SMID CAP CLIENT NEWSLETTER

Second Quarter 2015

Cardinal Capital
MANAGEMENT, L.L.C.

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Market Commentary

Small, smid and large cap indices rose 0.4%, -0.4% and 0.2%, respectively, during the second quarter of 2015. Within the Russell 2500, the value index declined 1.3% while the growth index increased 0.6%. The value index trailed its growth counterpart due to a significantly higher weighting in utilities and financials and a lower weighting in information technology and healthcare stocks which were the top two performing sectors. The financial services sector saw strength in bank stock prices on the prospect for higher interest rates essentially offset by weakness in real estate stocks and REITs. Small-cap breadth remained narrow as just over 30% of industry groups produced better performance than the core index versus the historical average of 48%, though breadth improved relative to the first quarter. The performance of the broad equity market was defensive as the healthcare and consumer sectors rose while the cyclical industrials, materials and energy sectors produced modest losses. Utilities were the worst performing sector as yield sensitive stocks declined on the outlook for higher interest rates. 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.

Despite a disappointing first quarter GDP report, prospects for moderate economic growth in the U.S. for the rest of 2015 remain intact as employment gains and higher wages lift consumer confidence. Although global economic growth was tepid, increased monetary stimulus devalued European and Japanese currencies but made their exports more competitive. The threat of a Greek bankruptcy and exit from the Eurozone riled markets, but the impact on the bond markets of weaker Eurozone countries has been muted. The Federal Reserve has not yet increased short-term interest rates despite a low unemployment rate as inflation has been below target and the strong U.S. dollar has dampened domestic growth prospects. However, Fed Chair Yellen reiterated that the first interest rate increase is likely to occur this year, though the increase would be small and further interest rate actions were not imminent. Oil prices rose during the quarter despite an oversupplied market. M&A activity continues to be robust, particularly in healthcare, as companies attempt to sustain earnings growth in a low revenue growth environment. Although the strong U.S. dollar has dampened corporate revenues and earnings growth, profit growth outside the energy sector has been surprisingly resilient. In light of the sanguine outlook for corporate profits, equity valuations remain attractive relative to bonds and are in line with historical averages on an absolute basis.

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FIRM OVERVIEW

- Experienced Value Investors
- 22-Year+ Track Record
- Research-Driven Process
- FCF-Based Valuations
- Consensus Decisions
- Owned by Current & Former PMs
- $2.0 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

The second quarter net performance of Cardinal's SMID Cap Value Composite, at -1.5%, modestly lagged the -1.3% return of the Russell 2500 Value Index. The primary detractors from relative performance were stock selection in the financials, industrials and consumer discretionary sectors. Within financials, the share price of Howard Hughes fell on market fears that potential higher rates would adversely affect real estate prices. Within industrials, the stock of Genesee & Wyoming declined after the company guided down significantly for the second quarter due to weak shipments in coal and oil. In consumer discretionary, the stock price of ad holding company MDC Partners was the key detractor as management announced that the SEC is investigating its expense reimbursement policies, acquisition accounting and third party trading in the company's stock. Although disconcerting, we believe that these issues will be resolved positively and business momentum will not be materially affected.

Stock selection in the information technology and health care sectors were the primary contributors to relative performance. In information technology, the share price of ACI Worldwide, which provides critical payments software and services to banks, was up strongly on solid quarterly results and contract signings which validates their Universal Payments platform. The stock price of IAC Interactive also rose significantly as the long awaited IPO of their on-line dating subsidiary was announced. In health care, shares of Ligand Pharmaceuticals were again a meaningful contributor due to positive news on its partnered programs and the continued rapid growth of Promacta and Kyprolis, its main royalty generating drugs.

The annualized net return of Cardinal's SMID Cap Value Composite since inception (May 1, 2010) is 14.7% versus 12.1% for the Russell 2500 Value Index and 13.9% for the Russell 2500 Index. Cardinal managed $2.0 billion in micro, small, and smid cap value assets as of June 30, 2015.

