SMALL CAP CLIENT NEWSLETTER

Fourth Quarter 2015

Cardinal Capital
MANAGEMENT, L.L.C.

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Market Commentary

Small and large cap equity markets, as represented by the Russell 2000 and 1000 Indices, rose 3.6% and 6.5%, respectively, during the fourth quarter and returned -4.4% and 0.9%, respectively, for the full year 2015. Within the Russell 2000, the value and the growth indices increased 2.9% and 4.3%, respectively, for the quarter but decreased 7.5% and 1.4% for the full year. For the fourth quarter, the value index rose less than its growth counterpart due primarily to a lower weighting in the better performing healthcare sector and a higher weighting in the poorly performing financial services sector, offset somewhat by a lower weighting in the poorly performing consumer discretionary sector. For the year, value lagged growth due to a higher weighting in the poorly performing energy sector, a lower weighting in the better performing healthcare sector and lower returns in the materials and information technology sectors. From an economic perspective, the performance of the equity market during the quarter sent mixed signals as broad based strength in large cap stocks was constructive while relative weakness in the more cyclical small cap sectors illustrated investor concerns. For the year, the performance of both large and small cap stocks was very defensive as the returns of the consumer-related sectors were substantially better than the more cyclical sectors with the exception of utilities where the Federal Reserve's decision to start raising short-term interest rates hurt yield-oriented investments. This return profile is consistent with growing investor concerns about the durability of the current U.S. expansion; despite improvement in EMEA, China has not been able to reinvigorate its economic growth.

Domestic economic data was mixed during the quarter although it was much better than many other developed economies. GDP grew moderately; employment growth picked up after a weak third quarter, but industrial production fell due to the impact of the strong dollar and sustained weakness across commodity prices. While the unemployment rate approached historical levels of full employment, wage growth remained tepid. Nonetheless, the Federal Reserve finally took its first well telegraphed step to normalize interest rates by raising the federal funds rate 25 basis points. The pace of future rate increases is expected to be slow but, as indicated by the Fed, dependent upon economic trends in the U.S. and abroad where sustained weakness has left most central banks in easing mode. Although U.S. corporate profit growth was dampened in 2015 by the strong dollar, it remained modestly positive excluding the energy sector where the price of oil continued to fall. The fall in energy prices also significantly impacted the cost of, and access to, high-yield debt which had financed much of the recent shale oil development. Lower oil prices are a positive as they

FIRM OVERVIEW

- Experienced Value Investors
- 23+ 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

Market Commentary Cont'd

reduce consumer costs and thus increase discretionary income and a negative as they hurt corporate profits and result in job losses. M&A activity hit a record in 2015, as capital remained inexpensive and available and corporations looked for growth opportunities, particularly in healthcare and technology. Equity valuations, although attractive relative to bonds, are in line with historical averages on an absolute basis.

Performance Commentary

The fourth quarter net performance of Cardinal's Small Cap Value Composite, at 5.9%, was much higher than the 2.9% return of the Russell 2000 Value Index. The main contributors to our relative performance were stock selection in the consumer discretionary, healthcare, financials and energy sectors offset slightly by stock selection in the information technology and industrials sectors. In consumer discretionary, the share price of theme park operator Six Flags rose sharply after the company provided more detail on its international licensing agreements and repurchased its shares aggressively. The stock price of advertising agency holding company MDC Partners rebounded significantly as the company continued to produce strong results and the new CEO was well received despite the lack of resolution of the SEC investigation. In healthcare, the share price of biopharma licensing company Ligand Pharmaceuticals appreciated sharply as company management reaffirmed their strong multi-year growth forecast driven by the company's two lead partnered drugs. Globus Medical, a spine-focused medical device company, saw its share price rebound nicely from the third quarter sell-off on better than expected growth and margin expansion. In financials, the stock price of financial services and real estate broker BGC Partners moved higher after management indicated that they intend to continue to unlock value, through asset sales, spin offs, higher dividends and share repurchases. In energy, the share price of our investment in fuel logistics provider World Fuel Services rebounded after the results returned to normal following a surprisingly weak second quarter. In industrials, the share price of transportation logistic provider Road Runner Transportation fell significantly after the company preannounced results well below expectations due to a deteriorating freight market, company specific operating issues and price cutting in the LTL market. In information technology, the stock price of Knowles Corp., a leading supplier of MEMS microphones and speakers to mobile wireless devices, declined sharply on weaker than expected guidance despite a modest market share gain from a competitor who had a short-term quality control issue.

