

CAMBIAR SMID VALUE COMMENTARY 4Q 2025



MARKET REVIEW

U.S. equities closed out 2025 on a high note, with market averages notching their third consecutive quarter of positive returns. After a slow start to the year, stocks were on an upward trajectory for the remainder of 2025, as the S&P 500 Index closed just shy of all-time highs with a full-year return of 17.9% (including a 2.7% gain in the fourth quarter).

The fourth quarter saw a reversal in the growth > value trade, as traditional value sectors such as Healthcare and Financials performed well while the Mag7 cohort largely lagged (with Alphabet an upside exception). Small cap stocks (as represented by the Russell 2000) trailed their larger cap counterparts for the year, while still posting a respectable gain of 12.8% in 2025 (2.2% return in 4Q).

We entered 2025 at elevated valuations, with the S&P 500 trading at ~22x P/E (one-year forward). Yet except for the Deepseek moment in January and the tariff tantrum in April, the rise in equities was virtually unabated over the course of the year. The S&P 500 is now trading at ~24x – again, a lofty starting point entering the new year. Whether the market can continue to surprise to the upside or give way to financial gravity is a key question for 2026.

AN IMPRESSIVE RUN FOR THE S&P 500 INDEX

Since 1957, the S&P 500's average annual return has been 10.5%. The 17% return for the index in 2025 marks the third consecutive year (and six out of the past seven) of above-normal returns. Investors have understandably come to expect double-digit gains as the norm rather than the exception.

Yet to what extent are these outsized returns a pull-forward phenomenon – such that future returns are bound to disappoint? Given valuations, aggregate index gains from current levels will likely be more a function of earnings growth vs. multiple expansion. A reasonable forecast may be range-bound returns for the index, while more opportunities exist below the surface...an attractive backdrop for active management.

While the Cambiar team's primary focus is at the company level, we monitor macro trends to the extent they can affect the investment case. Within the U.S. economy, cracks are appearing. Discretionary spending has remained relatively steady, led by the top 10% of consumers (i.e., asset owners), who account for ~49% of consumption. Meanwhile, the middle/lower

end consumers at the bottom of the 'k' are becoming increasingly stretched – i.e., high credit card balances, utilization of buy now/pay later (BNPL) programs, and subprime auto loan delinquencies at the highest levels since 2008. Rising unemployment is likely to amplify these pressures, while stimulus from the OBBA in the form of higher tax refunds may provide some relief. In the corporate sector, bankruptcies spiked in 2025, highlighting the growing financial pressure amid a still-elevated borrowing environment. The divergence between Wall Street and Main Street appears to be widening.

A comment on the AI trade, as this has been a key upward driver for equities. For much of the past few years, the market has priced in a near-flawless AI future, with almost all market participants tied to AI seeing stock price appreciation. Sentiment is now beginning to shift among tech leaders, as investors become more scrutinizing as the cycle matures. Within the Mag7, only two out of the seven outperformed the S&P in 2025 (Alphabet and Nvidia). While capital spending on data centers and related investments is expected to remain robust, the associated impact on corporate balance sheets is giving investors pause. After indiscriminately bidding up companies across the AI stack, the market is now more discerning, seeking greater clarity on how/when today's investments will translate into future financial returns. Given the increased use of debt to finance AI capex plans, any tightening of credit conditions would be another cautionary signal.

SMID VALUE

	4Q 2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
SMID Value <small>(gross)</small>	1.4%	0.5%	0.5%	4.3%	6.0%	10.0%	11.8%
SMID Value <small>(net)</small>	1.2%	-0.1%	-0.1%	3.7%	5.3%	9.3%	11.1%
Russell 2500 Value	3.2%	12.7%	12.7%	13.2%	10.0%	9.7%	10.5%

SMID Value Composite Inception Date: 7.31.2010 / See Disclosure – Performance

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Globus Medical	2.86	1.34
Tower Semiconductor	2.44	1.11
J.B. Hunt	2.57	0.95
Waters Corp	2.42	0.59
Align Technology	2.54	0.56

