Cardinal Capital Management, L.L.C.

Small Cap Value

Fourth Quarter 2020

FIRM OVERVIEW

- Focus on Small & SMID Cap Value
- Experienced, Stable Team
- 25-Year+ Track Record
- FCF-Based Valuations
- 100% Independent, Partner Owned
- $4.2 Billion AUM

INVESTMENT TEAM

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Market Commentary

Small and large cap stock indices, as represented by the Russell 2000 and 1000, rose 31.4% and 13.7%, respectively, in the fourth quarter, and rose 20.0% and 21.0%, respectively, for the year 2020. Within the Russell 2000, the Value Index rose 33.4% while the Growth Index rose 29.6% for the fourth quarter. The Value Index rose more than its growth counterpart due to its much higher weighting in the better performing financial services and materials sectors. For the year, the Value Index rose 4.6% while the Growth Index rose 34.6%, the biggest difference since 1999. The Growth index outperformed the Value index primarily because of its higher weighting in better performing health care and information technology stocks and lower weighting in the poorly performing financials sector. The stock market rose significantly in the fourth quarter as the hope for an effective COVID-19 vaccine became a reality. Investors reacted to the vaccine news and the passage of a second stimulus package by investing in a significant amount of small cap value ETFs which caused the smallest market capitalization, lower ROE, and non-earning stocks to outperform. In addition, companies that had been hurt by economic lockdowns saw their stocks rebound sharply, while those that benefitted from people staying-at-home saw their stock prices lag. In summary, it was a volatile year for small cap stocks, which posted their best and worst quarterly returns ever.

The fourth quarter began with a lot of uncertainty about the coronavirus and the U.S. presidential election. However, investors looked beyond the continued spread of COVID-19 and focused on the unprecedented monetary and fiscal stimulus as well as positive news flow on vaccine development and distribution. Stock prices rose sharply after Phase III results from Pfizer and Moderna showed that their COVID-19 vaccines were highly effective and safe. Bond yields and oil prices also moved higher on expectations of increased economic growth once the vaccines are widely distributed. While the Trump campaign contested the election's results, President-elect Biden will take office later this month. Although Democrats will control the Presidency and both houses of Congress, the margin is narrow. Therefore, investors believe Congress will pass additional stimulus spending and that tax increases are unlikely until the economy improves. Despite the sharp economic rebound in the second half of 2020, GDP remains well below pre-pandemic levels.

Fourth Quarter Performance Commentary

The preliminary fourth-quarter return of Cardinal's Small Cap Value Composite, at 29.9%, net of fees, trailed the 33.4% return of the Russell 2000 Value Index. The main detractors from relative performance were stock selection in the better performing materials sector, stock selection in the industrials sector and holding residual cash in a sharply rising market. In the materials sector, the share price of consumer goods packaging company Silgan Holdings, lagged the sector's nearly 33% increase as its business is largely insensitive to raw material prices and has benefitted from consumers staying-at-home. In the industrials sector, the primary detractors were defense contractor BWX Technologies and professional services provider CBIZ, whose share prices rose 7% and 16% respectively in the fourth quarter but lagged the 33% sector return as their businesses are not as dependent on a rebound in general economic activity. Both companies reported better than expected results and consensus earnings estimates for 2020 increased.

The primary contributors to Cardinal's relative performance were stock selection in the financials and consumer discretionary sectors and not owning poorly performing utilities. In financials, Cardinal had very strong performance in the diversified financials subsector and the stock prices of the banks in the portfolio increased over 50% due to a more optimistic credit

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outlook and depressed valuations. In consumer discretionary, the share price of Oxford Industries rebounded sharply on better than forecast results and expectations that its business would improve more quickly as consumers shop and travel more normally. In information technology, the stock price of digital payment software provider ACI Worldwide rose sharply, after activist investor Starboard Value purchased 9% of the company and encouraged the board of directors to pursue a sale. In healthcare, the share price of non-emergency transport company Providence Service Corp. rose on better-than-expected results driven by the low utilization of their transportation services due to COVID-19 and the announcement of a large accretive acquisition, Simplura Health Group.

2020 Performance Commentary

The preliminary full year return of Cardinal's Small Cap Value Composite, at -0.4%, net of fees, trailed the 4.6% return of the Russell 2000 Value Index. The main detractors from performance were stock selection and a lower weighting in the better performing consumer discretionary sector and stock selection in the industrials, information technology and consumer staples sectors. In consumer discretionary, the share price of theme park operator Six Flags dropped materially at the onset of the pandemic on government-mandated park closures and subsequent concerns about debt levels which caused us to sell the position. In industrials, the stock price of nuclear component supplier BWX Technologies rose nicely in absolute terms but trailed the very strong sector return. We purchased the position near the market bottom in March and it did not rebound as sharply as other industrials because its long-term government contracts are much less economically sensitive. In information technology, the share price of digital payment software provider ACI Worldwide lagged as investors were disappointed that the company did not pursue strategic options early in the year following the retirement of its long-time CEO and that COVID-19 delayed signing new business with some of its customers. In consumer staples, the stock price of sweet baked goods purveyor Hostess Brands lagged the sector despite reporting better than expected results. The overhang from stock sales by its former Chairman and CEO also depressed investor sentiment until he exited his position near year end.

