



Cambiar Investors LLC - 4Q 2009 Large Cap Value / Small Cap Value Commentary

The equity markets posted their third consecutive quarter of positive gains, capping off the best calendar year for equities since 2003. After a mild retracement early in the quarter, stocks rebounded and most equity indices closed at or near their high for the year. As opposed to the market melt-up that occurred in the past two quarters, stock moves in the quarter were more correlated to company-specific fundamentals. At the broader economic level, improving metrics in relevant macro indicators such as temporary employment, manufacturing activity (ISM Index) and residential home prices (Case-Shiller Index) gave investors additional confidence that a double-dip scenario in the economy is a remote possibility, thus increasing the relative attractiveness of equities.

The Cambiar Large Cap Value and Small Cap Value strategies performed at a very high level in 2009, both on an absolute basis as well as relative to their performance benchmarks. While active managers in general tended to fare better than the passive crowd in 2009, Cambiar's margin of outperformance was particularly strong. Even more encouraging was that Cambiar's outperformance was a collaborative team effort; with few exceptions, the Cambiar investment team registered positive stock selection in every sector in which the portfolios were invested. As stocks moved higher, the team took gains where appropriate, reallocating capital into names that we viewed to possess a more attractive risk/reward profile. While an encore performance in 2010 of the same magnitude may be an unrealistic expectation, we do believe that the coming year should continue to provide a strong backdrop for Cambiar's research-driven investment approach.

Large Cap Value

The Cambiar Large Cap Value (LCV) portfolio gained 7.0% (6.9% net) in the fourth quarter, vs. 4.2% for the Russell 1000 Value Index and 6.1% for the S&P 500. On a full year basis, the Cambiar LCV posted a return of 40.3% (39.7% net), vs. 19.7% and 26.5% for the Russell 1000 Value and S&P 500, respectively.

As has been consistent for much of 2009, Cambiar's positions in the Energy sector were a leading contributor to performance for the quarter. The portfolio benefited from a takeout of one of our exploration and production positions in the quarter; the prospect for additional M&A activity, as well as continued strength in commodity prices, provided a lift to Cambiar's other holdings in the sector. For the year, Cambiar's Energy positions comprised the single-largest contributor to performance; while the sector itself was a relative laggard, the LCV portfolio was the benefactor of strong security selection in the Energy complex.

Industrials were another bright spot for the LCV portfolio in the quarter. After entering 2009 with no positions in the sector, Industrials now represents approximately 12% of the portfolio. Our subsequent optimism towards Industrials is based on these companies' demonstrated ability to protect margins through the downturn, which should subsequently provide higher earnings leverage as revenue growth takes hold.

Cambiar's continued underweight in Financials was another positive contributor to performance; after incurring a sharp run since the March bottom, banks and related financial services companies appeared to run out of steam in the fourth quarter.

The LCV portfolio also benefited in the quarter from both a high allocation and positive stock selection in Technology. Tech was one of the strongest-performing sectors during 2009, a 180-degree reversal from 2008. While we were disciplined in selling/trimming positions whose valuations appeared to fully reflect fundamentals, we believe that our current Tech holdings continue to possess attractive risk/reward profiles. As we move into 2010, positive tailwinds in Techland include improving corporate IT spending budgets, the ongoing penetration of PCs in developing markets, and a Windows 7 product upgrade cycle. The only modest negatives to performance were sustained in Materials and Utilities, both of which comprise a small portion of the portfolio.

manager for all seasons

Small Cap Value

The Cambiar Small Cap Value (SCV) portfolio gained 6.3% (6.0% net) for the fourth quarter, vs. a return of 3.6% for the Russell 2000 Value Index, and 3.9% for the Russell 2000 Index. The Cambiar SCV portfolio soundly outperformed the benchmarks for 2009, with Cambiar posting a return of 47.8% (46.3% net), vs. 20.6% and 27.2% for the Russell 2000 Value and Russell 2000 indices, respectively.

The SCV portfolio's strong gains in 2009 were largely due to the investment team's willingness to make non-consensus calls regarding the earnings trajectory for certain pockets of the market. For example, our longer-term optimism in sectors such as Technology and Energy enabled the investment team to build positions at extremely low valuations during 4Q08 and 1Q09, which paid off once investor sentiment toward these sectors improved later in 2009. Another positive contributor to performance was the ability to let volatility work in favor of the portfolio through patient position management and the willingness to lock in gains once our in-house price targets were met.

