

Kennedy Capital Management LLC

Mid Cap Value Commentary 2nd Quarter 2023

Equity markets saw broad-based strength during the second quarter of 2023. For the quarter, the Russell Midcap[®] Value (RMV) Index increased 3.86%, the Russell 2000[®] Index was up 5.21%, and the S&P 500[®] Index increased 8.74%.

The Kennedy Capital Mid Cap Value (MCV) composite rose 7.48% (gross of fees) and 7.31% (net of fees) during the quarter, outperforming the RMV by 362 basis points (gross) and 345 basis points (net). For the rolling 12-month period, the MCV composite returned 21.15% (gross of fees) and 20.32% (net of fees), compared to the RMV's return of 10.50% outperforming by 1065 basis points (gross) and 982 basis points (net).

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	21.15%	18.98%	9.48%	11.03%	11.80%
Net	20.32%	18.14%	8.71%	10.26%	11.00%
Index	10.50%	15.04%	6.84%	9.03%	9.36%

Data as of 6/30/2023

Within the RMV, Industrials and Consumer Discretionary were the two best-performing sectors during the 2nd quarter, up 11.1% and 7.9%, respectively. Utilities was the worst-performing sector during the quarter, down 2.2%, followed by Consumer Staples, down 0.3%. Within the MCV composite, our stock selection and our overweight in the Industrials and Consumer Discretionary sectors was the biggest driver of positive relative returns (vs. the RMV). On the downside, Real Estate and Information Technology were the two worst-performing sectors on a relative basis, down -6.2% and -1.9%, respectively in the portfolio.

Inflation and the Federal Reserve continue to dominate financial headlines in the second quarter of 2023. Inflation remains at elevated levels, but the data is showing signs of moderation. The Federal Reserve maintained the target range for the Federal Funds rate at 5.0 - 5.25% in June, but signaled that further rate increases are possible this year in order to bring inflation down to desired levels (2% target vs. latest Core CPI reading of 5.3%). US equity markets – particularly growth indices, which were hit hard in 2022 on the heels of a sharp rise in interest rates – have responded positively to the Fed's less aggressive stance on interest rates.

The economic backdrop is mixed. The combination of decades-high inflation and tighter financial conditions is having a dampening effect on economic growth. However, employment continues to be at very strong levels. Excluding the Financials sector – which has been specifically impacted by asset/liability duration mismatch problems within the banking industry – and the Energy sector, whose earnings are clearly impacted this year by lower oil and natural gas prices – earnings estimate

revisions are encouraging. Estimates across the Russell Midcap Value Index during the second quarter were mostly up. The pending earnings season should provide further insight into how the broader macro is impacting the corporate sector.

Regardless of the macro, our investment process remains consistent. We focus on companies with competitive advantages that can maintain and/or improve their returns profile through a combination of operational rigor and pricing power. Our disciplined approach to valuation protects us from overpaying for businesses, and helps us identify opportunities where market expectations are disconnected from underlying company fundamentals.

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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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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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 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 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[®] 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 2000[®] Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000[®] Index is a subset of the Russell 3000[®] Index representing approximately 7% of the total market capitalization of that index, as of the most recent reconstitution. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000[®] is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

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.

The S&P 500[®] is widely regarded as the best single gauge of large-cap U.S. equities. According to our Annual Survey of Assets, an estimated USD 15.6 trillion is indexed or benchmarked to the index, with indexed assets comprising approximately USD 7.1 trillion of this total (as of Dec. 31, 2021). The index includes 500 leading companies and covers approximately 80% of available market capitalization.

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