Kennedy Capital Management LLC

All Cap Value Commentary
4th Quarter 2022

After lying dormant for decades, the resurrection of high inflation during 2022 was a shock to nearly all markets from equities to bonds to cryptocurrencies to even cash. The S&P® 500, Nasdaq Composite and Russel 2000® declined 18.1%, 33.1% and 20.4%, respectively, for the year. Bonds were hit by higher interest rates as the yield on the 10-year US Treasury Note increased from 1.496% to 3.826% which hit the Bloomberg Aggregate Bond Index by 12.9%. Cryptocurrency Bitcoin, declined by more than 60%. The purchasing power of cash also declined as inflation increased by 6.5% in 2022 after increasing 7% in 2021. Some of the only areas of strength came from energy with the PHLX Oil Service Index +59.1% and the Dow Jones Commodity Index +10.83% up for 2022. (Otani, WSJ)

Inflation's surge emerged from several different sources resulting in both cost-push and demand-pull inflation. The cost-push inflation continues to be created by a tight US labor market which is driving double-digit increases in wage inflation for some market sectors which are struggling to find people to meet customer demand. The unemployment rate finished 2022 close to a record low of 3.5%. In addition, COVID-19-related shutdowns in China and limits on supply from underinvestment in energy and industrial commodities along with lingering supply constraints from the Russian/Ukraine war have all curtailed the aggregate global supply of energy, industrial/food commodities, and supply of goods, in general, across many sectors and regions. Finally, tariffs and reshoring of production have reversed the multi-year deflationary impact of outsourcing production to lower-cost regions which may create more expensive domestically-produced goods moving forward. The demand-pull inflation came from excessive fiscal policy as governments tried to deal with COVID-19, environmental change, and improvements to US infrastructure/reshoring. The Federal Government spent around $6.7 trillion from 2020 through 2022 on economic stimulus including $3.1 trillion from the Trump Administration ($2.2t CARES Act 3/27/2020, $900b COVID-19 Relief Bill 12/27/2020) and $3.7 trillion from the Biden Administration ($1.9t COVID-19 Relief 3/11/21, $1.2t Infrastructure 12/15/21 and $500b Inflation Reduction Act/Chips Act 8/16/22). The amount of federal stimulus since 2022 of around $6.7 trillion exceeded the total spending of $4.7 trillion spent during World War 2 with the stimulus continuing to flow into the overstimulated economy. (Harrington, Swenson USA Today)

Throughout 2022, the Federal Reserve started to aggressively deal with the higher inflation through an unprecedented increase in the Federal Funds Rate which increased by a cumulative 4.25% during the year from 0.25% at the start of the year to 4.5% by the end of the year. Most of the increases occurred between June and November with the Federal Reserve increasing rates by 0.75% at 4 consecutive meetings. This rapid tightening so far has yet to be fully realized in the economy but is expected to slow aggregate demand and cool the inflation surge. Even with the unprecedented tightening, the Federal Reserve remains vigilant and is expected to raise the Federal Funds Rate to at least 5.1% by June of 2024 to combat the inflation problem.

The Federal Reserve was slow to act at first, but has become much more aggressive in combating the inflation surge with the goal of reducing inflation to a target of 2% from 6.5% in 2022. The Federal Reserve is trying to emulate the inflation hawk and Federal Reserve Chairman, Paul Volcker who aggressively attacked inflation at the end of the 1970s by raising the Federal Funds Rate from

6.5% to 18% over a 3-year period. This sent the US economy into a couple of severe recessions in the early 1980s, but set up several decades of subdued inflation and strong Federal Reserve credibility as an inflation fighter. Today's Federal Reserve seems to be just as serious about combating inflation and should be rewarded with less long-term inflation.

For 2022, All Cap Value declined 5.25% (net of fees) vs. the Russell 3000® Value Index falling 7.98% Positive stock selection and asset allocation has helped drive the positive relative performance for the year with good contribution from Consumer Staples, Health Care and Energy more than offsetting weakness from Consumer Discretionary, Information Technology and Utilities. Please see additional performance information in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	-4.60%	11.94%	9.34%	13.34%	14.56%
Net	-5.25%	11.17%	8.59%	12.57%	13.78%
Index	-7.98%	5.88%	6.50%	10.16%	10.98%

Data as of 12/31/22

Even with the recent turmoil from inflation and subsequent decline in equity values, our investment approach, which focuses on a bottom-up approach focused on improvement in returns on invested capital, continues to uncover good companies at reasonable valuations.

As always, we want to thank you for the confidence you have placed in Kennedy Capital, and we appreciate the opportunity to manage your account.

Sincerely,

Frank Latuda, Jr. CFA®
Chief Investment Officer & Portfolio Manager

Thomas Leritz, CFA®
Assistant Portfolio Manager

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The All Cap Value Composite invest primarily in value securities of companies without a market capitalization constraint. The Manager generally looks for undervalued companies generating cash flow returns on invested capital greater than industry peers. All Cap Value portfolios generally demonstrate valuations below and growth characteristics at or above those of the benchmark. The weighted average market capitalization of the Account will generally be reflective of the Russell 3000® Value Index. The U.S. Dollar is the currency used to express performance.

Composite specific data provided within this presentation has been calculated from accounts that are discretionary as defined in this paragraph. The assets shown are derived only from discretionary accounts. Non-discretionary accounts, as defined by KCM, are accounts that are not included in the composite due to one or any combination of the following criteria: there were significant cash inflows or outflows within the account; the account's asset level did not meet the minimum requirement to remain in the composite; the account assets are managed by others using our non-discretionary model. The temporary removal of such an account occurs at the beginning of the month and the account re-enters the composite the month after the criteria has been met.

Performance returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross of fee returns reflect the deduction of transaction costs and custodian fees but do not reflect the deduction of investment advisory fees. Net of fee performance is calculated using gross returns less the actual applicable annual management fee applied monthly. ***Past performance is not indicative of future results.*** *A client's return will be reduced by the advisory fees as described in Form ADV Part 2A and other expenses incurred by the account. For example, an annual advisory fee of 1% compounded quarterly over 10 years will reduce a gross 14.44% annual return to a net 13.32% annual return. Form ADV Part 2A is available upon request.*

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The Russell 3000® Value Index measures the performance of the broad value segment of the US equity value universe. It includes those Russell 3000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The Russell 3000® Value Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad value market. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

The Russell 3000® Value Index is used as the benchmark. The Index is unmanaged and represents total returns including reinvestment of dividends. The benchmark is used for comparative purposes only and generally reflects the comparable risk or investment style of the Firm's strategy. The investment portfolios underlying the Index are different from the investments in the portfolios managed by the Firm. Certain accounts may also use other benchmarks not listed in the GIPS composite report. The Verification and Performance Examination Report does not cover the benchmark returns included in the GIPS composite report.

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