Cardinal Capital Management, L.L.C.

SMID Cap Value

Second Quarter 2023

FIRM OVERVIEW

- Focus on Small & SMID Cap Value
- Experienced, Stable Team
- 30-Year Track Record
- FCF-Based Valuations
- 100% Independent, Partner Owned
- $3.2 Billion AUM

INVESTMENT TEAM

Eugene Fox, III
Managing Partner/Portfolio Manager

Robert Kirkpatrick, CFA
Managing Partner/Portfolio Manager

Rachel Matthews
Partner/Portfolio Manager

Robert Fields
Partner/Portfolio Manager

Chitra Sundaram
Senior Research Analyst

Christopher Robertson
Senior Research Analyst

Michael Cotogno, CFA
Senior Research Analyst

Market Commentary

Small, SMID, and large cap indices, as represented by the Russell® 2000, Russell® 2500, and Russell® 1000, rose 5.2%, and 8.6% in the second quarter, respectively. Within the Russell 2500, the Value Index rose 4.4%, while the Growth Index rose 6.4%. The Value Index rose less than its growth counterpart due primarily to its lower weighting in better-performing information technology stocks and higher weighting in poorly-performing financial and real estate stocks. The weakness in regional bank stocks continued during the second quarter as rising interest rates compressed net interest margins and many banks reduced loan growth expectations in an effort to shore up capital in the face of less certain deposit flows. Industrials were the best-performing sector in the Russell 2500 as construction and building-related stocks rose on the rebound in demand for new homes. Sharply rising interest rates have led to a dearth of existing inventory as homeowners are unwilling to move and relinquish their low rate mortgages. With employment remaining strong, homebuilders have experienced increased orders to meet normal demand despite affordability challenges. While smaller capitalization stocks outperformed large in June as macro factors improved, this performance was not enough to make up for the first two months of the quarter. From an economic growth perspective, sector returns were mixed as procyclical industrials and technology outperformed while defensive consumer staples and utilities lagged. At the same time, the defensive healthcare sector outperformed while typically procyclical sectors such as materials, energy, and financial services all lagged. Consistent with a more speculative market, stocks with higher revenue growth, lower quality attributes, and companies with no earnings outperformed.

The equity market provided positive returns in the quarter despite ongoing obstacles like banking turmoil, elevated inflation, geopolitical tensions, and pressure on corporate earnings. Investors focused on the falling inflation rate and the removal of tail risk as the US government struck a last-minute deal to raise the debt ceiling. While a major recession appears unlikely and a soft landing is possible, higher short-term interest rates have exposed vulnerabilities in the banking system and potentially in commercial real estate. After lifting its benchmark rate by five percentage points since March 2022, the Federal Reserve paused in June to assess the effects of its actions and other factors. However, the Fed governors believe that they are likely to continue raising rates as inflation remains well above the Fed's target, unemployment is near its lowest level since 1969 and economic growth remains resilient driven by consumer spending which has held up due to savings built during the pandemic. While employment has recovered from the pandemic, labor force participation has declined as older Americans have left the workforce and thus wage pressure persists. If the US economy falters, it is likely because of a weakening U.S. consumer, a slower recovery from COVID lockdowns in China, and a recession in the Eurozone.

Second Quarter Performance Commentary

The preliminary second quarter return of Cardinal's SMID Cap Value Composite, at 0.5% net of fees, trailed the Russell 2500 Value Index return of 4.4%. The main detractors from relative performance were stock selection and a higher weighting in the poorly performing materials sector, stock selection and a higher weighting in the poorly performing communication services sector, and stock selection in the information technology sector. In materials, the share price of Silgan Holdings Inc. fell after the supplier of packaging to consumer staples companies provided disappointing second quarter guidance due to the contractual lag in the recovery of higher resin costs and modest delays in the replacement of a large, but less profitable custom container customer. The company kept its annual guidance unchanged. In communication services, the stock price of Ziff Davis fell despite beating street earnings forecasts as the digital media and internet services provider left annual guidance unchanged but premised upon better market conditions in the second half. Investors were skeptical despite meaningful insider buying and more aggressive share repurchases. In information technology, the share price of Verint Systems lagged despite the provider of customer engagement software beating quarterly earnings and reiterating guidance as the company reported weak bookings due to an elongated sales cycle in the current environment.

The main contributors to performance were stock selection in consumer staples and industrials, and not owning poorly performing utilities. In consumer staples, the share price of Spectrum Brands Holdings, Inc. rallied as the sale of their Hardware and Home improvement business finally got regulatory approval and closed. As a result of the transaction, the company will be in a net cash position with proceeds to be used for debt paydown and a significant share repurchase program. In industrials, the stock price of GXO Logistics, Inc. rose on higher guidance due to continued new contract wins.

