SMALL CAP CLIENT NEWSLETTER

First Quarter 2016

Cardinal Capital
MANAGEMENT, L.L.C.

Market Commentary

Small and large cap indices, as represented by the Russell 2000 and 1000 Indices fell by 1.5% and rose by 1.2%, respectively, in the first quarter of 2016. Within the Russell 2000, the value index rose by 1.7% while the growth index fell 4.7% for the quarter. The value index rose significantly more than its growth counterpart due primarily to a lower weighting in the poorly-performing healthcare sector, a much higher weighting in the financial services sector which was buoyed by REITs and better performance in the utilities sector. From an economic perspective, the performance of the equity market during the quarter sent mixed signals. Broad based strength in stocks outside of the healthcare, financials and energy sectors was generally constructive but the weakness of small cap stock returns relative to large caps and the strength in utility stocks both signaled caution. Healthcare stocks were weak due to election rhetoric surrounding drug prices and a correction in biotech stocks. Within financials, bank stocks sold off as the prospects for higher interest rates faded while energy-related credit concerns grew. Despite ending the quarter relatively unchanged, the equity market was volatile, falling almost 15% in the first six weeks on interest rate concerns and recession fears before recovering later in the quarter as those abated.

Domestic economic data was mixed during the quarter, although better than most developed economies. GDP grew at a 1.4% annualized rate in the fourth quarter of 2015, employment growth moderated after a strong fourth quarter, and industrial production stabilized as the US dollar weakened and commodity prices rebounded after steep declines. While the unemployment rate stayed near full employment levels, wage growth remained modest at 2.3%. The Federal Reserve left short-term interest rates unchanged during the quarter and indicated that the pace of future interest rate increases was expected to be slower than forecast in December due to the effect of uncertainty surrounding economic developments abroad. Consumer inflation was de minimis during the quarter, although ex-food and energy it rose at a 2.3% annual rate. U.S. corporate profit growth turned negative last year due to the strong US dollar and falling commodity prices but should improve this year as these headwinds abate. M&A activity has slowed early in 2016, as capital became modestly more expensive with banks incrementally more cautious on lending and high yield bond spreads widening. Equity valuations, although attractive relative to bonds, are modestly above historical averages on an absolute basis. However, relative to large cap stocks, small cap valuations are now at parity and no longer at the 10% premium that they averaged over the last decade, excluding a brief period around the financial crisis.

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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

Performance Commentary

The first quarter net performance of Cardinal's Small Cap Value Composite, at 1.3%, trailed the 1.7% return of the Russell 2000 Value Index. The main contributor to our performance was stock selection in the energy, industrials and consumer discretionary sectors which was more than offset by stock selection in the information technology and materials sectors and the lack of investments in the better performing utilities sector which were material detractors. In energy, fuel logistics provider World Fuel Services shares rose sharply on solid earnings and the announcement that it was acquiring ExxonMobil's international airport fuel operations. In industrials, the stock price of Genesee & Wyoming, the short line railroad company, rebounded as the company's results showed solid cost controls in the face of challenging volumes. In consumer discretionary, the share price of advertising agency holding company MDC Partners appreciated after management provided solid guidance for 2016 and successfully refinanced and extended the maturity of its debt. In information technology, the stock price of small business services provider J2 Global fell significantly after a report questioned the viability of its eFax business and the success of its diversification strategy. J2 management has refuted the accuracy of the report. The author of the report issued a similar short recommendation several years ago and the stock has increased several-fold since. The share price of internet services provider IAC/Interactive fell after the company issued disappointing guidance for 2016. In materials, the stock price of Compass Minerals, a salt and plant nutrients company, fell as a mild winter weather reduced demand for its deicing salt.

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 9.3% for the Russell 2000 Index. Cardinal managed $1.9 billion in micro, small and smid cap value assets as of March 31, 2016.

Highlighted Investments

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. National Storage Affiliates Trust is an internally managed REIT that owns and operates self-storage properties. Formed in 2013 through the merger of three private real estate companies, the company completed its IPO in May 2015. The U.S. self-storage industry is highly fragmented, with the top ten property owners controlling only 13% of capacity. The industry has been consolidating as large public and private companies add scale. However, many regional players with strong entrepreneurial cultures are not willing to sell only to

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

GENE FOX
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

see their management team disbanded. NSA has a unique operating model, which offers these operators the opportunity to benefit from the resources of a larger network but still retain a large degree of independence. For example, when an operator joins NSA, they earn a property management fee of 5%-6% of revenue. Each operator must also meet annual return hurdles, above which they are entitled to incentive payments. This structure results in greater upside to the operator when results are strong but downside protection to NSA shareholders when they are weak. Additionally, senior management and property operators own 42% of the company's stock aligning the interests of shareholders, management and operators. Although NSA's margins are materially below those of its much larger public peers due to lack of scale and technology infrastructure, we expect this gap will narrow as NSA adds properties. The self-storage business has shown strong same store sales growth for several years and is expected to continue at a mid-single digit rate in the near to mid-term. Management also intends to round out the company's regional footprint by adding one to two sizeable operators to the company each year. Although NSA's valuation discount has narrowed significantly since our initial investment, the combination of above average revenue growth and margin expansion are still likely to provide an attractive return going forward.

Air Methods is the largest provider of air medical transportation services in the U.S, with operations in 42 states. The air medical transportation business is unusual as demand is price inelastic with services used essentially for patients who require immediate transport to a medical facility, regardless of the patient's ability or willingness to pay. With fairly stable demand, the company has been successful in raising its commercial rates to more than offset an adverse mix shift toward Medicaid and Medicare patients who pay much lower prices for the same services. The company has also benefited from healthcare reform as the number of uninsured patients declines. Demand for air medical services increases with miles driven, accident rates, consolidation of trauma centers in hospital groups and rural hospital closures. Air Methods has recently been more aggressive in expanding geographies and services through acquisitions. Adverse trends in the company's collection rates and DSO's have recently depressed the stock price resulting in a discounted valuation relative to its peers. As insurance companies have looked to cut expenses, out-of-network costs such as emergency air support have been targeted and Air Methods has seen an increase in the denial of valid claims, delays in payments and a shift of emergency transport expenses to the patient. Nonetheless, management has been able to keep its net dollar collections flat to growing by raising prices. In addition, the company is trying to increase its in-network commercial accounts where it makes sense. However, until Medicare and

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Highlighted Investments Cont'd

Medicaid rates better reflect the cost of delivering air medical transportation services, demographics will make the availability of those services increasingly problematic in rural areas. Despite insurer related challenges on reimbursement, Air Method's operating cash flow has been strong allowing it to upgrade its helicopter fleet, making it one of the youngest in the industry. Given its industry leading position, strong growth outlook and solid balance sheet, the company's stock should trade in-line with its peers once its collections and DSO's normalize.

Market and Portfolio Outlook

Looking to the rest of 2016, we expect U.S. economic growth to remain moderate and inflation benign. Short-term U.S. interest rates are expected to rise at a measured pace given the negative interest rate policies of Europe and Japan and the desire to keep the U.S. dollar from appreciating further. Although off its lows, the price of oil is unlikely to move meaningfully higher this year unless oil producing countries agree to cut output. Global economic uncertainty remains elevated outside the U.S. While the short-term economic environment in Europe has improved faster than expected, growth rates in China are not likely to see significant improvement over last year. Given the scarcity of growth and the value that can be created through consolidation, the M&A market should improve as long as capital remains available at reasonable rates. Despite low oil prices and weak global economies, U.S. corporate earnings should grow modestly as the U.S. dollar shifts from a headwind to a tailwind. 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 2015 are unverified 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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