Cardinal Capital Management, L.L.C.

Small Cap Value

Fourth Quarter 2023

FIRM OVERVIEW

- Focus on Small & SMID Cap Value
- Experienced, Stable Team
- 30-Year Track Record
- FCF-Based Valuations
- 100% Independent, Partner Owned
- $2.6 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 14.0% and 12.0%, respectively, in the fourth quarter and rose 16.9% and 26.5%, respectively, for the year. Within the Russell 2000, the Value Index rose 15.3%, while the Growth Index rose 12.8% for the quarter. The Value Index rose more than its growth counterpart primarily due to its much higher weighting in the better-performing financials and real estate sectors as well as its better-performing consumer discretionary and industrial stocks. For the first time, the financials, real estate, consumer discretionary, and health care sectors, all of which are interest rate sensitive, simultaneously outperformed the small cap indices following dovish comments from the Federal Reserve, which triggered a sharp bond market rally. Not surprisingly, the fourth quarter rally in the Russell 2000 was also led by smaller capitalization and lower-quality stocks due to significant ETF inflows as investors added economic risk to their portfolios. For the year, the Value Index rose 14.7%, while the Growth Index rose 18.7%. The Value Index lagged its growth counterpart because of a higher weighting in the poorly-performing financials and utilities sectors and a lower weighting in the better-performing information technology sector. With respect to the broader stock market, performance was driven by a handful of mega-cap technology stocks that are expected to benefit from the adoption of artificial intelligence. The narrowness of the market was clear from the thirty-six-percentage point outperformance of large-cap growth stocks over large-cap value, the second-biggest margin in twenty-five years, with the top seven stocks having constituted about half of the market return.

Macroeconomic concerns again dominated the stock and bond markets in 2023. At the outset of the year, sentiment was cautious as recession fears were top of mind because of higher interest rates, inflation, and increased pressure on consumer spending as pandemic-related stimulus savings were depleted. Although corporate earnings are expected to be down for the year, the economy and employment remained resilient. With results better than feared, the equity indices rose sharply in large part due to the artificial intelligence euphoria but also to the improved prospects for lower inflation and interest rates in 2024. However, double-digit index returns masked very uneven performance across sectors and industries as many companies experienced unprecedented volatility in demand due to the lingering impact of COVID-related company and consumer behavior changes as well as higher interest rates. Investor sentiment improved especially in the last two months of the year as inflation trended lower and job growth moderated while hope for an economic soft landing increased. Following the strong absolute return in the fourth quarter, the valuation of small capitalization stocks is modestly more expensive in absolute terms. However, relative to large capitalization stocks, it is near its lowest level ever. Indeed, the market capitalization of Apple Inc. alone exceeds that of the entire small cap market.

Fourth Quarter Performance Commentary

The preliminary fourth-quarter return of Cardinal's Small Cap Value Composite, at 12.8% net of fees, lagged the Russell 2000 Value Index® return of 15.3%. The primary detractors from relative performance were a higher weighting and stock selection in the poorly performing communication services sector, a lower weighting and stock selection in the better-performing consumer discretionary sector, stock selection in the consumer staples and health care sectors, and holding cash in a rising market. The main contributors were stock selection in the information technology and energy sectors and not owning poorly performing utilities. In communication services, the share price of WideOpenWest fell after the cable service provider announced that it expected to lose subscribers after a recent price increase led to greater-

-than-expected subscriber churn. In consumer discretionary, the stock price shares of Everi Holdings fell after the casino gaming and fintech solutions provider lowered guidance as they expect to lose share in gaming operations until their new gaming content is available in early 2024. In consumer staples, the share price of Spectrum Brands lagged after the provider of home and garden and global pet care issued weaker-than-expected guidance due to the challenging macroeconomic conditions and its plans to reinvest in its business through additional hiring and promotions to accelerate growth. In health care, the stock price of LivaNova trailed its peers, despite raising guidance due in part to a competitor's supply problems, because the medical technology provider had a disruptive cybersecurity breach in the quarter, which has subsequently been remedied.

