Kennedy Capital Management, Inc.

Extended Small Cap Commentary
3rd Quarter 2022

Summer quarters in the equity markets often present unique challenges, especially for small cap stocks. Over the years, we've observed the summertime effects of market participants looking for economic or policy direction, investors being on vacation, and lighter volumes overall which can lead to exaggerated moves in share prices. Even in relatively normal years, these conditions can result in the markets overlooking opportunities and stock-specific stories. The summer of 2022 felt less than normal. With the market spending the third quarter trying to assess the ultimate trajectory of the Fed's rate hiking cycle, continued geopolitical turmoil, inflationary impacts, and the beginnings of softer economic data, including inventory effects and faltering demand, those summer conditions resulted in a very volatile, up, and down quarter, one dominated by macro driven factors. We think the market continues to move quickly through an economic cycle and we anticipate these effects to likely remain present over the balance of the year.

Factors at Work in Q322

Each successive quarter over 2022 has felt like an extension and amplification, with ever-increasing intensity, of the market's fears about a sustainably higher inflationary environment and the realization that the Fed has committed to an aggressive tightening stance in order to combat that inflation, one which risks pulling the U.S. into a potentially sharp recession. With the economy operating in a higher rate regime, uncertainty, and hesitation from many fundamentally driven funds, and what feels like dominant flows from macro-oriented momentum traders, we believe the market has been very susceptible to exaggerated positioning and sentiment inflections and movement. We continue to believe that inflation in areas which were bottlenecked or supply-constrained are becoming disinflationary at minimum, which will help the economy to adjust. Labor costs, as we've noted previously, are even more important to determine how durable overall inflation remains; we're beginning to see signs of these potentially plateauing as well. We continue to expect other significant areas, including housing, automotive and fuel costs to exhibit some natural slowing due to Fed policy actions and a natural slackening of demand as economic conditions adjust. As a result, we believe that while Fed policy will remain hawkish for a little while longer, these corrective factors will also influence the level of inflation exiting 2022 and into 2023.

While dominated by these macro effects, we did still observe some signs of individual stock performance, as usual particularly during earnings season. Overall results, however, still saw the effects of multiple compression and earnings forecast adjustments. We continue to look to these types of factors to assess how much the market has calibrated forward economic slowing and if there are areas suitable for some early exploration of the other side of a recovery. Until the market is a little more settled around the forward trajectory of Fed policy (and we do not currently expect any sort of Fed pivoting until there are meaningful and sustained indications of improvement on the inflation front), we expect to see choppy trading and potentially countervailing forces between company-specific performance and overall market sentiment and momentum.

Given these increasing concerns around inflation and the economy, overall equity returns remained negative in Q322, with the Russell 2000® Value Index (R2V) finishing down approximately -4.61%. Extended Small Cap returned -4.12% (gross of fees) and -4.27% (net of fees) for the quarter, ahead of the R2V by +0.49% (gross of fees) and +0.34% (net of fees). Relative performance was again positive through earnings season, with weakness during the quarter seen primarily as macro forces came to the fore. Attribution across sectors in Q322 was somewhat balanced, as the portfolio saw positive contributions from Industrials, Financials, and Information Technology, with negative contributions from Health Care, Consumer Discretionary and Energy. Selection returned to its usual position as the larger component of overall attribution, although we did observe some allocation effects in areas including Communication Services, Real Estate, and Utilities. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	-14.22%	8.02%	4.14%	10.16%	12.70%
Net	-14.78%	7.31%	3.46%	9.43%	11.79%
Index	-17.69%	4.72%	2.87%	7.94%	9.06%

Data as of 9/30/2022

<u>Outlook</u>

With the market now focused almost solely on the economic cycle and the impact of Fed policy actions on inflation and slowing economic growth, the evaluation of stock-specific forecasts continues to have a secondary role. We will look for signs of that changing through the upcoming earnings season, as we expect more attention to focus on 2023 forecasts and the perceived resilience of profitability and capacity for growth. As we continue to move through this economic cycle at what seems to be an accelerated pace, we believe the market and individual stocks will start showing a better response to underlying fundamentals. That may require a market assessment that the forward economic path is more visible towards a recovery in order to fully manifest, but as we start to discount prospects into 2023, it could start to take shape.