Highlighted Investments

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. IAC/InterActive Corp. is a leading internet-based company which operates more than 50 online brands. Its two main business segments are search (Ask.com, toolbars and applications) and online personals (Match.com, OK Cupid and Tinder). We initially looked at IAC following the spin-

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

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MANAGING PARTNER
At Cardinal Since 1995

ROB KIRKPATRICK
MANAGING PARTNER
At Cardinal Since 2000

RACHEL MATTHEWS
PARTNER
At Cardinal Since 2001

BOB FIELDS
PARTNER
At Cardinal Since 2013

Highlighted Investments Cont'd

off of Ticketmaster, Home Shopping Network, LendingTree and Interval in 2008 but held off investing due to concerns about the long-term prospects for the search and dating businesses and concerns that CEO Barry Diller would not optimally allocate the $1.2 billion of cash on the balance sheet. We revisited the situation in late 2010 after concluding that these businesses could continue to grow at attractive rates and witnessing the repurchase of significant amounts of IAC stock. The key impetus behind our action was the view that the online dating business, anchored at that time by Match.com, was substantially undervalued within IAC and that it would ultimately be spun-off to maximize value. A discount existed due to concern surrounding the search and applications business as well as the lack of profitability in the media and e-commerce assets. In early 2014, IAC resegmented its businesses and changed management to facilitate a spin-off or IPO of the personals business. Concurrently, the company made investments in its media and e-commerce segments, which include Vimeo and HomeAdvisor, to accelerate profitability. Although the search business has seen little revenue growth recently, IAC has successfully navigated the changes made by its partner Google and mitigated the financial drag of the switch from desktop to mobile. In addition to making these investments, the company has continued to repurchase its own stock, reducing the share count by nearly 50% since our initial investment. With the planned IPO of the Match Group announced in June 2015, IAC stock should eventually realize a higher valuation based on appropriate multiples for each of the businesses. At the same time, management continues to optimize the value of its brands and businesses which, when combined with judicious use of its free cash flow, should continue to deliver substantial shareholder value in the years ahead.

Chemed consists of two dominant but very unrelated service businesses, Roto-Rooter and Vitas Healthcare. Roto-Rooter is the leading provider of plumbing and drain-cleaning services in North America. Through 110 company-owned and more than 400 franchised territories, it serves residential, business, and municipal customers in the U.S. and Canada. Despite only a 15% market share, Roto-Rooter has become synonymous with drain cleaning and its well-known brand has translated into pricing power and revenue growth. The business also generates steady free cash flow as it is logistics-driven with relatively little capital required. In contrast, Vitas Healthcare is the nation's largest provider of hospice services with over 7% market share. Originally a venture investment, Chemed acquired control of the hospice business in 2003. Through 49 operating programs in 16 states, Vitas uses a standardized model of care intended to maximize quality and enhance patient satisfaction. Hospice revenues have grown steadily over the last decade with increasing admissions and geographic expansion. Despite modest

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reimbursement cuts, profitability has remained attractive due to cost controls, increased efficiencies and leveraged overhead. Having successfully invested in Chemed twice before, we last sold the stock in 2010 after Vitas was sued by the Department of Justice for Medicare fraud since we felt that the risk could not be adequately assessed. Nonetheless, we monitored the company and purchased the stock earlier this year once it became clear that the lawsuit had produced no evidence of systemic illicit behavior. In fact, the basis of the DOJ lawsuit is that Vitas has higher than average reimbursement associated with their decision to abide by the law and provide high cost continuous care and in-patient services even though it is often unprofitable to do so. Most other home-based hospices drop patients when they require higher levels of care even though it is illegal to do so. With a valuation that does not fully reflect the attractiveness of its solid franchises, Chemed's share price should rise as the businesses perform and management continues to use its free cash flow for share repurchases and the DOJ lawsuit is resolved favorably.

Market and Portfolio Outlook

We expect U.S. economic growth for the balance of 2105 to be moderate, inflation benign, oil prices low and the dollar strong. GDP growth should pick up with increasing U.S. consumer confidence due to job and wage growth and lower gas prices boosting disposable income. While the Federal Reserve has already delayed an interest rate hike, foreign economic growth has been weaker than anticipated which may lead it to remove accommodation even more slowly than currently expected. Although low oil prices are beneficial for the global economy, they do create dislocations in certain areas where oil exploration and development activity is significant. Despite a much lower U.S. rig count, domestic oil supply has continued to grow as service costs have come down significantly more and faster than expected. With Iran set to restore oil exports to historical levels, the excess supply situation is likely to persist. Low oil prices have kept our inflation rate low as have modest wage growth and the appreciation of the dollar. However, a strong U.S. dollar is a mixed blessing because of its negative affect on the profitability of U.S. multinational companies. Despite international economic and currency headwinds to U.S. corporate earnings, our outlook for the domestic equity market remains cautiously optimistic as equity valuations are not excessive. Our portfolio companies are actively deploying their free cash flow through share repurchases, dividends and opportunistic acquisitions which should bode well for the future returns.

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.

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