SMID CAP CLIENT NEWSLETTER

Second Quarter 2016

Cardinal Capital
MANAGEMENT, L.L.C.

Market Commentary

Small, smid and large cap indices, as represented by the Russell 2000, 2500 and 1000 Indices rose by 3.8%, 3.6% and 2.5%, respectively, in the second quarter of 2016. Within the Russell 2500, the value index rose by 4.4% while the growth index rose by 2.7% for the quarter. The value index rose more than its growth counterpart primarily due to stronger returns among REITs in the financial services sector, a larger weighting in the better performing utilities sector as well as higher returns in the materials and energy sectors. From an economic perspective, the performance of the equity market during the quarter could be characterized as defensive, with the exception of energy which rebounded from a multi-year sell-off. Strength was concentrated in the utilities, healthcare and consumer staples sectors while the information technology, consumer discretionary and industrials sectors were the weakest. Small cap stock indices held up better than large cap ones likely due to their largely domestic focus and the stronger U.S. dollar. Despite ending the quarter up moderately, the U.S. equity market was volatile. After rising for most of the quarter, the market sold off sharply near quarter-end after U.K. voters passed a referendum to leave the European Union. BREXIT, for short, surprised the markets and increased both economic and political uncertainty.

Domestic economic data was mixed during the quarter, although better than most developed economies. GDP grew at a 1.1% annualized rate in the first quarter of 2016, employment growth moderated after a strong first quarter, and industrial production was essentially unchanged as the U.S. dollar strengthened and commodity prices rose. While the unemployment rate edged down, wage growth remained modest. The Federal Reserve left short-term interest rates unchanged during the quarter and indicated that the pace of future increases was likely to be slower than originally anticipated due to weaker domestic growth and uncertainty surrounding economic developments abroad. Consumer inflation remained modest during the quarter, although ex-food and energy it rose at a 2.2% annual rate. U.S. corporate profits grew 2.2% sequentially in the first quarter but fell 5.6% year over year as tough foreign currency and energy-related comparisons will not abate until the second half. M&A activity has slowed in 2016 but still remains relatively robust. Equity valuations, although attractive relative to bonds, are modestly above historical averages on an absolute basis. However, the valuation of small cap stocks remains at parity with large cap equities, a modest discount to where they have traded on average historically.

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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
- $2.1 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 preliminary second quarter net performance of Cardinal's SMID Cap Value Composite, at 3.1%, trailed the 4.4% return of the Russell 2500 Value Index. The main detractors from relative performance were stock selection in the consumer discretionary and materials sectors as well as an absence of investments in the better performing utilities sector which offset favorable stock selection in the health care and financials sectors. In consumer discretionary, the stock price of advertising holding company MDC Partners declined sharply due to weaker than expected revenue growth in the quarter following a report which questioned its accounting. Management refuted the accounting issues and maintained its annual financial guidance but growth is second half weighted. In materials, shares of packaging company Silgan Holdings declined after it was outbid for the packaging assets required to be divested to complete Ball's acquisition of Rexam. We have not found investments in the utilities sector for many years due to our high return objective, the capital intensity of the business and the returns permitted by regulators in a low interest rate world. Although the equity market values stable and growing dividends highly, utility stocks are now very leveraged to small interest rate movements with the attendant risks and rewards. Within health care, shares of Ligand Pharmaceuticals rallied after May prescription data was released for its two largest currently approved products, Promacta and Kyprolis. In financials, the stock price of Medical Properties Trust, a hospital REIT, rose after the company successfully sold assets and equity to get its debt ratios in line with its long term targets.

The annualized net return of Cardinal's SMID Cap Value Composite since inception (May 1, 2010) is 11.5% versus 10.1% for the Russell 2500 Value Index and 10.8% for the Russell 2500 Index. Cardinal managed $2.1 billion in micro, small and smid cap value assets as of June 30, 2016.

