

# Cardinal Capital Management, L.L.C.

## Cardinal Small Cap Value Fund - CCMSX

Second Quarter 2018



### FIRM OVERVIEW

- Focus on Small & SMID Cap Value
- Experienced, Stable Team
- 25-Year+ Track Record
- FCF-Based Valuations
- 100% Independent, Partner Owned
- \$3.6 Billion AUM

### INVESTMENT TEAM

**Eugene Fox, III**

*Managing Partner/Portfolio Manager*

**Robert Kirkpatrick, CFA**

*Managing Partner/Portfolio Manager*

**Rachel Matthews**

*Partner/Portfolio Manager*

**Robert Fields**

*Partner/Portfolio Manager*

**Chitra Sundaram**

*Senior Research Analyst*

**Christopher Robertson**

*Senior Research Analyst*

**Michael Cotogno, CFA**

*Senior Research Analyst*

### Market Commentary

Small and large cap indices, as represented by the Russell 2000 and 1000, rose 7.75% and 3.57%, respectively, in the second quarter. Within the Russell 2000, the value index rose 8.30% while the growth index rose 7.23%. The value index rose by more than its growth counterpart due to a higher weighting in better performing energy and real estate stocks. From an economic perspective, the relative performance of small cap stocks stemmed from the increased prospects of a trade war as small companies with their more domestic business mix are generally perceived to be less impacted by tariffs. Defensive sectors including health care, real estate and utilities performed better than most cyclical sectors such as materials, industrials and technology as investors feared that these pending trade actions would reduce global growth. Financial services stocks also lagged, particularly banks which benefit from a stronger economy and higher interest rates. There were strong fund flows into small cap stocks via ETFs, resulting in the smallest, less liquid stocks and lower quality businesses within the Russell 2000 index outperforming.

Although the current economic expansion has run for nearly nine years, recent leading indicators suggest solid growth over the near term with few signs of an impending recession. Under new leadership, the Federal Reserve has continued to methodically raise short-term interest rates despite modest signs of inflation as the impact of the tax cut has yet to be felt and there is little slack in the labor force. However, even with substantial new issuance, the U.S. yield curve is now near its flattest level in over a decade as long-term interest rates fell on worries that a trade war would reduce business activity and dampen inflation. The Trump Administration announced tariffs on steel and aluminum imported from the EU, Canada and Mexico and on \$50 billion of imported Chinese goods. Fulfilling a campaign promise, the President is attempting to open markets and eliminate tariffs put in place by our trading partners that have resulted in lost domestic jobs, persistent trade imbalances and an uneven playing field for American companies. Whether Trump's negotiating strategy proves successful is unclear. Regardless, his tactics have clouded the economic outlook, hurt business sentiment and increased equity market volatility.

### Performance Commentary

The second quarter performance of the Cardinal Small Cap Value Fund, at 3.26%, lagged the 8.30% return of the Russell 2000 Value Index. The main detractors from our relative performance were stock selection in the energy, consumer staples, financials and consumer discretionary sectors along with a lower weighting and stock selection in the real estate sector. The primary contributors were stock selection in the industrials and technology sectors. In energy, Callon Petroleum's share price fell despite higher oil prices because of widening basis differentials in the Permian Basin caused by a short-term lack of adequate pipeline capacity and management's decision to finance the acquisition of adjacent acreage with equity. The stock price of consumer staples company HRG Group declined sharply after its 60% owned subsidiary, Spectrum Brands, reported weak results due to short-term manufacturing and distribution issues at two new facilities. Management has acted aggressively to fix these problems, but the market remains skeptical. In financials, the share price of interdealer broker BGC Partners was lower despite solid operating results on concerns about the company's ability to complete a timely tax-free spinoff of Newmark Group, its real estate services business. In consumer discretionary, the share price of Del Frisco's Restaurant Group declined after management announced the acquisition of Barteca Restaurant Group. Although a good

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strategic fit with meaningful potential earnings accretion, the deal valuation was full and leaves the company highly levered. In real estate, our lower weighting detracted from performance as interest-sensitive REITs rallied when long-term rates fell. In addition, shares of property owner and developer Howard Hughes Corporation fell after the CEO sold stock to help finance the purchase of a long-term warrant on a much larger number of shares. In industrials, the stock price of CBIZ, a financial services and business consulting company, rallied on strong earnings and the potential benefits of tax reform on its business. The share price of CTS Corporation, a manufacturer of sensors and actuators in the technology sector, benefitted from strong organic growth in its non-automotive end markets and a lower tax rate.

The annualized net return of the Cardinal Small Cap Value Fund since inception (April 1, 2014) is 8.99% versus 8.30% for the Russell 2000 Value Index. Cardinal managed \$3.6 billion in small and SMID cap value assets as of June 30, 2018.

