Cardinal Capital Management, L.L.C.

Small 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

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Market Commentary

Small and large cap indices, as represented by the Russell® 2000 and Russell® 1000, rose 5.2% and 8.6% in the second quarter. Within the Russell 2000, the Value Index rose 3.2%, while the Growth Index rose 7.1%. The Value Index rose less than its growth counterpart due primarily to its higher weighting in poorly performing financial stocks and its lower weighting in better-performing healthcare stocks. The weakness in regional bank stocks continued in the second quarter as rising interest rates continued to compress 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. Healthcare was the best-performing sector in the Russell 2000 for the quarter primarily as a result of better-performing biotechnology stocks which rose strongly early in the quarter on hopes that the Federal Reserve's interest rate increases were over but lagged in June on strong employment data supporting the case for further interest rate hikes. While small capitalization stocks outperformed large in June as macro factors improved, the better 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 was the top performer while typically procyclical sectors such as materials, energy, and financial 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 Small Cap Value Composite, at 0.9% net of fees, trailed the Russell 2000 Value Index return of 3.2%. The main detractors from relative performance were stock selection and a lower weighting in the better-performing healthcare sector, stock selection and a higher weighting in the poorly performing communication services sector, and stock selection in the materials sector. The share price of healthcare services provider ModivCare Inc. fell on leverage concerns as it now does not expect to turn cash flow positive until late this year while it restructures some contracts to better reflect usage of its nonemergency transportation services as a result of the first Medicaid redetermination since the pandemic. In communication services, the stock price of WideOpenWest, Inc. fell as the high-speed data provider saw subscriber losses in its legacy markets and investors were skeptical that the new greenfield expansions will produce enough incremental subscriber growth to offset them this year. 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.

The main contributors to performance were stock selection and a higher weighting in better-performing industrials, stock selection in consumer staples, and not owning poorly performing utilities. In industrials, the stock price of GXO Logistics, Inc. rose on higher guidance due to continued new contract wins. 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.

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.

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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 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 Small Cap Value Composite	Gross %	Net %	Russell 2000 Value %
Inception-to-Date (July 1, 1992)	11.7	10.8	9.9
10-Years	7.2	6.5	7.3
5-Years	1.7	1.0	3.5
3-Years	11.9	11.1	15.4
1-Year	-1.3	-2.0	6.0
2nd Quarter	1.1	0.9	3.2

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.

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 Small Cap Value Equity Composite has had a performance examination for the periods July 1, 1992, through December 31, 2021. The verification and performance examination report is available online at the following link: Cardinal GIPS Report 12/31/2021