Kennedy Capital Management LLC

Mid Cap Value Commentary
4th Quarter 2023

Equity markets rose sharply during the 4th quarter of 2023. The Russell Midcap® Value (RMV) index was up 12.1%, and all indices posted strong gains. Markets reacted positively to the Federal Reserve's decision to hold its policy rate in the 5.25 - 5.50% range, as well as commentary from Fed Chair Jerome Powell suggesting we have seen the peak for rate hikes this cycle. The 10-year treasury yield fell below 4.0% from a peak of 5.0% in October, reflecting easing inflationary pressures and expectations of less restrictive financial conditions.

Within the RMV, every sector generated positive returns during the quarter. Financials (+17%), Real Estate (+16%), and Consumer Discretionary (+15%) were notable standouts. Falling interest rates provided a substantial tailwind to many companies within these sectors, particularly those involved in housing and banking.

<u>Q4 23' Mid Cap Value Portfolio Review</u>

The Kennedy Capital Mid Cap Value (MCV) composite increased 15.7% (net of fees) during the quarter, outperforming the RMV, which returned 12.1%, by 3.6% (net of fees). For all of 2023, the MCV composite returned 25.8% (net of fees), compared to the RMV's return of 12.7%. Additional performance information included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	26.59%	12.89%	15.22%	10.63%	12.05%
Net	25.83%	12.14%	14.43%	9.87%	11.26%
Index	12.71%	8.36%	11.16%	8.26%	9.47%

Data as of 12/31/2023

Within the MCV composite, stock selection in all but 2 sectors positively impacted performance during the quarter. Industrials, Consumer Discretionary, and Health Care sectors were the greatest contributors to relative performance, combining for more than 300 bps of outperformance. Conversely, the 2 sectors where stock selection had a negative impact were Financials and Energy, which combined to detract 33 bps from relative performance.

For the year, the only sector where stock selection had a negative impact was Real Estate, with the sector increasing 11.4% in the RMV, versus a gain of just 8.9% in the composite. Consumer Discretionary, Industrials, and Financials were the greatest contributors, combining for over 900 bps of outperformance. There was a small negative impact from Real Estate & Information Technology of 21 bps of underperformance.

2023 Market Review

The year 2023 ended much differently than it started. A quick rehash of key market events/themes in 2023:

- **Rising interest rates**: To combat inflation, the Federal Reserve further raised the Federal Funds rate to 5.25 – 5.50% from 4.50% at the start of the year (and from 0.25% at the beginning of 2022). The yield on the 10-year treasury rose from 3.50% to a peak of 5.0% in October. As discussed in prior commentaries, rising interest rates are a headwind to equity valuations, which helps explain subdued market performance in the first three quarters of 2023.

- **Turbulence in the Regional Banking sector**: The sharp rise in interest rates created an asset/liability mismatch issue within the banking sector, prompting the failure of three large regional banks: Silicon Valley Bank (SIVB), Signature Bank (SBNY), and First Republic (FRCB). Fears of a widespread banking "crisis" sent regional Bank equities (within the Russell 2000 Value Index) down over 18% in the month of March.

- **(Generally) Stable economic environment**: All things considered – rising interest rates, problems in the banking sector, inflationary pressures -- US economic performance was *generally* steady in 2023. A healthy labor market has been a key factor, with the unemployment rate hovering near multi-decade lows.

- **Growing Expectations of a Fed Pivot**: Equity markets rose sharply in the fourth quarter as softer inflation data, falling treasury yields, and more favorable commentary from the Federal Reserve points to a less restrictive monetary backdrop in 2024.

Thoughts on the year ahead (and beyond)

The volatility experienced in 2023 (and for the last 4 years!) reinforces the advantages of being a fundamentals-based, process-oriented investor in an increasingly uncertain world. Our greatest strength lies in our ability to adhere to a consistent process that emphasizes corporate performance and valuation discipline. This sounds simple, but it's not easy. Short-term fluctuations in securities prices – caused by excitement around new technologies and themes, changes in financial conditions, etc. -- creates misleading narratives and distorts true underlying business value. Anchoring our investment process to proven value creation drivers, as well as maintaining a long-term investment horizon, is paramount to distinguishing between winners and losers.

Compounding franchise value over the long-term requires the combination of two key elements: 1) The ability to generate above-average returns on capital through an economic cycle, and 2) Opportunities to reinvest cash flows back into the business at attractive rates of return. In our opinion, companies that consistently generate substandard (or negative) returns – regardless of narratives and short-term price movements -- are destined to destroy shareholder value over time.

By staying disciplined to our process, we strive to construct a portfolio of companies that in aggregate have favorable fundamental attributes relative to the overall market, but at valuation levels that give us a sufficient margin of confidence. 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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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.*

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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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.

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