Cardinal Capital Management, L.L.C.

Small Cap Value

Third Quarter 2021

FIRM OVERVIEW

- Focus on Small & SMID Cap Value
- Experienced, Stable Team
- 25-Year+ Track Record
- FCF-Based Valuations
- 100% Independent, Partner Owned
- $5.0 Billion AUM

INVESTMENT TEAM

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Market Commentary

Small and large cap stock indices, as represented by the Russell 2000 and 1000, fell 4.4% and rose 0.2%, respectively, in the third quarter. Within the Russell 2000, the Value Index fell 3.0%, while the Growth Index fell 5.7%. The Value Index fell less than its growth counterpart due primarily to a lower weighting and better performance in health care stocks and a higher weighting in better-performing financials and energy stocks. This was partially offset by a lower weighting in information technology stocks and poorer performing industrials and consumer discretionary stocks. Large cap stocks outperformed small caps as the Delta variant raised investor concern about the durability of the economic recovery. However, the Federal Reserve's decision to begin tapering its bond purchases later this year and comments about persistently high inflation set off a rise in long-term interest rates. Higher yields caused bank stocks to rebound and growth stocks, particularly health care, to lag. Otherwise, performance was inconsistent as certain cyclical sectors such as energy, information technology, and industrials held up well while others like consumer discretionary and materials lagged. This unevenness was also seen in commodity prices where energy was strong, but lumber and iron ore dropped precipitously. Consumer discretionary stocks weakened as supplemental federal jobless benefits were set to end and as supply chain shortages and higher logistics costs limited inventory and drove up expenses. After several quarters of trailing the averages, the highest return on equity companies were the leading stock performers overall.

The U.S. economy continued its recovery during the quarter, but the current forecast of 6% growth in 2021 has declined recently as the Delta variant has delayed business re-openings, intensified supply chain disruptions, and boosted inflationary pressures. Even with solid employment growth, the economy is still eight million jobs short of pre-pandemic levels as businesses struggle to fill openings and employees are quitting jobs at record levels as their priorities change. The impact of unprecedented fiscal policy is poised to slow, and it is uncertain whether the Democrats will pass any of their proposed policy agenda. In addition, the U.S. debt ceiling must also be raised by mid-October, or the government will not be permitted to pay interest on its borrowings. In summary, although fiscal and monetary policies remain accommodative and corporate profit forecasts have risen, much of the good news is already reflected in stock prices as valuations are high, interest rates are rising, and earnings comparisons are set to become more difficult.

Third Quarter Performance Commentary

The preliminary third-quarter return of Cardinal's Small Cap Value Composite, at -0.7% net of fees, exceeded the -3.0% return of the Russell 2000 Value Index. Key contributors were stock selection in the health care, communication services, consumer staples, and information technology sectors. In health care, the share price of ModivCare rose after the technology-enabled healthcare services company announced solid results and two large and accretive acquisitions. In communications services, the share price of broadcaster Nexstar Media Group rose on better than expected results, increased free cash flow guidance, and aggressive share repurchases. In consumer staples, the stock price of Spectrum Brands rose after the company announced that it was selling its hardware and home improvement business for an attractive price enabling the company to significantly reduce its leverage and focus on its core home, garden, and pet-related businesses. In information technology, the share price of NAND controller supplier Silicon Motion rose on better-than-expected quarterly results and annual guidance. Stock selection in the industrials sector and a lower weighting in the better-performing financials sector detracted from relative performance. In industrials, the share price of aerospace and defense contractor Kaman fell due to the lack of progress in its capital redeployment and concerns about the future of its safe and arm business despite solid operating results and financial guidance.

The annualized net return of Cardinal's Small Cap Value Composite since inception (July 1, 1992) is 12.0% versus 10.9% for the Russell 2000 Value Index and 10.3% for the Russell 2000 Index. Cardinal managed $5.0 billion in small and SMID cap value assets as of September 30, 2021.

