



CAMBIAR INVESTORS

## CAMBIAR MARKET COMMENTARY: LARGE CAP VALUE & SMALL CAP VALUE

### Overview

As was the case in 2008, the market's path of least resistance during the first quarter of 2009 was to the downside. The epicenter of the sell-off continued to be the banking segment, as nationalization talks stoked fears of a systemic collapse. The market retested lows set last November, although the selling was less indiscriminate this time around. A combination of oversold conditions and short covering produced a late-quarter rally that helped to recoup some of the losses; however, domestic equities (as noted by the S&P 500) posted its six consecutive quarter of negative returns. At the asset class level, large cap stocks outperformed small cap issues, while growth stocks held up better than their value counterparts.

As we continue to navigate the current market environment, the primary investment theme that Cambiar is emphasizing across all of our portfolios is one of survivorship; it is evident that some companies will not make it through the current economic downturn, or will emerge – but with a deeply impaired business model. Cambiar's continued focus on companies that have the balance sheet strength, competitive advantage and relatively inelastic endmarket demand have enabled our clients to sidestep a number of well-known value traps. Furthermore, we believe the portfolios will be in good position to outperform as business conditions improve.

### Cambiar Large Cap Value Portfolio Review

Given that nine out of ten sectors in the value benchmark posted a negative return for the quarter (Technology was the sole exception), performance quickly became a matter of 'less bad'. To that extent, the Cambiar Large Cap Value Composite (Institutional) delivered a relatively strong quarter, with the Composite returning -9.0% (gross of fees\*), vs. -16.8% for the Russell 1000 Value Index and -10.9% for the S&P 500.

Selling pressure was greatest in Financials and Industrials; not coincidentally, these sectors are most closely correlated to the credit crisis. Cambiar's

significant underweight exposures to both sectors were meaningful sources of outperformance in the quarter. We continued to eschew the banks due to ongoing uncertainty surrounding the regulatory environment, credit quality and capital requirements. As it pertains to Industrials, the debate continues on whether valuations are at or getting close to a bottom for these companies. While conditions may be improving on a second derivative basis (i.e., no further step-down in activity levels as of late), client demand remains anemic – resulting in our decision to step aside until we see a more pronounced improvement in fundamentals.

Cambiar's overweight Technology position was another positive contributor to performance. Our exposure in Tech continues to be focused on high quality companies that are in position to take market share from their weaker competitors. Strong balance sheets and recurring revenue streams are additional attributes that have enabled this sector to hold up well thus far in 2009.

Energy was another relative value add during the quarter; backed by strengthening oil prices, the Energy sector was another safe haven during 1Q. Although global energy demand remains weak, the supply cuts by OPEC appear to have put a floor under prices. And at current price levels, the industry has little incentive to spend on new production growth projects, providing further price support. These factors, combined with a generous dividend policy for many of our holdings, contribute to our continued conviction within the energy patch. Energy continues to represent the largest sector in the LCV portfolio, with capital allocated across various major integrations, exploration and production (E&P) companies and energy services.

## Cambiar Small Cap Value Portfolio Review

The Cambiar Small Cap Value portfolio posted a 1Q return of -6.6% (gross of fees\*\*). Although negative in absolute terms, the portfolio materially outperformed the Russell 2000 Value and Russell 2000 Indices, which returned -19.6% and -15.0%, respectively. The portfolio achieved positive security selection in seven of nine sectors in which it was invested, illustrating the broad-based nature of the outperformance. A higher cash balance (~5-8% on average) also helped to protect capital. While not trying to 'time the market', the Cambiar team has erred on the side of prudence as it pertains to position management in the current bear market.

At the sector level, Cambiar's Technology holdings provided the largest source of outperformance. A number of the portfolio's semiconductor positions benefited from a restocking phenomenon that occurred during the quarter; i.e., many companies had depleted their inventories during the product slowdown that occurred in 4Q08, thus resulting in stronger orders once it became apparent that consumer demand was still reasonably healthy. Despite their higher beta profile, all of the portfolio's Tech companies have net cash positions, no unfunded liabilities and low regulatory risk – attractive characteristics in the current market environment.

