Cardinal Capital Management, L.L.C.

SMID Cap Value

Fourth Quarter 2017

IN THIS ISSUE

FIRM OVERVIEW

- Experienced, Stable Team
- 25-Year+ Track Record
- Repeatable Research-Driven Process
- FCF-Based Valuations
- Consensus Decisions
- Aligned Interests with Clients
- $3.1 Billion AUM

OBJECTIVES

- High-Quality Investment Results
- Preservation of Capital

Market Commentary

Small, SMID and large cap indices, as represented by the Russell 2000, 2500 and 1000, rose 3.3%, 5.2% and 6.6%, respectively, in the fourth quarter, and returned 14.7%, 16.8% and 21.7% for the full year 2017. The value and the growth indices within the Russell 2500 increased 4.3% and 6.4%, respectively, for the quarter and 10.4% and 24.5% for the year. For the quarter, the value index rose less than its growth counterpart due to a significantly larger weighting in poorly performing Financial Services, Real Estate and Utilities stocks, and a smaller weighting in the better performing Industrials sector. For the year, the value index rose less than the growth index because of larger weightings in the poorly performing Financial Services, Real Estate, and Energy sectors, as well as a lower weighting in the better performing Health Care sector. From an economic perspective, the performance of SMID cap stocks for the quarter is best viewed as cyclical with strength in the Consumer Discretionary, Energy, Industrials and Materials sectors while the Financials, Utilities and Technology sectors were weak. Nonetheless, stocks with higher market caps provided better returns while price to earnings ratios were a poor predictor of performance. Investor behavior was generally consistent with a more optimistic view of the economy, primarily in response to the passage of the Tax Cut and Jobs Act.

Third quarter GDP rose at a 3.2% annual rate, the first time since 2014 that the economy experienced two consecutive quarters of growth above 3%. During the fourth quarter, consumer sentiment continued to improve, reflecting a 16 year low in the unemployment rate and a pickup in industrial production following the hurricane-related dip. Inflation rose to 2.2% on higher energy prices, above the Federal Reserve's target on an annual basis. As expected, the Federal Reserve increased short-term interest rates at their December meeting and confirmed their plan to raise them three times in 2018. Nonetheless, ten year government bond yields ended the quarter only slightly higher at 2.4%. U.S. corporate profits rose 7.7% in the third quarter, in line with the solid second quarter growth rate. The U.S. dollar weakened over the quarter as prospects for economic growth in Europe and other large international economies improved. As a result of solid earnings prospects and a lower corporate tax rate, major equity indices closed near record highs. In the face of continued geopolitical turmoil, U.S. equity market volatility has remained remarkably low despite absolute valuations that remain high on a historical basis.

Cardinal Capital Management, L.L.C.

SMID Cap Value

Fourth Quarter 2017

HOW CARDINAL SEEKS TO ADD VALUE

- Intensive fundamental research
- Detailed DCF-based valuation analysis
- Opportunistic stock selection balances risk and return
- Aim to identify good businesses whose stocks are temporarily out-of-favor in structurally inefficient market niches
- Annual return objective has always been 20%, making valuations more conservative
- Discipline similar to that used by companies and private equity investors, resulting in more than 70 investments being acquired since 1995

INVESTMENT TEAM

Eugene Fox, III
Managing Partner/Portfolio Manager

Robert Kirkpatrick, *CFA*
Managing Partner/Portfolio Manager

Rachel Matthews
Partner/Portfolio Manager

Robert Fields
Partner/Portfolio Manager

Chitra Sundaram
Senior Research Analyst

Christopher Robertson
Senior Research Analyst

Michael Cotogno, CFA
Senior Research Analyst

Performance Commentary

The preliminary fourth quarter performance of Cardinal's SMID Cap Value Composite, at 6.0% net of fees, outpaced the 4.3% return of the Russell 2500 Value Index. The main contributors to our relative performance were stock selection in the Real Estate, Information Technology, Consumer Discretionary, Consumer Staples, Energy, and Industrials sectors. The detractors were a drag from residual cash in a rising market and stock selection in the Materials sector. In Real Estate, the share price of Howard Hughes rose as the company signed an attractive lease at its South Street Seaport commercial redevelopment and reported steady progress at its Summerlin and Ward Village residential projects. In Information Technology, the stock price of Match Group increased as the online dating company raised guidance following the successful launch of Tinder Gold. In Consumer Discretionary, the stock price of Nexstar Media increased sharply after reporting solid quarterly results and the lifting of restrictive FCC TV station ownership rules. In Consumer Staples, the share price of HRG Group, which is profiled later in this letter, was up on news that the company has engaged in active merger negotiations for its 58% owned Spectrum Brands. In Industrials, the stock price of instrumentation and electronics provider Teledyne Technologies rose as a result of strong revenue and profit growth primarily from recently acquired companies, particularly e2V.

