

# Kennedy Capital Management LLC

## Bank Sector Commentary

### 3<sup>rd</sup> Quarter 2025

For 3Q, the Bank Sector Strategy returned 9.60% (gross of fees) and 9.33% (net of fees) vs. the Russell 2000® Value Index Bank Subsector benchmark of 6.70%. Year-to-date the Bank Sector Strategy has returned 8.72% (gross of fees) and 7.91% (net of fees) vs. the Russell 2000® Value Index Bank Subsector benchmark of 5.05%. Additional performance can be found in the table below.

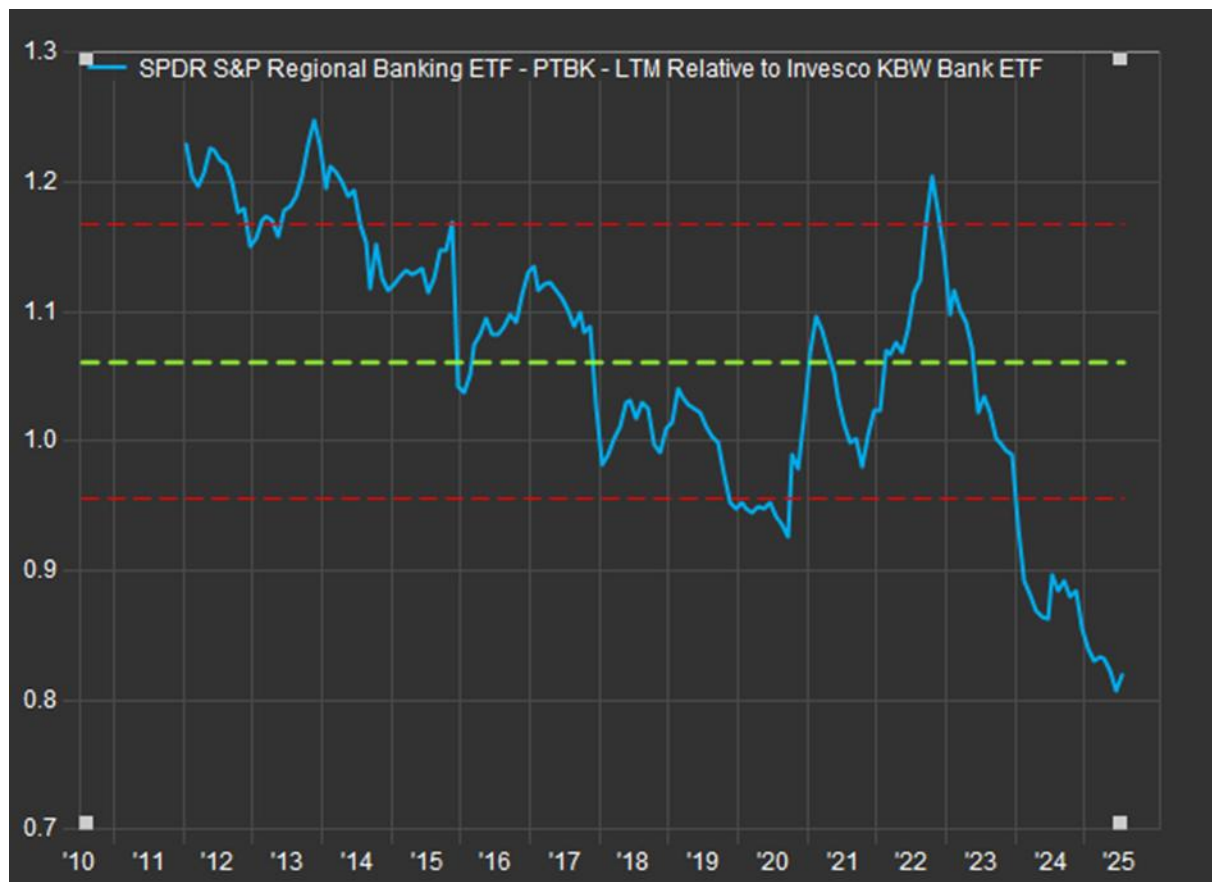
|              | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception (1/1/18) |
|--------------|--------|---------|---------|----------|--------------------------|
| <b>Gross</b> | 21.39% | 14.91%  | 24.97%  |          | 11.17%                   |
| <b>Net</b>   | 20.18% | 13.76%  | 23.71%  |          | 10.06%                   |
| <b>Index</b> | 10.67% | 8.52%   | 16.75%  |          | 4.59%                    |

Data as of 9/30/2025

In the third quarter, the macro-economic environment adjusted to “Liberation Day” related tariffs/uncertainty and thankfully the impact on banks has been minimal thus far. Bank M&A continues to be a strong theme in the space with deals getting approved much faster under the current administration which has provoked more activity. In an October 8<sup>th</sup> research report by Stephens Inc., analysts pointed out that the 124 bank deals announced YTD represented a 43% increase year over year. In addition, if you annualize third quarter deal activity, it would get you close to the historical median 200 deals/year – a pace we haven’t seen since 2019.

One of the main drivers behind increased consolidation is that the larger cap banks continue to trade at a premium to smaller banks (11x '26 EPS and 1.85x TBV vs. 9.8x and 1.43x respectively- see relative P/TBV graph below.) This dynamic makes it easier for the M&A math to work even with accumulated other comprehensive income losses (AOCI) embedded on bank balance sheets.

Related to this unfolding M&A thematic, we remain focused on finding investment opportunities on both sides of the transaction. We do so by identifying what we believe as strategically attractive, undervalued assets as well as consolidators that may be able to leverage their relative valuation and operational pedigree to negotiate partnerships that aim to enhance the value of the franchise with minimal (or without) capital dilution. A M&A success story in 3Q was a microcap bank holding with scarcity value in North Carolina getting acquired for a 54% premium, which was a nice win for the portfolio.



Source: Factset Systems Inc.

Sincerely,

Brian Hagler  
Portfolio Manager

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Research Analyst

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