



CAMBIAR INVESTORS

CAMBIAR MARKET COMMENTARY: LARGE CAP VALUE & SMALL CAP VALUE

Overview

Equity markets rallied sharply in the second quarter; the strong up-move can be attributed to a growing sense of stabilization in the broader economy. Contributing factors included a relatively uneventful outcome of the stress test in the banks, as well as a second derivative ('less bad') uptick in a number of economic indicators. For the quarter, the majority of equity gains were garnered in April; May also finished in the black, while the markets took a breather in June. The advance in equities was broad-based in nature, with little differentiation between value and growth. The only notable bias was at the market cap level, where smaller companies as a group experienced a sharper surge than their large cap counterparts.

The markets truly climbed a wall of worry in 2Q; while previous quarters were marked by a 'sell first, ask questions later' mentality, equity investors willingly looked past continuing troublesome headlines and focused on imminent (perceived or actual) improvement. So where does the market go from here? One would argue that the underlying fundamentals for a wide swath of businesses did not improve enough to corroborate the sharp rise in their stock prices – thus the end of quarter stall. It is Cambiar's view that the market will likely enter a period of consolidation, and that the next move up will be largely driven by earnings growth and future guidance.

The Cambiar Large Cap Value and Small Cap Value strategies have both performed strongly in 2009, on both an absolute and relative basis. Clients have benefited from our willingness to take a number of nonconsensus views at the sector and macroeconomic level, as well as strong security selection across both portfolios.

Cambiar Large Cap Value Portfolio Review

A rising tide lifts all boats, and the Cambiar Large Cap Value portfolio was no exception; Cambiar posted a 21.9% return (gross of fees*) for the second quarter, vs. 16.7% for the Russell 1000 Value Index and 16.0% for the S&P 500. On a year-to-date basis, Cambiar has returned 10.9% (gross of fees*), vs. -2.9% and 3.2% for the Russell 1000 Value and S&P 500, respectively.

At a high level, Cambiar's pro-cyclical bias and relative overweight allocation to the lower end of the large capitalization spectrum were positive contributors to performance. Within individual sectors, Cambiar's Energy positions provided the largest value-add for the quarter. Although Energy as a sector was a relative laggard in the benchmark for 2Q, Cambiar's holdings, particularly the early-cycle services companies, were strong outperformers. We did trim a number of our Energy holdings into strength during the quarter; however, the portfolio's capital allocation reflects our longer-term positive outlook for this sector.

The Technology sector was another strong performer for the quarter; Cambiar's overweight Tech exposure, coupled with strong stock performance within the sector, resulted in a positive contributor to performance. Our Tech positions are concentrated in best-of-breed companies that possess both attractive valuations and strong margin expansion potential – a powerful combination in what may be a somewhat muted return environment for stocks in general.

As investors increased their appetite for risk in the quarter, the preference for beta came at the expense of the more defensive sectors such as Telecom, Utilities and Consumer Staples. Although Cambiar's lower exposure to Telecom and Utilities has been a fundamentally-driven decision, the portfolio's underweight was another positive contributor to performance. And while Cambiar's overweight position in Consumer Staples was a slight negative on an allocation basis, this detractor was more than offset by stronger stock selection in the sector.

Cambiar's lower allocation to Financials (particularly the banks) was the primary negative contributor to performance in the quarter. Given the magnitude of the sell-off that occurred within this sector in 1Q, it is not all that surprising that this sector had the sharpest revaluation when the market stabilized in 2Q. While recognizing that factors such as a steepening yield curve and larger capital base are incremental positives for banks, our view is that these companies still face a number of headwinds (regulatory, credit quality and macro). And on a valuation basis, any of the aforementioned positives appear to be more than priced in by the market.

Cambiar Small Cap Value Portfolio Review

Small cap stocks incurred a sharp rally in the second quarter, providing a boost for the Cambiar Small Cap Value portfolio. Cambiar posted a 2Q return of 23.5% (gross of fees**), vs. returns of 18.0% for the Russell 2000 Value Index and 20.7% for the Russell 2000 Index. Cambiar's strong 2Q return widens the portfolio's performance gap on a year-to-date basis, with Cambiar returning 15.4% (gross of fees**), vs. -5.2% for the Russell 2000 Value and 2.6% for the Russell 2000 indices.

Although lower quality small cap companies posted the more spectacular returns in the quarter, buying sentiment was fairly strong across all sectors of the small cap market. Cambiar outperformed the index in 7 out of 9 sectors in which it was invested, illustrating the diversified sources of the portfolio's excess return.

The commodity-sensitive Energy and Materials sectors were two of the top-performing sectors in the small cap index. While not a significant portion of the portfolio (Cambiar's Energy and Materials positions comprised approximately 10% of the portfolio, vs. 8% for the index), the companies we did own posted strong double-digit returns in the quarter.

Financials represented another value-add for the portfolio. Cambiar received solid gains from positions in insurance, asset management and debt collections. From a sector allocation perspective, Cambiar also benefited from an underweight position, as small cap financials lagged relative to other sectors of the market.

Cambiar's Healthcare positions provided an additional tailwind to performance for the quarter. Although talk of health care reform continues to be an overhang on the sector, we have been successful in identifying a number of niche businesses whose earnings prospects should remain intact regardless of what comes out of Capitol Hill.

Two sectors where Cambiar's holdings lagged the benchmark in the quarter were Technology and Consumer Discretionary. The causes for underperformance in these sectors can be primarily attributed to company-specific developments. In addition, Cambiar's preference for companies that possess manageable debt levels and positive earnings outlooks resulted in the portfolio's avoidance of the more speculative players in these sectors that performed the best during the quarter.

Looking Ahead Into The Second Half of 2009

Cambiar remains cautiously optimistic as we enter the second half of 2009. While many of our holdings rebounded in the second quarter, these gains pale in comparison to the level value destruction that has taken place over the past year. As such, we have been disciplined in taking gains in positions where valuation has surpassed fundamentals, but are trying not to be overly dogmatic on the sell side. The Cambiar investment team continues to focus their efforts on companies that are trading at attractive valuations and possess tangible drivers of value accretion.

As discussed in our 1Q Commentary, we believe that the current market environment presents a tremendous opportunity for investment managers who utilize an active investment approach to provide excess returns vs. their passive benchmarks. The performance we have achieved across our investment strategies thus far in 2009 bolsters this viewpoint.

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 \$6,193 on a gross of fees basis and \$6,167 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.

2Q 2009 performance for the Cambiar Large Cap Value Composite (Institutional): 21.9% (gross); 21.8% (net); Year-to-date performance: 10.9% (gross); 10.7% (net)

** The performance information depicted above represents the Cambiar Small Cap Value 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 \$6,441 on a gross of fees basis and \$6,365 on a net of fees basis at 12/31/2008 based upon the actual returns earned in the Cambiar Small Cap Value Composite. 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. These stock indexes assume reinvestment of dividends and capital gains, and assume no management, custody, transaction or other expenses. It is a market value weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value. 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.

2Q 2009 performance for the Cambiar Small Cap Value Composite: 23.5% (gross); 23.2% (net); Year-to-date performance: 15.4% (gross); 14.8% (net)