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Market Commentary

Small, SMID and large cap indices, as represented by the Russell 2000, 2500 and 1000 indices, rose 2.5%, 2.1% and 3.1% respectively in the second quarter. Within the Russell 2500, the value index rose 0.3% while the growth index increased 4.1%. The value index lagged its growth counterpart due to a higher weighting in poorly performing energy and financial services stocks as well as a significantly lower weighting in better performing health care stocks. From an economic perspective, the second quarter performance of small cap stocks should be viewed as relatively defensive with strength in health care and utilities shares and weakness in energy and materials. From a market cap, business quality and valuation perspective, there were no clear winners and losers for the quarter but in the month of June smaller market capitalization and lower quality stocks did provide better returns.

GDP rose at a 1.4% annual rate in the first quarter with consumer spending up 1.1%. Although jobs data and consumer and business sentiment weakened in the second quarter, the unemployment rate fell to a 16 year low and industrial production picked up. Inflation fell below the Federal Reserve's 2% target level during the quarter; nevertheless, the Federal Reserve increased short-term interest rates by 25 basis points and reiterated their plan to raise rates once more in 2017. Despite this, long-term government bond yields fell as investors became increasingly skeptical that meaningful fiscal stimulus would materialize. In the first quarter, U.S. corporate profits rose 7.8% as the headwinds from lower commodity prices subsided. Despite higher short-term interest rates, the U.S. dollar weakened as economic growth in Europe and other large international economies showed better growth prospects. Equity valuations, although high on a historical basis, remain attractive relative to bonds.

Performance Commentary

Cardinal's SMID Cap Value Composite, net of fees, rose 3.0% in the quarter, outpacing the 0.3% return of the Russell 2500 Value Index. The main contributors to our performance were stock selection in the information technology, health care and materials sectors as well as having a lower weighting in the poorly performing energy sector. Stock selection in the financial services sector was a slight detractor. In information technology, the share price of online services provider IAC/Interactive rose sharply on the announcement of the merger of its HomeAdvisor subsidiary with publicly traded Angie's List. The combination of industry leaders is forecast to generate significant synergies in the high growth but underpenetrated U.S. home services market. In health care, the stock price of Ligand Pharmaceuticals increased as

FIRM OVERVIEW

- Experienced Value Investors
- 25+ Year Track Record
- Research-Driven Process
- FCF-Based Valuations
- Consensus Decisions
- Owned by Current & Former PMs
- \$2.7 Billion Discretionary 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 Cont'd

its high margin royalty revenues continue to ramp with growing sales of key licensed products. Also contributing to strong performance in health care was Akorn, a specialty generic drug producer, whose shares rose early in April after it was reported that Fresenius Kabi was interested in acquiring the company. Later that month, Fresenius announced the acquisition of Akorn for \$34 per share. In materials, the share price of consumer packaging company Silgan Holdings climbed on solid results and increased annual guidance due to a recently completed closures acquisition. In financial services, the main detractor was PacWest Bancorp. The company reported lower than expected earnings on a higher than anticipated credit allowance and slower revenue growth as high levels of loan payoffs offset most of the growth in new loan originations. The higher loan allowance appears limited to a few healthcare credits and not indicative of broader issues while the slower revenue growth appears to be a broader industry issue. We remain comfortable with management at PacWest and believe their acquisition of California United Bank is a solid addition to the franchise.

The annualized net return of Cardinal's SMID Cap Value Composite since inception (May 1, 2010) is 12.3% versus 11.2% for the Russell 2500 Value Index and 12.0% for the Russell 2500 Index. Cardinal managed \$2.7 billion in micro, small and smid cap value discretionary assets as of June 30, 2017.

