

CAMBIAR SMALL CAP FUND COMMENTARY 1Q 2025



MARKET REVIEW

U.S. equities posted mixed returns in the first quarter, as heightened uncertainties regarding trade policy, sticky inflation data, and a retrenchment in government spending prompted investors to move to the sidelines. The S&P 500 Index registered a -4.3% return for the quarter, while the smaller cap Russell 2000 Index fell -9.5%.

On a style basis, growth stocks bore the brunt of the selling in the quarter, with the tech-heavy Nasdaq Composite logging its worst quarterly return (-10.4%) in three years. The quarter was a good reminder of what can happen when the momentum comes out of momentum stocks, as the AI trade that has buoyed markets stumbled hard over concerns of possible overinvestment and the launch of a lower cost AI model (DeepSeek).

The quarter saw a sharp reversal in sentiment, as optimism with regards to tax cuts, potential deregulation, and a more robust M&A environment subsequently gave way to growth-negative policies in the form of tariffs, reduced fiscal support, and tightening immigration. With a number of mega-cap growth stocks (that comprise a large weighting in passive indices) priced for perfection, the market was susceptible to a drawdown. While valuations don't necessarily convey what the future will bring, they do tell you what expectations are – in this regard, expectations were extremely elevated outside of more downtrodden areas such as the healthcare and consumer sectors.

Tariffs – Although not unexpected, the unveiling of tariffs has created a sharp air pocket in stocks, as the magnitude of the tariff hikes is causing corporations to pull back on investments and hiring. No one wins in a trade war, and the market must now adjust to a revised forecast of lower economic growth – with the potential for retaliatory actions by U.S. trade partners only adding to the uncertainty. The result is a widening distribution of economic outcomes and a corresponding widening distribution of equity return outcomes. Valuations will need to be recalibrated lower to account for the downshift in growth and murky economic outlook.

A more hands-off/passive approach may make sense during calm and upward trending periods; that said, active managers should be in a good position to adapt to the rapid change in market conditions. We believe that Cambiar's Quality | Price | Discipline framework is well-suited for the current environment, and our team's long tenure and expertise in covering their sectors are additional value-adds in making prudent capital allocation decisions.

SMALL CAP FUND

	1Q 2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception - Inv	Since Inception - Inst
CAMSX	-5.48%	-5.48%	-0.32%	0.59%	13.91%	4.60%	8.09%	-
CAMZX	-5.41%	-5.41%	-0.06%	0.81%	14.14%	4.80%	-	9.89%
R2000V	-7.74%	-7.74%	-3.12%	0.05%	15.31%	6.07%	7.23%	7.03%

*Inception Date: CAMSX (8.31.2004) | CAMZX (10.31.2008). All returns greater than one year are annualized. **The performance quoted represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost, and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, please call 1-866-777-8227.***

As of 3/31/25, expense ratios are CAMSX: 1.36% (gross); 1.15% (net) | CAMZX 1.11% (gross); 0.90% (net). Fee waivers are contractual and in effect until March 1, 2026. Absent these waivers, total return would be reduced. The Fund imposes a redemption fee of 2.00% on shares held less than 90 days. Your return will be lower if a redemption fee is applied to your account.

While unable to sidestep the decline in small cap equities during the quarter, the Cambiar Small Cap Fund was able to provide a margin of protection vs. the benchmark. Despite fairly muted investor interest in small cap equities, the portfolio has delivered strong annualized returns over the trailing 5-year period. Perhaps the transition of the MAG 7 to the LAG 7 will provide an uptick in sentiment toward the asset class.

After a strong post-election run in equities, investor priorities shifted from upside participation to loss aversion during the quarter. Although Cambiar's lower beta skew and focus on profitable businesses hampered relative performance in 2024's risk on environment, this same positioning should provide a margin of safety in periods of elevated market stress – which was the case in the first quarter.

Portfolio construction efforts continue to prioritize a prudent balance of varying exposures and associated return drivers across/within sectors. Trade activity was limited to incremental adds/trims to existing positions – there were no new buys/sells during the quarter. Given the more volatile market backdrop, our team remains on the lookout for opportunities to further high-grade the portfolio should quality businesses in our research library become unanchored vs. underlying fundamentals/normalized earnings. (Update: We have already made a few moves in early April).

Every sector, with the exception of Utilities, registered a negative return for the quarter, illustrating the broad-based nature of the drawdown. The pain was more acute in cyclically-sensitive areas such as Technology and Energy, while Financials, Real Estate, and Consumer Staples were relative outperformers.

The Small Cap Fund's excess return in the quarter was a function of positive stock selection, with the portfolio registering above-benchmark performance in Industrials, Energy, Healthcare, and Consumer Discretionary. Within Industrials, business services provider WNS Holdings rebounded in response to a positive earnings report and raised guidance. After incurring a more challenging earnings environment in 2024, WNS has indicated that IT service demand has begun to inflect higher, which should lead to more proposals/sales opportunities for the company. While not dismissive of the risks to the business (i.e., AI displacement), the upside potential in earnings (and possibly the multiple) warrants our continued investment in WNS.

