

IN THIS ISSUE

- Market Commentary
- Performance Review
- Highlighted Investments:
 - *BGC Partners*
 - *KAR Auction Services*
- Market and Portfolio Outlook

Market Commentary

Small, mid and large cap indices fell by 11.9%, 10.3% and 6.8%, respectively, in the third quarter of 2015. Within the Russell 2500, the value index fell 9.6% while the growth index lost 11.0%. The value index held up better than its growth counterpart as a result of a much higher weighting in financial services, a lower weighting in healthcare and a larger weighting in defensive utility stocks. In financial services, banks stocks rose in anticipation of the end of the Federal Reserve's zero interest rate policy while among healthcare stocks, pharmaceutical and biotechnology stock prices fell sharply following Hillary Clinton's proposal to lower the cost of prescription drugs. Slightly offsetting these factors was a higher weighting in poorly performing energy stocks which fell sharply with the drop in oil prices. Weakening international and domestic economic prospects caused global equity markets to fall and investors to adopt a defensive posture. As a result, utilities, consumer staples and financial services stocks held up better than the cyclical materials, energy and industrials stocks. Healthcare stocks fell by more than would have been expected not only due to the negative political rhetoric but also due to the valuation of biotech stocks.

Second quarter U.S. GDP rebounded as expected, but prospects for domestic economic growth did moderate during the quarter as recent trends in wages, employment and consumer confidence were uninspiring at best. Economic and currency weakness in China and most of the emerging markets provided an increasing headwind for the U.S. economy. As a result, the Federal Reserve did not increase short-term interest rates even though the falling unemployment rate indicated to the governors that inflation was likely to reach the 2% target next year. Despite Chairman Yellen's remarks that the Federal Reserve may still raise rates later this year, recent weak economic data makes that unlikely. Simply put, a strong dollar and market forces such as lower energy and commodity prices are effectively dampening inflation. Although the strong U.S. Dollar is clearly hurting corporate profit growth in 2015, comparisons ease in 2016 and profit growth remains modestly positive outside of the energy sector. With credit available and inexpensive, M&A activity is also on a record pace. Equity valuations remain attractive relative to bonds and are more in line with historical averages on an absolute basis following the recent correction.

Performance Review

The third quarter net performance of Cardinal's Select Value Composite, at -11.3%, trailed the 9.6% loss of the Russell 2500 Value Index. Stock selection and a lower weighting to the financial services sector, a lower than benchmark weight to the

SELECT VALUE CLIENT LETTER

Third Quarter 2015

Cardinal Capital

MANAGEMENT, L.L.C.

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 Cont'd

utilities sector, and stock selection in information technology were the main detractors from relative performance. In the financial services sector, in addition to our lower weighting in banks, which held up well ahead of a potential interest rate hike, shares of Howard Hughes lagged as investors concerns about the impact that lower oil prices would have on the developments of its Houston based master plan community projects increased. Shares of Affiliated Managers Group, a global asset management group with investments in boutique assets managers, traded down with the equity market. The absence of utilities in our portfolio is due to our assessment of their low expected return in a zero interest rate environment. In the technology sector, PDF Solutions was the primary detractor as near-term concerns about 28 nanometer semiconductor demand caused the stock to fall sharply despite its cash-rich balance sheet, visible growth from 14 nanometer royalties in 2016 and material progress in its chip inspection initiative.

Partially offsetting these detractors was our better stock selection in the energy sector. Shares of Concho Energy, a low-cost Permian basin operator, and World Fuel Services, a fuel logistics company, held up better than their smaller and more highly levered peers. In the industrials sector, the share price of BWX Technologies rose as it spun off its power generation business, leaving primarily its attractive nuclear operations business which is the sole-source supplier of maintenance and support for the nuclear reactors that propel the U.S. Navy's submarines and aircraft carriers. Shares of CBIZ also had a positive return as the domestic professional services firm continued its growth via acquisition strategy.

The annualized net return of Cardinal's Select Value Composite since inception (January 1, 2002) is 9.6% versus 8.6% for the Russell 2500 Value Index and 8.5% for the Russell 2500 Index. Cardinal managed \$1.7 billion in micro, small, and smid cap value assets as of September 30, 2015.