The preliminary full year performance of Cardinal's SMID Cap Value Composite, at 20.5% net of fees, outpaced the 10.4% return of the Russell 2500 Value Index. The main contributor to relative performance was stock selection in the Information Technology, Health Care, Industrials, Materials, Real Estate, Financials, Consumer Staples and Consumer Discretionary sectors. The detractors were a drag from residual cash in a rising market and not owning Utilities. In Information Technology, our investment in internet-based services supplier IAC/Interactive was the largest contributor. It acquired publicly-traded Angie's List and merged it with its Home Advisor business in a transformational deal, and Match Group, its 83% owned subsidiary, produced results that beat expectations. In Health Care, the stock price of Ligand Pharmaceuticals increased significantly as its royalties from drugs marketed by its partners' ramped and its pipeline of future products continues to develop. In Industrials, the share price of nuclear components supplier BWX Technologies rose sharply as it raised its five year earnings expectations despite increased investment to support new growth opportunities. In Materials, FMC Corporation was up on speculation that the agricultural cycle was bottoming and news that the company was planning to spin off its Lithium business in 2018, which would make it the only domestic pure play stock in Lithium. In Real Estate, the share price of Starwood Waypoint rose after it announced its merger with Invitation Homes, creating the largest single-family home rental company. In Financials, the stock price of interdealer broker BGC Partners increased as it is expected to be a beneficiary of less financial services regulation, made the accretive acquisition of Berkeley Point, and subsequently took public its real estate brokerage business, Newmark Group. In Consumer Staples, the share price of Lamb Weston, a producer of value-added frozen potato products, was up on solid results and news the company was adding capacity to meet growing demand. As highlighted previously for the fourth quarter, in Consumer Discretionary, Nexstar Media was also a significant contributor to relative performance for the year.

The annualized net return of Cardinal's SMID Cap Value Composite since inception (April 1, 2010) is 13.1% versus 11.6% for the Russell 2500 Value Index. Cardinal managed approximately $3.1 billion in micro, small and SMID cap value assets as of December 31, 2017.

Cardinal Capital Management, L.L.C.

SMID Cap Value

Fourth Quarter 2017

Highlighted Investments

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. Nexstar Media Group owns or operates 170 full power television stations in 100 markets, reaching 39% of U.S. television households. Cardinal first purchased shares in the company in 2013 during an aggressive consolidation period of network affiliates sparked by better retransmission economics for larger players. We sold the stock three years ago because it reached our price target and due to concerns that the television networks would continue to take an increasingly larger share of the affiliates' high margin retransmission revenue. Since then, industry valuations have decreased while retransmission revenue as a percent of total industry revenue has grown. Nonetheless, the bargaining position of the affiliate groups relative to the broadcast networks has materially improved with their increased scale from a second wave of affiliate consolidation and from increased demand for network programming due to the emergence of several over the top programming providers. As a result, prospects for the continued growth of free cash flow by the network affiliates are strong. While we assign no value to FCC driven regulatory relief, it is likely that the recently relaxed duopoly rules will lead to further station swaps between affiliates. Duopoly markets have significantly higher operating margins; therefore such activity would permit the companies to optimize their portfolios. Our most immediate concern is that Nexstar carries a significant amount of debt from its recent acquisitions. Although this can provide enhanced equity returns, we are pleased to see management prudently beginning to pare its leverage. Based upon our forecast of a sustainable double digit free cash flow yield to Nexstar equity holders, we can achieve our high return objectives without relying on multiple expansion, which is unusual in this market.

HRG Group is a financial conglomerate in the late stages of liquidation. Formerly known as Harbinger Group, the company pursued an aggressive growth through acquisition strategy under the leadership of its former CEO and Chairman, Phil Falcone. When personal liquidity and legal issues forced him to sell his controlling interest, Leucadia National and Fortress Investment Group purchased the shares and assumed control of the Board of Directors. Reversing the aforementioned strategy, HRG began a well-publicized plan to dismantle itself. HRG has now exited its middle market lending, asset management, oil & gas production and life insurance businesses. Its primary remaining asset is a 58% ownership interest in Spectrum Brands Holdings, a consumer products company. At the time of our first purchase in July 2017, HRG was trading well below our sum of the parts valuation including Spectrum at the then current market price and assuming no premium or discount associated with the HRG's control position in the company. The best outcome for all parties is a merger of HRG and Spectrum which would minimize taxes and maximize the present value of the substantial net operating loss assets at both entities. We originally expected such a transaction could maximize HRG's value within a year of our initial purchase, and recent public disclosures by both companies indicate that they have been in active negotiations and are not far apart on valuation. In addition, Spectrum recently announced that in response to inbound inquiries of interest it was exploring strategic alternatives for its struggling battery and appliance businesses. Should divestitures of these businesses result at attractive prices, this could provide upside to our valuation.

Cardinal Capital Management, L.L.C.

SMID Cap Value

Fourth Quarter 2017

Market and Portfolio Outlook

Our near-term outlook for equities remains cautious as equity market valuations are full despite most economic indicators pointing to steady growth for the year. As the Federal Reserve believes that inflation will reach its 2% target, they still expect to gradually raise interest rates during the year. Inflation could become an area of concern if global growth boosts commodity prices and tight labor markets accelerate wage increases. Despite economic fundamentals continuing to improve across much of the developed world, the U.S. dollar could gain support from improving U.S. growth, spurred on by a pro-business Trump agenda. The M&A market should continue to be active as long as inexpensive capital is available 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 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. 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.

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.

TELEPHONE:
203-863-8990

FOUR GREENWICH OFFICE PARK
GREENWICH, CT 06831

WEBSITE:
www.cardcap.com