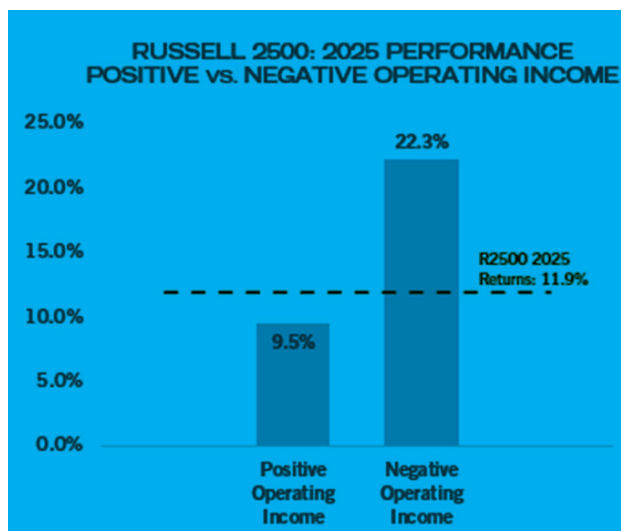
DETRACTORS

Bottom Five	Avg. Weights	Contribution
Molina Healthcare	0.56	-0.34
ACV Auctions,	1.52	-0.39
Gentex Corp	2.76	-0.57
Phreesia	2.20	-0.62
Lamb Weston	2.22	-0.66

The Top 5/Bottom 5 chart provided is based on a representative account managed in the strategy and is derived from the account's gross performance which does not reflect the deduction of all fees and expenses that a client or investor would have paid. Please refer to the composite gross and net performance to understand the overall effect of fees. See Disclosure – Top 5/Bottom 5 Chart for more information.

The Cambiar SMID Value portfolio moved higher in the fourth quarter, while falling short of the Russell 2500 Value Index. The quarter closed out a challenging 2025 for the strategy, as Cambiar's quality bias and valuation sensitivity were out of lockstep with a market that prioritized upside via higher-beta, momentum stocks – many of which do not meet our investment criteria.

In the vein of 'a picture is worth a thousand words', we believe the chart below helps to frame the investment backdrop for 2025. In theory, companies that deliver persistent earnings and free cashflow should be rewarded with higher valuations; yet in 2025 it was the opposite, as small-mid companies with negative income outperformed by a wide margin:



Source: Factset

The market environment in 2025 has many parallels to 2021 – another speculative period (e.g., meme stocks) where key driving factors (beta, momentum, valuation) moved counter to our Quality | Price | Discipline investment framework. Both 2021 and 2025 had a clear 'risk on' bias, with investors chasing thematic stocks with little regard to valuation, earnings or even the underlying feasibility of the business.

It is worth highlighting that the SMID portfolio's quality approach was effective in protecting capital during the market drawdown in the first quarter. The bulk of the performance lag for the year occurred during the ensuing rally in the second and third quarters. And while less evident on a return basis, the portfolio began to 'act' much better in the fourth quarter – a combination of a broadening market, proactive changes made in the portfolio, and rebounding performance from a number of oversold positions such as Align Technologies (Healthcare) and J.B. Hunt (Industrials). We realize that the portfolio is in a clear 'show me' mode with our clients – but believe the SMID strategy is in good position as we transition to 2026.

Portfolio construction remains an exercise in selectivity, balance, and varying return drivers. While sensitive to more lofty valuations in certain pockets of the equity market, we continue to maintain a robust library of investment candidates that meet our Quality | Price | Discipline criteria. Our team was active in the quarter, with trade activity consisting of four new purchases and two liquidations.

The Healthcare sector has traditionally been a target-rich sector for the SMID portfolio – given diverse business models, relatively acyclical demand patterns, and reasonable valuations. One representative purchase in the quarter was The Cooper Companies (COO). Cooper Companies is a medical device company, deriving ~65% of revenues from contact lenses and the balance from women's health products. A favorable aspect of Cooper's lenses business is that the average contact wearer is brand loyal for seven years, which gives the company a predictable cadence of revenues. Sales have slowed in recent quarters due to capacity constraints of Cooper's MyDay disposable lenses. The expansion in capacity (now complete) also hampered free cashflow. Our investment thesis is primarily based on the anticipated reacceleration of growth in the lens business, which should provide a catalyst for an upward re-rating in valuation. An additional positive (although not necessary) would be a potential split of the company's vision and women's health businesses.

In reviewing index sector returns for the quarter, Healthcare was a standout performer; Cambiar's overweight allocation vs. the benchmark (17% vs. 8%) was thus a positive contributor to performance in 4Q. In contrast, rate-sensitive sectors such as Real Estate and Utilities trailed the broader small-mid market for the quarter. In what was a familiar theme (for both the quarter and the year), the Technology sector was again a positive performer. The portfolio benefited from a

modest overweight to Tech, although our holdings in the sector trailed the benchmark during the quarter.

