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Market Commentary

Micro, small and large cap indices rose 3.1%, 4.3% and 0.9%, respectively, during the first quarter of 2015. Within the Russell Microcap Index, the value and the growth indices increased 2.0% and 6.6%, respectively. The value index rose less than its growth counterpart primarily due to a roughly 75% lower weighting in healthcare which was the strongest performing sector. Breadth was also unusually narrow with only 31% of industry groups producing better performance than the Russell Microcap Index and just a handful of industry groups contributing the majority of the index return. Nevertheless, ex-biopharma which was a significant contributor to the overall index's return, high quality stocks outperformed. The performance of the broad equity market presented a mixed picture from an economic perspective as interest rate sensitive utilities and financials were weak along with energy stocks. Industrial cyclicals showed modest gains despite foreign currency exposure, while consumer discretionary and healthcare stocks were the top performers. From a valuation perspective, smaller cap stocks are only slightly above their historical average versus large cap stocks. However, smaller cap earnings have been less negatively impacted by the strong U.S. dollar and falling oil prices.

In the first quarter, the U.S. reported faster economic growth than the rest of the developed world which resulted in a rising dollar and weaker commodity prices. Continued domestic employment gains, higher nominal wages and lower gasoline prices lifted consumer confidence and spending. Nonetheless, the Federal Reserve has held off increasing short term interest rates as inflation remains mute, bad weather hurt first quarter GDP growth and the strong dollar dampens growth prospects. Yellen did suggest that the first interest rate hike since the credit crisis is possible later this year, although weakness in European and Japanese economies leaves their central banks in easing mode. Although oil prices closed above their low for the quarter, they still declined 10% to \$49/barrel which should cause U.S. output to fall in 2016. The current robust M&A environment, particularly in healthcare, is driven by companies' desire to sustain earnings growth and to offset the drag of a strong dollar and weak oil prices. Notwithstanding the major decline in oil prices, energy-related M&A has only picked up after the first quarter.

Performance Review

The first quarter net performance of Cardinal's Microcap Value Composite, at 3.4%, significantly outpaced the return of both the Russell Microcap Value and Core indices

FIRM OVERVIEW

- Experienced Value Investors
- 22-Year+ Track Record
- Research-Driven Process
- FCF-Based Valuations
- Consensus Decisions
- Owned by Current & Former PMs
- \$1.9 Billion AUM

OBJECTIVES

- Superior Risk Adjusted Returns
- Preservation of Capital

HOW WE SEEK TO ADD VALUE

- Intensive fundamental research
- Detailed DCF-based valuation analysis
- Opportunistic stock selection balancing risk and return
- Aim to identify good businesses whose stocks are temporarily out-of-favor in structurally inefficient market niches
- Our annual return objective has always been 20%, making our valuations more conservative
- Our discipline is similar to that used by companies and private equity investors, resulting in more than 70 of our investments being acquired since 1995

Performance Review Cont'd

which returned 1.2% and 3.1% respectively. Stock selection within the telecommunications, information technology, consumer discretionary and materials sectors contributed to our relative performance. Within telecommunications, the stock price of FairPoint Communications, which provides communications services in rural and small urban communities, appreciated on the favorable resolution of a union strike. Within information technology, PDF Solutions' share price rebounded sharply after the technology services provider settled its contract dispute with Samsung on favorable terms. Also, the stock of Applied Optoelectronics recovered from a previous sell off due to a temporary component shortage which the company resolved. Within consumer discretionary, the share price of MDC Partners, an owner of advertising agencies, rose sharply on an upbeat outlook based on key new business wins. The stock of Cinemark appreciated on optimism for the 2015 movie slate which will drive attendance to the company's theaters and speculation that the company is up for sale. Within materials, shares of Innospec rose as the specialty chemicals company reported a strong fourth quarter and better than expected guidance despite uncertainty within its oilfield-related segment.

The annualized net return of Cardinal's Microcap Value Composite since inception (July 1, 2012) is 18.3% versus 18.4% for the Russell Microcap Value Index. Cardinal managed \$1.9 billion in micro, small, and smid cap value assets as of March 31, 2015.

