

Kennedy Capital Management LLC

Micro Cap Commentary

1st Quarter 2024

Market Review

The Russell Microcap® Index increased 4.68% in the first quarter of 2024, as stable economic conditions in the U.S. and a shift in sentiment toward Health Care companies drove the index higher. After a challenging 2023, the Health Care sector led the way in the Russell Microcap® index during the quarter, returning 14.54%. Within Health Care, Pharmaceuticals increased nearly 26% and Biotechnology was up nearly 18%. These two industries combined currently represent over 20% of the index overall. With strong employment levels sustaining, the market absorbed the scenario that any interest rate cuts – if they occur at all in 2024 – will most likely take place during the second half of the year. Thus, interest-rate-sensitive sectors – Financials (down 5.2%), Utilities (down 14.1%), and Real Estate (down 8.8%) – all struggled during Q1.

Performance Recap

The KCM Microcap Composite increased 3.97% (gross of fees) and 3.72% (net of fees) in Q1, underperforming the Russell Microcap® Index by 71 basis points (gross) and 96 basis points (net). The bulk of the underperformance in the quarter came from stock selection, particularly in the Health Care and Information Technology sectors. It's worth noting that while the portfolio experienced strong stock selection in Biotechnology (portfolio up 24.3% vs. the index up 17.8%), the underweight position in this industry weighed on relative performance. The best-performing sector on a relative basis in the quarter was Industrials, which added 156 bps on a relative basis. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	15.22%	5.58%	11.87%	10.71%	14.91%
Net	14.18%	4.74%	10.88%	9.68%	13.84%
Index	17.78%	-4.89%	6.90%	5.96%	6.66%

Data as of 3/31/2024

Outlook

While our day-to-day focus remains on finding underappreciated and mispriced equities in the microcap space, we see two macroeconomic events remaining top of mind for investors as the year progresses: 1) the timing and magnitude of any interest rate cuts by the U.S. Federal Reserve, and 2) the lead up to and the outcome of the presidential election. We don't manage the portfolio with

assumptions regarding either of these two events. Rather, we consider different scenarios and how such outcomes might impact portfolio performance.

We continue to invest in analytical resources to build out our capabilities in the Health Care sector, and over the last several years have gradually increased our exposure to the Biotechnology and Pharmaceuticals industries. Years ago, the KCM Microcap portfolio had minimal exposure to these industries, and during Q1 they represented over 10% of the portfolio overall. We intend to continue to methodically approach this portion of the market with the goal of thoughtfully increasing exposure over time.

As always, we thank you for your support, and please don't hesitate to reach out with any questions or concerns.

Sincerely,

Christian J. McDonald, CFA®
Portfolio Manager

Sean McMahon
Portfolio Manager

Important Disclosures

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The Micro Cap Composite invests primarily in micro cap companies (market cap generally in line with Russell Microcap® index market caps) which have strong intrinsic value. For comparison purposes the composite is measured against the Russell Microcap® 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.

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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Sector Weightings are subject to change at any time. Sectors are based on the Global Industry Classification Standard ("GICS") classification scheme. Both are measured as a percentage of the total composite in terms of asset value as of the date indicated on page 1. Individual client portfolios may be different based on variations in security purchase price and date, and individual client restrictions.

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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 Microcap[®] Index measures the performance of the microcap segment of the U.S. equity universe. Microcap stocks make up less than 2% of the U.S. equity market (by market cap, as of the most recent reconstitution) and consist of the smallest 1,000 securities in the small-cap Russell 2000[®] Index, plus the next 1,000 smallest eligible securities by market cap. The Russell Microcap[®]

Index is constructed to provide a comprehensive and unbiased barometer for the microcap segment trading on national exchanges, while excluding lesser-regulated OTC bulletin board securities and pink-sheet stocks due to their failure to meet national exchange listing requirements. The Index is completely reconstituted annually to ensure new and growing equities are reflected and companies continue to reflect appropriate capitalization and value characteristics.

*The Russell Microcap® is used as the benchmark. The Index is unmanaged and represents total returns including reinvestment of dividends. The benchmark is used for comparative purposes only and generally reflects the comparable risk or investment style of the Firm's strategy. The investment portfolios underlying the Index 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. **Investors cannot invest directly in an index.***

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