For the quarter, Healthcare was the top-performing sector in the index; the Cambiar SCV portfolio benefited from an overweight position in Healthcare. While reform talks limited the upside potential for many Healthcare companies in 2009, Cambiar was able to buck the trend through strong stock selection in the sector. With reform uncertainty now in the process of being removed, we would not be surprised to see a rotation into Healthcare in 2010.

Cambiar's performance from holdings in the Energy and Industrial sectors were additional value-adds for the quarter, as well as the year. The portfolio's strong stock performance in these sectors extolled the virtues of active management in 2009; while index performance for these sectors was somewhat tepid for the year (relatively speaking), Cambiar's holdings in these sectors registered material outperformance.

Another bright spot for the Cambiar SCV portfolio – for the fourth quarter as well as the year – has been the active decision to underweight Financials. While most sectors posted strong gains in 2009, the financial sector within the index actually declined for the year, thus resulting in a painful opportunity cost for those managers with exposure to this underperforming segment of the market. As was the case in Healthcare, Cambiar's stock selection in Financials was much better than that of the index for the year, further contributing to the portfolio's relative outperformance.

While still a meaningful portion of the portfolio, Technology was primarily a source of funds for new positions during the quarter. Although Cambiar portfolio benefited from its higher Tech allocation in 2009, the portfolio's holdings in this sector failed to keep pace with the benchmark. A good portion of the relative underperformance in Tech can be attributed to Cambiar's higher quality bias, which kept the portfolio out of the more speculative performers. As this low-quality rally appears to have run its course, we anticipate our Tech holdings to reassert themselves in 2010.

The only notable detractors for the SCV in 2009 were on a relative basis; Cambiar's underweight position in Consumer Discretionary and Materials were negative contributors, as these were the top-performing sectors in the index for the year.

Looking Ahead

As we move into 2010, Cambiar believes that an ongoing global economic recovery, in tandem with strong fiscal and monetary policy support, should continue to provide a supportive backdrop for stocks. Based on current consensus, the S&P 500 is currently trading at 15x earnings - neither exceedingly cheap, nor obviously expensive. At current levels, it is entirely conceivable that the equity market could return to normal, historical rates of return (approx 8-10%) based purely on earnings growth, with no real multiple expansion to speak of at the market level.

A recurring theme of 2009 was corporate cost containment; looking ahead, Cambiar believes that 2010 will be marked by upside surprise in top line growth. This optimistic outlook for corporate revenues is based on the expectations for a rebound in economic activity, increasing consumer confidence and higher spending by both consumers and corporations.

One of the main risks we are focusing on in the coming year is the normalization of interest rates. Cambiar anticipates that the Fed will begin raising interest rates in the second half of 2010, although the yield curve will maintain its role as the world's greatest forecaster and begin moving higher ahead of any formal move on rates. While an increase in bond yields (especially 10-year Treasuries) is seen by many in the market as the biggest risk to equity returns, Cambiar believes that this fear may be exaggerated, as one of the key factors raising yields is better-than-expected growth. There is no question that large supply issues will weigh on Treasuries. However, to the extent that growth surprises on the upside, one must also remember the tight relationship between growth and fiscal revenues. Again, low yields seem to us the bigger risk, signaling (a la Japan) meager growth and persistent risks of deflation. In our view the yield curve, and particularly the spike at the long end, is telling us things are looking up.

While the stock performance in 2009 was more a function of a rising tide lifting all boats than company-specific fundamentals, 2010 should see a pronounced shift from a stock market to a market of stocks. Such an environment should be favorable for managers with more of a stock picking mentality such as Cambiar. Above all else, the Cambiar investment team remains vigilant in their pursuit of companies that meet our valuation, cashflow and value creation criteria. In our view, a diversified portfolio that strikes a proper balance of offense and defense should perform well in the coming year.

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

The performance information depicted above represents the Cambiar Large Cap Value Composite (Institutional). Returns are net of transaction costs and include the reinvestment of all income. Gross returns do not reflect the deduction of management fees. 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 1/1/2009 would have resulted in \$14,027 on a gross of fees basis and \$13,970 on a net of fees basis at 12/31/2009 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.

The performance information depicted above represents Cambiar's Small Cap Value Composite. Returns are net of transaction costs and include the reinvestment of all income. Gross returns do not reflect the deduction of management fees. 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 01/01/2009 would have grown to \$14,778 on a gross-of-fees basis and \$14,635 on a net-of-fees basis on 12/31/2009 based upon the actual returns earned in the composite. The performance of the Russell 2000 Value benchmark and the Russell 2000 shown above include the reinvestment of all income and assume no management custody, transactions or other expenses. The Russell 2000 and Russell 2000 Value indices reflect overall market performance and comparisons may not reflect Cambiar's performance. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. 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.