### Market and Portfolio Outlook

Our near-term outlook for equities remains cautious as valuations are full, the economic cycle is extended, monetary policy is tightening and the possible imposition of tariffs could both slow the economy and accelerate inflation. Nonetheless, the U.S. economy is currently growing at a solid pace and the beneficial impact of the U.S. corporate tax cut is only beginning to be felt. The prospects for domestic small cap stocks appear better than for large caps as the stronger U.S. dollar is less of a headwind and the impact of tariffs is less consequential. However, if the trade issues are favorably resolved or if the U.S. economy starts to slow, small cap stocks would likely underperform. The Federal Reserve still expects to gradually raise interest rates and is unlikely to deviate from that path unless the trade situation escalates or inflation increases meaningfully. With heightened uncertainty, we continue to prefer stocks where the success of the investment is based upon company-specific prospects and less dependent on the general economic outlook. Our high return requirements and long-term focus often make risk averse environments challenging for our relative performance because investors shorten their time horizons.

The strong M&A market, increased corporate share repurchases from repatriated cash and the lower U.S. corporate tax rate are all supporting equity valuations. Private equity and activist hedge funds continue to unlock value by improving operational performance, divesting non-core assets and selling companies. These activities have been and should remain a source of alpha in our portfolio over time. We remain optimistic that our portfolio companies will continue to redeploy their free cash flow through share repurchases, dividends and opportunistic acquisitions which should bode well for future value creation.

### Net Performance as of June 30, 2018

	Cardinal Small Cap Value Fund	Russell 2000 Value Index
Q2 2018	3.26%	8.30%
12 Month Period Ended June 30, 2018	14.61%	13.10%
Annualized Inception to Date*	8.99%	8.30%

\*Inception Date: April 1, 2014

*Net Expense Ratio: 1.00%, Gross Expense Ratio: 1.44% - Fee waivers are contractual through May 31, 2019.*

*Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. For performance data current to the most recent month end, please call 1-844-CCM-SEIC (1-844-226-7342).*

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### Disclosures

There are risks involved with investing, including possible loss of principal. There can be no assurance that the Portfolio will achieve its stated objectives. Equity funds are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's full or summary prospectus. In addition to the normal risks associated with investing, investments in smaller companies typically exhibit higher volatility.

The Russell 2000 Index consists of the 2000 smallest stocks in the Russell 3000 Index that represent approximately 10% of the total market capitalization of that Index. The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe and includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index consists of the largest 1000 stocks in the Russell 3000 Index that represent approximately 90% of the total market capitalization of that Index. These indices are included merely to show the general trend in the small-cap equity markets in the periods indicated and is not intended to imply that Cardinal's investments were comparable to the index either in comparison or element of risk. There is no guarantee that the performance of the strategy will meet or exceed any index. An investor cannot invest directly in an index.

The investments discussed herein are not a comprehensive list of securities or positions held by the Strategy. There is no assurance that any securities discussed herein will be or remain in the portfolio or, if sold, have not been or will not be repurchased. Portfolio weights of the securities mentioned as of 6/30/18 are listed below:

Callon Petroleum (CPE): 2.0%, HRG Group (HRG): 1.6%, Spectrum Brands (SPB): 0.0%, BGC Partners (BGCP): 2.6%, Newmark Group (NMRK): 0.0%, Del Frisco's Restaurant Group (DFRG): 1.1%, Howard Hughes Corporation (HHC): 1.9%, CBIZ (CBZ): 3.2%, CTS Corporation (CTS): 1.6%

Holdings subject to change. Current and future holdings subject to risk.

Any projections, market outlooks or estimates in this newsletter are forward looking statements and are based upon certain assumptions. Other events which were not taken into account may occur and may significantly affect the returns or performance of the Strategy. Any projections, outlooks or assumptions should not be construed to be indicative of actual events which will occur.

The Cardinal Small Value Fund is distributed by SEI Investments Distribution Co. (SIDCO), 1 Freedom Valley Dr., Oaks, PA 19456. Funds are managed by Cardinal Capital Management, L.L.C. (the advisor). SIDCO is not affiliated with Cardinal Capital Management, L.L.C.

The investment advisor for the Cardinal Small Cap Value fund has contractually agreed to reduce its fees and/or reimburse expenses in order to keep Total Annual Fund Operating Expenses (excluding interest, taxes, brokerage commissions, Acquired Fund Fees and Expenses and extraordinary expenses) from exceeding 1.00% of the Fund's Institutional Class shares' average daily net assets until May 31, 2019. These reductions have lowered operation expenses and increased total return to shareholders.

**To determine if the Cardinal Small Cap Value Fund is an appropriate investment for you, carefully consider the fund's investment objectives, risk, and charges and expenses. This and other information can be found in the fund's full or summary prospectus which can be obtained by calling 1-844-CCM-SEIC or by visiting [www.cardcap.com](http://www.cardcap.com). Please read the prospectus carefully before investing. There are risks involved with investing, including possible loss of principal. In addition to the normal risks associated with investing, investments in smaller companies typically exhibit higher volatility.**