Highlighted Investments

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. PDF Solutions is the leading provider of yield improvement technologies and services to companies that design and manufacture semiconductors. Their solutions are designed to lower their client's design and manufacturing costs, enhance time to market, and improve profitability by addressing the interaction between design and manufacturing. These interactions occur from product design through initial process ramps to mature manufacturing operation. PDF has access to vast amounts of real-time industry data, not available to the individual companies, which it uses to solve customer-specific problems. As a result, PDF's customers typically achieve production yields that are 15-20% greater than levels possible using in-house solutions. PDF's data advantage effectively keeps out competition which is limited to the customers going it alone.

PORTFOLIO TEAM

- Experienced and stable team of value investors
- Collaborative and dynamic process capitalizes on collective experience
- Consistency in team responsible for 22+ year track record
- Compensation based on portfolio



GENE FOX
MANAGING PARTNER
At Cardinal Since 1995



ROB KIRKPATRICK
MANAGING PARTNER
At Cardinal Since 2000



RACHEL MATTHEWS
PARTNER
At Cardinal Since 2001

Highlighted Investments

This option is only realistic for large players such as Taiwan Semiconductor. In recent years, the semiconductor industry's need to create smaller and more powerful chips coupled with the enormous costs and difficulty in doing so has made PDF more important to its customers. As a result, PDF has negotiated royalty payments from their customers based upon achieving volume targets, and these very high margin revenues are poised to grow meaningfully over the coming years. Cardinal initiated a position in PDF stock in early 2014 as we felt that the company's attractive prospects were not well understood due to limited analyst coverage. We meaningfully increased our stake after the company announced a contract dispute with a large customer which caused a significant but temporary decline in the stock price. Adjusting for PDF's sizable cash balance, the stock trades at an attractive multiple of cash flow, especially for a company that can grow its cash flow in excess of 15% for the next several years. The next catalyst for PDF stock is likely to occur when its royalties associated with the new 14 nanometer chips selected for the new Apple I-Phone begin to ramp. We also feel that PDF's stock has significant upside associated with inspection solutions being developed and through new customer wins.

Market and Portfolio Outlook

Despite a weak start, U.S. economic growth in 2105 is expected to remain moderate, inflation benign, oil prices low and the dollar strong. GDP growth should pick as U.S. consumers become more confident and job growth and lower gas prices both boost disposable income. While the Federal Reserve will likely raise interest rates in 2015, it is apt to be later in the year and more slowly than investors expect due to weak global growth and subdued inflation. Low global interest rates are also likely to keep long term U.S. interest rates from rising significantly. Although oil prices have risen above \$50/barrel, absent escalation of Middle Eastern conflict, we expect prices to remain depressed. Production in the U.S. is forecast to grow throughout 2015 and demand is only starting to pick up. Although positive for inflation, the strength of the dollar negatively affects U.S. corporate profits for multinational companies. However, small cap companies, with less foreign business, are not as impacted. Despite these headwinds to U.S. corporate earnings, our outlook for the domestic equity market remains cautiously optimistic as valuations are in-line with historical averages on an absolute basis. Our portfolio company managements are actively deploying their free cash flow through share repurchases, dividends and opportunistic acquisitions which should bode well for the future.

Disclosures

Net performance reflects the deduction of advisory fees and expenses which reduce an investor's total return on investment. Returns presume investment for the entire period indicated and reinvestment of all interest income, capital gains, dividends and other distributions. Performance returns for 2014 are unaudited estimates and have been computed by Cardinal. Depending on the timing of an investor's investment in the strategy, net performance for such investor may vary from the net performance stated herein. Past performance is not indicative of future results.

The Russell Microcap Index consists of the smallest 1,000 stocks in the Russell 2000 Index plus the next 1,000 smallest eligible stocks by market cap. The Russell Microcap Value Index measures the performance of the microcap value segment of the U.S. equity market. It includes Russell Microcap companies that are considered more value oriented relative to the overall market as defined by Russell's style methodology. 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 discussion of specific discrete investments in this newsletter (i) is included merely to illustrate certain investment processes and strategies utilized by Cardinal, (ii) is not intended to indicate overall performance that may be expected to be achieved by the Strategy, and (iii) should not be considered a recommendation to purchase or sell any particular security. 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.

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.