SMID CAP CLIENT NEWSLETTER

First Quarter 2015

Cardinal Capital
MANAGEMENT, L.L.C.

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Market Commentary

Small, smid and large cap indices rose 4.3%, 5.2% and 0.9%, respectively, during the first quarter of 2015. Within the Russell 2500, the value and the growth indices increased 3.0% and 7.4%, respectively. The value index rose less than its growth counterpart primarily due to a significantly lower weighting in healthcare which was the strongest performing sector and a higher weighting in financials which was among the poorest performing sectors. Breadth was also unusually narrow with only 27% of industry groups producing better performance than the Russell 2500 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 index's overall return, high quality small cap 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, small cap stocks are only slightly above their historical average versus large cap stocks. However, small 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 SMID Cap Value Composite, at 8.7%, significantly outpaced the return of both the Russell 2500 Value and Core indices which

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

returned 3.0% and 5.2% respectively. Based on these results, Cardinal was one of the top performing small and smid cap managers. These returns were the result of solid execution and risk management. Stock selection across all sectors contributed to our relative performance, particularly within the consumer discretionary, energy, health care, and financials sectors. In consumer discretionary, the share price of MDC Partners, owner of advertising agencies, rose sharply on an upbeat outlook based on key new business wins. Our energy holdings had positive returns versus the index's negative return, due primarily to our investment in World Fuel Services, a fuel logistics company, which benefits from higher oil price volatility and volumes. In addition, the stock of Concho Resources rose as oil prices stabilized and this high quality Permian basis E&P company was able to raise equity and enhance its financial liquidity in the weak energy market. Our biopharma holding, Ligand Pharmaceuticals, added meaningfully to our relative performance due to positive news regarding several drugs in various stages of commercialization. In financials, our holding in real estate developer Howard Hughes rebounded as its operating income is ramping faster than expected.

The annualized net return of Cardinal's SMID Cap Value Composite since inception (April 1, 2010) is 15.8% versus 13.0% for the Russell 2500 Value Index and 14.7% for the Russell 2500 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. Forest City Enterprises is a real estate focused conglomerate controlled by the Ratner Family based in Cleveland Ohio. Founded in the 1920's as a distributor of commercial building supplies, the company expanded into building supply retail, prefabricated housing production and real estate ownership. In the 1970's & 1980's the retail and manufacturing businesses were divested to create what today is primarily an owner, manager and developer of commercial and residential properties. Although the family members are generally savvy businessmen, the Ratner's have historically managed the business without consideration for how the stock traded in the public markets. In that regard, most of the Forest City's public peers have sought to improve their valuation by converting to Real Estate Investment Trusts. Since REIT's must pay out 90% of their net income as dividends, they trade based on yield and often at a

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 Cont'd

premium to asset value. Forest City is currently a taxable C-Corporation and does not pay a dividend. The Company also has materially higher leverage than its peers as well as more development assets versus income generating assets, all of which result in a public market valuation for the company that is 20% below our estimate of its net asset value. In January of this year, management announced its intention to reduce this discount. The first step is converting to a REIT and establishing a dividend beginning in 2016. Forest City is also planning to reduce its development assets and cut financial leverage through a combination of non-core asset sales including its equity interests in the New York Knicks and Barclay's Center, as well as the forced conversions of its convertible debt. Finally, by reducing its development activities on an ongoing basis, the company is planning to reduce its overhead costs to increase operating profit margins. We have been pleased with the progress management has made to date and think their actions will significantly reduce the valuation discount at which the shares trade. We believe the move to unlock the value of its real estate assets through a shareholder friendly dividend based operating model offers investors attractive absolute and relative returns.

Lithia Motors is one of the largest automobile dealers in the US, selling thirty brands of domestic and foreign vehicles at 130 dealerships in 14 states. Although Lithia makes money selling new and used cars, over 50% of its income comes from the more stable businesses of arranging financing, warranties, and credit insurance as well as from providing vehicle parts, maintenance, and repair services. Founded in 1946 as a single Chrysler dealership, Lithia began to acquire other dealerships in the late 1960's but the pace of acquisitions accelerated after the company went public in 1996. We considered investing in the auto dealers after the financial crisis but concerns about the dealership model and its dependence on floor plan financing from the manufacturers deterred us. Nonetheless, we continued to follow the industry and became convinced that business model was intact. Moreover, pent-up demand for new vehicles coupled with low cost credit and attractive product offerings has extended the auto sales cycle. The average age of vehicles on the road today has risen to over 11 years. In addition, a favorable environment currently exists to acquire dealerships as baby boomers retire and decide to sell their businesses. The industry is fragmented with 17,000 dealerships and only a few public companies with 30% in total market share. Lithia's investment in systems and technology allows the company to vastly improve the margins of its acquisitions. Successful acquisitions have lifted Lithia's public market valuation well above the level it pays to make them. Thus, acquisitions are very accretive, and management believes that they can add ten percentage points of

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Highlighted Investments Cont'd

annual growth to Lithia. In the third quarter of 2014, an excess of used vehicles prompted Lithia to liquidate inventory at unfavorable rates, which caught investors off guard and depressed Lithia's stock. We viewed this as temporary and used it as a buying opportunity. Since that time the Lithia's results have gotten back on track with its recent large acquisition performing above expectations and its valuation has risen. However the stock remains attractive relative to its strong fundamental top and bottom line prospects.

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.

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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 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500 Value Index measures the performance of small to mid-cap value segment of the U.S. equity universe and includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. These indices are included merely to show the general trend in the small to mid-cap equity markets in the periods indicated and is not intended to imply that Cardinal's investments were comparable to the indices either in composition or element of risk.

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.

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