Highlighted Investments

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. IAC/InterActive Corp. is a leading internet-based company which operates a portfolio of high quality online brands. We first purchased IAC stock in 2010. Our thesis was that IAC as a conglomerate traded at a material discount to the sum of its parts despite the fact that its online dating business was a category leader with superior economics. With Barry Diller as chairman, the company has a history of developing and monetizing online and content businesses as well as opportunistically buying in stock. During our ownership, management has successfully grown the online dating business, The Match Group, and in late 2015 took it public via an IPO. While the vast majority of IAC's value was then in its ownership of Match, significant upside potential remained from its small but rapidly growing HomeAdvisor segment and its video subscription business, Vimeo. These growth vehicles have been funded by the publishing and applications businesses which generate substantial free cash flow

PORTFOLIO TEAM

- Experienced and stable team of value investors
- Collaborative and dynamic process capitalizes on collective experience
- Consistency in team responsible for 25+ 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

despite competitive challenges. Currently, Match owns a portfolio of over 45 online dating brands and has successfully grown Tinder into the number one online dating app. Match has industry leading margins and cash flow characteristics. With early success in monetizing Tinder and a history of strategic M&A, the Match Group is best positioned to benefit from the secular growth in the online dating industry. We expect that IAC will spin off its holding in Match which would significantly improve Match's trading liquidity and, as a result, raise its valuation. In addition, IAC recently announced a transaction that would merge its HomeAdvisor subsidiary with publicly-traded Angie's List resulting in substantial cost and revenue synergies in the first year. This transaction should close by the end of the third quarter and has had a materially positive impact on our assessment of IAC's value. Despite the increase in IAC's stock price since the announcement, it is still trading at a material discount to our conservative sum of the parts valuation, given the current public market prices of Match and Angie's List.

FMC Corporation is a global chemical company which operates in two segments: agricultural and specialty. The agricultural chemical business provides crop protection and pest control through a portfolio of insecticides and herbicides. The specialty chemical division consists of a health and nutrition business which is the leading producer of high quality biopolymer products to the food and pharmaceutical industries and a lithium business which supplies carbonate as well as more value added products to industrial companies and healthcare suppliers. With focus and excellent management, these businesses have become secularly driven high return operations. Specifically, the agricultural division shifted its focus from basic R&D to reformulation and application while outsourcing its manufacturing to reduce the capital intensity of the business. The result was a doubling of sales and profits from 2009 to 2014. In order to expand its European agricultural presence, FMC acquired Cheminova in 2015. The deal, which was financed in part by the sale of its soda ash business, continued to narrow the company's focus on its most valuable business. In May of 2017, FMC announced the acquisition of DuPont's agricultural chemical assets which had to be divested in order to meet antitrust concerns that were holding up DuPont's merger with Dow. In return, FMC is selling DuPont its health and nutrition business and paying them \$1.2bn. This acquisition is expected to add over 30% to FMC's EPS in the first year. FMC also announced that it will spin off its lithium business which will leave it as a major pure play agricultural chemical company. With world class franchises and strong secular drivers, we expect FMC's free cash flow to grow nicely and its valuation to expand as the market recognizes the company's transformation.

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Market and Portfolio Outlook

Our near-term outlook for equities remains cautious as valuations are full and the domestic economy is forecast to grow only 2% in 2017. In addition, the odds of meaningful tax reform and infrastructure spending have fallen for both political and financial reasons. Despite inflation trending below the Federal Reserve's target, short-term U.S. interest rates are still likely to rise unless the U.S. economy slows. The U.S. dollar has likely peaked near term as major global economies have stabilized; Europe has started to improve despite challenges with Greece and Brexit and the risk of a big slowdown in China has diminished. Given the improving global economic backdrop, the M&A market should remain active as long as capital remains available and inexpensive. Consistent with our investment discipline, our focus remains on the stocks of companies where business performance is generally less dependent on the growth rate of the U.S. economy. By attempting to limit macroeconomic risks and taking them only when we feel that we are being adequately compensated, we believe that we are reducing overall portfolio risk because tools under management's control are generally more dependable. Looking ahead, our portfolio companies continue to redeploy 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. 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 1000 Index consists of the 1000 largest stocks in the Russell 3000 Index that represent approximately 90% 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. The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher 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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