International Commentaries

3Q 2013

International Equity ADR and Global Select

Market Outlook

International equities posted sharp gains in the third quarter, with the MSCI EAFE Index gaining 11.6%. While the economic developments in Japan and subsequent rise in Japanese equities dominated the international markets in the first two quarters of 2013, gains in the third quarter were propelled by rebounding stock markets in Europe. After six quarters of recession in the Eurozone, GDP rose 0.3% in the second quarter. Additional encouraging indicators included the July Eurozone Purchasing Managers Survey crossing into expansion territory, as well as improving fiscal and current accounts. All of these factors contributed to a repricing of risk in European markets.

Emerging Markets trailed their Developed Market counterparts, but were able to reverse the year-to-date red ink and posted a 5% gain for the quarter. Bargain hunting, as well as the decision to delay the taper process within the U.S., contributed to the improved sentiment towards EM. Yet it is debatable whether the recent gains in EM stocks are sustainable, as these markets will likely come under pressure again once tapering (and the coincident rise in interest rates) begins to occur. Cambiar Investors recently wrote a White Paper that outlines our in-house view on Emerging Markets; please visit our website (www.cambiar.com) to view the White Paper and accompanying podcast.

International Equity ADR Portfolio

The Cambiar International Equity ADR portfolio gained 14.2% (14.1% net of fees) in the third quarter; performance was strong on absolute terms, as well as relative to the MSCI EAFE Index. Cambiar used the rally in the markets to lock in gains on a number of positions that reached our price target, and rotated the proceeds to investments that we view to offer a more attractive risk/reward profile.

International ADR Performance

	3Q13	YTD	1 Year	3 Year	5 Year	Since Inception
ADR (g)	14.2%	21.7%	28.5%	13.8%	12.2%	7.8%
ADR (n)	14.1%	21.3%	28.0%	13.2%	11.3%	6.8%
EAFE	11.6%	16.1%	23.8%	8.5%	6.4%	3.3%

Inception Date: 2.28.2006 / See Disclosure – ADR performance

One sector that was a beneficiary from improving trends in Europe was Consumer Discretionary. Many of Cambiar's consumer positions are globally diversified by way of revenues; however, the U.K. and Europe are important markets. So although Cambiar's holdings have performed well, an uptick in consumer sentiment (and volumes) would be another positive inflection point for the portfolio's auto, retail and related consumer holdings.

Energy was another bright spot for the International portfolio; Cambiar's energy positions posted an average return of 20% in 3Q, effectively double that of the energy sector for the MSCI EAFE (10.5%). The portfolio's exploration and production holdings benefited from supportive commodity prices and strong execution, while improving margins boosted Cambiar's services positions. Despite the shorter-term move in stock prices, Cambiar's energy holdings continue to provide a blend of good earnings growth and reasonable valuations.

Cambiar's banking and financial services positions comprised an additional value-add for the International strategy in the quarter. The portfolio's financial holdings re-rated on both company-specific execution, as well as from improving expectations surrounding economic recovery in Europe.

The portfolio also received positive contributions from Industrials, Technology, Consumer Staples and Healthcare – illustrating the broad-based nature of performance drivers in the quarter.

While positive in performance, one sector of the portfolio that was a relative detractor for the quarter was

Telecom. Strong performance from our UK telecom position, which was trimmed on price strength, was offset by underperformance from the portfolio's Mexican and Japanese telecom holdings.

Our quarterly commentary would not be complete without some thoughts on Japan, which represents the largest country allocation in the portfolio (20.4% as of September 30th). Cambiar's Japan-domiciled holdings outperformed the benchmark during the quarter, and we continue to monitor fundamentals relative to valuation. The macro backdrop has continued to improve – which we believe adds legitimacy to the monetary, fiscal and structural reforms that Prime Minister Abe is attempting to put in place. Signs of progress include the rising Tankan Diffusion Index (a PMI-like statistic that measures business confidence), bank lending, wage increases and a rising Jobs to Applicants Ratio. To the extent that corporate fundamentals remain attractive and the macro backdrop is supportive, Cambiar views Japan to be a compelling investment opportunity for client capital.

Global Select Portfolio

The Cambiar Global Select portfolio outpaced the MSCI All-Country World Index in the third quarter, posting a 9.5% (9.2% net of fees) return. Outperformance in the quarter was primarily driven by stock selection, although sector overweight/underweight decisions also had a positive effect on return.