The primary contributors to performance from a sector perspective were our lower weighting in financials and stock selection in healthcare. Within healthcare, Providence Service Corp. was the primary contributor to performance on repeated strong earnings and the highly accretive acquisition previously mentioned. Other individual contributors, regardless of sector, were Lithia Motors, Community Healthcare Trust and Medical Property Trust. The share price of auto dealer Lithia Motors nearly doubled as management successfully navigated COVID-related challenges through aggressive lowering of costs and optimization of revenue in order to produce record profits. Management also outlined an ambitious five-year plan to grow revenue and earnings through the launch of an online service and an accelerated pace of acquisitions. The shares of medical office building landlord Community Healthcare Trust and of hospital real estate owner Medical Property Trust posted solid returns as the businesses performed well despite the pandemic, collecting virtually all rents owed them and raising attractively priced capital to make accretive acquisitions.

The annualized net return of Cardinal's Small Cap Value Composite since inception (July 1, 1992) is 12.8% versus 10.4% for the Russell 2000 Value Index and 9.5% for the Russell 2000 Index. Cardinal managed $4.2 billion in small and SMID cap value assets as of December 31, 2020.

Highlighted Investments

Spectrum Brands

Spectrum Brands is a leading home essentials company that operates four businesses: Global Pet Care, Home & Garden, Hardware & Home Improvement, and Home & Personal Care. The company has leading market shares in each segment and well-known brands such as Baldwin and Cutter. Cardinal owned the stock previously through Harbinger Group's liquidation but sold it about a year ago after the two largest shareholders with board seats began to exit their positions following an extended period of poor operating performance. The Chairman replaced the CEO and increased the focus on investing in new products. Since then, operating performance has improved materially despite tariff cost pressures, and the valuation, at 8x gross cash flow, remains well below peers who trade in the low teens. Financial leverage has also improved to about 3x EBITDA, even with the company repurchasing $600 million in stock over the last two years. Cardinal believes that Spectrum's valuation will increase because organic growth should improve as new products gain traction and the company regains lost shelf-space. In addition, management will continue to make bolt-on acquisitions such as Armitage, a high-margin companion animal treat provider which should be very accretive because Spectrum will distribute its products through their Global Pet Care operations. Finally, the company will likely divest its non-core and low-margin personal care business as its performance continues to rebound. Should Spectrum's valuation discount persist, Cardinal believes that the company's pet care and home and garden businesses would be attractive to private equity.

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OSI SYSTEMS, INC.

OSI Systems provides security equipment embedded with its proprietary optoelectronic technology. Specifically, it sells equipment and services into the cargo and customs inspection markets and sensor technologies for non-security applications into the health care, aerospace, automotive and industrial markets. The company is also a niche provider of hospital and home-based patient monitoring systems through its Spacelabs subsidiary. Founded in 1987, OSI systems has grown into a top three global security vendor primarily through redeploying internally generated cash flow into acquisitions while maintaining only modest financial leverage. The security division has strong multi-year growth prospects because its customers regularly upgrade and replace their inspection systems in order to support growing global trade and rising security concerns. In late 2019, OSI experienced order delays as well as the loss of a large turnkey contract in its security business. The patient monitoring segment also shrank due to a poor product refresh and operational missteps. This confluence of events provided Cardinal with the opportunity to purchase a position in OSI at an opportunistic valuation. Our due diligence indicated that the security backlog growth was likely to resume in 2021 and that the lost turnkey contract was much less profitable than estimated. In addition, the rapid spread of COVID-19 sharply increased the demand for patient monitoring equipment coincident with the availability of OSI's refreshed product line. These factors suggested that the company's revenue and profit growth was going to resume more quickly than expected. As OSI reports financial results which reflect these trends, we expect that the stock price will rise as the discount to healthcare and diversified security peers dissipates.

Market & Portfolio Outlook

Cardinal's near-term outlook for equities remains cautiously optimistic. On the optimistic side, 2021 GDP growth is estimated to be above 4%, bringing U.S. economic output closer to pre-pandemic levels. Fiscal and monetary stimulus should also remain significant given Democratic control of Congress and the White House. Higher corporate and individual tax rates and other restrictive regulatory actions are also likely on hold as the new administration focuses on the pandemic and repairing damage to the U.S. economy. The mergers and acquisitions market should continue to recover, although increased antitrust scrutiny is almost certain. On the cautious side, equity indices are at all-time highs even though corporate earnings are unlikely to match 2019's level until at least 2022. Higher inflation expectations driven by the increased deficit spending of a Democratic controlled government are also likely to cause long-term interest rates to rise. Finally, the rising number of COVID-19 cases and the challenges of vaccinating the U.S. population will dampen U.S. economic growth until at least the second half of 2021. While there is always uncertainty in forecasting business results, long-term changes in consumer and business behavior associated with the pandemic have only made the exercise more challenging. As a result, Cardinal continues to prefer investments whose success is dependent on company specific drivers with as many as possible under management control rather than broader economic growth.

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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