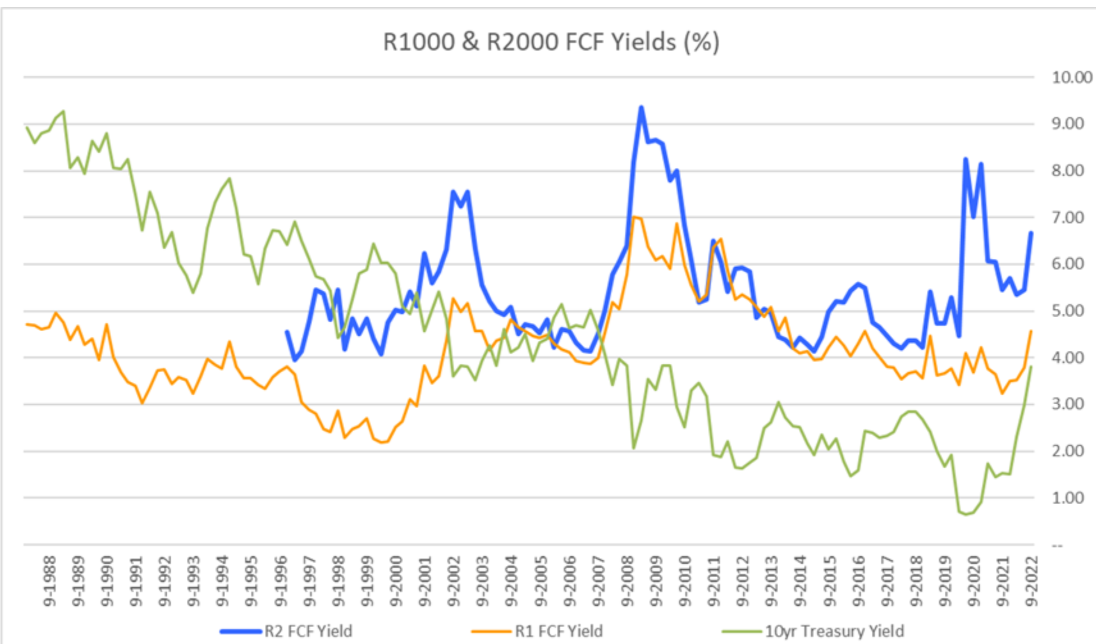
We therefore continue to expect factors at work over the remainder of 2022 to likely include some components of company-specific levels of revenue and earnings growth, as well as policy forecasts and how those might influence long run economic expectations (growth and inflation, both here and abroad), geopolitical tensions, and the upcoming midterm elections. It does feel a little like the market believes the economic cycle is running at a very rapid pace, so we're watchful for those cycle impacts to likewise adjust rapidly. As shown in our usual chart below, we still think on a cash flow basis that rates can offer support for equities, even as Treasury yields have increased meaningfully, and we'd again note the continued wide gap between small and large caps.

We remain mindful of macro rotations but continue to expect company-specific opportunities to be available. We likewise continue to seek opportunities within small cap and value stocks, based on three things: low relative valuations against longer term business potential in many areas, even under potentially stressed scenarios, the still broad set of opportunities that we are finding in terms of investment ideas, and the underlying conditions of opportunities within the economy and likelihood of still low absolute real rates in future, all of which are broadly favorable to small cap valuations. We remain vigilant to see how these factors play out over the year.

We continue to wish you, your families and 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.

Important Disclosures

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The Extended Small Cap Composite contains fully discretionary small cap accounts that are invested 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.

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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.

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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 Russell 3000® Index, as of the most recent reconstitution. 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.

Free Cash Flow Yield is an indicator that compares free cash flow and market cap.

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