Global Select Performance

	3Q13	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Global (g)	9.5%	25.8%	32.5%	15.3%	13.6%	10.0%	9.0%
Global (n)	9.2%	24.7%	31.1%	14.0%	12.4%	9.0%	8.0%
ACWI	7.9%	14.4%	17.7%	10.2%	7.7%	7.9%	2.8%

Inception Date: 2.28.1998 / See Disclosure – Global Select performance

Given the multiple expansion in global equities that has taken place over the past year, the opportunity set of companies that meet Cambiar's quality, valuation and hurdle rate criteria has clearly gotten smaller; that said, the team has been successful in identifying new investments for the portfolio. New buys in the quarter included a Taiwanese semiconductor foundry, a Brazilian bank, a U.S. cable/media company and a Japanese retailer.

Cambiar's non-U.S. banking and financial services positions were a notable positive contributor to performance in the quarter. European financials received a lift from signs of improving economic health in the Eurozone. Most of the progress thus far in the Eurozone is of the second derivative variety; that said, earnings within the financial sector are poised to inflect higher as Europe emerges from the economic doldrums.

The Global portfolio also benefitted from strong returns in the Consumer Discretionary sector. Similar to comments regarding Financials, Cambiar's Euro-based consumer holdings led the way. Automakers in particular have been penalized by disappointing sales in Europe (although this has been offset by strong volumes in the U.S. and Asia). Given the high fixed cost nature of auto companies, improving sales in the Eurozone would be a powerful earnings tailwind.

Above-market returns in the Energy, Industrials and Health Care sectors were additional value-adds, as was the portfolio's negligible exposure to the Utilities and Consumer Staples sectors, which trailed in the quarter.

Detractors from performance included ON Semiconductor in the Technology sector and Mosaic, which is a fertilizer/potash company. While Cambiar remains constructive on the earnings outlook for ON Semi, we sold Mosaic due to a potentially significant change to the supply dynamics within the industry, which would negatively impact Cambiar's pricing and earnings assumptions for the company.

Regional/country allocations within the Global Select portfolio remain relatively consistent. As of quarter-end, Cambiar's non-U.S./U.S. split was 56%/44% - a slight international tilt relative to the benchmark. The portfolio continues to overweight Japan, Germany and France. As a reminder, country weights are by-product of the stock-by-stock investment process; the investment team is not attempting to make explicit tactical calls on a geographic level.

Looking Ahead

As we enter the final quarter of 2013, it would not be a surprise if the year-to-date enthusiasm towards equities wanes in favor of a more defensive posture. The reasons for caution are plentiful: gridlock in Washington, taper timing by the Fed, a new Fed Chairperson, uncertainty in Syria, and above all – a stock market that is no longer that cheap. As the saying goes, the market climbs a wall of worry…but resolution on these fronts would certainly bolster investor confidence.

The Eurozone is a little more than one year past the peak in peripheral sovereign bond yields brought about by the concerted action of the ECB under the Long Term Refinancing Operations (LTRO) and Outright Monetary Transactions (OMT). With stabilization in financial markets, the focus has now turned to the adjustment process and a more normalized economic cycle. In this regard, there has been significant progress in bringing down real unit labor costs and reduction of deficits. With fiscal drag becoming less of a headwind and continuation of a global economic recovery, many European companies are in position to see a recovery in earnings – a view that we do not believe is reflected in current market valuations.

Valuations within Emerging Markets appear reasonable relative to their trading history over the past decade. However, it is Cambiar's view that many participants in EM may be going through a growth-to-value type transition. Just as the bubble in tech stock valuations never inflated again after their amazing run in the late 1990s, EM stocks may be going through a similar process. This comment paints a large class of companies with the same brush, which may not be fair. At minimum, stock selection will be of greater importance than it has in the past.

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

Disclosure

ADR Performance: *The performance information depicted above represents the Cambiar International ADR Composite. Returns are net of management fees and transaction costs and include the reinvestment of all income. Gross returns do not reflect the deduction of management fees. The performance of the MSCI EAFE benchmark includes the reinvestment of all income. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada.*

Global Select Performance*: The performance information depicted above represents the Cambiar Global Composite. Returns are net of management fees and transaction costs and include the reinvestment of all income. Gross returns do not reflect the deduction of management fees. The performance of the MSCI ACWI benchmark includes the reinvestment of all income. The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets*

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