Cardinal Capital Management, L.L.C.

SMID Cap Value

Third Quarter 2018

FIRM OVERVIEW

- Focus on Small & SMID Cap Value
- Experienced, Stable Team
- 25-Year+ Track Record
- FCF-Based Valuations
- 100% Independent, Partner Owned
- $3.9 Billion AUM

INVESTMENT TEAM

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Market Commentary

Small, SMID and large cap indices, as represented by the Russell 2000, 2500 and 1000, rose 3.6%, 4.7% and 7.4%, respectively, in the third quarter. Within the Russell 2500, the value index rose 2.7% while the growth index rose 7.2%. The value index lagged due to a higher weighting in poorly performing bank stocks and lower weighting in better performing software and services within the information technology sector. Despite a strong economy and major stock indices at all-time highs, the Trump administration's aggressive use of tariffs in an attempt to improve U.S. trade deals caused investors to reduce exposure to more economically sensitive stocks. For example, across stocks broadly, materials and energy stocks were relatively unchanged for the quarter while health care as well as software and services stocks posted double-digit returns. In addition, bank stocks posted lackluster returns as the potential for weak loan demand and rising deposit costs more than offset continued strong credit metrics. Smaller cap stocks and lower quality businesses lagged their larger cap and higher quality peers. The more cyclical business mix of small cap stocks and a more risk-averse environment in the third quarter seemed to outweigh the greater domestic focus of these companies which benefitted small cap's relative performance in the first half of the year.

Nine years into the current economic expansion U.S. leading economic indicators still indicate solid growth for the balance of 2018 with few signs of a recession. The Federal Reserve under Jerome Powell has continued to methodically raise short-term interest rates as inflation remains well-behaved despite ongoing stimulus from tax cuts and little slack in the labor force. Nonetheless, even with substantial new issuance to fund ongoing deficit spending, the U.S. yield curve remains relatively flat as global growth forecasts have fallen due in part to our more aggressive trade policy. Fulfilling a campaign promise, the President is trying to open markets and eliminate tariffs that have resulted in lost domestic jobs, trade imbalances and an uneven playing field for American companies. The administration did reach new trade deals with Canada and Mexico. However, China has been unwilling to make major concessions and as a result more tariffs were put in place by each government, further clouding the global economic outlook and depressing business sentiment.

Performance Commentary

The preliminary third quarter performance of Cardinal's SMID Cap Value Composite, at 4.1% net of fees, outpaced the 2.7% return of the Russell 2500 Value Index. The main contributors to Cardinal's relative performance were stock selection in the communication services, healthcare, industrials, and energy sectors and a lower weighting and stock selection in the real estate sector. In the communication services sector, the stock price of IAC/InterActiveCorp rose after the company reported results that beat expectations, raised guidance and saw increases in the value of its publicly traded subsidiaries, Match Group and ANGI Homeservices. In the health care sector, the stock price of Ligand Pharmaceuticals moved higher after the company beat analyst estimates and increased their 2018 guidance. Shares rose further after Viking Therapeutics announced positive clinical results for a potential drug where Ligand has nearly $400 million in potential milestones plus an ongoing royalty should the drug be successfully commercialized. In the industrials sector, the stock price of electronics provider Teledyne Technologies rose after the company reported results that exceeded estimates and raised its annual earnings guidance. In the energy sector, the merger of RSP Permian with Concho Resources closed. In the real estate sector, our lower weighting contributed to better performance as interest-sensitive REIT shares fell in reaction to higher interest rates. In addition, the stock price of Medical Properties Trust rose as it monetized

Performance Commentary

assets at attractive prices to optimize its leverage and allow the company to make acquisitions without the need to raise equity. The primary detractors were stock selection and a higher weighting in the poorly performing consumer staples sector and stock selection in financials and consumer discretionary sectors. In the consumer staples sector, the share price of Hostess Brands fell after it reported weak results and a lower outlook after Walmart reduced inventories and costs were higher than expected. The Walmart relationship has already improved, and with higher pricing expected in 2019, the business should regain momentum. In the financials sector, PacWest Bancorp's stock lagged despite solid results and the announcement of another acquisition. Columbia Banking shares also lagged as it optimized a recently acquired loan portfolio. In the consumer discretionary sector, the stock price of auto dealer Lithia Motors fell after the company missed analysts' estimates and lowered guidance due primarily to higher overhead expenses and investments to drive future growth.

