Kennedy Capital Management LLC

Micro Cap Opportunities Commentary
3rd Quarter 2023

Market Review

The Russell Microcap® Index declined 7.93% in the third quarter of 2023, as investors focused on the risks associated with the rapid rise in interest rates. Companies with meaningful exposure to big ticket capital projects and those with higher corporate debt levels having become increasingly out of favor. We continue to see inventory destocking in certain sectors weigh on demand, but many companies have been able to navigate this phenomenon effectively.

The only sector in the Russell Microcap® index with a positive return in the quarter was Energy, which gained 18.50%, largely driven by the appreciation in oil prices. The other 10 sectors all declined, with Information Technology (down 18.09%) and Health Care (down 17.37%) the biggest laggards. Banks delivered a slightly positive return in the quarter, up 1.28%.

Performance Recap

The KCM Micro Cap Opportunity returned -7.73% (gross of fees) and -7.86% (net of fees) in Q3, outperforming the Russell Microcap® Index by 20 basis points (gross) and 7 basis points (net). Stock selection was +37bps, with the largest sector detractors coming from Energy and Consumer Staples. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	11.47%	30.18%	-	-	24.89%
Net	10.57%	29.03%	-	-	23.80%
Index	-1.35%	4.85%	-	-	5.76%

Data as of 9/30/2023

The leading relative performing sector in the Microcap Opportunities strategy was Industrials, adding 132 bps of relative outperformance followed by Financials, adding 99bps of relative outperformance. Energy and Consumer Staples underperformed in the quarter, detracting 85 bps and 51 bps, respectively, from relative performance.

The top contributing stock in the strategy was a construction company focused on transportation, e-infrastructure, and building solutions. During the year, management has been successful winning new business given the increased focus on infrastructure spending and energy investments including winning site development work for a new EV battery facility, encompassing 600 acres, in Georgia.

The largest individual detractor from relative performance in the quarter was a manufacturer and marketer of branded pharmaceuticals. During the quarter, the company was notified by the US Food and Drug Administration (FDA) that a generic version of their largest product was approved. While this risk was always a possibility, this product serves a unique niche and is a complex product to manufacture given it is delivered in a non-oral dosage form. Prior to this announcement, the company was working on additional patent protection; however, the earlier than expected generic approval has resulted in them discontinuing additional patent protection strategies. We have been trimming the position given a significant change to our thesis.

Outlook

On balance, our conversations with management teams during the third quarter were positive. With the exception of a few industries, opportunities for growth exist, companies continue to take actions to drive operational improvements, and labor and supply chain constraints are either being dealt with more effectively or are in fact lessening.

The rapid rise in interest rates, however, has caused equity investors to turn increasingly bearish. We have managed through cycles before and have experienced situations where the market reacts to a coming economic slowdown more quickly than it is visible to industry participants. We think there is a distinct possibility that this may in fact be the situation the US economy is facing today.

Confidence in our portfolio comes from key areas of exposure where we anticipate little slowdown (commercial aerospace stands out given the preceding period of underinvestment) and from the company-specific drivers of value creation that we tend to focus on with stock selection. As we highlighted last quarter, a more difficult demand backdrop can force difficult decisions at companies that lead to the value-enhancing restructuring actions or turnaround efforts that we gravitate to as we source new ideas.

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

Sincerely,

Sean McMahon
Portfolio Manager

Important Disclosures

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 Opportunities Composite contains fully discretionary micro cap accounts that are invested primarily in micro cap companies (market cap generally in line with Russell Microcap® index) that have opportunities to grow within their respective markets. 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.

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