

Kennedy Capital Management, Inc.

Micro Cap Commentary 2nd Quarter 2022

Market Review

The Russell Microcap[®] Index declined 18.96% in the second quarter of 2022, with broad-based inflation and recession fears dominating equity investors' thought processes. A flight to safety resulted in Utilities being the only Russell Microcap[®] sector with a positive return in the quarter (up 2.65%), as even the "safe haven" of Consumer Staples dropped 7.79%. Declines were broad-based in the quarter, with the index constituents of Communication Services, Materials, Consumer Discretionary, Health Care, and Information Technology all dropping more than 20%. The forward-looking nature of the equity market is clearly on display, as most companies outside of the portions of the Consumer Discretionary sector continue to experience solid demand patterns.

Performance Recap

The KCM Micro Cap Composite returned -13.23% (gross of fees) and -13.39% (net of fees) in Q2, outperforming the Russell Microcap[®] Index by 573 basis points (gross) and 557 (net). The portfolio outperformed the benchmark in 8 out of 11 sectors, and sector allocation was also a positive contributor to performance in the quarter.

For the second quarter in a row, the best performing sector in the Micro Cap portfolio was Health Care. This was closely followed by Consumer Discretionary, and Consumer Staples. Offsets were modest underperformance in Financials, Utilities and Real Estate.

Outlook

The market pullback provided us opportunities to invest in businesses undergoing a structural change at increasingly attractive prices. While we anticipate a slowdown in demand is likely to expand beyond the rather isolated pockets of the economy experiencing this today, we believe that companies with an ability to improve their cost structure or competitive position are likely to stand out vs. peers.

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 McMahan
Portfolio Manager

Important Disclosures

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The Micro Cap Composite contains fully discretionary micro cap accounts that are invested primarily in micro cap companies (market cap generally below \$500 million) 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 presented Gross of Fees do not reflect the deduction of investment advisory fees and include the reinvestment of all income. A client's return will be reduced by the advisory fees and other expenses incurred by the account as described in Form ADV Part 2A. For example, an annual advisory fee of 1% compounded quarterly over 10 years will reduce a gross 14.44% annual return to a net 13.24% annual return. Form ADV Part 2A is available upon request. The GIPS® are a set of standardized, industry-wide ethical principles that provide investment firms with guidance on calculating and reporting their investment results to prospective clients to ensure fair representation and full disclosure of an investment firm's performance history.

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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. Due to rounding, Sector Weighting's total percentages may not equal 100%.

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The Russell Microcap[®] Index measures the performance of the microcap segment of the U.S. equity market. It makes up less than 3% of the U.S. equity market. It includes 1000 of the smallest securities in the small-cap Russell 2000[®] Index based on a combination of their market cap and current index membership and it includes the next 1,000 securities. 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 Russell Microcap[®] Index is completely reconstituted annually to ensure larger stocks do not distort performance and characteristics of the true microcap opportunity sets do not distort performance and characteristics of the true microcap opportunity set.

The Russell Microcap[®] Index 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.

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