

# Kennedy Capital Management LLC

## Mid Cap Value Commentary 1st Quarter 2023

Equity market performance was volatile throughout the first quarter of 2023, but the Russell Midcap® Value (RMV) Index ended up with a positive result, increasing 1.3%. The Kennedy Capital Mid Cap Value (MCV) composite rose 5.8% (net of fees) during the quarter, outperforming the RMV by 446 basis points. For the rolling 12-month period, the MCV composite declined -3.8% (net of fees), compared to the RMV's decline of -9.2%. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
<b>Gross</b>	-3.09%	23.41%	8.38%	10.43%	11.56%
<b>Net</b>	-3.78%	22.53%	7.61%	9.66%	10.77%
<b>Index</b>	-9.22%	20.69%	6.54%	8.80%	9.28%

Data as of 3/31/2023

Within the RMV, Information Technology and Communication Services were the two best-performing sectors during the 1st quarter, up 12.0% and 7.3%, respectively. Financials was the worst-performing sector during the quarter, down 7.4%, due to a sharp decline in regional bank stocks. Within the MCV composite, stock selection in the Consumer Discretionary and Financials sectors was the biggest driver of positive relative returns (vs. the RMV). On the downside, Communications Services and Information Technology were the two worst-performing sectors on a relative basis.

The stability of the US financial system came into question in March following the failure of two large regional banks, Silicon Valley Bank (SIVB) and Signature Bank (SBNY). Both banks collapsed following a run on their deposits due to growing solvency concerns, forcing regulators to step in to protect depositors. Fears of contagion across the banking system sent regional bank stocks down significantly during the month of March.

In our Q4 2022 commentary, we addressed the (negative) impact to equity market valuations from rising interest rates. The SIVB/SBNY situation showcases the impact of higher rates on the *real* economy. In response to the fallout, banks are likely to further tighten their standards for extending credit, which will have a dampening effect on the overall economy. We have yet to see widespread evidence of this in company fundamentals, but we are keeping a watchful eye as we head into earnings season.

Experience tells us the most attractive long-term investment opportunities present themselves during such times of heightened uncertainty and bearish market sentiment. Capturing these opportunities requires a deep focus on company and industry fundamentals, and the ability to recognize situations where market prices inadequately reflect the long-term value creation potential of the underlying business. By staying disciplined to our process, we can construct a portfolio of companies that in aggregate have superior fundamental attributes relative to the overall market, but at valuation levels that give us a sufficient margin of safety. We believe this is a winning recipe for portfolio returns over the long-term.

We welcome the opportunity to discuss any questions or concerns you may have, and we thank you for the opportunity you have given us to manage your account.

Sincerely,

Frank Latuda, Jr. CFA®  
Chief Investment Officer & Portfolio Manager

Gary Kauppila, CFA®  
Portfolio Manager

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A complete list of all securities recommended by KCM in the preceding year, a fully 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 Mid Cap Value Composite invests in US equity securities and ADRs with market capitalizations that are reflective of the Russell Midcap® Value Index. The portfolio manager focuses on companies with a demonstrated ability to generate above-average returns on invested capital. Within that universe, the manager seeks to identify undervalued companies with opportunities to reinvest cash flows at rates of return in excess of their cost of capital. For comparison purposes the composite is measured against the Russell Midcap® 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.

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.

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*The Russell Midcap<sup>®</sup> Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap<sup>®</sup> Index 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 Midcap<sup>®</sup> Value Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap value market.*

*The Russell Midcap<sup>®</sup> Value 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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