

# Kennedy Capital Management, Inc.

## ESG SMID Cap Commentary 3rd Quarter 2022

The Russell 2500™ index declined nearly 2.8% in the third quarter of 2022, as a market rally early in the quarter was reversed by ongoing concerns regarding interest rate increases and the possibility of a recession in 2023. Companies with meaningful exposure to European economic conditions are beginning to experience notable demand pressure, while the bulk of weakness in North America remains consumer oriented thus far. Many companies are still carrying larger than normal order backlogs, as the easing of supply chain constraints has been gradual, and corporations continue to favor certainty of supply over working capital efficiency. As supply chains recover and interest rates move higher, inventory destocking could emerge as a risk.

During the third quarter, the portfolio was most overweight the Industrials and Information Technology sectors, while the largest underweights were Energy, Communication Services, and Materials. We view the Industrials overweight and Materials and Energy underweights as largely offsetting due the similarities in the underlying economic drivers of these sectors. A similar relationship exists between Information Technology and Communication Services.

### Performance & Characteristics

The ESG SMID Cap portfolio returned (-3.50)% in Q3 2022 (gross of fees) and (-3.65)% net of fees, underperforming the benchmark by 68 bps on a gross basis and 83 bps on a net basis. Over the trailing 12-months, the portfolio has outperformed its benchmark by 429 bps (gross of fees) and 372 bps (net of fees). Additional performance information is included in the table below:

	1 Year	3 Years	5 Years	Since Inception
<b>Gross</b>	-16.82%	9.77%	9.15%	10.45%
<b>Net</b>	-17.39%	9.05%	8.45%	9.71%
<b>Index</b>	-21.11%	5.36%	5.45%	6.64%

Data as of 9/30/2022

Our best- performing sectors this quarter were Industrials and Consumer Staples, which added 40 bps and 22 bps, respectively, to relative performance. The worst- performing sectors vs. the benchmark were Energy (detracting 51 bps) and Consumer Discretionary (detracting 40 bps).

Regarding portfolio characteristics, as of 9/30/22 the ESG SMID Cap portfolio had weighted-average carbon emissions (Scope 1, reported and estimated) of 85,933 metric tons, an 86% reduction

from the weighted -average emissions of the benchmark. The portfolio had zero carbon reserves, while the benchmark had reserves that equate to over 668 million metric tons of potential future emissions. The weighted- average governance score of the portfolio (based on Institutional Shareholder Services' Quality Score metric) was 3.42 compared with 4.22 for the Russell 2500™, or 19% more attractive (lower score is better).

We remain confident in our ability to construct a portfolio with attractive Environmental, Social, and Governance characteristics that delivers relative investment outperformance over the long term. As always, we appreciate the confidence you place in our team. Please don't hesitate to contact us with any questions regarding Kennedy Capital Management or our investment process.

Sincerely,

Christian J. McDonald, CFA®  
Portfolio Manager

### **Important Disclosures**

Although the statements of fact and data in this report have been obtained from, and are based upon, sources that the Firm believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the Firm's judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. A complete list of all securities recommended by KCM in the preceding year, a fully compliant GIPS composite report, and the list of composite descriptions are available upon request from KCM at 10829 Olive Blvd., Suite 100. St. Louis, MO, 63141.

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ESG SMID Cap Composite is invested in securities of value and growth companies that have a market capitalization ranging from small cap to midcap, generally reflective of the Russell 2500™ Index. The Investment Manager places an additional emphasis on Environmental, Social, and Governance criteria as part of the portfolio construction and stock selection process. We generally look for value companies that trade at an attractive relative valuation on a price-to-earnings and price-to-cash flow basis, and growth companies that have opportunities to grow assets at returns above the cost of capital. 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.

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.

The performance figures reported herein are unaudited, may be based upon information obtained via electronic data sources ("feeds") and may be subject to change. Data feeds from many of KCM clients' selected custodians are obtained through third party sources and are used to compare custodial data to KCM's client account records as frequently as daily. Monthly, KCM reviews clients' account holdings along with cash and share quantities against the custodial statements. In some instances, variances may exist between final audited custodial information and the information KCM obtains via such data feeds. Generally, any such variances are researched and reconciled within thirty days of the period end.

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Portfolio Sector Weightings are subject to change at any time. Sector weightings are based on the Global Industry Classification Standard (“GICS”) classification scheme and are measured as a percentage of the total portfolio 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 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as “smid” cap. The Russell 2500™ Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500™ Index is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.

The Russell 2500™ Index are used as the benchmarks. The Indexes are unmanaged and represents total returns including reinvestment of dividends. The benchmarks are used for comparative purposes only and generally reflects the comparable risk or investment style of the Firm’s strategy. The investment portfolios underlying the Indexes 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.

Source: FactSet Research Systems, Inc. The portfolio characteristics described herein are derived from the composite and are representative of accounts without constraints. To the extent that a KCM client imposes reasonable restrictions (which clients are allowed to do), the portfolio characteristics of that client’s account may vary.

Carbon Emissions (Scope1 Wtd Avg, mt) is a weighted average of companies reported or estimated Scope 1 greenhouse gas emissions measured in metric tons. Scope 1 emissions are those from sources owned or controlled by the company, typically direct combustion of fuel as in a furnace or vehicle. Exposure to Fossil Fuels is a measurement of how much of a company’s business model is invested in or tied to fossil fuels. The Governance Score is the ISS Governance QualityScore, which is derived from publicly disclosed data on a company’s governance practices and for which a lower score is preferable and a score 10 is considered high risk. Source: MSCI, Inc.

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