CAMBIAR EUROPE SELECT ADR COMMENTARY 1Q 2021

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MARKET REVIEW

European equities maintained their upward momentum into the first quarter of 2021, with the MSCI Europe Index posting a return of 4.1%. Below the surface, the rotation from growth to value that began last November continued, with the market bidding up cyclicals that are viewed to have greater leverage to improving global growth expectations. Sectors such as Financials, Energy, and Industrials were all notable outperformers in the quarter, while safe haven sectors such as Consumer Staples and Real Estate lagged. Technology and related growth stocks participated in the rally, but were relative underperformers vs. perceived reflation winners. After posting very strong gains in 2020, tech stocks may be poised to take a breather in 2021 – particularly if interest rates continue to move higher. Just as an uptick in rates is more damaging to long-duration bonds, higher yields are also negative for many growth stocks, as the expected cashflow for these companies is hit harder in a higher discount rate environment.

An increasingly relevant question is how will central banks respond to an inflationary bulge resulting from pent-up demand, immense liquidity, supply chain challenges and other fundamental changes in the economy? Yields are rising all over the world, albeit from different levels. The European Central Bank (ECB) remains focused on keeping yields low in the sovereign market to ensure the unfolding economic recovery is not hampered. GDP growth and inflation metrics are also moving higher to varying extents, with expectations rising in the UK/Europe region, although not to the same extent as the U.S. Central banks are almost certainly going to tolerate temporary overshoots of inflation in pursuit of a sustained real recovery. The key takeaway is that inflation expectations are rising for the right reasons - growth expectations are improving, and interest rates (the dependent variable) are also rising as conditions improve.

As opposed to making explicit inflation and interest rate forecasts, the more relevant consideration in Cambiar's analysis is the potential impact to our companies' margin/earnings outlooks should cost pressures arise. One industry that is currently experiencing raw material shortages is semiconductors. This is a notable development, as semis have become increasingly ubiquitous in a wide range of end markets. The current bottleneck is affecting production of PCs, gaming consoles, smartphones and cars – at a time where demand is surging. The increase in lead times will likely lead to higher prices for consumers, as well as missed revenue opportunities at the corporate level.

Cambiar continues to focus on companies that possess a defensible margin structure (vs. competing on price) and can offset potential increases in materials or labor costs via pricing power and/or continued productivity improvements.

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CONTRIBUTORS

Top Five	Avg. Weights	Contribution
ASML Holding	3.48	0.84
Compagnie de Saint-Gobain	3.01	0.77
Anglo American	3.46	0.67
Entain	2.63	0.62
Siemens	3.74	0.59

DETRACTORS

Bottom Five	Avg. Weights	Contribution
Temenos	0.39	-0.15
London Stock Exchange	2.06	-0.19
Compass Group	0.75	-0.20
RWE	1.78	-0.22
Smith & Nephew	2.31	-0.24

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 2021	1 Year	3 Year	5 Year	Since Inception
Europe Select ADR (gross)	4.3%	43.2%	2.9%	6.5%	5.4%
Europe Select ADR (net)	4.1%	42.2%	2.1%	5.7%	4.8%
MSCI Europe	4.1%	45.0%	5.7%	8.2%	5.1%

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

The Cambiar Europe Select strategy posted an in-line return for the first quarter. The underlying rotation to value was a tailwind for Cambiar (vs. the index), although this advantage was somewhat mitigated by the portfolio's abstention in Energy and modest cash position.

Assuming the recent strength in reflation stocks continues, European equity markets should be well-positioned, given their higher allocation to global manufacturing and trade activity. The delayed vaccination rollout in Europe and subsequent lockdown measures have hampered the pace of the recovery vs. the U.S. That said, we view this slowdown to be a transitory issue – and less significant by way of economic impact (vs. restrictions put in place last year). Indeed, investors are looking through this interim period of restrictions, as evidenced by the Germany market (DAX) hitting a record level near quarter-end.

Portfolio buy/sell activity was reasonably active in the quarter, consisting of four new purchases and five sales. While continuing to deploy a portfolio construction framework that emphasizes balance and diversification, Cambiar has been incrementally tilting the portfolio toward companies that should benefit from an uptick in economic activity that is not yet reflected in valuations. Examples on this front include Banco Santander (Bank, Financial), Compass Group (Contract Catering, Consumer Discretionary), and Entain PLC (Online Betting, Consumer Discretionary). Each of these companies possess various company-specific idiosyncratic drivers, but are also positively correlated to a synchronized global recovery.

At a sector level, Industrials comprised the largest contribution to Cambiar's excess return in the quarter. Given the challenging topline dynamic during the pandemic, many industrial companies used the downturn to protect margins via cost reductions, workflow efficiencies and prudent cash management. As order trends return to pre-pandemic levels, the result should be a more potent earnings recovery. While consensus estimates were likely too punitive entering the year (and thus will be adjusted upwards in response to the faster-than-expected recovery), the upside in the sector remains compelling. We have begun to see positive revenue and earnings trends in our industrial positions, which should augur for a continued re-rating as the recovery progresses.

