

Cardinal Capital Management, L.L.C.

Small Cap Value

Third Quarter 2023

FIRM OVERVIEW

- Focus on Small & SMID Cap Value
- Experienced, Stable Team
- 30-Year Track Record
- FCF-Based Valuations
- 100% Independent, Partner Owned
- \$2.7 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 and large cap indices, as represented by the Russell® 2000 and Russell® 1000®, fell 5.1% and 3.2%, respectively, in the third quarter. Within the Russell 2000, the Value Index fell 3.0%, while the Growth Index fell 7.3%. The Value Index fell less than its growth counterpart due primarily to its higher weightings in better performing financial and energy stocks and lower weightings in poorly performing healthcare and materials stocks. Energy was the best performing sector as oil prices rose dramatically during the quarter on a combination of supply cuts from OPEC+, China's continued recovery from pandemic lockdowns last year, and a solid U.S. economy. Financial stocks benefited from the stabilization of regional bank stocks following substantial declines in the first half of the year in the aftermath of the Silicon Valley Bank collapse. Deposit flows and costs began to moderate as it became apparent that there would not be widespread bank failures. While small capitalization stocks outperformed large ones early in the quarter on expectations for a soft economic landing, small cap returns lagged in September as interest rates climbed sharply and recession fears intensified. With the yield on ten-year U.S. Treasury Bonds climbing from 3.85% to 4.57% over the quarter, the Federal Reserve seems to have finally convinced the bond market that monetary policy will remain and interest rates are likely to stay higher for longer. As a result, long duration stocks and low-quality businesses lagged. From an economic growth perspective, sector returns were broadly more procyclical as financials and energy outperformed while defensive consumer staples and utilities lagged.

While inflation has fallen to less than half of last year's peak of 9.1%, it is still above the Federal Reserve's two percent target and the monetary authority continues to fight this stubborn problem. Not only has the Federal Reserve executed one of the most aggressive tightening campaigns in history, but it has also continued to signal that more hikes may be ahead even as the financial markets remain concerned about the impact that monetary tightening and fading fiscal tailwinds will have on the economy. The labor market has already started to cool, and the housing market has slowed. In addition, the problems that have plagued U.S. banks have not gone away. High money market rates pose a risk to bank deposits, while loan collateral values are under pressure due to rising bond yields. Commercial real estate values, particularly office, are falling on higher interest rates and as businesses provide for more people to work from home. Although a full-blown banking crisis was averted, tighter credit conditions will weigh on the economy as lending standards and borrowing rates rise. These factors, along with the resumption of student loan repayments and the UAW strike at the three major automakers, have increased the chances of an economic slowdown although it may take time before weaker U.S. growth becomes evident. Until then, the Federal Reserve will likely remain hawkish and thus forestall any meaningful decline in bond yields.

Third Quarter Performance Commentary

The preliminary third quarter return of Cardinal's Small Cap Value Composite, at -3.8% net of fees, trailed the Russell 2000 Value Index return of -3.0%. The main detractors from relative performance were stock selection in the information technology sector, a lower weighting in the better performing energy sector, stock selection in the real estate sector, and a higher weighting in the poorly performing communication services sector. In the information technology sector, the share price of Verint Systems fell after the customer engagement software provider missed quarterly guidance on lower than expected bookings citing lower pipeline conversion due to increased budget scrutiny for its lower annual revenue guidance. In the real estate sector, the stock price of Medical Properties Trust fell as some of its key tenants remain fiscally challenged and the hospital real estate owner company needs to sell assets

Cardinal Capital Management, L.L.C.

Small Cap Value

Third Quarter 2023

to reduce leverage which will also lower cash flow. In communication services, the share price of television broadcaster Nexstar Media Group lagged as contentious distribution negotiations within the television broadcast industry put pressure on the stock. The main contributors to performance were stock selection in industrials, holding residual cash in a down market, and lower weightings in poorly performing healthcare and utilities. In industrials, the share price of XPO rose significantly after the less-than-truckload (“LTL”) logistics provider began to benefit from the liquidation of the third largest industry player. In addition, the stock continued to react positively to the hiring of a chief operating officer from industry leader Old Dominion Freight Lines.