Highlighted Investments

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. BGC Partners, named after Cantor Fitzgerald's late founder Bernard G. Cantor, is an interdealer broker, with voice and hybrid trading in interest rate, commodity, equity and foreign exchange related instruments. Its revenue and profits are driven by the volumes, not the direction, of serviced markets. BGC's partnership structure allows it to attract and pay top talent as well as maintain a very low tax rate. In addition, BGC has quietly put together a

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- Consistency in team responsible for 22+ year track record
- Compensation based on portfolio



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Highlighted Investments Cont'd

valuable real estate brokerage business, built around their acquisitions of Newmark Knight Frank and Grubb & Ellis. The real estate segment includes brokerage and property management and is expected to generate a third of the firm's \$3 billion of revenue in 2015. Integration of the real estate acquisitions has gone well from a front-office perspective, and we anticipate substantial overhead reduction over time as management leverages its scale while growing in the capital markets segment of the business. BGC stock fell sharply in 2012 because of reduced trading activity driven in part by regulatory uncertainty and the reduction of its dividend. Cardinal subsequently invested in the company when it announced the sale of its eSpeed on-the-run treasuries business to NASDAQ for \$1.2bn or 17x EBITDA. As a result, we were comfortable that the 9% dividend yield was safe and that other assets would likely be monetized in the future once they achieved scale. Since 2013, the company has reinvested much of the ESpeed proceeds to expand its real estate business and acquire the GFI Group, a smaller financial services interdealer broker that lacked scale. After the anticipated sale of GFI's subscription-based trading tool, Trayport, by year-end for an estimated \$600 million, BGC will have paid only 3x earnings for GFI's core financial services business after synergies. BGC should end the year with nearly \$1 billion in cash and intends to reinvest in accretive real estate-related acquisitions. In addition, the phasing out of quantitative easing, which reduced market volatility and trading volumes, should significantly improve BGC's core financial services brokerage results. Regardless, we expect that BGC will monetize its high margin and fast growing assets at attractive valuations as the market allows.

KAR Auction Services is a leader in the vehicle redistribution business in the U.S. and Canada. Company operations include whole car auctions, salvage auto auctions and a used car dealer floor-plan finance operation. The auctions are both internet-based and physical with locations across North America. Whole car auction buyers include franchised and independent used car dealers while interest in salvage auctions comes from dismantlers, rebuilders and scrap dealers. Although the new car and truck business is volatile from year to year, used vehicle and salvage volumes have been much more stable which has provided good visibility for the businesses. KAR does not take title to the vehicles, but acts as the agent, earning a fee from buyer and seller. As the businesses are oligopolies with pricing power, KAR generates substantial free cash flow. In 2007, the company went private in a leveraged buyout which permitted it to make needed changes. A poorly handled IPO, in late 2009, provided Cardinal with a second opportunity to invest in this used car business which we owned prior to the buyout.

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Highlighted Investments Cont'd

As the company has reduced debt, bolstered its presence in internet-based whole car auction markets, expanded geographically, initiated a dividend and announced a share repurchase program, KAR's valuation has expanded. The business has been held back in recent years by depressed institutional whole car volumes, a carryover effect from the financial crisis. These volumes have now begun to rebound which should leverage its operating platform and boost earnings and free cash flow. With a visible multi-year runway of increasing numbers of returning off-lease vehicles to be redistributed, KAR should be able to grow and reallocate its free cash flow successfully.

Market and Portfolio Outlook

U.S. economic growth in 2015 is expected to remain moderate, inflation benign, oil prices low and the dollar strong, but the outlook for 2016 has been tempered by slowing global growth and weakness in the price of oil. While an increase in short-term interest rates by the Federal Reserve would show confidence in the U.S. economy, it would also certainly temper growth and reduce the easy credit that has stimulated corporate profits and produced the bull market of the last six years. The timing and magnitude of any increase in short-term interest rates is important and not clear cut. It centers on the outlook for inflation and economic growth as well as a critical assessment of any unintended side effects of a zero interest rate policy on risk taking as reflected in asset prices and on retirees and other people on fixed incomes.

Traditionally, the rationale for an increasing short term interest rates is to slow the economy in order to fight inflation and sustain the duration of the economic cycle. Currently, inflationary pressures are low, and likely waning, as wage growth remains lackluster for secular and structural reasons. Economic growth is also suboptimal and poised to slow as global weakness continues to impact the domestic economy. The question of unintended side effects is complex because it implies that such very low interest rates are appropriate only for economic emergencies. Although true in recent years, interest rates in the U.S. are currently higher, not lower, than those of most other major developed economies so it is hard to argue that current U.S. monetary policy is out of line. Although the Federal Reserve clearly expressed a desire to raise rates, their decision is dependent on the data which we believe does not yet support this action.

Despite adverse foreign exchange movements and lower commodity prices, underlying U.S. corporate profit growth is still growing modestly. Although the

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Market and Portfolio Outlook Cont'd

rate of growth may slow further in 2016, the currency and commodity impacts are also likely to be less significant. Cardinal's focus on smaller, primarily domestic, companies mitigates some of these risks that are impacting larger and more global companies. Our outlook for the domestic equity market remains cautiously optimistic despite the uncertain economic and interest rate environment as investor sentiment is fairly negative and equity valuations are now more in-line with historical averages. Our portfolio company managements are opportunistically using market weakness to deploy their free cash flow through share repurchases, dividends and acquisitions which should bode well for the future.

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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 2015 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. There is no guarantee that the performance of the strategy will meet or exceed any index. An investor cannot invest directly in an index.

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