Comprising ~22% of portfolio capital as of year-end, Financials is the largest sector allocation in the SMID portfolio. While cognizant of the positive correlations within the sector, we attempt to diversify our exposure via line of business – regional banks, payments, insurance, an exchange, and an investment bank. Aggregate sector performance lagged the index for the quarter, as gains from Webster Financial and BOK Financial were overshadowed by drawdowns in non-bank holdings Euronet, Fidelity National, and Lazard. Assuming no material deterioration in economic growth expectations, we believe financials in general (and banks more specifically) continue to offer an attractive risk/reward. Sector tailwinds include a steepening yield curve and increased capital market activity. A less onerous regulatory environment could also spur higher merger activity vs. the weaker M&A environment in recent years.

Security selection within Industrials comprised the biggest drag on relative performance in the year, as positions in Masco, WillScot Holdings, and ACV Auctions all incurred pullbacks of varying magnitudes (vs. a positive return for the overall sector). The resultant sell-offs in WillScot and ACV in particular create what we view to be a potentially asymmetric return opportunity for both positions – should industry conditions in their respective industries (WillScot provides modular office/storage for construction sites, ACV is a leader in wholesale car auctions) normalize as anticipated.

We are disappointed that the SMID strategy did not do a better job participating in the 2025 up market; that said, we also recognize that the dynamics driving the index returns for the period were inconsistent with our lower-beta, quality-focused investment approach. To be clear, there were areas where our team could have executed better; on this note, we believe the necessary changes have been made. The fourth quarter marked a modest downshift in investor exuberance towards all things AI, with capital rotating into traditional value sectors such as Healthcare and Financials. A continuation of this trend should be a positive for the SMID portfolio – with many of our businesses trading at valuations that result in compelling return opportunities should we see an improvement in fundamentals and earnings.

LOOKING AHEAD

The S&P 500 has now returned 15+% returns for three consecutive years – an impressive feat that has only taken place twice over the past fifty years (the mid/late 90s and the 2019-21 timeframe). Given behavioral biases that lead to extrapolation of current trends (rather than mean-reversion thinking), the path of least resistance for equities remains to the upside. A recent Bloomberg survey showed that Wall Street strategists are uniformly optimistic about 2026, with an average outlook for a 9% gain for the S&P 500. While hesitant to make any sweeping forecast for overall market returns, we believe the return potential for value stocks is attractive in the coming year. The fourth quarter saw a shift in leadership to value – let's see if it can continue.

As we enter 2026, there is no shortage of big-picture questions to ponder: Can massive AI capex translate into productivity gains as expected? How will a new Fed Chair impact the term structure for bond yields? What will it take for small caps to outperform? What is the outlook for inflation and the jobs market? With so many cross-currents to consider, a quote from broadcast journalist Edward Murrow comes to mind: "Anyone who isn't confused really doesn't understand the situation".

The above questions make for thought-provoking conversations, but are not overly top-of-mind considerations for the Cambiar team. In large part, we believe that stock prices follow earnings; as such, our efforts are more focused on getting the earnings right for our companies.

Cambiar's outlook is best described as cautiously optimistic, with a strong dose of selectivity. We continue to seek out well-managed companies that possess strong balance sheets, steady margin/return profiles, and durable competitive advantages. We then want to buy these great businesses at a great price; i.e., valuation remains a paramount input to the buy decision. Lastly, we want to hold these 35-40 high conviction positions in a diversified portfolio that balances opportunity/upside with prudent diversification and risk management.

On behalf of everyone at Cambiar Investors, we want to wish you a Happy New Year! May 2026 be filled with health and prosperity.

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For the periods of 2013 and forward, the composite's gross returns include accounts with gross and "pure" gross performance and are presented as supplemental information. From 2010 to 2012, 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 SMID Value Composite are evaluated against the Russell 2500™ Value Index. The Russell 2500 Value Index is a float-adjusted, market capitalization weighted index comprised of firms in the Russell 2500™ Index that experience lower price-to-book ratios and lower forecasted growth values. The Russell 2500 Index is a float-adjusted, market capitalization weighted index that measures the performance of the 2,500 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 2500 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 2500 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: The quarterly contributors and detractors are based on the gross performance of a representative account in the strategy composite. 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. Please refer to the net performance of the composite 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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