performance, excluding the U.S. & Canada. The index assumes no management, custody, transaction or other expenses. The MSCI EAFE 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 MSCI EAFE Index include the reinvestment of all income. Benchmark returns are net of withholding taxes. Prior to July 2019, Cambiar typically followed each custodian's treatment of tax withholding and therefore dividends may have been presented as gross or net of dividend tax withholding depending on the custodian's treatment. As of July 2019, Cambiar typically records dividends net of withholding taxes although it may depend on various factors such as the issue country and custodian's treatment. Withholding taxes may vary according to the investor's domicile, and other reasons.

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 7.04% (gross) and 6.88% (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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