CAMBIAR INVESTORS

International Commentaries

1Q 2013

International ADR and Global Select

Market Outlook

International equities had a mixed quarter, as developed markets (MSCI EAFE Index) posted a 5.1% gain, while the MSCI Emerging Markets Index declined by 2.1%. After a strong start to the year, buyer's fatigue appeared to set in. An uptick in negative newsflow (banking crisis in Cyprus, election in Italy, increasing tension between North Korea and South Korea) further incentivized investors to move to the sidelines in the back half of the quarter.

At the country level, one of the more notable standouts in the quarter was Japan, which was up over 11% (in U.S. dollars). After more than twenty years of entrenched deflation, there is demonstrated coordination by the Japanese Government and Bank of Japan to implement a meaningful quantitative easing program. Efforts to weaken the yen and stimulate inflation are providing a tailwind to equities – in particular exporters and financial service companies. The Cambiar International Equity portfolio currently has a 16% allocation to Japan, which is less than the MSCI EAFE Index (20%) but more than many of our peers. Company-specific fundamentals will continue to drive the investment decisions within the Cambiar portfolio, but we are also encouraged by the recent monetary policy actions.

International ADR Portfolio

The Cambiar International Equity ADR portfolio posted a first quarter return of 3.6% (3.5% net of fees), which trailed the 5.1% return of the MSCI EAFE Index. Trading was somewhat elevated in the quarter, as a number of holdings reached Cambiar's sell targets. In aggregate, Cambiar liquidated six holdings and initiated positions in seven new companies.

International ADR Performance

	1Q13	1 Year	3 Year	5 Year	Since Inception
ADR (g)	3.6%	9.7%	8.8%	3.7%	5.9%
ADR (n)	3.5%	9.1%	8.0%	2.8%	4.9%
EAFE	5.1%	11.3%	5.0%	-0.9%	2.1%

Inception Date: 2.28.2006 / See Disclosure – ADR performance

Despite an overall positive quarter for the EAFE Index, there was a fair amount of divergence at the sector level. The defensive-minded healthcare and consumer staples stocks posted double-digit gains (in aggregate), and were the top-performing sectors in the quarter. Cyclical sectors such as financials and technology were middling performers, while the energy, basic materials and telecom sectors posted negative returns the quarter.

Given the above-mentioned strength in the Japanese markets, it is no surprise that four out of the five top contributors to Cambiar's performance in the quarter are domiciled in Japan. The fact that the companies represent a diverse set of industries (e.g., Kao Corp – consumer staples, Asahi Kasei – materials, Toto – consumer discretionary) illustrates the broad participation in the rally. That said, it was not smooth sailing for all of Cambiar's Japanese holdings, as Sony Financial (discussed below) did not keep pace and Komatsu lagged on softer orders from China, which is one of their biggest markets.

Top/Bottom Contributors (Relative to MSCI EAFE Index)

Top Contributors (Avg. Weight)	Contribution	Bottom Contributors (Avg. weight)	Contribution
EADS (2.1%)	90 bps	Saipem (0.8%)	-92 bps
Kao Corp (2.1%)	58 bps	Sony Financial (1.9%)	-82 bps
Asahi Kasei (2.1%)	57 bps	ICAP Plc (2.0%)	-58 bps
Toto (2.2%)	52 bps	Software AG (1.6%)	-58 bps
Mitsubishi Estate (2.0%)	42 bps	Porsche (2.0%)	-55 bps

Performance and contribution to the portfolio for the period of 12.31.12 to 3.31.13.
Source: Factset and Bloomberg

Cambiar managed to overcome the broader market weakness in materials and telecom, as the portfolio's holdings posted positive returns. An avoidance of the underperforming utilities sector was an additional value-add. Cambiar also posted strong gains in the healthcare and consumer staples sectors; however, this above-benchmark stock selection was neutralized by Cambiar's underweight allocation to these sectors.

