

CAMBIAR EUROPE SELECT ADR COMMENTARY 4Q 2018

MARKET REVIEW

European equities declined in the fourth quarter, as selling pressure engulfed the global equity markets. The wall of worry simply became too high for equities to overcome, as investors had no shortage of concerns to contemplate: ongoing Brexit uncertainty, a populist uprising in France, the continued trade skirmish between the U.S. and China, and tightening monetary policy. The 4Q drawdown in stocks resulted in negative full-year returns for the MSCI Europe Index, but European equities were not alone in this regard – as almost all asset classes (even cash, when adjusted for inflation) finished 2018 in the red.

The European investing landscape was dominated by geopolitical headlines in 2018, and this theme is likely to continue into 2019. The market hates uncertainty, so some resolution on fronts such as Brexit would be positive for investor sentiment. Barring an extension of Article 50, Brexit should reach a final resolution in late March. Recognizing that the negotiation process remains very much in flux, Cambiar believes there are three possible scenarios: agreement to terms (a ‘soft Brexit’), exit from the EU without a trade agreement (a ‘hard Brexit’), or a new referendum in which the United Kingdom’s decision to leave the European Union is reversed.

Monetary policy is another key point of focus in 2019. The U.S. Federal Reserve has been in the process of normalizing rates over the past two years; a pause on this front may result in a weaker dollar and thus a positive translation effect for non-U.S. equities. Central banks around the globe are in varying stages of reversing the largest global liquidity exercise in history – there is bound to be a corresponding impact on equities. Although the European Central Bank (ECB) ended its bond purchase program in December, Mario Draghi & Co. continue to maintain a relatively accommodative stance. Key interest rates in Europe will likely be unchanged through the summer of 2019, and even then be dependent on relevant economic growth data.

Needless to say, market volatility is likely to remain elevated as we transition to 2019. While we have opinions on how the above events are likely to play out, Cambiar remains focused on identifying attractive investment opportunities where a combination of above-average financial performance, advantaged market position, and overall business quality will benefit our clients - irrespective of the current macro backdrop.

EUROPE SELECT ADR

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Orange	2.17	0.06
Smith & Nephew	2.41	0.06
Pernod Ricard	2.94	0.05
Roche Holding	3.00	0.03
Nordea Bank	0.04	0.03

DETRACTORS

Bottom Five	Avg. Weights	Contribution
DNB	2.83	-0.74
SAP	3.61	-0.74
ArcelorMittal	1.99	-0.76
Deutsche Post	3.30	-0.82
AerCap	2.83	-0.99

A complete description of Cambiar’s performance calculation methodology, including 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. Past performance is no guarantee of future results.

	4Q 2018	1 Year	3 Year	Since Inception
Europe Select ADR _(gross)	-14.8%	-18.2%	1.1%	1.5%
Europe Select ADR _(net)	-15.0%	-18.9%	0.5%	1.1%
MSCI Europe	-12.7%	-14.9%	2.1%	0.4%

Europe Select ADR Composite Inception Date: 10.31.2014 / See Disclosure –Performance

The Cambiar Europe Select ADR strategy underperformed the MSCI Europe Index by a modest margin in the fourth quarter. Although Cambiar has historically demonstrated strong downside capture in prior downturns, there were very few pockets of strength – as all sectors (with the exception of 0.10% gain for Utilities) registered negative returns in the quarter.

Market action in the fourth quarter was reminiscent of past ‘risk off’ periods – whereby fears about the macroenvironment overwhelmed company-specific fundamentals, and the result was a disorderly rush for the exits. Not surprising, stocks with higher beta/cyclicality were particularly hard-hit, while more defensive sectors such as Communication Services and Consumer Staples managed to perform ‘less bad’. With modest overweight allocations to Financials, Industrials and Basic Materials, the Europe Select portfolio had a cyclical tilt in the quarter; this positioning contributed to the strategy’s underperformance in 4Q.

The strong preference for liquidity in the quarter resulted in many stocks trading at a material disconnect relative to their anticipated earnings power. For Cambiar, this was particularly evident in the Industrials sector, as holdings such as AerCap, Deutsche Post and BAE Systems all incurred steep drawdowns. AerCap is an aerospace leasing company; the firm is led by a tenured management team that has a strong track record of execution. The stock was essentially flat for the year through early December, before declining by over 25% in the last three weeks of December. It is not clear what drove the December decline in the stock – aversion to spread businesses, mis-categorization as a specialty finance company, or perhaps a distressed seller. The reality is that episodic events of this nature where price and fundamentals diverge will happen from time to time. At year-end, AerCap was trading below .7x book value, vs. fair valuation of 1.1-1.2x book (and this is being conservative, given the company’s 12-14% ROE profile). A similar review of other holdings in the Industrials sector led to a similar conclusion: the

fundamentals remain intact. As such, Cambiar is staying the course with these positions.

In a continuation from the third quarter, Cambiar’s holdings in Financials comprised a performance headwind for the Europe Select portfolio. It is worth noting that the sector provided a strong positive contribution to performance in 2017 and over the life of the strategy. The obvious question then is what has changed over the past six months? One change has been economic growth assumptions – the market has shifted its outlook from bullish to bearish on this factor. Yet not unlike our comments with regards to industrials, the recent weakness in Cambiar’s European and UK bank positions is largely a function of macro uncertainty, vs. a deterioration in fundamentals. In Cambiar’s view, the investment case remains intact (or has strengthened) for many of the portfolio’s financial holdings. Capital levels remain strong, loan growth is positive, and the banks remain committed to returning capital via dividends/share buybacks. Current market handwringing over Brexit, Italy, or the direction of oil prices has resulted in bank valuations trading at financial crisis levels – this is too punitive in our opinion. We anticipate that the portfolio’s financial holdings should perform better once the current political/macro overhangs dissipate.

