SMALL CAP CLIENT NEWSLETTER

Third Quarter 2015

Cardinal Capital
MANAGEMENT, L.L.C.

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Market Commentary

Small and large cap indices fell by 11.9% and 6.8%, respectively, in the third quarter of 2015. Within the Russell 2000, the value index fell 10.7% while the growth index lost 13.1%. 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 Small Cap Value Composite, at -10.0%, was modestly better than the 10.7% loss of the Russell 2000 Value Index. Stock selection in the industrials, materials, energy and consumer discretionary sectors were

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

the primary contributors to our relative performance, offset somewhat by our lower weighting in the financial services and utilities sectors and stock selection in the technology and healthcare sectors. 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. In the materials sector, our less cyclical investments, Silgan Holdings and Compass Minerals, did not participate in the commodity selloff and emerging market weakness. In the energy sector, shares of Diamondback 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 consumer discretionary sector, shares of Six Flags had a positive return as the North America-based theme park operator continued to execute its growth plans and capital return strategy.

Our financial stocks performed in line with the market, but our lower weighting in banks provided the headwind as we believe that most bank valuations already reflect the potential benefit of a steepening yield curve. The absence of utilities in our portfolio is due to our assessment of their low expected returns 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. In the healthcare sector, shares of Trinity Biotech sold off sharply after the company announced a dilutive preferred stock offering which surprised investors.

Over the last year, the net performance of Cardinal's Small Cap Value Composite, at 3.9% versus -1.6% for the index, places us among the top performing small cap value managers. The annualized net return of Cardinal's Small Cap Value Composite since inception (July 1, 1992) is 12.5% versus 10.5% for the Russell 2000 Value Index and 9.4% for the Russell 2000 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. Founded in 1986, Monotype is the leading global provider

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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At Cardinal Since 1995

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Highlighted Investments Cont'd

of typefaces, technology and expertise to companies in the consumer and advertising industries. The company's largest asset is its library of 25,000 fonts, which includes widely used typefaces such as Times New Roman® and Helvetica®. As the owner of these valuable trademarks, Monotype serves as a toll collector to creative professionals and consumer device manufacturers that wish to license fonts from the company's library. Monotype provides a strong value proposition to customers as fonts can be a critical part of a company's business model while representing a tiny fraction of their overall costs. The transition of internet content providers to the HTML5 standard is the largest growth opportunity for the company. This technology converts image based text to searchable text making it much more valuable. Although Monotype has had to increase its sales force to drive adoption of HTML5 technology by creative professionals, this has resulted in a rapidly growing digital revenues based upon page-views. This will only become more valuable with rapid growth in internet traffic. Monotype's substantial OEM printer and mobile device business is still very profitable but is steadily becoming less important due to the growth of its creative professional business where the customer licenses their technology directly from the company. Cardinal first started monitoring Monotype after the company went public in 2007 following a successful management led LBO by TA Associates in 2004. However, we did not establish a position until after a slowdown in printer sales caused Monotype to reduce its annual financial guidance and the stock price to decline 20% as a result. We believe that the recent decline in printer sales will have a manageable impact on Monotype's business and expect to see cash flow growth to resume in 2016 as management continues to execute its business plan. We believe that the company's current valuation does not reflect its dominant IP-based franchise, very attractive business model and solid long-term revenue growth prospects. Until the equity market better appreciates the value here, we expect management to continue repurchasing stocks and doing bolt-on acquisitions.

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 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

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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.

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

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Market and Portfolio Outlook Cont'd

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 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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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.

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