Health Care was another notable contributor to performance, with a number of Cambiar's holdings bucking the market's downward trend and posting a positive return for the quarter. Health Care remains the largest active overweight in the portfolio, although we took advantage of the sector's relative strength to sell/trim some of our positions during the quarter. In general, Cambiar's Health Care exposure is comprised of companies that have unique value-add stories that should continue to develop regardless of the current macroeconomic climate.

Financials and Industrials were the poorest-performing sectors in the benchmark during the quarter. Cambiar's underweight allocations to these sectors, as well as relative outperformance on a stock selection basis, were additional positive contributors for the portfolio. While continuing to avoid regional banks, the investment team has identified alternative investment opportunities within financials; examples include insurance/reinsurance, asset management and debt collection services. The portfolio's exposure to Industrials is primarily concentrated in niche companies whose client base remains relatively healthy and intact.

Smaller allocations to Basic Materials and Consumer Discretionary had modest positive impacts on performance, while Cambiar's limited exposure to the more defensive Consumer Staples sector was a small detractor to performance.

## Looking Ahead

It is too soon to tell if the stock market advance in March is the beginning of a longer uptrend or a bear-market rally. Although the future remains unclear, there have been signs that the market may be less bad (positive may be a stretch at this point) than the current consensus. Examples include a positive sloping yield curve, sequentially improving retail sales and improving market breadth. Whether these signs translate into sustainable recovery at the stock level remains to be seen.

At the portfolio level, the Cambiar team continues to focus on the company-specific outlook for our holdings. We await the time when companies will once again trade on fundamentals and business prospects, vs. the latest talk from Capitol Hill.

As always, we appreciate your continued confidence in Cambiar Investors.

\* The performance information depicted above represents the Cambiar Large Cap Value (Institutional) Composite. Returns are presented gross of management fees, net of transaction costs, and include the reinvestment of all income. Actual returns will be reduced by management fees. The client is referred to Cambiar's Part II of Form ADV for a full disclosure of the fee schedule. As fees are deducted quarterly, compounding increases the impact of the fees by an amount directly related to the gross account performance. For example, an investment of \$10,000 on 1/1/2008 would have resulted in \$6,192 on a gross of fees basis and \$6,165 on a net of fees basis at 12/31/2008 based upon the actual returns earned in the Cambiar Large Cap Value Composite (Institutional). The Russell 1000 Value Index is a market capitalization weighted index which contains securities from the Russell 1000 Index with a less than average growth orientation. The S&P 500 Index is shown to reflect general market conditions. The S&P 500 is a market capitalization-weighted index of 500 publicly traded stocks. Both the S&P 500 and the Russell 1000 Value Index are broadly based indices which reflect the overall market performance and comparisons may not reflect Cambiar's performance as compared to the performance of other investment advisors. These stock indexes assume reinvestment of dividends and capital gains, and assume no management, custody, transaction or other expenses. Cambiar's past results do not necessarily indicate Cambiar's future performance and, as is the case with all investment advisors who concentrate on equity investments, Cambiar's future performance may result in a loss. 1Q 2009 Performance Cambiar Large Cap Value (Institutional) Composite: -9.0% (gross); -9.1% (net).

\*\* The performance information depicted above represents Cambiar's Small Cap Equity Composite. Returns are presented gross of management fees, net of transaction costs, and include the reinvestment of all income. Actual returns will be reduced by management fees. The client is referred to Cambiar's Part II of Form ADV for a full disclosure of the fee schedule. As fees are deducted quarterly, compounding increases the impact of the fees by an amount directly related to the gross account performance. For example, an investment of \$10,000 on 01/01/2008 would have grown to \$6,441 on a gross-of-fees basis and \$6,365 on a net-of-fees basis on 12/31/2008 based upon the actual returns earned in the composite. Cambiar's performance, the performance of the Russell 2000 Value benchmark and the Russell 2000 shown above include the reinvestment of all income. 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 measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 17% of the total market of the Russell 3000 Index. Cambiar's past results do not necessarily indicate Cambiar's future performance and, as is the case with all investment advisors who concentrate on equity investments, Cambiar's future performance may result in a loss. This report is for use in one-on-one client presentations only. Please refer to Appendix A of this presentation for a detailed explanation of performance. 1Q 2009 Performance Cambiar Small Cap Value Composite: -6.6% (gross); -6.9% (net).