



March 22, 2020

To our clients:

I am writing you today to briefly update everyone on two important, related topics:

- Our view on the markets and investing opportunities
- The enduring strength of Kennedy Capital Management

Let me start by saying that this pandemic is undoubtedly a global tragedy. It has cost many lives and will continue to wreak havoc. We extend our heartfelt sympathies to all who have been directly impacted by this. We are hopeful and confident that our healthcare system will develop treatments and vaccines to blunt the long-term impact of this on our population.

We are dealing with a great degree of uncertainty. As we all know, uncertainty depresses valuations. Think of an earnings multiple as the comfort one has in a future stream of earnings. When there's uncertainty, that comfort (i.e., the multiple) drops. This is what we are seeing in today's markets. Our job, of course, is to ingest information, incorporate it into our analysis, and make decisions. While we are humble enough to admit that we do not have all of the answers, we nonetheless process the data we have and adjust our valuation assumptions accordingly. While the trading backdrop is disorderly and volatile, our team is seeing opportunities to improve portfolio positioning for the long term.

In this environment, while we have not been able to hold in-person meetings with management, we have been holding direct calls with companies. Over the past two weeks, alone, we have had conversations with more than 160 companies as part of our ongoing due diligence effort.

Our portfolio managers have the benefit of experience. Most have managed through the tech bubble and subsequent crash in the late '90s/early '00s, and we



have navigated the Great Financial Crisis of '08/'09. This perspective enables a calm assessment of the current environment. Panicked selling rarely helps to create long-term value for investors.

We are, however, seeing remarkable swings in our markets. Given our approach to investing, it is highly unusual for us to sell a stock that has come under dramatic pressure, but we are doing that, on occasion. This apparent anomaly is taking place now because our analysts have the luxury of following an entire sector. When a stock we own falls precipitously, we do not necessarily hunker down, grit our teeth, and hold on for dear life. We have the lateral vision to see that another peer has fallen similarly, and we know that firm and the management team. If we see that as a more attractive long-term investment at the present moment, we make that swap. This demonstrates the power of our approach. In fact, some have argued that having our analysts cover growth, core, and value stocks within their sectors is a hindrance. In times like this, that flexibility is a significant asset. In fact, our clients will soon see a thought piece we are authoring that explores this concept in depth.

As to Kennedy's well-being itself, let me assure you that we believe we are well-suited to excel in a period like this. I've described why our investing approach is advantaged, but our structure is also valuable for our clients. Having no net debt on our balance sheet, owning our building, and not having a parent company to which payments must be upstreamed, gives us a high degree of confidence and certitude about our future. That is not to say we will not tighten our belts and make moves that will prepare us to weather the storm should it be sustained for longer than we expect. In any case, we are able to maintain our investment advantage in this environment. In fact, we have just hired two new Research Associates to bolster our bench strength. We are prepared to excel in this environment, as we have for 40 years. Although we are clearly mindful of the destruction of value that has taken place in recent weeks, we are excited for the opportunities created and our ability to capitalize on them as we look forward.



Let me conclude where I started. This is a tragic situation, but it will be solved. There are already many companies making progress towards treatments and vaccines. Once we begin to see tangible improvements, investors will be anxious to recapture lost market value. This could result in a sharp snapback in market prices. There can be no performance guarantees, but we are confident that we're well positioned to seize the opportunities before us.

Thank you for your continued trust and confidence. If you have questions or concerns, please reach out to our team.

Sincerely,

Donald Cobin, CFA®
President and CEO

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