International Commentaries

2Q 2013

International Equity ADR and Global Select

Market Outlook

International equities started the second quarter with a strong April, but reversed course in May and June to finish with a -1.0% return. The selling was much more intense in Emerging Markets, as EM stocks were hit by China growth concerns, weaker currencies and the prospect of reduced global stimulus (e.g. U.S. Fed taper talks). As of June 30th, the 2700 basis point performance spread (year-to-date) between the MSCI Emerging Markets Index and the S&P 500 Index is the widest since 1998.

Within developed markets, Japan was once again one of the top-performing countries, with the Nikkei posting a 2Q return of 4.4% (in U.S. dollars). What makes this gain all the more impressive is that Japanese equities incurred a -13% intra-quarter slide before stabilizing to close higher in June. Both the Cambiar International Equity and Global Select portfolios have sizable allocations to Japan, as we believe the combination of attractive corporate fundamentals and a meaningful quantitative easing program should be beneficial to Japanese equities. We encourage you to read our most recent White Paper on this topic, which can be found on the Cambiar Investors website (www.cambiar.com).

International Equity ADR Portfolio

The Cambiar International Equity ADR portfolio managed to shrug off the market's downward pull, and posted a second quarter return of 2.6% (2.6% net of fees). In addition to outperforming for the quarter, Cambiar's 2Q gain enabled the International portfolio to pull ahead of the MSCI EAFE Index on a year-to-date basis.

International ADR Performance

	2Q13	YTD	1 Year	3 Year	5 Year	Since Inception
ADR (g)	2.6%	6.4%	20.1%	13.9%	3.7%	6.1%
ADR (n)	2.6%	6.2%	19.6%	13.2%	2.9%	5.1%
EAFE	-1.0%	4.1%	18.6%	10.0%	-0.6%	1.9%

Inception Date: 2.28.2006 / See Disclosure – ADR performance

Basic materials was the worst performing sector in the MSCI EAFE during the quarter, as slower growth in key end markets (e.g. China) led to fears of reduced demand and lower prices. In contrast, basic materials represented the largest contributor to outperformance for Cambiar, as the portfolio benefitted from better stock performance (+4% vs. -8.8% for the index), as well as an underweight allocation to the sector.

An additional bright spot for the International portfolio in the quarter was financial services; although Cambiar's credit sensitive holdings sold off in tandem with the market, Cambiar's non-bank positions (insurance, private bank, interdealer broker) all posted positive returns. While still a relative underweight vs. the EAFE Index, financials is now the largest sector in the Cambiar portfolio, with a weighting of 20% as of quarter-end. On a year-over-year basis, Cambiar's current financial weight is almost double the 10.5% allocation as of June 30, 2012. As is the case with each of the portfolio's holdings, the increase has been a stock-by-stock process, vs. an explicit intent to increase the allocation.

One sector that was immune to the selling pressure during the quarter was consumer discretionary. Cambiar's overweighting to discretionary and stronger stock performance was a value-add during 2Q. Notable outperformers included retailers as well as automobile OEMs; given the record-high average age of cars on the road today (10.6 years), car companies are well-positioned to benefit from a strong replacement cycle – and represents an opportunity that is gaining appreciation amongst investors.

Day-to-day price action in the Nikkei during the second quarter was more akin to emerging market economy vs. a developed market; that said, Cambiar is maintaining a longer view, and we remain steadfast in our Japanese holdings. Cambiar's quality bias also helped to lessen the blow during the May-June pullback in the Nikkei, as the portfolio's holdings held up better (in aggregate) than the index. Macro newsflow out of Japan will likely be in more of a quiet period leading up to the July 21st Upper

House elections. More detail on Abe's economic plan will likely be unveiled post-election – assuming the Liberal Democratic Party gains majority.

Cambiar also registered positive stock selection in healthcare, energy and telecom. Although Cambiar's holdings in consumer staples trailed the EAFE Index during the quarter, underperformance at the stock level was neutralized by the portfolio's lower relative allocation to this lagging sector. And while not owning utilities in 1Q was a positive, this positioning subsequently resulted in a small negative impact in the second quarter…illustrating the self-cancelling moves that often take place on a quarter-to-quarter basis.

Global Select Portfolio

The Cambiar Global Select portfolio gained 5.1% (4.9% net of fees) in the second quarter, bettering the MSCI All-Country World Index by 550 basis points. To use a baseball analogy, outperformance was based on a high percentage of singles and doubles in the quarter; no home runs per se, but no strikeouts either.

Global Select Performance

	2Q13	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Global (g)	5.1%	14.8%	28.4%	17.1%	4.6%	9.3%	8.5%
Global (n)	4.9%	14.1%	26.8%	15.8%	3.6%	8.3%	7.5%
ACWI	-0.4%	6.1%	16.6%	12.4%	2.3%	7.6%	2.4%

Inception Date: 2.28.1998 / See Disclosure – Global Select performance

At the country level, Cambiar benefitted from positive stock selection from both the U.S. and international allocations. The decision to overweight Japan (the top-performing country of material scale within the MSCI ACWI) was an additional value-add, as was the low allocation to commodity-sensitive sovereigns such as Australia and Canada.

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 the utilities sector posted a small loss for the quarter.

Financials represented the top contribution to return for the quarter. Although performance within the portfolio's bank positions were mixed, Cambiar registered solid gains from the portfolio's insurance holdings, which offer high returns on equity and benefit from an uptick in interest rates. Insurance (vs. banks) constitute the majority of capital allocated to the financials sector.

The portfolio's industrial holdings were another notable bright spot in the quarter. We believe industrials generally continue to offer an attractive risk/reward profile, possessing strong balance sheets, attractive valuations and relatively high earnings transparency via backlogs, book-to-bill ratios, etc. Cambiar's industrial positions are more skewed to later cycle end markets; examples include residential/commercial real estate, autos and aerospace.

Cambiar's strong stock selection in 2Q was most evident in basic materials; the portfolio's materials holdings posted an aggregate return of +1%, vs. -11% for the MSCI ACWI. Cambiar has not participated in gold and related precious metals that were particularly hard-hit in the quarter. The portfolio's materials companies include agriculture, basic chemical and nutrition-related businesses; all of which we view to have healthy and durable end markets.

After setting the pace for the portfolio in the first quarter, Cambiar's technology and energy positions incurred a degree of mean reversion in 2Q; both sectors were slight negative contributors to performance.

Looking Ahead

Despite impressive annualized gains over the past three years, global equities have largely taken a backseat to their fixed income counterparts. Within equities, the U.S. has been the top-performing market, while austerity and slow growth have been headwinds for Europe, and Emerging Markets remain volatile. The Cambiar International Equity and Global Select portfolios continue to seek balance and broad diversification, while maintaining a degree of nimbleness to 'flex' the portfolio if a given sector/region become particularly attractive.

Financial markets remain focused on central bank activity, the U.S. Federal Reserve in particular. Emerging markets have thus far reacted strongly to hints of policy normalization by Mr. Bernanke – not unexpected, given the role that QE has played in pushing capital into these markets. Yet as any tapering by the Federal Reserve will be predicated on improving economic growth, the scaling back of ultra-loose monetary policy may actually be a good sign for emerging markets that depend on the US as an export market. Valuations are certainly compressed in emerging markets; that said, valuation is just one metric that Cambiar considers in the purchase decision.

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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