The annualized net return of Cardinal's SMID Cap Value Composite since inception (May 1, 2010) is 12.8% versus 11.2% for the Russell 2500 Value Index and 12.8% for the Russell 2500 Index. Cardinal managed $3.9 billion in small and SMID cap value assets as of September 30, 2018.

Market and Portfolio Outlook

Cardinal's near-term outlook for equities remains cautious as valuations are full, the economic cycle is extended, monetary policy is tightening, and the imposition of tariffs will depress economic growth and boost inflation to some extent. Nonetheless, the U.S. economy is currently growing at a solid pace, and the beneficial impact of the U.S. corporate tax cut is only beginning to be felt. The prospects for domestic small cap stocks appear better than for large caps as the stronger U.S. dollar, and the impact of tariffs are less consequential. The Federal Reserve still expects to gradually raise interest rates and is unlikely to deviate from that path unless the trade situation escalates or inflation increases meaningfully. With heightened uncertainty, the portfolio managers continue to prefer stocks where company-specific prospects determine investment success rather than the macroeconomic outlook. Cardinal's high return requirements and long-term focus often make risk-averse environments challenging for relative performance because investors shorten their time horizons.

The strong M&A market, increased share repurchases from repatriated cash, and the lower corporate tax rate are all supporting equity valuations. Private equity and activist funds continue to unlock value by improving operational performance, divesting non-core assets and selling companies. These activities have been, and should remain, a source of alpha in the portfolio. Cardinal is optimistic that portfolio companies will continue to redeploy free cash flow through share repurchases, dividends and opportunistic acquisitions which should bode well for future value creation.

Highlighted Investments

TRINITY INDUSTRIES, INC.

Cardinal focuses on finding companies with solid fundamentals at opportunistic valuations. Founded in the 1930's, Trinity Industries has grown into a diversified manufacturer of industrial assets, including railcars, barges, wind towers, utility poles, construction equipment, building materials, and highway guardrails. Over many decades Trinity has also built a sizeable railcar leasing business. While the railcar leasing business doesn't have meaningful barriers to entry, the presence of strong customer relationships makes it difficult for competitors to scale. As a result, six lessors control over 80% of the domestic market. Trinity's vertical integration as both railcar manufacturer and lessor has made the company a strategic partner for shippers. Railcar assets typically come with some attractive financial characteristics, including multiyear customer contracts, favorable tax attributes and the ability to issue debt on a nonrecourse basis. What piqued Cardinal's interest in Trinity stock was the company's announced intention to spin off its non-rail businesses and the presence of a large activist shareholder, ValueAct Capital, whom we know well and respect. The separation isolates the more attractive rail businesses and untethers the lessor's asset base from the non-rail businesses, enabling management to add leverage to its capital structure and allocate over a billion dollars of incremental capital. Despite a robust economy, the rail car business is still somewhat depressed as the industrial economy is only beginning to recover and the glut of railcars previously built to transport oil is being absorbed. This should provide an attractive environment for Trinity to opportunistically add to its railcar fleet. Based on conservative assumptions, Cardinal believes that Trinity's share price does not properly reflect the attractive prospects of its rail businesses or its other assets which will benefit from greater focus and portfolio optimization.

Syneos Health

Syneos Health is a contract research organization that provides clinical drug development services to pharmaceutical and biotech companies ranging from proof of concept testing to the management of FDA mandated clinical trials. Through its recent acquisition of Inventiv Health, Syneos also offers branding, marketing and sales services for approved clinical drugs. These offerings are considered mission critical to its clients, enjoy attractive sales growth and improved economics from more complex engagements. As the costs to develop and commercialize drugs has increased significantly, the outsourcing of drug development services has grown to 50% of pharmaceutical company R&D spending. Additionally, with the rising complexity of many new drugs, contract research organizations possess pricing power for their differentiated services. To capture more of these attractive opportunities, Syneos acquired Inventiv Health in 2017. Strategically, the acquisition expanded their service offerings and global footprint and strengthened their market position with large pharmaceutical companies. The company expected $100 million in annual synergies within three years. Although the deal was favorably received, by late 2017 the complex integration and lumpiness in client spending caused growth in the order backlog to slow, and the stock fell sharply. Cardinal's due diligence indicated that the market had become too pessimistic about the backlog growth and the cost savings target. Based on Cardinal's assumptions, Syneos stock was trading at an attractive valuation, so the portfolio managers initiated a position. Since then management has both raised synergy targets and grown its backlog with significant wins in both its core biotech customer base as well as within large pharma where it has ramped up efforts. Although Syneos' share price has risen, it is still an attractive investment with high single-digit revenue growth, high operating margins, and an improving balance sheet.

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.

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