Highlighted Investments

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. Parsley Energy is an oil and gas exploration and production company operating in the Permian Basin. Parsley was founded by Bryan Sheffield in 2008 when the company acquired operating rights to 100 producing wells in the Midland Basin from his grandfather, Joe Parsley, co-founder of Parker & Parsley, now known as Pioneer Natural Resources. Sheffield was well positioned to build a successful E&P company due to his family ties and connections in the oil industry. Publicly traded since 2014, Parsley has transitioned

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

from drilling vertical wells to predominantly horizontal wells with multiple targets in the Wolfcamp and Spraberry zones of the Midland Basin. The company is also in the early stages of developing the Wolfcamp formation in the southern Delaware Basin. Despite the severe decline in oil prices since its IPO, Parsley has been able to successfully grow its production and reserves, both organically and via acquisition. The keys to its success are being in the lowest cost basin, astute oil hedges, good expense and balance sheet management and opportunistic acquisitions. Parsley's emphasis on sustained growth has allowed it to maintain its operational momentum, resulting in forecast production growth of 50% in 2016. The company has hedged nearly all of its 2016 and much of 2017 production through the use of put spreads which offer downside protection but retain most of the upside potential. Parsley has recently made several acquisitions which enhanced its position in the southern Delaware Basin using equity and debt financings which were well received by the market. The company has ample financial flexibility, with prudent financial leverage. Our position in Parsley Energy replaced our holdings in Diamondback Energy, another Permian basin operator, whose share price and market capitalization had grown significantly. In this volatile and depressed oil price environment, we continue to focus on prudently managed, oil-centric E&P companies in the low cost Permian Basin with solid balance sheets.

PacWest Bancorp is California-based community bank which has transformed itself through strategic acquisitions during and after the financial recession into a diversified national lending platform with a low cost deposit franchise. The company issued equity to fund a portion of these acquisitions, allowing it to maintain a strong capital position to support internal growth. We acquired the stock as a result of PacWest's 2014 merger with our holding in Capital Source which doubled the balance sheet and added niche commercial lending businesses that were both higher yielding and geographically diversified. The subsequent acquisition of Square One Financial provided high quality low cost deposits as well as expanded lending capabilities in venture capital and private equity. As a result of these acquisitions, PacWest now earns relatively high net interest margins and attractive returns on capital due to its efficiency, lending niches and low cost funding. Management has positioned the bank to be modestly asset sensitive which should enhance earnings growth when interest rates begin to rise. As interest rates have fallen, the stock has lagged this year due to concern about its ability to maintain its high operating margins and excellent credit metrics. We believe these fears are unfounded as the bank has substantially improved its credit exposure by emphasizing more senior lending, increasing diversification and exiting less attractive businesses. Due to its significant growth, the company is

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undertaking a core systems conversion in 2016 to better handle a new set of regulatory tests to which it will be subject. As a result, management is building excess capital until late this year after which they are likely to pay a special dividend or repurchase their shares. We are also confident that PacWest will take advantage of attractive acquisition opportunities. In the interim, shareholders are being paid a five percent dividend yield. With excellent management, steady growth and solid profitability, we believe PacWest shares will either be rewarded with a higher price by the stock market or itself be acquired as the banking industry continues to consolidate.

Market and Portfolio Outlook

For the balance of 2016, we expect U.S. economic growth to remain modest and inflation benign. Short-term U.S. interest rates are now forecast to remain unchanged given the uncertainty created by BREXIT, the negative interest rates in Europe and Japan as well as the Federal Reserve's desire to keep the U.S. dollar from appreciating further. Assuming that supply and demand come into balance, oil prices may continue to recover. However, global economic uncertainty has risen after the BREXIT vote as equity markets around the world fell sharply and safe haven currencies such as the dollar and yen rose. The economic environment in Europe is now likely to deteriorate and growth rates in China are still slowing. Given the scarcity of revenue growth worldwide and the value that can be created through consolidation, the M&A market should pick up 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 energy prices and to a lesser degree the U.S. dollar shift from headwinds to tailwinds. Our portfolio company management teams 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 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 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.

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.

Any projections, market outlooks or estimates in this newsletter are forward looking statements and are based upon certain assumptions. Other events which were not taken into account may occur and may significantly affect the returns or performance of the Strategy. Any projections, outlooks or assumptions should not be construed to be indicative of actual events which will occur.