Additional bright spots in the portfolio included Magnolia Oil and Gas (Energy) and Exelixis (Healthcare). Magnolia is a conservatively-managed oil and gas producer, with assets in the Eagle Ford basin (south Texas). The company has a track record of consistent production growth and steady free cashflow – the latter of which is used to fund share buybacks and dividends. While Magnolia's earnings are not immune to moves in commodity prices, the company's 'steady-Eddie' production approach, strong balance sheet, and shareholder-friendly capital return policies contribute to our continued ownership of this high-quality business.

The Healthcare space has generally been a target-rich environment for the Small Cap Fund over time, and our holdings in the sector were a positive contributor to performance in the quarter. While selectivity remains paramount, healthcare stocks should be somewhat buffered from the tariff concerns that are roiling other segments of the equity market. Specialty pharmaceutical Exelixis has been a notable bright spot for the portfolio – registering a strong gain in 2024 and moving higher in the first quarter. The boost in share price has been a combination of higher uptake in the market for their cancer drugs, as well as efforts to reduce R&D (resulting in higher earnings/free cashflow). Cabometyx is the company's top drug, with high market share in the bladder cancer market. After trimming the position during the quarter, our continued hold is a function of reasonable valuations, patent protection through 2029 for Cabometyx, and an interesting pipeline that could unlock additional upside.

Performance detractors in the quarter included our absence in Consumer Staples (one of the 'less bad' sectors), and a higher allocation to Technology – which struggled in the period. Food and beverage companies that comprise Consumer Staples typically are large cap companies – the sector only comprises ~2% of our small cap fund benchmark. So while we are not averse to participation in the sector, the opportunity set down cap is fairly limited.

The portfolio's struggles in the tech sector were primarily sustained by our semiconductor holdings – Diodes and Tower Semiconductor. Diodes continues to see a more sluggish demand environment in many of the company's key end markets (e.g., autos/industrials). The company has done a good job bringing down expenses, such that the resulting operating leverage should be a tailwind to earnings as visibility/demand improves. After representing the top individual contributor to portfolio performance in 2024, Tower

Semi pulled back in 1Q in response to a mixed earnings report. Similar to Diodes, Tower is still waiting for a recovery in their end markets (smart phones, consumer sensors, displays, autos). Yet Tower is benefiting from its exposure to AI, which continues to represent an attractive growth opportunity. With several of the company's traditional client segments in various stages of troughing/recovery, we believe the company is well-positioned to post a ramp in earnings in the back half of the year.

LOOKING AHEAD

As we entered 2025, small/mid-cap businesses were poised to benefit from a combination of a broadening profits cycle, lower cost of capital via ongoing rate cuts, and supportive economic growth. Yet thus far this optimistic outlook has been overshadowed by tariffs and related trade uncertainty which has had a negative impact on business confidence and equity valuations.

Market conditions are rapidly changing – such that the road forward will almost certainly be a bit bumpier vs. recent history. With ~58% of assets held in passive vehicles, stocks may be poised to exhibit the downside of indexation – i.e., similar to uptrends, indiscriminate liquidations pay no heed to price discovery. Smaller cap businesses may undergo further pressure – depending on business model, supply chains and associated margin pressures due to higher cost-of-goods-sold from tariffs.

The Cambiar team is reviewing portfolio exposures with a more discerning eye toward holdings that may be more vulnerable in a global slowdown (e.g., commodity stocks). While it has been some time, our tenured team has experience investing in adverse market environments. Above all, we remain focused on protecting client capital while taking advantage of potential market dislocations as asset markets seek to find some level of equilibrium in a backdrop of lower economic activity and reduced growth expectations.

Thank you for your continued confidence in Cambiar Investors.

IMPORTANT INFORMATION

To determine if a Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Fund's summary or full prospectus, which may be obtained by calling 1-866-777-7227 or by visiting our website at www.cambiar.com. Please read the prospectus carefully before investing.

Risk Disclosures

Mutual fund investing involves risk including loss of principal. The Fund pursues a "value style" of investing. If the Adviser's assessment of market conditions, or a company's value or prospects for meeting or exceeding earnings expectations is inaccurate, the Fund could suffer losses or produce poor performance relative to other funds or market benchmarks. In addition, "value stocks" can continue to be undervalued by the market for long periods of time, and may never achieve the Adviser's expected valuation." In addition to the normal risks associated with investing, investments in small companies typically exhibit higher volatility. A company may reduce or eliminate its dividend, causing losses to the fund. There is no guarantee the fund will achieve its stated objective. Diversification does not protect against market loss. High short-term performance of the fund is unusual and investors should not expect such performance to be repeated.

The Russell 2000® Value Index measures the performance of those Russell 2000® companies with 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 S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index, with each stock's weight in the Index proportionate to its market value. The Nasdaq 100 is a stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.

As of 3.31.25, the Cambiar Small Cap Fund had a 1.5% weighting in Diodes, 2.3% in Exelixis, 3.0% in Magnolia Oil and Gas, 1.8% in Tower Semiconductor, and 2.3% in WNS Holdings. Current and future holdings subject to risk.

This material represents the portfolio manager's opinion and is an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice or a specific recommendation of securities. There is no guarantee that any forecasts made will come to pass.

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