SMALL CAP CLIENT NEWSLETTER

First Quarter 2015

Cardinal Capital MANAGEMENT, L.L.C.

Market Commentary

Small and large cap indices rose 4.3% and 0.9%, respectively, during the first quarter of 2015. Within the Russell 2000, 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 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 29% of industry groups producing better performance than the Russell 2000 index and just three industry groups contributing 60% of the index return. Nevertheless, ex-biopharma which contributed more than 30% of the index 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 Small Cap Value Composite, at 7.9%, significantly outpaced the return of both the Russell 2000 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 2.0% and 4.3% respectively. Based on these results, Cardinal was one of the top performing small cap managers. These returns were the result of solid execution and risk management. Specifically, stock selection across all sectors in addition to favorable health care, financials and technology sector weightings contributed to our relative performance. Our biopharma holding, Ligand Pharmaceuticals, added meaningfully to our relative performance due to positive news regarding several drugs in various stages of commercialization. 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 consumer discretionary, the share price of MDC Partners, owner of advertising agencies, rose sharply on an upbeat outlook based on key new business wins. In financials, our holding in real estate developer Howard Hughes rebounded as its operating income is ramping faster than expected. In industrials, KAR Auction Services' stock price was strong as off-lease auto volumes continued their cyclical recovery. Finally, PDF Solutions' share price rebounded sharply after the technology services provider settled its contract dispute with Samsung on favorable terms.

Over the last year, the net performance of Cardinal's Small Cap Value Composite, at 11.9% versus 4.4% and 8.2% for the Russell 2000 Value and Core indices also places us among the top performing managers. The annualized net return of Cardinal's Small Cap Value Composite since inception (July 1, 1992) is 13.4% versus 11.4% for the Russell 2000 Value Index and 10.2% for the Russell 2000 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

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

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. 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.

Krispy Kreme is a retailer and wholesaler of high-quality donuts. The company was founded in 1937 when Vernon Rudolph bought the recipe from a New Orleans-based French chef and it currently operates or franchises over 1,000 locations in 24 countries. Many of the company's stores provide the unique experience for customers of viewing their donuts being made. This experience, along with Krispy Kreme's long operating history, has created significant brand awareness and consumer loyalty both on the U.S. and in international markets. While the company's products are well known to consumers, Krispy Kreme's store footprint is underpenetrated due in part to financial mismanagement following the company's IPO in 2000 which nearly caused the company to file for bankruptcy four years later. Following a change in management, Krispy Kreme closed unprofitable stores and stabilized franchisee results which improved financial performance. However, store growth was limited until unit economics could be improved. In that regard, the company reduced the size of its production equipment so that it occupies less square footage without changing the customer experience. While the results are early, these new stores are generating industry-leading cash on cash returns and management believes they can triple their

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domestic store count using this new format. The international division also has years of growth ahead. Cardinal first invested in Krispy Kreme shares in 2012 at a depressed valuation and sold after the company's same stores sales picked up and the stock rose several-fold. We initiated our current position after sales trends slowed and the stock price declined. While the company's stock trades at a healthy valuation based on current results, its lucrative franchise model and long runway for store growth make Krispy Kreme a unique opportunity. We are also impressed with new management and expect them to remain focused on store growth while enhancing the customer experience via coffee offerings and loyalty programs.

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 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. 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.

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