

Kennedy Capital Management LLC

Micro Cap Commentary 4th Quarter 2022

Market Review

The Russell Microcap® Index increased 4.72% in the fourth quarter of 2022 as markets began pricing a potential for peak inflation and slowing interest rate hikes in 2023. During fourth quarter, only one sector, consumer staples, declined in the benchmark, while the top 3 sectors – energy, materials, and industrials– all generated double-digit increases. Within energy, the drilling and services industry groups were exceptionally strong, with each increasing by more than 40%, resulting in an overall Energy sector return of 19.5% in the quarter.

Performance Recap

The KCM Micro Cap Composite returned 9.02% (gross of fees) and 8.82% (net of fees) in Q4, outperforming the Russell Microcap® Index by 430 basis points (gross) and 410 basis points (net). The portfolio benefitted from 442bps (net) of favorable stock selection effect, driven by significant outperformance within the Industrials, Health Care, and Consumer Staples sectors. Only the Financials sector had a negative selection effect. For the year, the KCM Micro Cap strategy outperformed the benchmark by 911 basis points (gross) and 848 basis points (net). Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	-12.85%	10.85%	8.21%	13.09%	14.95%
Net	-13.48%	9.91%	7.24%	12.03%	13.88%
Index	-21.96%	4.05%	3.69%	8.86%	6.34%

Data as of 12/31/2022

The best-performing sector in the Microcap portfolio this quarter was Industrials, adding 309bps of outperformance (276 bps was from stock selection). Financials (-82bps) and energy (-27bps) were the two largest-underperforming groups in the quarter. While energy detracted from relative performance overall, the entire impact was due to the portfolio's underweight position relative to the benchmark as the Microcap strategy energy performance bested the benchmark by almost 250bps.

Outlook

While recessionary concerns are pervasive as we enter 2023, most of the companies we interact with continue to see a degree of stability in demand. We expect that as companies consider contingency plans for a potential economic downturn, restructuring opportunities (and potential

investment opportunities for the Microcap portfolio) are likely to develop. If the economy experiences a more meaningful slowdown, larger companies may look to acquire growth to offset a more difficult organic environment, benefiting the microcap space.

We are holding a slightly higher than normal cash balance in the portfolio (5%), as we anticipate a degree of cautiousness from companies establishing 2023 outlooks. This backdrop can create attractive new buy opportunities. Overall, we remain encouraged with the resiliency of the bulk of our companies and believe the smaller end of the public equity market offers compelling investment candidates at reasonable valuations.

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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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 full 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.

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.

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. 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.

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