One characteristic of consumer staples companies is the relatively acyclical nature of their revenue stream – which can help to provide a degree of ballast during periods of heightened volatility. Although Cambiar had a meaningful allocation to the Consumer Staples sector in the fourth quarter (as well as on a full year basis), the portfolio was negatively impacted by a disappointing return from British American Tobacco (BAT). Needless to say, 2018 has not been friendly to BAT; the stock has been dealt a number of company-specific and industry setbacks in the year. While the core underpinnings to the original investment thesis (growth of non-traditional tobacco products, strong market share position, attractive dividend policy) are generally in place, a hard-to-handicap regulatory environment has created

some uncertainty about the name reaching our price target.

Bright spots in the quarter included positive stock selection in Healthcare, where Smith & Nephew and Roche both posted small gains. Australian miner BHP was another relative bright spot, as the company announced a one-time special dividend in conjunction with a sale of non-core assets. Although BHP's stock price was relatively unchanged for the year, the company's regular and one-time payouts in 2018 resulted in a yield of almost 10% for the company.

Where does the Europe Select strategy stand today? On a valuation basis, the portfolio is trading at trough-level valuations (10.4x one-year forward P/E). While valuation in and of itself is certainly not a catalyst, we believe the aggregate risk/reward within the Europe Select portfolio is extremely attractive. While year-over-year growth in Europe has slowed, many of Cambiar's positions are essentially priced for a recession/hard landing scenario. Above all, the last thing we want to do is engage in some sort of chasing exercise. The alpha hypothesis at Cambiar has not changed: identify well-managed companies that are leaders in their industry, demonstrate a pattern of value creation, and are trading at an attractive valuation relative to their anticipated earnings over a forward 1-2 year timeframe.

LOOKING AHEAD

Given the challenging last three months of the year, investors are likely eager to move on from 2018 and look ahead to the New Year. While market corrections are never pleasant, one positive takeaway from the retrenchment in global equity markets is improved valuations. At current multiples (and dividend yields, where applicable), stocks offer a relatively attractive risk/reward profile. Obviously, the key assumption to this statement is that the 'E' in the market's P/E ratio is accurate. On a regional basis, Europe/UK continues to trade at a steep discount to the U.S. – primarily a function of uncertainties surrounding Brexit, the fiscal budget in Italy, a stronger dollar, and lower growth rates in Europe. Some resolution on these macro overhangs would certainly be a good start to closing the valuation gap.

The Cambiar discipline continues to place primary emphasis on company-specific fundamentals and

industry trends/cycles. That said, we remain vigilant on monitoring exogenous risks that could negatively affect our investment rationale. While there is no shortage of geopolitical overhangs that must still be resolved, these uncertainties are known – and in our opinion more than priced into the market at this point.

We are confident that this low valuation/low expectation profile that has been assigned to many of our companies can translate into improved performance for our clients as market fears ease.

We appreciate your continued confidence in Cambiar Investors.

DISCLOSURE

Performance: The performance information represents the respective Cambiar strategy composite and may be preliminary. Returns are presented gross and net of management fees and include the reinvestment of all income. Net returns are also reduced by actual investment advisory fees and other expenses that may be incurred in the management of the account. The gross returns reflect accounts with both gross and “pure” gross performance. “Pure” gross returns, applicable to SMA portfolios, are not reduced by any expenses, which includes transaction costs, and are provided as supplemental information. Brokerage firms which sponsor SMA fee programs apply bundled fees which may include transactions costs, investment management, portfolio monitoring, consulting services, and in some cases, custodial service fees. Net returns for SMA portfolios are calculated by subtracting actual SMA fees reported by the SMA sponsor. Net of fees performance reflects a blended fee schedule of all accounts within the Europe Select ADR Composite. Cambiar clients may incur actual fee rates that are greater or less than the rate reflected in this performance summary. Please refer to our Form ADV Part 2A for additional information regarding our investment management fees. Results are reported in U.S. dollars. Index returns include the reinvestment of all income, and assume no management, custody, transaction or other expenses. One cannot invest directly in an 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. The top/bottom contributors is for a representative portfolio in the strategy. A complete description of Cambiar's performance calculation methodology, including a complete list of each security that contributed to the performance of the portfolios, is available upon request. Please contact Cambiar at 1-888-673-9950 for additional information.

Europe Select ADR Benchmark: The MSCI Europe Index is a free float-adjusted, market capitalization weighted index that measures equity market performance of European developed markets. The index assumes no management, custody, transaction or other expenses. The MSCI Europe Index is a broadly based index that reflects the overall market performance and Cambiar's returns may not be correlated to the index. The performance of the MSCI Europe Index includes the reinvestment of all income. Benchmark returns are net of withholding taxes. Cambiar typically follows each custodian's treatment of tax withholding and therefore dividends may be presented as gross or net of dividend tax withholding depending on the custodian's treatment. Withholding taxes may vary according to the investor's domicile.

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