Kennedy Capital Management LLC

Extended Small Cap Commentary
1st Quarter 2024

The annual turn of the calendar, while artificial, can sometimes provide a waypoint for a change in the market's sentiment. Though we observed fairly significant changes as the calendar turned into 2022 and 2023, it felt much more subtle into 2024. In our view, although the first quarter of 2024 featured a broadening out of expectations about the sources of earnings growth, we think that the effects on the market continued to be driven as much by larger macro influences as by individual company performance. We still believe that's because we're not fully through the late-cycle focus on the Fed and the balance between potentially tightening financial conditions and the underlying resilience that will determine if the economy (and the Fed) can smoothly land the plane. Even with some standout company performers in Q1, along with a few fundamental underlying headwinds and tailwinds, in our opinion, the dominant motivating current of the market remains the relationship between expectations for inflation and the dynamics of what the Fed will do with rates.

We still believe that the lagged effects of the Fed's steep tightening program have yet to be fully realized and are working through the economy. At the same time, however, the market is really trying to come to terms with how aggressively to price in an upcoming rate cut program, both in timing and number of ultimate adjustments. We therefore continue to expect additional fits and starts as the market moves through these considerations, with many potential opportunities arising from these delayed impacts. We believe that, while macro forces will remain a key influence, we are perhaps in a stage of the overall market cycle that could provide more consistent reward to stock-picking, partly due to a higher, nonzero, rate regime and as concerns over economic growth subside and settle into a more sustainable trajectory.

<u>Factors at Work in Q1</u>

The first quarter of 2024 again saw a relatively small echo of last year's concerns within regional banks, particularly with regards to asset values for office and multi-family real estate, which thankfully did not spread widely. Following the signs of a hoped-for "pivot" in Fed policy that helped push December's rally, we saw thematic and momentum-driven exposures to animate the market throughout much of the first quarter. As previously, these broad factors often drove significant money flows into blunt instruments, which are signs to us of continued sentiment-driven trading.

In a quarter still impacted by these macro effects, we also observed value given to individual stock differentiation, as the earnings season showed some meaningful results. Much like the last quarter's reporting season, we anticipate finding opportunities where fundamental results and outlooks are better than forecasts but are mindful of higher implied positioning entering Q2. We're watching for milestones indicating how well the market has calibrated expectations around business volumes, pricing or cost pressures, and especially how company-specific outlooks for 2024 will be revised. Choppy trading could be present as the market sorts between single-stock performance and overall sentiment and momentum, and we look for company-specific signals to get stronger as the market more fully digests any impacts of economic slowing and the potential for a new cycle.

For the first quarter of 2024, the Russell 2000® Value Index (R2V) finished at +2.90%. Extended Small Cap returned +5.25% (gross of fees) and +5.08% (net of fees) for the quarter, ahead of the R2V by +2.35% (gross of fees) and by +2.18% (net of fees). Relative performance was solid through most of the quarter and during earnings season. Attribution across sectors in Q124 was relatively balanced, as the portfolio saw positive contributions from Financials, Industrials, and Utilities, with negative contributions from Energy, Communication Services and Consumer Discretionary. Selection was the larger component of overall attribution, although we did observe meaningful allocation effects in areas including Energy and Industrials and a small drag from cash. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	19.54%	4.60%	10.31%	8.01%	12.95%
Net	18.77%	3.92%	9.59%	7.29%	12.05%
Index	18.75%	2.22%	8.17%	6.87%	9.48%

Data as of 3/31/2024

Outlook

While we believe that there are indications of inflation having peaked, it remains elevated and it is our view that the Fed is likely to follow through on its present course and hold short-term rates relatively steady for some time, with significant cuts only if economic conditions deteriorate swiftly. We expect lagged effects to continue pricing into earnings, economic forecasts, and market valuations. In the real economy, we can still see some indications of rising stresses although it does appear that the worst of inflation is behind us. The markets continue to reconcile these inputs into a cohesive set of economic expectations. We believe that the market will remain susceptible to exaggerated positioning and sentiment inflections in an environment with relatively low trading volumes and macro-driven marginal flows. We'd anticipate some level of these dynamics to remain at least until we get a little more clarity around the Fed's policy plans and the direction of employment data that will give a better indication about the nature of the economic path.

