

Kennedy Capital Management LLC

SMID Cap Value Commentary 1st Quarter 2023

Equity market performance was mixed during the first quarter of 2023. For the quarter, the Russell 2500™ Value (R25V) Index increased 1.40%, the Russell 2500™ Growth (R25G) Index was up 6.54%, and the S&P 500® Index (S&P) increased 7.46%.

The Kennedy Capital Smid Cap Value (SMCV) composite rose 1.56% (net of fees) during the quarter, outperforming the R25V by 0.16%. For the rolling 12-month period, the SMCV composite declined 8.93% (net of fees), compared to the R25V's decline of 10.53%, outperforming by 1.60%. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	-8.23%	25.37%	7.17%	10.33%	11.68%
Net	-8.93%	24.42%	6.37%	9.54%	10.87%
Index	-10.53%	21.80%	5.61%	7.72%	9.71%

Data as of 3/31/2023

Within the R25V, Information Technology and Consumer Discretionary were the two best performing sectors during the 1st quarter, up 12.10% and 8.98%, respectively. Financials was the worst-performing sector during the quarter, down 8.77%, due to a sharp decline in regional bank stocks. Within the SMCV composite, stock selection in the Consumer Discretionary and Materials sectors was the biggest driver of positive relative returns (vs. the R25V). These sectors added 39 basis points, and 25 basis points, respectively, to 1st quarter relative performance. On the downside, Financials and Consumer Staples were the two worst-performing sectors on a relative basis. These sectors each negatively impacted 1st quarter relative returns by 18 basis points, respectively.

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 within the Russell 2500 Value down over 21% 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

McAfee Burke, CFA®
Portfolio Manager, Research Analyst

Gary Kauppila, CFA®
Assistant Portfolio Manager

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The SMID Cap Value Composite will be invested in value securities of predominately small and mid cap companies that generally have a market capitalization that is reflective of the Russell 2500™ Value Index. The Investment Manager generally looks for undervalued companies generating cash flow returns on invested capital greater than industry peers. SMID Cap Value portfolios generally demonstrate valuations below and growth characteristics at or above those of the benchmark. The weighted average market capitalization of the Portfolio will generally be reflective of the average market capitalization of the Russell 2500™ 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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Sector Weightings are subject to change at any time. Sectors are based on the Global Industry Classification Standard ("GICS") classification scheme and are measured as a percentage of the total composite 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.

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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 2500™ Value Index measures the performance of small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500™ 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), and lower forecasted growth values. The Russell 2500™ Value Index is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect value characteristics.

The Russell 2500™ Growth Index measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500™ companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 year). The Russell 2500 Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect growth characteristics.

The Russell 2500™ 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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