

Cardinal Capital Management, L.L.C.

Small Cap Value

Second Quarter 2022

FIRM OVERVIEW

- Focus on Small & SMID Cap Value
- Experienced, Stable Team
- 30-Year Track Record
- FCF-Based Valuations
- 100% Independent, Partner Owned
- \$4.0 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 17.2% and 16.7%, respectively, in the second quarter. Within the Russell 2000, the Value Index fell 15.3%, while the Growth Index fell 19.3%. The Value Index fell less than its growth counterpart due primarily to its higher weighting in the better performing financials, energy, utilities, and real estate sectors and its lower weighting in poorly performing information technology stocks. The negative returns in two consecutive quarters led to the Russell 2000's worst first-half market performance since 1973. Investors' appetite for risk declined on rising inflation, the Federal Reserve's aggressive tightening actions, and increased concerns about the direction of corporate profits and economic growth as the repercussions from Russia's invasion of Ukraine grew. Consistent with investors' more defensive positioning, the consumer staples and utilities sectors produced by far the best returns in the quarter. The second quarter was the story of two discrete periods as value and high-quality factors outperformed in April and May in the face of higher interest rates but lagged low-quality and growth stocks in June as the Federal Reserve's actions increased the odds of a recession and subsequently pushed long-term interest rates lower and off their 2022 highs. The Russell 2000 Index has fallen over 30% from its peak late in 2021, slightly worse than the average bear market decline.

The U.S. economy is estimated to have grown modestly in the second quarter as activity reflected increased inflationary pressures, greater economic uncertainty, and lower consumer and business confidence. The stimulus-driven rebound in the U.S. economy, commodity prices, and persistent supply constraints have fueled higher prices. This inflation has proven to be less transitory than expected. As a result, real personal income growth turned negative in the first quarter, and consumer spending fell in May for the first time since the recovery. Since inflation has yet to cool, the Federal Reserve has begun to aggressively raise interest rates to bring it under control. This has dampened the economic landscape and soured investor sentiment because of concerns that it could lead to a recession. Oil prices fell in June for the first time since November despite supply disruptions related to the war in Ukraine and could be an early sign that inflation may be peaking. Corporate earnings, which have risen to record levels as the economy has emerged from the pandemic, will be under pressure as companies absorb higher labor, input, and interest costs amidst moderating demand. As a result, equity market volatility is likely to remain elevated until there is evidence that inflation is moderating and recession risks are receding.

Second Quarter Performance Commentary

The preliminary second-quarter return of Cardinal's Small Cap Value Composite, at -13.4% net of fees, outperformed the -15.3% return of the Russell 2000 Value Index. The primary contributors to relative performance were stock selection in the information technology, communication services, industrials, consumer discretionary, and materials sectors as well as a benefit from residual cash. In information technology, the share price of Silicon Motion rose after chipmaker MaxLinear announced an agreement to buy the NAND controller supplier in a stock and cash deal. In communication services, the stock price of Nexstar Media outperformed after the local television broadcaster reported better than expected results and conveyed solid three-year visibility based upon expected strong political and retransmission revenues. In industrials, the share price of CBIZ outperformed after the business services provider posted strong results and reiterated annual guidance on tailwinds from recent acquisitions, while the stock price of BWX Technologies rose on solid results and positive business developments in its medical isotopes and small nuclear reactor businesses. In consumer discretionary, the stock price of Oxford Industries outperformed on strong results

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and increased guidance as the apparel maker benefited from improved distribution, less promotional activity, and the reopening of stores in several markets. In materials, the share price of Silgan Holdings performed relatively well due to the less cyclical nature of its customers' products. The consumer products packager also reiterated guidance for the year. The main detractors from performance were stock selection in the financials, real estate, and health care sectors and not owning utilities. In financials, the stock price of PacWest Bancorp lagged its peers despite strong loan growth and higher margins due to a decline in tangible book value from unrealized losses in its investment portfolio. In real estate, the share price of commercial real estate broker Newmark fell more than its peers on concerns about a decline in capital markets activity arising from higher interest rates. In health care, the stock price of Enovis, a medtech company spun out of Colfax, lagged as multiples for the group contracted despite the orthopedic market continuing to recover from earlier COVID-related disruptions.

