CAMBIAR INVESTORS
Redefining Value Since 1973

4Q 2013

International SMA Commentaries






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Market Review

Global equities continued their dramatic ascent into the fourth quarter, with many indices closing 2013 at their high of the year. A diminishing sense of crisis, coupled with growing evidence of improving economic activity, awakened investors' animal spirits, and global equities were the direct beneficiary of this increased optimism. U.S. stocks led the way in 2013, with the S&P 500 Index posting a gain of 32.4%. Europe was not far behind, with the Euro Stoxx Index gaining 29.3%. In aggregate, international equities (as measured by the MSCI EAFE Index) returned 22.8%. The one region not invited to the party was Emerging Markets, where lingering fears about growth rates and questions about the impact of tapered quantitative easing in the U.S. precipitated market losses. For the year, the MSCI Emerging Market Index returned -2.6%.

International Equity ADR Portfolio

International ADR Performance

	4Q13	YTD	1 Year	3 Year	5 Year	Since Inception
ADR (g)	5.7%	28.6%	28.6%	12.4%	17.9%	8.3%
ADR (n)	5.5%	27.9%	27.9%	11.7%	17.0%	7.3%
EAFE	5.7%	22.8%	22.8%	8.2%	12.4%	3.9%

Inception Date: 2.28.2006 / See Disclosure – ADR performance

The Cambiar International Equity ADR portfolio was essentially in line with the MSCI EAFE Index for the quarter, but outperformed the benchmark by approximately 580 basis points (gross basis) for the year. 2013 marks the 7th consecutive year of outperformance for the ADR strategy. We are proud of the consistency in outperformance, which we attribute to the insights and research efforts of our investment team and repeatable nature of our relative value discipline.

Portfolio activity was moderate in the quarter, with six liquidations, four new buys, and incremental trims/adds to existing positions. There was nothing thematic in nature on the buys or sales; new positions included a healthcare company, Japanese bank, auto parts maker and a basic materials company.

At a country level, Cambiar received strong contributions from the United Kingdom, Mexico and Germany. After a fast start to the year, Japan has remained positive on absolute terms, but trailed its European counterparts in the back half of 2013. Japan continues to represent the single-largest country allocation within the Cambiar portfolio, based on a combination of attractive corporate fundamentals as well as an equity-friendly monetary and fiscal backdrop.

Cambiar's Technology holdings comprised the top value-add in the quarter; Technology was also a positive contributor on a full year basis. Value investing in Technology is always a challenge, as the attractive valuation may be due to companies that are on the wrong side of innovation – resulting in a greater potential for value traps. Cambiar seeks technology companies that are leaders in the industry, offer goods/services that possess high switching costs and recurring revenue streams, as well as strong financials and reasonable valuations.

Positive stock selection was also evidenced in Financials, where Cambiar's holdings outperformed the benchmark in the quarter (as well as the year). The portfolio's Financials positions are diversified by geography and industry/end market, which we believe helps to provide a more balanced return profile. In addition to banks and insurance companies, the portfolio has also benefitted from niche holdings such as trade execution/post-trade services and private banking.

The portfolio also received positive contributions from holdings in Consumer Discretionary, Materials and Healthcare, as well as a continued avoidance of Utilities. Given their more defensive characteristics, Utility stocks were relative laggards in 2013. Cambiar is challenged to participate in Utilities, as many of these companies do not meet our value creation and 50% hurdle rate criteria.

The Energy sector was another relative underperformer in 2013; unlike Utilities, Cambiar does participate in Energy, which subsequently detracted from portfolio performance in 2013. The Integrated oil companies as a group underperformed due to growing investor frustration with the ever-increasing capital expenditure that resulted in essentially zero production growth. The resultant negative free cash flows and implications for dividends in a flat commodity price environment gave most investors pause. Fortunately, Cambiar owned the one exception in the integrated space, and the stock outperformed EAFE for the year. The oil services companies as a group suffered from negative earnings revisions throughout the year, and the Cambiar portfolio was not immune. Despite challenging performance in the short-term, Cambiar remains constructive on the Energy stack, and believe our companies are in good position to exhibit solid earnings/margin growth and multiple expansion in 2014.

As the global macroeconomic climate continues to improve, we anticipate performance within equities will be less dictated by country and sector calls, and more heavily impacted by company-specific fundamentals. The more stocks move independently of macro newsflow (as well as each other), the better the backdrop for active managers such as Cambiar to add value.

Global Select Portfolio

The Cambiar Global Select portfolio eked out a small margin of outperformance in the 4th quarter, capping off a very strong year for the strategy. Cambiar outpaced the MSCI All-Country World Index by over 1300 basis points in 2013 (gross basis), with virtually all of the excess return driven by stock selection. With the understanding that allocations to global equities are less prevalent relative to traditional asset classes, we believe the Global Select portfolio offers a compelling investment solution for investors seeking broad representation in equities.

