SMALL CAP CLIENT NEWSLETTER

Third Quarter 2017

Cardinal Capital
MANAGEMENT, L.L.C.

Market Commentary

Small and large cap indices, as represented by the Russell 2000 and 1000 indices, rose 5.7% and 4.5% respectively in the third quarter. Within the Russell 2000, the value index rose 5.1% while the growth index increased 6.2%. For the quarter, the value index lagged its growth counterpart due to lower weightings in the industrial, information technology and consumer discretionary sectors. Small cap value stocks had a negative return for the year until the President presented his tax reform plan in September. This was due to fading optimism that the administration could pass tax or regulatory reform after the President failed to build enough Republican support to repeal and replace the Affordable Care Act. After the release of the tax plan in September, the small cap value index rose sharply as investors began to discount again the potential economic benefits by gravitating toward smaller and more cyclical stocks

Second quarter GDP rose at a 3.1% annual rate driven by strong consumer spending. During the third quarter, consumer and business sentiment improved as the unemployment rate held at a 16 year low despite industrial production dipping modestly due to Hurricane Harvey. Inflation remained below the Federal Reserve's 2% target level. As expected, the Federal Reserve left short-term interest rates unchanged at their September meeting but did decide to start slowly unwinding its quantitative easing program. Ten year government bond yields ended the quarter basically unchanged after falling sharply intra quarter once Janet Yellen reiterated the Federal Reserve's plan to raise rates again in 2017. U.S. corporate profits rose 7.4% last quarter slightly below the 7.7% first quarter growth rate but solid nonetheless. The U.S. dollar weakened over the quarter as prospects for economic growth in Europe and other large international economies improved but began to recover following the Fed's upbeat economic and interest rate outlook in September. Even with political turmoil at home and abroad, U.S. equity market volatility has been remarkably low despite valuations that remain high on a historical basis.

Performance Commentary

Cardinal's Small Cap Value Composite preliminary third quarter net of fee return, at 5.7%, outpaced the 5.1% return of the Russell 2000 Value Index. The main contributors to our relative performance were a higher weighting and stock selection in industrials and stock selection in telecommunications and information technology. The primary detractors were our stock selection in materials and real estate. In industrials, shares of measurement provider Teledyne Technologies rose on better than expected quarterly results. Management also raised annual guidance to reflect the acquisition

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FIRM OVERVIEW

- Experienced Value Investors
- 25+ Year Track Record
- Research-Driven Process
- FCF-Based Valuations
- Consensus Decisions
- Owned by Current & Former PMs
- $2.6 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

of e2v which expanded its digital imaging business and was accretive. The stock price of nuclear components and fuel supplier BWX Technologies climbed on strong results and increased guidance due to an expanding market for its nuclear power segment. In telecom, the share price of Wi-Fi provider Boingo Wireless was up sharply on better than expected results and guidance. The company's Distributed Antenna Systems segment continues to perform well as demand for wireless infrastructure grows. With 30%+ cash operating margins, investors are starting to assign the stock a valuation closer to that accorded to the traditional cellular tower business. In information technology, the stock prices of Match Group and IAC/Interactive, owner of 83% of Match, were up strongly on the successful launch of Tinder Gold which adds user features at an additional cost. Among our materials stocks, the share price of Silgan Holdings lagged as the metal and plastic packager continues to integrate its large acquisition and optimize its recent investments. In real estate, the stock price of New York REIT fell on a disappointing auction of its interest in One Worldwide Plaza, its largest asset, which will result in them retaining a 51% interest in the building that will likely be transferred into a nontraded liquidating trust. We sold the holding.

The annualized net return of Cardinal's Small Cap Value Composite since inception (July 1, 1992) is 12.8% versus 11.2% for the Russell 2000 Value Index and 10.0% for the Russell 2000 Index. Cardinal managed $2.6 billion in micro, small and smid cap value discretionary assets as of September 30, 2017.

Highlighted Investments

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. Silicon Motion Technology Corporation is the leading merchant developer and supplier of NAND controller chips used in solid-state storage for smartphones, tablets, and personal computers. The company's customers include most of the NAND flash memory makers, leading tech OEMs, and manufacturers of storage device modules. Cardinal became interested in Silicon Motion because its business is perceived to be similar to that of its customers who are undifferentiated cyclical components suppliers. In contrast, Silicon Motion's business is differentiated and less cyclical because it has significant software content that would take years and hundreds of millions of dollars to replicate. The software allows vendors to get new products to market much faster than the competition. The smaller size of Silicon Motion's controllers allows their customer more flexibility in product design. In addition, the company has scale

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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

efficiencies which make them the low cost provider. As a result, most of the technology OEM's have outsourced to Silicon Motion. The company's pricing has remained stable which is unusual for a technology company. The other factor which attracted us was the accelerating demand for their customers' solid state disk drives which have rapidly taken market share from hard disk drives. The proprietary nature of the company's business model has been reflected in its financial performance over the last five years with strong growth in revenue, cash operating margins and free cash flow. Recent results have been hurt by supply shortages as vendors have had difficulty ramping 3D NAND capacity and we have used the price decline to add to our position. Nonetheless, Silicon Motion has remained very profitable and in fact announced a major share repurchase program. With a pristine balance sheet and an improving NAND supply situation entering 2018, Silicon Motion's revenue and cash flow growth should resume. We believe that with improving fundamentals and new products targeted to the enterprise market, the stock price will rise to better reflect its solid prospects.

Kaman Corporation is an industrial distributor and aerospace manufacturer with products ranging from programmable bomb fuzes to frictionless ball bearings. Founded in 1945 as a helicopter manufacturer, the firm diversified into the manufacture and distribution of musical instruments and the distribution of motion control products. In 2005, the board negotiated an end to the Kaman family's voting control of the company by eliminating its dual class voting structure. Cardinal then invested in Kaman as its legacy governance and unrelated portfolio of businesses had resulted in a compelling valuation. Two years later, its music operations were sold and the proceeds reinvested in acquisitions within the remaining businesses. As the company's stock price declined significantly during the credit crisis, we opportunistically increased our investment. Strategically, Kaman has expanded its industrial distribution business via acquisition to broaden its product offerings with higher margins lines such as fluid power and automation control. This business has faced sluggish demand and price competition from larger lower cost suppliers for several years. The crown jewels of the aerospace business are the bearings and the fuzing businesses which are high margin and benefit from strong intellectual property positions and long-term demand growth. The small and lower margin aerostructures business is being restructured and may be divested. Most recently, the company's largest shareholder has called for a vote at the May 2018 annual meeting to separate the industrial distribution business, a step which we believe should eliminate Kaman's conglomerate discount.

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Market and Portfolio Outlook

Our near-term outlook for equities remains cautious as equity market valuations are full although most economic indicators point to steady growth for the balance of the year. With continued low inflation, the market is only anticipating one interest rate hike through 2018 and long-term interest rates remain lower than expected, particularly with the Federal Reserve starting to unwind its quantitative easing program. This environment has been supportive of higher equity prices but negative for the U.S. dollar, especially with economic fundamentals improving across much of the developed world. The M&A market remains active and this should continue as long as capital is available and inexpensive and high levels of shareholder activism continue to lead to corporate break-ups and sales of non-core assets.

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 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.

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.

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