

# Kennedy Capital Management LLC

## Bank Sector Commentary 1st Quarter 2024

For 1Q, the Bank Sector Strategy returned -2.38% (gross of fees) and -2.63% (net of fees) vs. the Russell 2000® Value Bank Subsector benchmark of -6.20%. The portfolio outperformed as some of the late 2023 interest-rate-cut optimism came out of the banking sector to begin the year. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
<b>Gross</b>	20.94%	5.28%	10.90%	-	7.57%
<b>Net</b>	19.74%	4.23%	9.80%	-	6.50%
<b>Index</b>	13.07%	-2.40%	3.48%	-	1.56%

Data as of 3/31/2024

The first quarter of 2024 will be remembered most for dramatic actions taken by a regional bank including increasing loan loss reserves and announcing it would be holding more liquidity on its balance sheet going forward. This caught investors by surprise and appears to have been a result of crossing \$100B in assets which brings increased regulatory capital requirements. After meeting with several of our bank holdings after this event, we have determined that this is a unique case for a few reasons: 1) its much larger than banks we own and 2) it also has among the highest concentration of rent-controlled multi-family of any bank in the country.

Another factor influencing performance of the bank group is economic data that influences the timing of potential interest rate cuts. It seems that the likelihood of interest rate cuts continues to be a matter of when not if, however, the timing keeps getting pushed out later into 2024. At the moment, we are in an interesting period where a strong economy (which is pushing out the timing/need for rate cuts) is generally a good environment for banks to operate and is balanced with the fact that somewhat lower interest rates would help create a floor on real estate values in our opinion.

Many bankers believe that lower interest rates (which will lessen the negative capital impact of accumulated other comprehensive income (AOCI) on capital and tangible book value for banks) could serve as a catalyst for bank M&A in 2024. Finally, a potential change in political administration later this year may also serve as a potential catalyst for the bank group as a Republican President would likely relax several banking regulations as we saw after the election in 2016. The S&P Regional Banking index (KRE) rallied 32% in 4Q 2016 in anticipation of this over the following 4 years.

Sincerely,

Brian Hagler  
Portfolio Manager

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The Bank Sector Strategy Composite is invested in securities of value and growth companies that have a market capitalization ranging from microcap to small cap, generally reflective of the Russell 2000® Value Bank Subsector Index. For comparison purposes the composite is measured against the Russell 2000® Value Bank Subsector 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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Sector Weightings are subject to change at any time. Sectors are based on the Global Industry Classification Standard ("GICS") classification scheme and are measured as a percentage of the total composite in terms of asset value as of the date indicated above. Individual client portfolios may be different based on variations in security purchase price and date, and individual client restrictions.

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The Russell 2000<sup>®</sup> Value Bank Subsector Index measures the performance of micro- to small-cap value segment of the U.S. equity universe. It includes those Russell 2000<sup>®</sup> companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000<sup>®</sup> Value Bank Subsector Index is constructed to provide a comprehensive and unbiased barometer for the micro-cap and small-cap value segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect value characteristics. The investment portfolios underlying the Index are different from the investments in the portfolios managed by the Firm. The Russell 2000<sup>®</sup> Value Bank Subsector Index is defined by FTSE Russell using the Industry Classification Benchmark (ICB) standard. ICB is a globally recognized standard, operated and managed by FTSE Russell for categorizing companies and securities using a detailed and comprehensive structure for sector and industry analysis, facilitating the comparison of companies across four levels of classification and national boundaries. The classification system allocates companies to the Subsector whose definition closely describes the nature of its business as determined from the source of its revenue or the source of the majority of its revenue where available. FTSE Russell is responsible for maintaining ICB, and for the classification of all companies within ICB.

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