Kennedy Capital Management, Inc.

Mid Cap Value Commentary
2nd Quarter 2022

US equity markets sold off sharply during the second quarter of 2022, with all major US equity indices declining double digits. The Russell Midcap Value (RMV) Index fell 14.68%, outperforming the S&P 500® Index, which declined 16.10%. The Kennedy Capital Mid Cap Value (MCV) composite declined 14.03% (Gross) and declined 14.18% (Net) during the quarter, outperforming the RMV. For the rolling 12-month period, the MCV composite declined 11.70% (Gross) and declined 12.32% (Net), compared to the RMV's decline of 10.00%.

Within the RMV, Communication Services and Information Technology were the two worst-performing sectors, down 25% and 20%, respectively. Utilities and Energy were the top performing sectors in the index, down 6% and 7%, respectively. On a relative basis (vs the RMV), the top contributing sectors in the MCV composite were Consumer Discretionary and Communication Services. On the downside, Utilities and Industrials were the two biggest detractors on a relative basis.

Inflation remains the dominant theme driving markets this year. The Consumer Price Index (CPI), a closely followed barometer of inflation, rose +8.6% year over year in May, the largest increase since 1981. The Federal Reserve responded by raising short-term rates from 0.50% to 1.75% during the quarter and has signaled a more aggressive stance on future rate increases in order to quell inflationary pressures. Longer-term interest rate measures, such as the 10-year US treasury yield and the 30-year US fixed mortgage rate, have also moved meaningfully higher this year in response to rising inflation expectations and the impact from the Federal Reserve's transition away from quantitative easing. The combination of tightening financial conditions and the hit to consumer spending power from inflation has fueled concerns that the US economy is heading towards a recession.

We are not macroeconomic forecasters, but we do closely monitor how changes in the economic environment are impacting the fundamentals of the companies in our portfolio and the broader market. In our view, inflation has two major impacts that require consideration:

1) Rising cost pressures, which negatively impacts the returns a company can generate.

2) Higher discount rates, which puts downward pressure on company valuations.

We believe our investment process gives us a leg up in this uncertain economic environment. We focus on companies with competitive advantages that can maintain and/or improve their returns profile by leveraging pricing power. Our disciplined approach to valuation helps us avoid overpaying for businesses and identify opportunities where market expectations are disconnected from underlying company fundamentals.

Much like we did during the early stages of the pandemic, we will continue to focus on the long-term, value-creating capacity of businesses as we look for investment opportunities. Often, times of increased uncertainty yield profitable investment opportunities.

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

Important Disclosures

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 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.

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The Mid Cap Value Composite contains fully discretionary mid cap value accounts that are invested in US equity securities and ADRs with market capitalizations within 80% of the weighted average market capitalization 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 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.

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, 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. All variances are typically reconciled to the applicable account no later than each month-end. Past performance is not indicative of future results.

The information provided should not be considered a recommendation to purchase or sell any particular security. Allocations among industries, sectors and securities may vary and are subject to change without notice. It should not be assumed that any of the 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.

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 my not equal 100%.

The Russell Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap® Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap® 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® 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.

S&P 500® Index - Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes 500 leading companies in leading industries of the U.S. economy. Although S&P 500 focuses on the large-cap segment of the market, with about 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

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