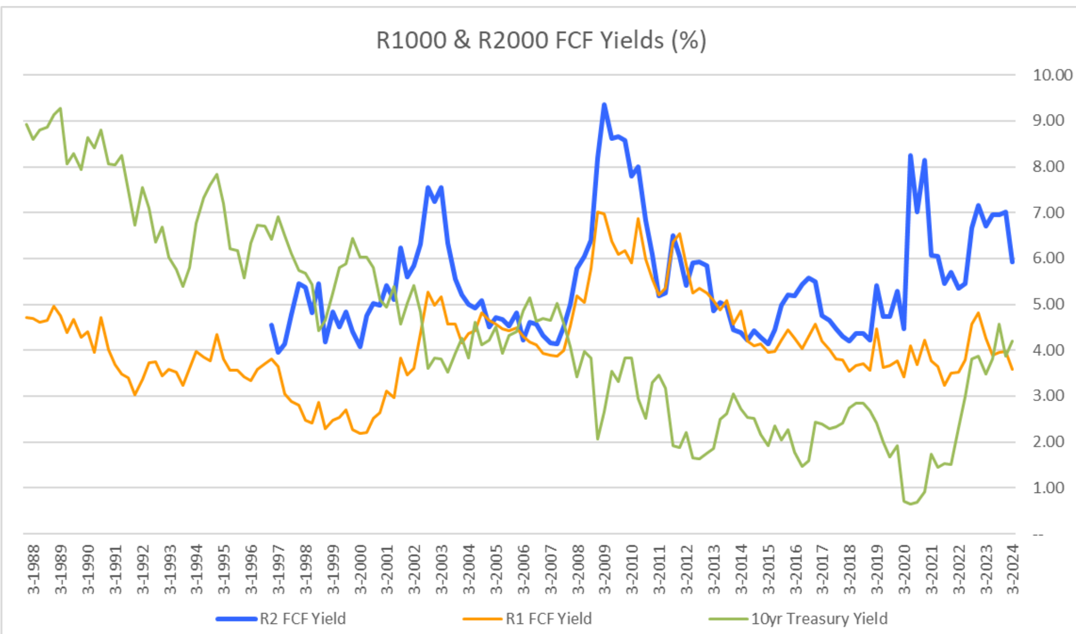
While much of the momentum of the market seems focused on these macro factors, entering earnings season we'll also get forecast updates for 2024 and will be watching closely for signs of greater confidence around those. We again think that resiliency of profitability and any company-specific capacity for growth will be rewarded and believe as the economic cycle progresses that the market and individual stocks will start showing better response to underlying fundamentals.

As we've previously pointed out in our usual free cash flow chart, Treasury yields have closed the gap to large caps. We'd again observe the wide spread between small and large caps, which implies lower small cap valuations and we think supports a bullish small cap view exiting this economic turbulence. While we remain mindful of the effects of macro positioning, we expect company-specific opportunities to be more plentiful in the quarters ahead, with the potential for leadership changes based on a new range of rates, debt costs, and a focus that may shift more towards efficiency and returns. Our process and experience tell us that attractive investment opportunities arrive during these periods of uncertainty. We thus continue to seek them out within small cap and value stocks, our optimism based on three things: the availability of low relative valuations against longer term business potential, what looks like a broadening set of investment ideas starting to open up, and the underlying conditions of recovery within the economy ahead. We remain focused on how these factors play out over the year.

We wish you, your families and your stakeholders good health and safety. We deeply appreciate your interest and support.

Sincerely,

Michael Bertz, Ph.D., P.E., CFA®	Sean McMahon	Rob Van Bergen, CFA®
Portfolio Manager	Assistant Portfolio Manager	Assistant Portfolio Manager



Source: FactSet Research Systems Inc.

FCF Yield for each of the R1000 and R2000 indices represents the total free cash flow (FCF) of the components of the index divided by the total market capitalization of those components. It is a measure of the cash flow provided by the businesses represented in each index and is presented for comparison to the cash flow (yield) provided by current 10-year U.S. Treasury bills.

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The Extended Small Cap Composite invests in companies with a low relative P/E and price/book valuation. Such companies generally exhibit relatively lower analyst coverage and institutional ownership than other comparable companies in the Russell 2000® 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 2000® Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000® 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 year) . The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure new and growing equites are included and that the represented companies continue to reflect value characteristics.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 7% of the total market capitalization of that index, as of the most recent reconstitution. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Russell 1000® Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 93% of the US market. The Russell 1000® Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are included.

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