Underperformance sustained in Cambiar's energy positions represented the largest detractor from performance in the quarter. One name in particular was Saipem, an Italian-based engineering and construction that has been a long-time market leader and overall high quality firm. The company surprised the market by lowering earnings guidance for the year, which led Cambiar to question the ultimate profitability of their backlog. We subsequently sold the position, but were unable to fully escape the downdraft in the stock. While disappointed with how this investment unfolded, Cambiar views this to be a one-off company-specific event; we remain constructive on our remaining holdings in the energy sector.

Cambiar's financial holdings were also a small negative in the quarter. A continued avoidance of European banks enabled Cambiar to sidestep the Cyprus-induced pullback that many banks endured late in the quarter. However, lagging returns from ICAP and Sony Financial pulled down the portfolio's performance in the sector. Sony Financial was negatively impacted by the sell quality/buy beta trade that took place within the Japanese financials as a result of the asset reflation tactics of the Bank of Japan. Once conditions normalize, we anticipate that Sony Financial will revalue to the upside.

Global Select Portfolio

The Cambiar Global Select portfolio gained 9.2% (8.9% net of fees) in the first quarter, outpacing the 6.5% return of the MSCI All-Country World Index. Outperformance in the quarter was primarily driven by the portfolio's U.S. holdings, which comprised approximately 49% of the portfolio.

Global Select Performance

	1Q13	1 Year	3 Year	5 Year	10 Year	Since Inception
Global (g)	9.2%	11.7%	10.6%	6.0%	11.0%	8.3%
Global (n)	8.9%	10.1%	9.2%	4.8%	9.9%	7.3%
ACWI	6.5%	10.6%	7.8%	2.1%	9.4%	2.5%

Inception Date: 2.28.1998 / See Disclosure – Global Select performance

Cambiar's excess return was broad-based at the sector level, as the Global Select portfolio outperformed in seven out of nine sectors. The decision to avoid utilities was an additional value-add, as utilities lagged in the quarter.

Strong returns within the technology sector comprised top contributor to performance. Cambiar's tech holdings are skewed to higher-margin software companies that have pricing power, high recurring revenue streams and high switching costs. Valuations are in line or below the broader market, despite the higher earnings growth and strong balance sheets that these companies possess.

Energy was another bright spot for the Global Select portfolio in 1Q. As Cambiar's energy weight matches that of the index, outperformance was driven by stock selection. The notable gainers, in the quarter, were the portfolio's positions in the refining industry. They were a big beneficiary of the pricing difference between domestic and international oil prices; this lower input cost has resulted in very high margins and earnings for the company.

After negating from performance in 2012, Cambiar's holdings in the basic materials and industrials sectors rebounded in 1Q, and were additional positives for the quarter. In addition to the company-specific catalysts identified for each of our holdings, positive secular tailwinds in many of these companies' end markets (e.g autos, aerospace and agriculture) increase our conviction in the stocks.

Despite positive performance on an absolute basis, Cambiar's consumer staples positions could not keep pace with the benchmark and was a subsequent detractor from performance. One notable underperformer was Imperial Tobacco, which was a newer purchase in the portfolio. While in no way making an endorsement of tobacco, Cambiar's investment thesis is based on the strong cashflow, barriers to entry and shareholder remuneration practices (via dividends and stock buybacks).

Looking Ahead

The MSCI All-Country World Index followed up a 16.1% return in 2012 with a 6.5% return in the first quarter of 2013 – a strong encore. As such, the natural reflex is to anticipate a correction in the market. Given the increasing acceptance of this view, a sell-off in stocks may be a self-fulfilling prophecy. That said, there is a pronounced shift in investor sentiment; unlike last year, where the mentality was more of a shoot first/ask questions later, investors thus far in 2013 have been more willing to shrug off bad news and stay engaged in equities.

Cambiar concurs there are pockets of the market that are approaching full valuation, and that a broader market consolidation would not be a surprise. However, we continue to find value in the market, and are focusing our time and capital on those companies that we feel offer an attractive risk/reward opportunity. Rather than attempt to time the market – an exercise that requires being correct on the way out as well as the decision to re-invest – Cambiar instead maintains a medium to longer term view for our companies. Stock prices follow earnings; if we are correct on the latter, the International Equity and Global Select portfolios should be in good position to generate solid returns for our clients.

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. 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.*

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 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.*

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