Although Technology stocks lagged their more cyclically-geared counterparts, Cambiar's tech holdings performed well and were subsequently an additional source of value add in the quarter. Semiconductor manufacturer ASML was an individual highlight, as the stock gained ~27% in response to a strong earnings report and constructive forward outlook. The company has been

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a consistent ‘beat and raise’ performer since our initial attachment to the stock in March 2019. Cambiar views the current semi cycle to be more secular in nature vs. the boom/bust nature of past cycles. This differentiated thesis has been validated by the robust demand trends for ASML. While Cambiar has trimmed the position several times over our holding period (including in 1Q), we continue to believe our clients should have exposure to this market leader.

Energy was the top-performing sector in the quarter, as investors bid up energy companies in response to an improving demand outlook and higher commodity prices. Cambiar’s non-participation in the sector subsequently detracted from performance relative to the benchmark. Energy has been a difficult area to make money over the past few years, as commodity prices have moved lower due to increased supply (and then a collapse in demand last year). More recently, transportation electrification and renewable energy have become additional headwinds, and both themes are almost certainly going to remain a point of focus for consumers (and investors) in the coming years. Cambiar acknowledges that we may be wrong in the short term as the sector bounces back from depressed travel activity and the economic shutdown last year; that said, we view the recent strength in Energy to be more of a snap-back trade, vs. a secular opportunity we seek on behalf of our clients.

Although positive in the aggregate, one sector where Cambiar trailed the benchmark in the quarter was Financials. At an industry level, banks were in the sweet spot during 1Q – benefitting from the continued reflation trade as well as a recognized beneficiary of rising rates. The rally in banks favored higher beta names that were hardest-hit in 2020; this skew – vs. Cambiar’s quality bias – was a big reason why portfolio holdings such as DNB and KBC Group did not keep p ace in the quarter. Cambiar’s exchange holdings (Deutsche Boerse and London Stock Exchange) were additional laggards, as these companies have more defensive properties (vs. banks). DNB and London Stock Exchange were liquidated in the quarter, with a portion of the proceeds allocated to a new position in Banco Santander. On a go-forward basis, Cambiar views the reward-to-risk profile to be extremely attractive within our financial holdings. Asset quality continues to improve, economic growth expectations are accelerating, and valuations remain attractive.

LOOKING AHEAD

The global equity markets have registered strong returns over the past year, bolstered by unprecedented fiscal and monetary stimulus measures. On this front, policy will almost certainly remain accommodative so as to not disrupt the pace of the recovery. Given their relative underperformance vs. the U.S. markets in recent years and higher gearing to an economic recovery, European equities offer attractive upside via a combination of earnings growth and multiple expansion. That said, selectivity will take on increasing importance, as valuations have begun to increasingly reflect the improving macroeconomic environment. Cambiar welcomes the widening dispersion of returns that is taking place within and across sectors/geographies, as this setup provides a healthy backdrop for our active management approach.

The Cambiar team continues to seek out investment candidates that do not appear to be adequately pricing in the recovery, while avoiding the temptation to chase stocks where expectations appear to be fully reflected in valuations. We remain focused on companies that possess a durable competitive advantage that manifests itself in the form of above-average operating/financial performance. Consistent adherence to this investment template should enable the Europe Select Equity portfolio to protect capital in down markets as well as participate in market upswings.

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 costs. Net returns are also reduced by actual investment advisory fees and other expenses that may be incurred in the management of the account. Gross returns for the Cambiar Europe Select ADR Composite include accounts with both gross and “pure” gross performance. “Pure” gross returns do not reflect the deduction of any expenses, including transaction costs. “Pure” gross returns are applicable to separately managed accounts that are part of broker-affiliated or broker-sponsored programs, including wrap programs, that waive commission costs or bundle fees including commissions (SMAs). ”Pure” gross returns are supplemental information. SMAs often incur bundled fees, charged by the wrap sponsor or affiliated broker, that may include transaction costs, investment management, portfolio monitoring, consulting services, and custody fees. Net returns for SMAs are calculated by deducting the investment advisory fees from the client’s account as reported by the wrap sponsor or affiliated broker, or as received by Cambiar. Cambiar negotiates advisory fees with each individual client or relationship. Please refer to our Form ADV Part 2A for additional disclosures regarding our investment management fees. Net of fees performance reflects a blended fee schedule of all accounts within relevant composite. Cambiar clients may incur actual fee rates that are greater or less than the rate reflected in this performance summary. Returns 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. Prior to July 2019, Cambiar typically followed each custodian’s treatment of tax withholding and therefore dividends may have been presented as gross or net of dividend tax withholding depending on the custodian’s treatment. As of July 2019, Cambiar typically records dividends net of withholding taxes although it may depend on various factors such as the issue country and custodian’s treatment. Withholding taxes may vary according to the investor’s domicile, and other reasons.

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