Global Select Performance

	4Q13	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Global (g)	8.1%	36.0%	36.0%	12.9%	21.9%	9.1%	9.4%
Global (n)	7.8%	34.5%	34.5%	11.7%	20.7%	8.1%	8.4%
ACWI	7.3%	22.8%	22.8%	9.7%	14.9%	7.2%	3.2%

Inception Date: 2.28.1998 / See Disclosure – Global Select performance

Cambiar's U.S. holdings comprised the top country contribution in the quarter; investments sourced from the U.S. were also the top contributor on a full year basis. Although Global Select has some level of flexibility as it relates to country allocations (e.g. a current double weighting in Japan vs. the ACWI), the intent is to outperform via security selection, as opposed to making significant country calls.

At the sector level, Technology was a standout in the quarter, with three positions gaining more than 25% (vs. a 4Q return of 12% for the average Tech company in the benchmark). Technology was also a positive contributor on a full year basis. While Cambiar attempts to seek relatively equal U.S./non-U.S. representation within a given sector, Technology has been one area where U.S. companies are more prevalent. This speaks to the quality of U.S. technology companies and their market leadership. It is also worth noting that many of the portfolio's Tech positions are global franchises, which makes the country of domicile incrementally less relevant.

While less impactful on performance in the quarter (but positive nonetheless), the portfolio's Financial holdings represented the largest contribution to performance in 2013. Individual highlights spanned a wide variety of participants, including U.S. banks, life insurers, financial services and private banking. Cambiar anticipates the positive business momentum and improving operating environment for our Financial positions to continue into 2014.

Another source of excess return for the portfolio over the course of 2013 (including 4Q) was from Cambiar's stock selection in Consumer Discretionary. The portfolio's investments in this sector cover a wide range of industries, including automakers, luxury goods, a cruise line and cable company. Given the strength in Discretionary stocks this year, Cambiar has been active in trimming/selling positions as they reach their price target.

One sector that did not keep pace in the quarter was Industrials, which had been a positive contributor for the portfolio for most of 2013. One example in the quarter was Stanley Black and Decker, a diversified tools and services company with a global footprint. To our disappointment (and surprise), the company reduced their forward earnings outlook, resulting in a negative reset in the stock price. After speaking to senior management and reviewing internally, Cambiar views the investment case to still be on track, although pushed out a bit. With a number of self-help measures as well as strengthening end markets, we believe Stanley still has the potential to be a very good investment for our clients.

Given the strong appreciation in stocks during 2013, any cash balance was a performance drag. While not significant (3-4%), Cambiar's cash position subsequently was a detractor from performance. Although sensitivity to valuation and adherence to one's sell discipline may have worked against the portfolio in 2013, we continue to believe that such prudence will be rewarded over the long term.

Looking Ahead

Global equities staged an impressive performance in 2013, as stocks rallied throughout the developed world; Japanese equities posted their best calendar-year return (yen-denominated) since 1972, and the U.S. and European markets also experience dramatic upside. As we contemplate the outlook for 2014, Cambiar's observation is that economic growth on the whole is accelerating, and markets are not explicitly expensive, even if they are no longer as "cheap" as they had been in the last several years.

At the risk of overly simplifying matters, the key inputs in equity market performance are earning growth and multiple expansion. Applying this concept to the United States, Europe, Japan and Emerging Markets results in varying outcomes:

- Since bottoming in March 2009, U.S. equities have experienced both earnings growth and multiple expansion. While we expect the U.S. economy to continue along its moderate and steady path, the rate of market gains is likely to attenuate in 2014, based on expectations of modest earnings growth and slowing multiple expansion. Such an investing environment will likely result in more dramatic variation in performance among sectors and stocks.

- Europe has also experienced an earnings recovery and a significant re-rating in 2013. However, it is important to remember that Europe is just exiting 6 consecutive quarters of recession. As a consequence, the earnings recovery for many companies (particularly those that are more domestically oriented) has been muted. While multiple expansion in Europe may also slow in 2014, additional upside based on a better-than-expected earnings rebound could be attained.

- Japan appears poised to exit a multi-decade experience of deflation. In our view the "three arrows" of Abenomics, led by an aggressive program of quantitative easing, look increasingly likely to succeed in normalizing economic activity and reflating asset prices in Japan. As such, we think this market has the potential to provide both improvement in overall earnings and upside to multiples.

- Cambiar remains cautious on emerging markets, which face headwinds from both potentially decelerating growth rates, as well as the likely increase in the global cost of capital (coincident with the beginning of the taper in the U.S.). In simple terms, lower growth rates and a higher cost of capital are unsupportive for emerging markets, particularly for high quality companies whose stocks are often quite expensive.

Specifically regarding China, it is clear that this is an economy in the midst of a long-term transition away from debt-fueled growth in infrastructure and exports, and toward growth that will be driven more by domestic consumption of goods and services. Single digit GDP growth will be the norm, as the drivers for growth undergo change and loan growth slows. In this context, Cambiar continues to find opportunities to invest in Chinese growth, albeit mostly in developed market stocks.

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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2401 E. Second Ave. #500, Denver, CO 80206 | tel 303.302.9000 toll 1.888.673.9950 fax 303.302.9051