

# CAMBIAR EUROPE SELECT ADR COMMENTARY 1Q 2019

# MARKET REVIEW

European equities rebounded in the first quarter of 2019, with most regional averages posting solid gains. The strong 1Q returns should be taken in context – i.e., the broad-based drawdown in the fourth quarter resulted in a low starting point to begin the year. While conditions are likely not as good as they seem at present, they were clearly not as bad as price levels indicated in December. As we entered January, investors were emboldened by a combination of compressed valuations relative to expected profit levels and a more constructive macro backdrop. On this latter point, two notable positives in the quarter were signs of progress on the trade dispute between the U.S. and China as well as a pivot by the U.S. Federal Reserve from continued tightening to a more accommodative posture. The European Central Bank (ECB) has already made it clear that they will not be raising rates in 2019. We believe the Fed’s pause should now be effective in relieving pressure on global markets, as well as curtailing end-of-cycle concerns.

Cambiar is encouraged by the year-to-date recovery in European equities, and we believe that this asset class possesses the potential for incremental upside – given the potential combination of earnings recovery and multiple expansion. The MSCI Europe Index trades at a 1-year forward P/E of 13.3x; this compares favorably to the 16.5x P/E for the S&P 500 Index. While European stocks may be hard-pressed to fully close the valuation gap with their U.S. peers, the region offers an attractive risk/reward opportunity.

Investor sentiment would certainly improve toward Europe if it were not for the ongoing macro/political events that continues to plague the region – although an argument can be made that much of this uncertainty is currently reflected in stock prices. The gridlock surrounding the U.K.’s exit from the European Union is the most notable macro unknown at present, as the inability to reach some degree of majority within Parliament has resulted in an extension beyond the March 29th deadline. Regardless of the eventual outcome – a deal with Europe, a hard crash out of the EU, or another referendum vote – an economic toll will likely be felt on the U.K. economy, as numerous companies are proactively moving to relocate workers and shift jobs across Europe to ensure there is no disruption to their business and underlying clients. While company-specific fundamentals are the primary driver for Cambiar’s buy/sell decisions, country allocations (where relevant) are an additional consideration in the portfolio construction process. Given the uncertain path regarding the Brexit process, the Cambiar Europe Select portfolio continues to maintain an underweight allocation to the United Kingdom.

Forward P/E Discount (MSCI Europe vs. S&P 500)



Source: Bloomberg

# EUROPE SELECT ADR

## CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Airbus	2.61	0.87
Royal DSM	2.78	0.82
BHP Group	3.31	0.77
Lloyds Banking	2.73	0.63
Deutsche Post	3.11	0.57

## DETRACTORS

Bottom Five	Avg. Weights	Contribution
ArcelorMittal	1.76	0.00
Orange	2.05	-0.01
Nordea Bank	2.31	-0.01
Paddy Power Betfair	1.94	-0.11
EssilorLuxottica	2.43	-0.33

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.

	1Q 2019	1 Year	3 Year	Since Inception
Europe Select ADR <sub>(gross)</sub>	11.1%	-8.3%	4.9%	3.9%
Europe Select ADR <sub>(net)</sub>	10.9%	-9.0%	4.2%	3.4%
MSCI Europe	10.8%	-3.7%	6.6%	2.7%

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

The Cambiar Europe Select ADR strategy posted a modest gain relative to the MSCI Europe Index in the first quarter. Although the 1Q gains were not enough to fully offset the drawdown incurred in 2018, the market returned (somewhat) to valuing companies based on fundamentals, which Cambiar hopes will continue throughout the year.

Portfolio buy/sell activity in the quarter comprised of 2 new buys and 2 sales. In the aggregate, the portfolio is diversified across all relevant sectors, with Industrials and Financials representing the two largest allocations at present. At a country level, the portfolio remains anchored in core Europe, with France and Germany comprising 25% and 16% of the strategy, respectively. As discussed, the portfolio has an underweight allocation to the U.K, yet suffice to say that Britain is an important end market for many of Cambiar's holdings.

Most sectors posted double-digit gains in the quarter – illustrating the broad-based nature of the rally. Consumer Staples and Technology stocks paced the market, while safe haven sectors such as Communication Services and Utilities were relative laggards in the quarter. Financials also trailed the broader market in the quarter, as concerns about economic growth and monetary policy limited gains for the banks.