2023 Performance Commentary

The preliminary full-year return for Cardinal's Small Cap Value Composite, at 7.9% net of fees, lagged the Russell 2000 Value Index return of 14.6%. The primary detractors from relative performance were stock selection in the communication services, real estate, materials, information technology, and health care sectors. Relative contributors included a higher weighting and stock selection in the better better -performing industrials sector, stock selection in the consumer staples sector and not owning poorly performing utilities. In the communications services sector, Cardinal continues to own shares of WideOpenWest, highlighted above, as management addresses its pricing issue and its ongoing business value is well above the current market price. In the real estate sector, the share price of Medical Properties Trust fell significantly after its largest hospital operator tenants developed liquidity issues after having to repay COVID-related government loans before their operations had fully normalized. The position was sold when it became clear to us that management was not acting decisively enough to address these issues. In materials, the stock price of Silgan Holdings fell after the packaging company reduced earnings guidance due to temporary labor cost issues, new business was pushed out, and unexpected destocking reduced sales due to customers managing their working capital investment. Cardinal continues to hold Silgan as these issues are unlikely to impact the business going forward, and the company aggressively repurchased its stock in response to the lower share price. In information technology, the share price of Verint Systems fell after the provider of customer engagement software lowered revenue guidance due to macro-driven deal slippage. The portfolio retained this position as the company is maintaining market share and aggressively repurchasing shares in response to the lower valuation. In health care, the stock price of ModivCare fell on concerns about the impact of Medicaid redetermination on the company's non-emergency transportation business and the delay in free cash flow generation as the company restructures its client contracts to better insulate it from usage volatility. Cardinal continues to own ModivCare shares despite its financial leverage as the company was solidly cash flow positive in the third quarter and showed margin improvement as its cost savings programs are taking hold. The Chairman of the Board of the company and largest shareholder has also added significantly to his ownership at these lower prices.

Highlighted Investments

kyndryl

Kyndryl is a technology services company that focuses on providing infrastructure solutions. It serves more than 4,000 enterprise customers across more than one hundred countries, with the purposes of designing, building, and managing secure and responsive private, public, and multi-cloud computer environments to foster digital transformation. It has a strong and stable client base following its spin-off from IBM in 2021, which includes 75% of the Fortune 100 companies. Kyndryl is mission-critical to its clients, and many teams work on location with their customers. The company is in the midst of restructuring about 40% of its client contracts which were written with no gross margin before the IBM spin-off, as services were often included as a loss leader by its former parent to facilitate the sale of IBM hardware and software. Since the spin-off two years ago, the company has retained 97% of its clients and successfully negotiated new contracts at market rates. This accounts initiative is one of four parts to Kyndryl's $2 billion profit improvement program that also includes adding new business with hyperscale vendors, implementing advanced delivery through artificial intelligence, and building its consulting practice. All four pieces of the program are ahead of schedule, and as a result, the company is now profitable on a pretax basis and expects to be free cash flow positive for the current fiscal year despite absorbing losses on over twenty-five percent of its revenue. In addition, under IBM's ownership, the company would often own its clients' IT infrastructure, which cost Kyndryl two billion a year in capital expenditures and working capital. As clients now must pay Kyndryl market rates for this capital on new contracts, Cardinal expects the capital intensity of the business to decline. In its valuation, Cardinal penalizes Kyndryl for this capital use, but the stock is compelling at current prices, nonetheless. As Kyndryl's free cash flow grows and revenue bottoms in 2024 with unprofitable contracts running off, Cardinal expects investors to start to rethink its inexpensive valuation.

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Modine Manufacturing is a leading provider of heat-transfer and thermal management technologies for commercial and residential heating, ventilation, and air conditioning ("HVAC") needs. The company also supplies engine and battery thermal management technologies for electric and internal combustion engine vehicles. From its roots as a supplier to the auto industry, Modine pioneered and acquired heat management technologies. However, since former management prioritized revenue growth over profitability, these assets generated poor financial returns. As a result, the board appointed former Danaher executive Neil Brinker as Chief Executive Officer in 2020. By focusing on the 20% of technologies, markets, and customers that generate 80% of Modine's profits, management laid out an ambitious plan to more than double EBITDA and free cash flow margins over three years by improving the pricing of existing products and penetrating higher growth markets not yet exploited at scale. Since launching the program in mid-2022, Modine is well ahead of its original plan and strength in end markets, including data center construction and government-funded infrastructure, as well as the implementation of new HVAC regulations in the U.S. and E.U. providing a sound basis for future revenue growth. Management's focus on optimizing its manufacturing footprint and improving gross margins also provides a longer runway for profitability growth. Despite the solid execution of its planned business transformation, Modine's stock continues to trade at a large discount to its HVAC peers due to its legacy as a low-margin auto supplier. Cardinal initiated a position in Modine stock earlier this year just as results were starting to improve, and its stock price has already risen significantly. Nevertheless, the team believes the valuation discount will continue to close as the sustainability of the new business model and portfolio of higher value-added businesses becomes more evident to investors.

Cardinal's Outlook

Cardinal's near-term outlook for equities is cautiously optimistic. The Federal Reserve appears to be finished raising interest rates while the consumer and job market have remained resilient. While a mild recession is still possible in 2024, this could provide a buying opportunity as the market will benefit from inflation and interest rates continuing to fall. Financing conditions have already improved, as has merger and acquisition activity. 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 12/31/2023)

Cardinal Small Cap Value Composite	Gross %	Net %	Russell 2000 Value %
Inception-to-Date (July 1, 1992)	11.8	10.9	10.2
10-Years	6.3	5.6	6.8
5-Years	7.5	6.7	10.0
3-Years	4.9	4.2	7.9
1-Year	8.7	7.9	14.6
4th Quarter	13.1	12.8	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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