Highlighted Investments

NEWMARK

Newmark Group is a full-service commercial real estate services business. Its products and services include transaction brokerage, GSE origination, agency leasing, property management, tenant representation, real estate management technology systems, lease administration, and facilities management. Newmark was acquired by BGC Partners in 2011 and instituted the same broker compensation and ownership structure as its parent. Since then, the company has made many accretive acquisitions, including Grubb & Ellis and Berkeley Point. Under BGC, Newmark built scale and enhanced its brand recognition for providing sophisticated and comprehensive real estate solutions to prominent corporate and institutional clients across the globe. Newmark was spun off from BGC Partners in late 2017 as it was large enough to be an independent public company and was also poised to expand internationally. In addition, it had shown above-market revenue growth for several years due to headcount growth and cross-selling. As a result, the company warranted a higher valuation. When BGC sold its eSpeed business to NASDAQ in 2013, it was entitled to receive about one million shares of NASDAQ stock per year through 2027, and BGC assigned those shares to Newmark as a term of the spin-off to provide capital to reinvest in the business. NASDAQ sold the eSpeed business, and as a result, the transfer of the NASDAQ shares was accelerated to June 2021. The sale of a portion of these shares enabled Newmark to repurchase a significant amount of its stock and improve its balance sheet. As the business has shown resilience during COVID and continued to gain market share, the stock has risen significantly. Nonetheless, the shares still trade at a discount to larger peers and are primed for multiple expansion as the market better appreciates the company's growth profile.

H.B. Fuller

H.B. Fuller designs and produces adhesives for industrial and consumer applications, including packaging, hygiene, construction, electronics, and aerospace. Serving customers across 30 countries, the company has a strong competitive position in a largely fragmented industry. Cardinal first invested in Fuller in the early 2000s, as it was transitioning from a family-run to a professionally managed company. A successful investment, Cardinal sold the stock in 2009 as the company faced challenges from rising raw material costs. A new CEO was brought in in 2010 with a mandate to refocus internal operations and expand into higher-margin specialty industrial adhesives through acquisitions. Fuller accelerated the strategy with its $1.8 billion debt-financed acquisition of Royal Adhesives in 2017. Cardinal revisited the company in late 2020 while looking at materials businesses that should benefit from the economic rebound. Despite COVID-related challenges, Fuller experienced only modest sales and cash flow declines due to their large health and hygiene exposure and a meaningful reduction in SG&A expenses. Importantly, Fuller was poised to benefit from their growing new product pipeline focused on niche industrial applications as the economy rebounded. In addition to these higher-margin products, profits were set to benefit from lower manufacturing and purchasing costs not yet reflected in the company's results. Despite this progress, limited analyst coverage and elevated leverage from the Royal Adhesives acquisition allowed Cardinal to initiate a position in the stock at an undemanding valuation. Since then, demand for its products has been strong, but commodity and logistics costs have risen sharply. Fuller has successfully managed through these challenges, allowing it to raise annual EBITDA guidance for 2021 and hit its leverage target by year-end. In fact, Fuller expects to realize about $400 million in annualized price increases, providing an attractive tailwind for its fiscal 2022 financial outlook. With recent M&A transactions in the adhesives business occurring at significant premiums to where Fuller is valued today, Cardinal believes the stock should move meaningfully higher as management executes or that a buyer would ultimately step in.

Market & Portfolio Outlook

Cardinal's near-term outlook for equities remains cautiously optimistic. The economy is now estimated to grow 6% despite the fallout from the Delta variant and supply chain and employment constraints. Corporate earnings are forecast to recover significantly this year, and mergers and acquisitions activity has already rebounded. However, equity valuations are high, and the rate of economic growth is expected to peak this year as fiscal and monetary stimulus begins to decline. Democratic spending plans, while ambitious, are not certain to pass. Finally, if the inflation rate remains well above 2% and supply disruptions continue, it may well result in even higher interest rates, which would depress most companies' earnings and equity market valuations. While there is always uncertainty in forecasting business results, changes in consumer and business behavior associated with the pandemic have 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 solely relying on near-term economic growth to produce sustainable growth in free cash flow.

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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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