Within the Cambiar portfolio, stock performance in the Industrials sector was a strong value-add for the quarter. Airbus was a notable standout, as the stock appreciated on a solid earnings report as well as the unfortunate setback incurred by Boeing. Airbus has been a strong free cash flow/margin story, and the company currently has a 7-year backlog for planes. The position was trimmed in response to the stock's gains in the quarter. Cambiar also benefited from a rebound in Deutsche Post and AerCap – two positions that endured a challenging 2018. As discussed in our 4Q commentary, we viewed the selling pressure in the sector (and AerCap in particular) to be overdone relative to our companies' expected earnings outlooks. We are thus encouraged by the subsequent 1Q recovery.

Although Financials as a sector were unable to keep pace for the quarter, Cambiar was able to overcome the sector's relative weakness with above-benchmark returns from a number of the portfolio's bank and insurance positions. Financial stocks have endured some fairly mercurial moves in recent years; that said, the key underpinnings to the investment cases – increasing profitability, high ROEs, attractive shareholder return policies and reasonable valuations – remain very much intact. While the pause in Fed hikes and easing measures on behalf of the ECB can be perceived as a mild negative for banks (lower growth

and lower rates), Cambiar believes the market should award higher valuations to financials that possess unique growth drivers – either by geographic footprint (exposure to faster-growing markets) or business model (shift from traditional banking to higher margin wealth management).

Cambiar's holdings within the Consumer Discretionary sector detracted from performance in the quarter; Paddy Power Betfair and EssilorLuxottica were two individual underperformers. EssilorLuxottica lost ground in the wake of an ongoing kerfuffle within the senior management ranks of the company. For background, EssilorLuxottica is a recently merged company that provides a comprehensive suite of prescription lenses, eyeglass frames and sunglasses. The combination provides the company with a number of structural advantages via market share, product scope and defensibility. That said, the lack of leadership clarity is creating a blurry line of sight for investors. Cambiar has chosen to stay the course, as a path towards resolution in the C-suite would be a material re-rating catalyst for the stock.

After adding value in the fourth quarter sell off, cash was a performance headwind in the most recent quarter, given the strong rally in stocks. As these two scenarios illustrate, the impact of cash tends to be a self-canceling factor over time. The portfolio's cash position (average of 5% in the quarter) is a by-product of the investment discipline, and may rise/fall in relation to Cambiar's pipeline of investment candidates and their respective attachment points.

## LOOKING AHEAD

European equities are off to a strong start thus far in 2019, as investors stepped in after a bruising end to 2018. At the risk of making a prediction as to the forward trajectory for stocks, it is Cambiar's view that 2019 has the potential to be a good year for EU stocks – although the path may be a bit bumpier relative to the smooth sailing witnessed in the first quarter. Additional upside can be attained via a combination of earnings growth and multiple expansion. Resolution on trade and Brexit could be additional upside catalysts that do not appear to be priced into equities at present.

While not disregarding aside macro-oriented economic and political considerations, Cambiar remains primarily focused on our circle of competence: identify structurally advantaged companies that are trading at reasonable valuations and provide the opportunity for outsized returns over a forward 1-2 year time horizon.

If we can successfully execute on this front, we are confident that our portfolio will do well regardless of the current macro climate.

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 (g) and net (n) of management fees and include the reinvestment of all income. Gross and net returns have been reduced by transaction expenses. 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 separately managed accounts that are part of broker-sponsored or wrap programs that bundle fees including commissions (SMA), are not reduced by any expenses, which includes transaction costs, and are provided as supplemental information. Net returns for SMAs are calculated by subtracting actual SMA fees reported by the SMA sponsor. Cambiar negotiates advisory fees with each individual client or relationship. Please refer to our Form ADV Part 2A for additional information regarding our investment management fees. Net of fees performance reflects a blended fee schedule of all accounts within the Europe Select ADR Composite. SMAs incur bundled fees that are charged by brokerage firms which sponsor SMA fee programs and that may include transactions costs, investment management, portfolio monitoring, consulting services, and in some cases, custodial service fees. Cambiar clients may incur actual fee rates that are greater or less than the rate reflected in this performance summary. Results are reported in U.S. dollars. Index returns include the reinvestment of all income, and assume no management, custody, transaction or other expenses. Each index is a broadly based index that reflects overall market performance and Cambiar’s returns may not be correlated to the index against which it is compared for a number of reasons including investment approach and number and types of holdings. Each index is unmanaged and 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. 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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