Highlighted Investments



XPO operates the third largest LTL network in North America and is essentially a pure play after having successfully spun off and sold other transportation assets over the last two years. Following management’s decision to delay the sale of its European business and a couple of lackluster quarters, the position was sold due to the absence of a near-term catalyst to unlock the full potential of the business. After the sale, Cardinal communicated to XPO management what they needed to see to become a shareholder again. Cardinal was pleasantly surprised to see these concerns addressed in short order. The company improved disclosure by providing historical proforma results on a consistent basis, added a well-respected industry executive to the board of directors, and named David Bates as COO. Bates was the driving force in building and optimizing Old Dominion Freight Line’s LTL network which has industry leading margins. These actions gave the team conviction to repurchase XPO shares because of the belief that XPO’s 2027 financial targets were not only achievable but could be hit even earlier. Furthermore, Cardinal built the position as they observed management executing its growth plan by expanding network capabilities through adding drivers, trucks, trailers, distribution hubs, and local sales representatives as well as enhancing cost containment efforts by promptly taking actions to lower damage claims and improve net promoter scores. These initiatives are being accomplished by properly incentivizing front-line workers and centralizing decision making under the new COO, who has used this approach successfully in the past. With the best technology and network in the industry, Cardinal sees no reason XPO cannot achieve best in class performance under Bates’ leadership and do not believe this is currently reflected in the company’s stock price despite its recent strong performance.

teradata.

Teradata Corporation is a leading connected multi-cloud data platform for enterprise analytics which helps companies integrate and simplify their data and analytics ecosystem as well as streamline access and management of data. With more companies moving to the cloud, it is essential for them to integrate ecosystems across cloud based and on-premise environments to operate effectively. Teradata has the unique ability to address the full spectrum of analytics needs, from cloud-only to multi-cloud to hybrid and on-premise. Historically, Teradata’s products were oriented to on-premise data warehouse offerings and the company was slow to build solutions for cloud-based environments. A new CEO hired in mid-2020 crafted a plan to adapt its legacy offerings and move to a cloud-based growth strategy. Today, Teradata’s annual recurring revenue is nearly one third cloud-based and those revenues are growing at a high double-digit rate. Its rapid growth in cloud revenue has been masked by the transition from one time on-premise license fees to annual revenues associated with the company’s SAAS offerings. However, now that cloud revenue is a material portion of overall sales, the company is expected to report accelerating total revenue growth and increased profit margins in the future. These results should improve Teradata’s valuation as the company shows that it is clearly a beneficiary of the long-term growth in information technology spending. In addition, most of the company’s current free cash flow is being used to buy back stock, which will increase the benefit from an upward revaluation of the business. The misperception that Teradata solutions are not as good as newer competitors has provided Cardinal with an opportunity to invest in an attractive secular growth business whose products have built credibility as a leading vendor in the cloud.

Cardinal Capital Management, L.L.C.

Small Cap Value

Third Quarter 2023

Cardinal's Outlook

Cardinal's near-term outlook for equities is once again cautious. The Federal Reserve's determination to thwart inflation through higher interest rates should ultimately slow the US economy, despite what has been resilient consumer spending since the pandemic induced stimulus actions. Not only have interest rates moved much higher over the last eighteen months, the impact of higher credit costs and tighter lending standards from the regional bank failures earlier this year are only now beginning to become more pervasive across the economy. A mild recession is still the most likely scenario, but the slowdown could be greater if interest rates continue to rise. Nonetheless, once interest rates stabilize and financing conditions improve, merger and acquisition activity should increase as substantial liquidity is 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. control rather than relying solely on near-term economic growth to produce sustainable growth in free cash flow.

Performance Track Record (as of 9/30/2023)

Cardinal Small Cap Value Composite	Gross %	Net %	Russell 2000 Value %
Inception-to-Date (July 1, 1992)	11.4	10.5	9.7
10-Years	5.8	5.1	6.2
5-Years	0.5	-0.2	2.6
3-Years	10.0	9.2	13.3
1-Year	2.8	2.1	7.8
3rd Quarter	-3.7	-3.8	-3.0

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.

Cardinal Capital Management, L.L.C.

Small Cap Value

Third Quarter 2023

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](#)