Highlighted Investments

TechnipFMC

TechnipFMC plc is a leading global provider of subsea production technologies for the offshore energy market. Formed by the merger of Technip and former Cardinal holding FMC Technologies in 2016, the new company fundamentally altered parts of the subsea energy market by integrating equipment manufacturing and installation. Vertical integration has provided material savings for TechnipFMC's customers and boosted its own profitability. Management also began to standardize product manufacturing with a limited number of designs instead of what had been a customized product offering. TechnipFMC's clients are adopting these new products and services on a widespread basis as they provide significant project-related savings as well as an over twenty percent reduction in time-to-first production. The offshore oil and gas industry has been depressed for most of the last decade as large output increases from US shale producers made higher cost offshore development unnecessary. However, as US shale production volumes flatten and as spending on oil and gas resources has not expanded the existing supply base to keep up with increased demand, sizable amounts of new oil and gas resources are needed. With improved economics and faster time to production, offshore oil and gas development is seeing meaningfully more activity. Facing only a few competitors, TechnipFMC has about fifty percent share of the integrated subsea market. More importantly, seventy percent of the company's business is under long-term contracts and unlike in the shale business, offshore budgets tend to be resilient during downturns. As the offshore oil services rebound is only in its early innings, the attractiveness of TechnipFMC's business model should become increasingly apparent. With meaningful margin expansion and growing free cash flow, we expect management to aggressively repurchase its shares as the business quality and outlook are much better today than during the last cycle while the stock is trading at a meaningfully lower valuation.

EQC Equity Commonwealth

Equity Commonwealth is a real estate investment trust formerly chaired by the late, highly regarded real estate investor Sam Zell. As a result of a successful proxy fight led by Corvex Management, Zell joined the company's board of directors in 2014. He put in place a management team that sold over 150 of the Trust's office properties for more than six billion dollars. The proceeds were used to repay all of the Trust's debt, repurchase stock and fund $16 per share in special dividends. With over two billion in cash, the stock currently trades at a modest discount to its per share asset value of $22, comprised of $19 in cash and a few remaining office properties worth $3 per share. Cardinal was attracted to Equity Commonwealth because of the significant increase in short-term interest rates as higher rates effectively limit the duration of the REIT. Unless the cash is redeployed, the company's tax status is jeopardized within a couple of years, and consequently, it will almost certainly be liquidated with a return modestly better than cash. Alternatively, the deterioration in the real estate market has created an increasingly favorable opportunity for capital redeployment. While Zell's recent passing is unfortunate, the remaining team spent extensive time with him at Equity Office Properties Trust. As a result, we expect that investment decisions will be executed in a fashion consistent with his approach. This conviction is supported by the Trust's compensation structure, which links financial incentives to shareholder returns. In summary, we believe that the optionality of having this team ready to redeploy capital at attractive valuations in the current real estate environment is not being adequately reflected in the current stock price.

Cardinal Capital Management, L.L.C.

SMID Cap Value

Second Quarter 2023

Cardinal's Outlook

Cardinal's near-term outlook for equities is cautiously optimistic. Short-term interest rates are unlikely to go materially higher because core inflation is slowing, although still above the Federal Reserve's target. Monetary policy acts with a lag and given the Federal Reserve's aggressive rate increases over the last fifteen months and the impact of higher credit costs and tighter lending standards from the regional bank failures earlier this year there would seem to be plenty of tightening that has yet to be felt. The likely conclusion of the current tightening cycle along with improving inflation, a resilient U.S. consumer, and a tight labor market have made investors feel more optimistic about the economy. The excess savings that consumers built during the pandemic continues to cushion the economy and corporate profits have been better than feared despite challenges as businesses adjust to post-pandemic behavior. However, a mild recession is still possible as demand slows. Nonetheless, once interest rates stabilize and financing conditions improve, merger and acquisition activity should increase as substantial liquidity is still poised to be put to work. Regardless, Cardinal continues to prefer investments whose success is dependent on company-specific drivers with as many as possible under management control rather than relying solely on near-term economic growth to produce sustainable growth in free cash flow.

Performance Track Record (as of 6/30/2023)

Cardinal SMID Cap Value Composite	Gross %	Net %	Russell 2500 Value %
Inception-to-Date (April 1, 2010)	9.1	8.6	8.9
10-Years	7.3	6.9	8.0
5-Years	2.8	2.3	5.3
3-Years	9.7	9.3	16.1
1-Year	-2.6	-2.9	10.4
2nd Quarter	0.6	0.5	4.4

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. 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.

The discussion of specific discrete investments in this newsletter (i) is included merely to illustrate certain investment processes and strategies utilized by Cardinal, (ii) is not intended to indicate overall performance that may be expected to be achieved by the Strategy, and (iii) should not be considered a recommendation to purchase or sell any particular security. The investments discussed herein are not a comprehensive list of securities or positions held by the Strategy. There is no assurance that any securities discussed herein will be or remain in the portfolio or, if sold, have not been or will not be repurchased.

Any projections, market outlooks or estimates in this newsletter are forward looking statements and are based upon certain assumptions.

Other events which were not taken into account may occur and may significantly affect the returns or performance of the Strategy. Any projections, outlooks or assumptions should not be construed to be indicative of actual events which will occur.

Cardinal has been independently verified for the periods July 1, 1992 through December 31, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Cardinal Capital SMID Cap Value Equity Composite has had a performance examination for the periods January 1, 2002, through December 31, 2021. The verification and performance examination report is available online at the following link: Cardinal GIPS Report 12/31/2021