

THE OFTEN OVERLOOKED SMID ASSET CLASS



BENEFITS OF INVESTING IN SMID

SMID (Small-Mid) cap, as defined by stocks that fall within the market cap range of \$2-\$20B, have historically been underrepresented in traditional asset allocation models. The common utilization of U.S. large-cap and U.S. small-cap mandates, which typically have market capitalization limits, we believe has led to a polarization of domestic allocation and a gap where there is inadequate representation of small-midcap stocks.

Cambiar Investors believes a more diversified domestic allocation must include an exposure to the SMID asset class. This area of the market can potentially provide:

Higher Risk-Adjusted Returns

Similar to small-cap stocks, SMID stocks possess strong risk-reward characteristics.

Lower Volatility

Medium-sized businesses typically offer a greater degree of stability than small cap stocks.

Larger Opportunity Set

The overall number of companies that fall within the market cap range, coupled with sparse analyst coverage, is an ideal backdrop for active management to take advantage of inefficiencies.



Increasing the small cap universe to include midcaps adds exposure to companies with more stable business structures, higher quality balance sheets and greater access to capital markets.

Historically, this has led to stronger performance and less vulnerability to market downturns relative to a pure small cap allocation.

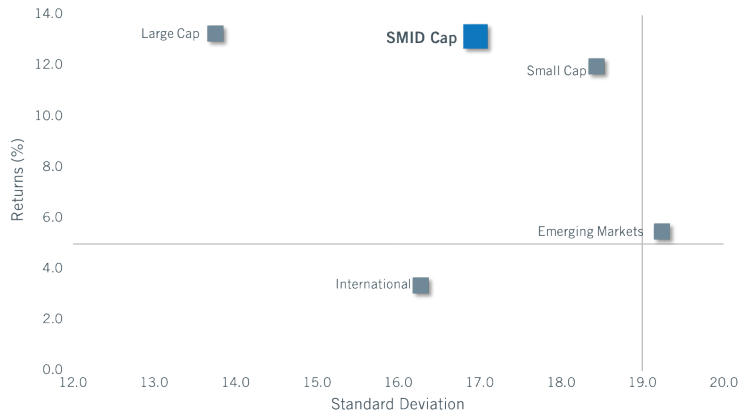
For periods beyond 10 years, this same business structure coupled with earnings growth potential, has led SMID stocks to outperform larger cap.

Source: Morningstar. As of 12.31.2018

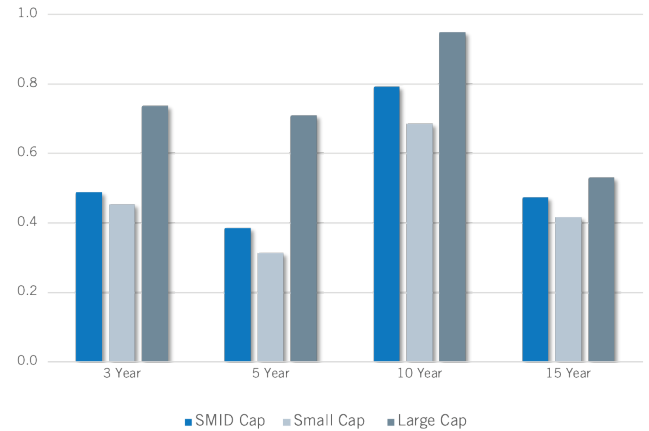


LOWER VOLATILITY

Returns vs. Standard Deviationⁱ



Sharpe Ratio

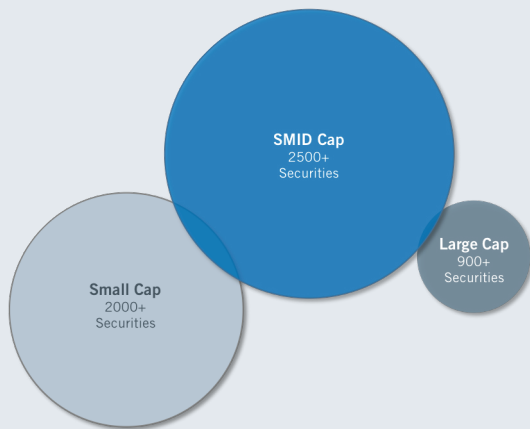


Implementation of a SMID mandate can potentially lower the risk of an overall asset allocation model. Historically, SMID stocks have shown less risk, as measured by standard deviation than small cap stocks, while not foregoing the upside potential.