The annualized net return of Cardinal's Small Cap Value Composite since inception (July 1, 1992) is 11.2% versus 10.1% for the Russell 2000 Value Index and 9.1% for the Russell 2000 Index. Cardinal managed \$4.0 billion in small and SMID cap value assets as of June 30, 2022.

Highlighted Investments



ModivCare is a technology-enabled healthcare services company that provides integrated supportive care solutions for public and private payors and their patients. Today, ModivCare's solutions consist of non-emergency medical transportation ("NEMT"), personal care, and remote patient monitoring. These services are provided to states and managed care organizations through Medicaid and Medicare Advantage programs. In addition to the large market opportunity and strong competitive position, what attracted Cardinal to the company was the track record of the new management team and their experience in improving healthcare-related businesses. Since arriving more than two years ago, they have executed on an ambitious plan to improve operating performance and service levels by reducing costs and investing in technology to replace labor. Management has also made attractive acquisitions to expand the NEMT business and added the personal care and remote patient monitoring businesses creating sizeable customer cross-selling opportunities. The NEMT market is attractive because Medicaid benefits are Congressionally-mandated, and the eligible population grows by over 10% annually. ModivCare is also the only national NEMT provider making it well-positioned as states and managed care organizations move more programs to value-based care. NEMT profitability is forecast to decline in 2022 as utilization rates normalize from depressed pandemic levels. However, ModivCare still expects total EBITDA to rise in 2022 due to acquisitions but will grow organically thereafter. Cardinal believes the company's recent investor day was a turning point as management provided detailed performance drivers and 2025 targets, including strong earnings and cash flow growth and a credible path to debt reduction.



Leslie's, Inc. is a leading specialty retailer of pool cleaning and maintenance supplies serving the consumer do-it-yourself and professional do-it-for-me markets. Pools can be attractive investments for homeowners, particularly in the Sunbelt states, where Leslie's earns most of its revenue. The onset of the pandemic accelerated pool ownership as families embraced outdoor living at home. Founded in 1963 and public briefly in the 1990s, Leslie's private equity owners offered shares to the public in October 2020. A recognized national brand, its business has stable demand as over 80% of revenue is driven by annual pool maintenance. With the addition of a new management team in 2020, Leslie's began accelerating its omnichannel and store growth strategies. In 2021, Leslie's entered the professional market and found that a store catering to the professional pool servicer can generate twice the revenue as a store selling solely to pool owners. This initiative is in its early innings but showing promise. Despite solid execution, Leslie's share price began to decline as investors worried about its post-COVID growth prospects, transitory profits on chlorine-based tablets, and an overhang of shares from the private equity owners. Cardinal established an initial position in Leslie's after the investment team's due diligence indicated that investors did not appreciate the stability of demand for its products, the stickiness of pricing, and the potential from growth initiatives. Although there remains an overhang from sponsor shares, with its strong cash flow and limited financial leverage, Leslie's should be able to repurchase some of these shares. As Leslie's management delivers on its plan, Cardinal believes the company's valuation will better reflect the business's attractive financial characteristics and resilience.

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Market & Portfolio Outlook

Cardinal's near-term outlook for equities is cautious. The economic outlook for 2022 growth continues to moderate due to the fallout from the war in Ukraine as well as rising inflation and interest rates. Inflation is likely to remain well above the Federal Reserve's 2% target for most of the year but should begin to ease as supply constraints lessen and demand pressures ebb. Labor has been a significant limitation for many businesses, and any loosening of the labor market should help ease the supply chain. However, the risk of recession later in 2022 has increased, though that seems discounted currently in the market. While interest rates have risen significantly from the pandemic low and will impact certain sectors more than others, rates are still relatively low from a historical perspective, and credit remains largely available. The M&A market appears resilient, and lower public market valuations should allow for continued transactions once valuations and interest rates stabilize. Regardless, 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.

Performance Track Record

Cardinal Small Cap Value	Gross	Net	Russell 2000 Value
Inception-to-Date	12.1	11.2	10.1
10-Years	9.9	9.2	9.0
5-Years	5.0	4.3	4.9
3-Years	5.5	4.8	6.2
1-Year	-11.0	-11.7	-16.3
Year to Date	-15.6	-15.9	-17.3
2nd Quarter	-13.2	-13.4	-15.3

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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