PORTFOLIO TEAM

- Experienced and stable team of value investors
- Collaborative and dynamic process capitalizes on collective experience
- Consistency in team responsible for 23+ year track record
- Compensation based on portfolio

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At Cardinal Since 1995

ROB KIRKPATRICK
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RACHEL MATTHEWS
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BOB FIELDS
PARTNER
At Cardinal Since 2013

Performance Commentary Cont'd

For the full year 2015, Cardinal's Small Cap Value Composite net return of 1.8% significantly exceeded the Russell 2000 Value Index return of -7.5%. The main contributor was stock selection in every sector offset slightly by a lower weighting in the better performing financial services sector. All of the holdings that were highlighted as key contributors for the fourth quarter were also significant contributors for the full year with the exception of World Fuel Services. Additionally, two industrials stocks were major contributors to the full year return. Shares of BWX Technologies were rewarded by investors after the defense-focused nuclear product and services firm spun-off its coal and renewable energy business which retained the Babcock and Wilcox parent company name. Business services provider CBIZ posted a double-digit return for the year as its financial results were solid and they retired their convertible debt. Our much lower weighting in better performing bank stocks detracted from our relative performance as bank stock prices rose in anticipation of a steepening yield curve.

The annualized net return of Cardinal's Small Cap Value Composite since inception (July 1, 1992) is 12.6% versus 10.6% for the Russell 2000 Value Index and 9.4% for the Russell 2000 Index. Cardinal managed $1.9 billion in micro, small and smid cap value assets as of December 31, 2015.

Highlighted Investments

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. Compass Minerals sells salt and plant nutrition products to markets in North America and the United Kingdom. The salt division serves the deicing, water care, animal nutrition and culinary markets while the plant nutrition division is the largest producer of specialty sulfate of potash fertilizer, which is used on high value crops, in North America. Formed in 2001, when Apollo Management acquired the salt and specialty potash assets from IMC Global, Cardinal first purchased Compass Minerals shares shortly after its 2003 IPO as we were attracted to the oligopolistic nature of the salt business and the company's competitive advantage from its ownership of the world's largest rock salt mine in Ontario, which is adjacent to the low-cost water transportation routes used to efficiently serve the highway deicing markets of the Midwest. While winter weather does result in annual variability, demand has proven reasonably steady over time. This has allowed Compass to raise salt prices on average 1 to 2% per year. We saw an opportunity earlier this year to acquire Compass shares at an

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Highlighted Investments Cont'd

attractive valuation when investors overreacted to a modest but expected decline in highway deicing salt prices for the 2015-2016 year from levels obtained the previous season when producers struggled to keep up with unusually heavy demand. In addition, Compass announced a two-year capital spending plan program to increase the capacity and efficiency at the Goderich Mine. This should help them to increase their EBITDA by 40% in 2018 and expand their free cash flow significantly beginning in 2017.

Trimas is an industrial conglomerate whose history traces back to the Masco Corporation in the 1920s. New management was brought in during the financial crisis to streamline operations and focus the portfolio on its higher quality businesses. As part of this ongoing initiative, the company divested operations in mid-2015 which prompted us to look at the stock. The company subsequently provided disappointing guidance which reflected the impact of lower oil prices on its energy and engineered components businesses. We viewed this as an opportunity because the vast majority of the company's value is in its packaging and aerospace businesses. Although just a niche provider of industrial and specialty closures, Trimas' packaging operation has the highest operating margins that we have found in the industry due to its intellectual property and its hard-to-replicate manufacturing know-how. The packaging business should continue to grow moderately as its customers expand geographically. Trimas is also a leading manufacturer of engineered fasteners that are critical to new aircraft construction. This business should benefit from their customers' substantial commercial aircraft backlog as well as increased proprietary content on newer composite aircraft. We expect management to focus on growing the aerospace and packaging businesses and opportunistically divest the other two lines in coming years which should reduce the conglomerate discount. From a valuation perspective, we believe that the packaging & aerospace businesses are worth more than the current market capitalization of Trimas and that the energy and engineered components businesses only add to the total value.

Market and Portfolio Outlook

Looking to 2016, we expect U.S. economic growth to remain moderate, inflation benign and the dollar strong. The price of oil will likely remain low as supply still exceed demand and the Saudi's, who in recent years stabilized the market, now want to keep oil prices low to ensure their own internal security. Global economic uncertainty lies outside the U.S. primarily as major economic regions have different

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Market and Portfolio Outlook

monetary policies as well as sensitivity to low oil prices and the strong U.S. dollar. Europe appears poised for an economic recovery as central bankers are easing and the benefit from a weakening currency makes their goods and services more competitive. Many emerging markets which depend on oil-related revenues to support their economies have entered recession with the recent rout in commodity prices. China, with its economy slowing and its currency pegged to the strengthening dollar, continues to struggle while its government determines how to restore confidence and an acceptable rate of growth. The M&A market should remain strong as long as capital remains available at a reasonable cost since growth is scarce and value can be created through consolidation. Despite these global headwinds, U.S. corporate earnings are expected to grow modestly and equity valuations are reasonable relative to bond yields. Our portfolio company managements continue to actively deploy their free cash flow through share repurchases, dividends and opportunistic acquisitions which should bode well for future value creation.

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.

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