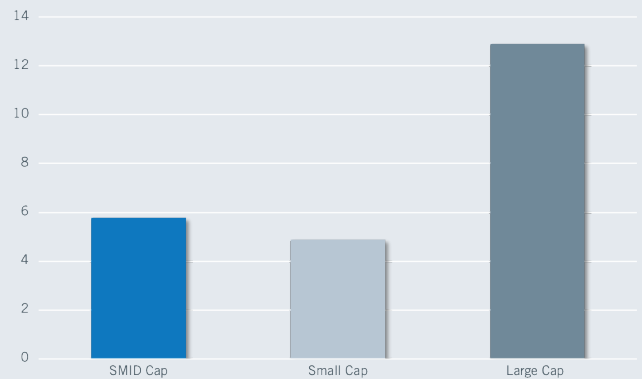
Source: Morningstar. ⁱBased on ten year data. As of 12.31.2018

LARGER OPPORTUNITY SET

Investable Universe



Average Analyst Coverage Per Securityⁱⁱ



The flexibility of a SMID cap mandate allows for a portfolio to access stocks within both the large-cap and small-cap realms, vastly enhancing the number of unique investment possibilities.

Within this landscape, many SMID stocks have little to no analyst coverage, creating greater dispersion between stock prices and fair value.

24%
SMID securities covered by fewer than three analysts

Source: Morningstar. ⁱⁱ Source: Factset. As of 12.31.2018

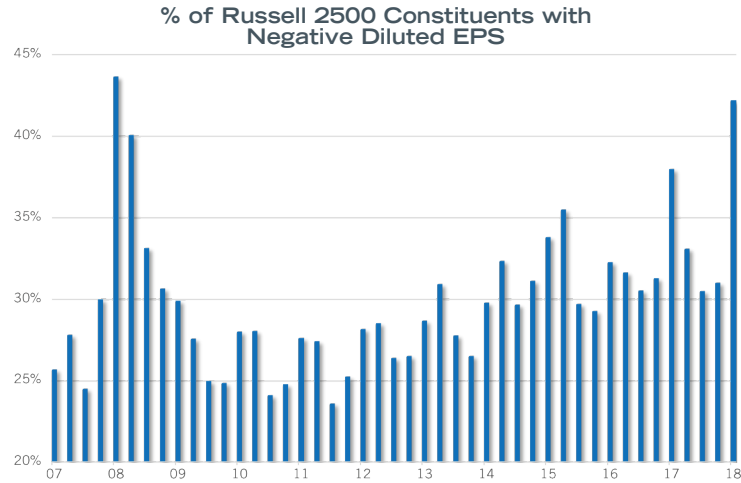
IMPORTANCE OF ACTIVE MANAGEMENT IN SMID

Merely incorporating SMID in an asset allocation model is not enough. Cambiar Investors believes that taking an active approach to this area of the investment universe is paramount.

The vast opportunity set and information inefficiencies in SMID can enable a seasoned active manager to pinpoint investable opportunities, avoid pitfalls and generate excess return versus a passive index through stock-by-stock research and fundamental insight.

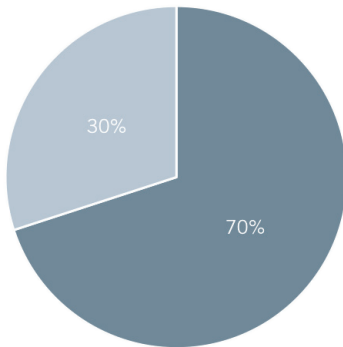
When analyzing the makeup of the SMID benchmark, the percentage of companies that have no earnings has risen to the highest levels since the Great Financial crisis.

