

# Kennedy Capital Management LLC

## ESG SMID Cap Commentary

### 4th Quarter 2023

The Russell 2500™ index returned 13.35% in the fourth quarter of 2023 and 17.42% for the full year. Overall, 2023 was a volatile year for Small- and Mid-Cap US equities. The regional banking crisis took center stage early in the year, and tightening actions from the US Federal Reserve gave way to an outlook for stable to declining interest rates as the year concluded. The Kennedy Capital ESG SMID Cap underperformed its benchmark during the first half of 2023, which we believe was tied to fundamentals taking a backseat to some degree of emotional trading in the equity markets. Performance improved in the second half of the year, as fundamentals came back into focus, resulting in modest underperformance of the portfolio compared to the benchmark for the year.

Lingering effects of the COVID-19 pandemic were also at play in 2023, with healing supply chains leading to significant inventory destocking in certain sectors and industries. This caused a temporary negative impact on company fundamentals, but also created some buying opportunities for businesses with attractive long-term prospects.

We were especially pleased with the favorable relative performance in the Health Care sector in 2023. The market's focus on GLP-1 weight loss drugs resulted in an assumption of radically changing prospects for a number of companies. This negativity in the sector drove valuations of some businesses to unusually attractive levels, and we took advantage of several opportunities for new Health Care buys as the year progressed. In certain instances, we've already observed the market taking a more realistic view of the intermediate-term impact of GLP-1's reflected in improved share price performance.

During the fourth quarter, the portfolio was most overweight in the Industrials and Health Care sectors, while the largest underweights were in Energy and Communications Services. We continue to view the overweight position in Industrials as a partial offset to the underweight in Energy.

### Performance & Characteristics

In Q4 2023, the ESG SMID Cap portfolio returned 13.48% gross of fees and 13.33% net of fees, outperforming the benchmark by 13 bps on a gross basis and underperforming by 2 bps on a net basis. For the full year, the portfolio returned 17.33% gross of fees and 16.59% net. This compares to a 17.42% return for the Russell 2500™. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
<b>Gross</b>	17.33%	7.28%	15.02%	-	12.24%
<b>Net</b>	16.59%	6.55%	14.27%	-	11.48%
<b>Index</b>	17.42%	4.24%	11.67%		8.98%

Data as of 12/31/23

The best-performing sectors this quarter were Energy and Real Estate, which added 62 bps and 26 bps, respectively, to relative performance. The worst-performing sector vs. the benchmark was Consumer Discretionary, which detracted 51 bps. Given the strong absolute returns in the quarter, the small cash weighting in the portfolio had an unfavorable 30 bps impact.

As of 12/31/23, the fund had weighted average carbon emissions (Scope 1, reported and estimated) of 85,631 metric tons, an 89% reduction from the weighted average emissions of the benchmark. The portfolio had zero carbon reserves, while the benchmark had reserves that equate to over 672 million metric tons of potential future emissions. The weighted average governance score of the portfolio (based on Institutional Shareholder Services' Quality Score metric) was 3.39 compared with 4.29 for the Russell 2500™, or 21% 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 have 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

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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.

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.

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.

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.

The information provided should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in a KCM portfolio at the time you receive this letter or that securities sold have not been repurchased. Allocations among industries, sectors and securities may vary and are subject to change without notice. Any securities discussed do not represent an account's entire portfolio and, in the aggregate, may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the industry or sector allocation decisions mentioned, or securities transactions or holdings discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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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direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Allocations to various assets classes change over time and deviate from any stated or targeted percentages of a total portfolio as a result of market conditions and reallocation decisions. Therefore, nothing herein reflects a static portfolio allocation that will remain the same or match stated target allocations of asset classes.

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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 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. The Score is calculated as a weighted average for the fund and compared to the weighted average score for the Russell 2500™ index. Companies not included in the ISS Governance QualityScore database are not included in the weighted average calculation for the portfolio or the benchmark. The QualityScore provides an indication of relative governance quality supported by factor-level data. The fund's weighted average QualityScore will be at least 15% lower (better) than that of the index. Companies receive an overall QualityScore and a score for each of four categories: Board Structure, Compensation/ Remuneration, Shareholder Rights, and Audit & Risk Oversight. A score in the 1st decile indicates relatively higher quality governance practices and relatively lower governance risk, and, conversely, a score in the 10th decile indicates relatively higher governance risk.

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