Cardinal Capital Management, L.L.C.

Small Cap Value

First Quarter 2018

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FIRM OVERVIEW

- Experienced, Stable Team
- 25-Year+ Track Record
- Repeatable Research-Driven Process
- FCF-Based Valuations
- Consensus Decisions
- Aligned Interests with Clients
- $3.3 Billion AUM

OBJECTIVES

- High-Quality Investment Results
- Preservation of Capital

Market Commentary

Small and large cap indices, as represented by the Russell 2000 and 1000, fell 0.1% and 0.7%, respectively, in the first quarter. Within the Russell 2000, the growth index rose 2.3% while the value index declined 2.6% due to the latter's smaller weighting in better performing information technology and healthcare stocks. From an economic perspective, the performance of small cap stocks was inconsistent as defensive utility and real estate shares were poor performers, but healthcare was the second best performing sector. Cyclical stocks also exhibited contradictory behavior as the share prices of economically sensitive materials, industrials and energy equities were broadly weak while information technology stocks were the best performers. Small cap stocks with higher long term earnings growth and higher valuations were the best performers. The stock prices of profitable small cap companies also declined 1.3% while the equities of unprofitable firms rose 3.5%

Fourth quarter GDP rose at a 2.5% annual rate, following two consecutive quarters of growth above 3%. During the first quarter, consumer sentiment hit its highest level since 2004, as the unemployment rate remained near fifty-year lows. The first quarter CPI was unchanged at 2.2%, but inflation concerns picked up as the impact of fiscal stimulus on an economy near full employment has yet to be felt. As a result, the ten year government bond yield rose moderately during the quarter to 2.74%. The Federal Reserve increased short-term interest rates at their March meeting and confirmed their plan to raise them two more times in 2018. Despite higher short and long-term interest rates, the US dollar weakened as prospects for economic growth in Europe and other large international economies improved. Major equity indices ended the quarter modestly lower as the announcement of tariffs increased the potential for a trade war that would slow the economy and the Facebook data breach raised the likelihood of government regulation. The heightened uncertainty weighed on investor sentiment and increased equity market volatility from subdued levels.

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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

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Performance Commentary

The preliminary first quarter performance of Cardinal's Small Cap Value Composite, at 0.5% net of fees, outpaced the -2.6% decline of the Russell 2000 Value Index. The main contributors to our relative performance were stock selection in the industrials, technology, and consumer staples sectors and a lower weighting and stock selection in the energy sector. In industrials, the share price of professional services firm CBIZ rose after posting strong results and highlighting the potential benefit from recent tax code changes. The stock price of KAR Auction Services also increased on solid results and its plan to spin-off its salvage business which should unlock substantial value based upon the valuation of its competitor Copart. In technology, the share prices of IAC/Interactive and its publicly-traded subsidiary Match Group rose sharply due to better than expected results at Match and the strong price appreciation of IAC's other publicly-traded subsidiary, ANGI Homeservices. In consumer staples, the stock price of distiller MGP Ingredients moved higher as its mix shift to higher margin premium beverages continues to benefit it's bottom-line. The share price of Calavo Growers was also strong as growth in its fresh avocado, guacamole and fresh prepared food businesses is expected to accelerate this year. In energy, the stock prices of Callon Petroleum and Resolute Energy outperformed their Permian peers; Callon, on its stable development plan, and Resolute because activists have launched a proxy contest seeking a potential sale of the company. In contrast, the main detractors were stock selection in the consumer discretionary and financials sectors. In consumer discretionary, the share price of Nexstar Media Group declined despite posting solid results and outlook as industry leader Sinclair forecast a weak first quarter for TV advertising. In financials, shares of MB Financial, a Chicago-based bank, fell when its earnings and guidance were lower than expected on both the timing of asset growth and a weaker outlook for its mortgage banking segment.

The annualized net return of Cardinal's Small Cap Value Composite since inception (July 1, 1992) is 12.8% versus 11.0% for the Russell 2000 Value Index and 10.0% for the Russell 2000 Index. Cardinal managed $3.3 billion in small and SMID cap value assets as of March 31, 2018.

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Highlighted Investments

Valvoline.

At Cardinal, we focus on finding companies with solid fundamentals at opportunistic valuations. Valvoline Inc. is global producer, marketer and supplier of engine and automotive maintenance products and services, including premium automotive, commercial and small engine lubricants. Its products are marketed through retailers, repair shops and 1,100 owned and franchised Valvoline branded quick lube service stations. Cardinal became interested in Valvoline after its former parent, Ashland Global Holdings, announced its intention to separate the two companies. We were attracted to the business because of its high margins and low capital intensity, consistent with branded consumer product companies. In addition to secular growth from miles driven and expansion of its very profitable quick lube centers, Valvoline's strategy is to increase profits by driving sales of higher margin premium synthetic lubricants which are used in newer vehicles and help manufacturers meet higher fuel efficiency standards. Premium synthetic motor oil is over two times the price of conventional products with comparable costs. As part of Ashland, a diversified chemical company, we believed Valvoline was misunderstood and undervalued, hence we initiated a position after the stock declined post-IPO. Despite contracts and market forces which have allowed the company to pass through feedstock costs with a few months lag, investors are currently focused on near-term margin pressures arising from higher oil prices. Nonetheless, Valvoline expects to push through price increases to offset these cost headwinds. As the market builds confidence in Valvoline's pricing power, rising earnings and accretive capital redeployment should result in an upward revaluation of the company's shares to a level more in line with its consumer product peers.

HRG / GROUP

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 publicly-traded Spectrum Brands, a consumer products company. At the time of purchase, it was our belief that the best outcome for all parties was a merger of HRG and Spectrum which would minimize taxes and maximize the value of the substantial tax assets at both entities. A merger of the companies was announced in February 2018 on very acceptable terms. We first purchased the stock after Spectrum announced an agreement to sell its battery business to Energizer at a very attractive price. Subsequently, Spectrum's stock price has fallen due to analysts removing the earnings from the assets held for sale from their estimates, anti-trust concerns about the sale of the battery business, general pressures in the consumer staples industry and idiosyncratic issues faced by a competitor. In late March, the battery deal cleared U.S. antitrust review and is expected to close by the end of 2018. We feel the consummation of the pending merger and sale transactions as well as the potential sale of Spectrum's small appliances business will cause the market to positively revalue the very attractive remaining businesses. In the interim, Spectrum Brands has used its substantial free cash flow to continue repurchasing its stock at attractive prices.

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Market and Portfolio Outlook

Our near-term outlook for equities remains cautious as equity market valuations are full despite most indicators pointing to steady economic growth. The Federal Reserve still expects to gradually raise interest rates given the belief that inflation will reach its two percent target. Inflation could emerge as an area of concern if global growth boosts commodity prices and tight labor markets accelerate wage growth. Despite economic fundamentals continuing to improve across much of the developed world, the US dollar could gain support from improving US growth. However, the proposed imposition of tariffs have hurt the dollar and increased uncertainty. The M&A market should continue to be active as long as inexpensive capital is available and shareholder activism continues at high levels. 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.

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