As interest rates in the U.S. begin to rise off historical lows, determining quality businesses will become more vital.



Source: Factset. As of 12.31.2018

Allocation Imbalance

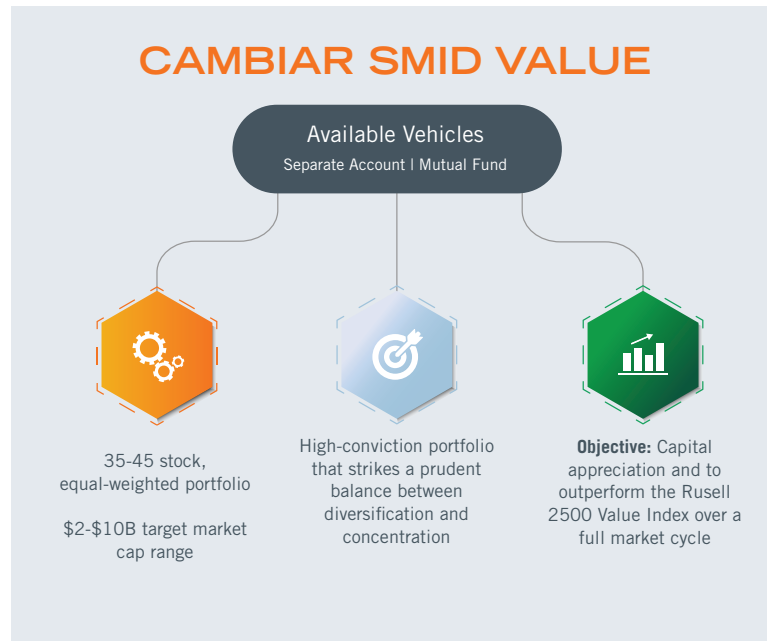


Source: Factset. As of 12.31.2018

Sector concentration within the Russell 2500 Index is important to consider. The top 5 sectors make up over 70% of overall index composition.

Cambiar Investors feels that an imbalanced exposure to these segments of the market without a rational understanding and reasoning of the underlying stocks is not a prudent approach.

Additionally, heavy concentration combined with unprecedented flows into passive instruments could lead to a crowded and potentially risky situation.



Certain information contained in this communication constitutes "forward-looking statements". Due to market risk and uncertainties, actual events, results or performance may differ materially from that reflected or contemplated in such forward-looking statements. Securities highlighted or discussed in this letter have been selected to illustrate Cambiar's investment approach and/or market outlook and are not intended to represent the performance or be an indicator for how Cambiar's portfolios have performed or may perform in the future. The portfolios are actively managed and securities discussed in this letter may or may not be held in client portfolios at any given time. Nothing in this letter shall constitute a recommendation or endorsement to buy or sell any security or other financial instrument referenced. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended by Cambiar and the reader should not assume that investments in the securities identified and discussed were or will be profitable. Any characteristics included are for illustrative purposes and accordingly, no assumptions or comparisons should be made based upon these ratios. Statistics/charts may be based upon third party sources that are deemed to be reliable, however, Cambiar does not guarantee its accuracy or completeness. Past performance is no indication of future results. All material is provided for informational purposes only and there is no guarantee that the opinions expressed herein will be valid beyond the date of this communication.

The following indices were used to represent their respective asset class for all charts. U.S. Large-Cap – Russell 1000, U.S. SMID Cap – Russell 2500, U.S. Small-Cap - Russell 2000, International - MSCI EAFE, Emerging Markets - MSCI Emerging Markets.

Sharpe Ratio - A measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment.

Standard Deviation - A measure of the dispersion of a set of data from its mean.

