

# Kennedy Capital Management LLC

## SMID Cap Value Commentary 1st Quarter 2024

Equity markets posted positive returns during the 1<sup>st</sup> quarter of 2024. For the quarter, the Russell 2500<sup>TM</sup> Value (R25V) Index increased +6.07% and the Russell 2500<sup>TM</sup> Growth (R25G) Index was up 8.51%. The spread between large cap and small cap returns continued to widen, with the Russell 1000<sup>®</sup> Index (large) returning +10.30%, compared to the Russell 2000<sup>®</sup> (small) up +5.18%.

The Kennedy Capital Smid Cap Value (SMCV) composite increased 11.05% (net of fees) during the quarter, outperforming the R25V by 4.98%. For the rolling 12-month period, the SMCV composite returned 33.54% (net of fees), compared to the R25V's return of 21.33% outperforming by 12.21%. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
<b>Gross</b>	34.17%	10.78%	14.67%	10.79%	13.15%
<b>Net</b>	33.54%	10.04%	13.87%	10.01%	12.34%
<b>Index</b>	21.33%	5.36%	9.38%	7.68%	10.49%

Data as of 3/31/2024

Within the SMCV composite, stock selection in the Industrials, Materials, and Financials were the biggest drivers of positive relative returns (vs the R25V). These sectors added 135, 92, and 74 basis points, respectively, to 1<sup>st</sup> quarter relative performance. On the downside, Energy was the only negative contributor on a relative basis, subtracting 20 basis points.

Economic conditions remained stable in Q1 2024. Labor market conditions remain healthy, with the unemployment rate hovering near multi-decade lows. The industrial economy is showing signs of improvement, as evidenced by the ISM Manufacturing Index in March breaking above 50 (readings >50 typically indicate expanding industrial activity) for the first time since October of 2022.

Consumer spending, particularly in areas such as housing, remains steady.

Inflationary pressures have moderated relative to the highs reached in 2023, but are still elevated. The Consumer Price Index ("CPI") rose +3.2% in February, consistent with January, and above the Federal Reserve's target inflation rate of 2.0%. The combination of stubbornly high inflation (relative to target levels) and steady economic activity is supportive of restrictive monetary policy and higher interest rates over the near term. In response to the economic data, the yield on 10-year treasuries rose over 30 basis points in the first quarter, and market expectations for Fed rate cuts in 2024 have been scaled back. So far this year, equity markets have been unfazed by the specter of "higher for longer" interest rates. Time will tell.

While reports of the S&P 500® Index hitting all-time highs dominates headlines, small cap stocks are still below their 2021 peak. Furthermore, over the last 10 years, returns for the Russell 2000® Index have lagged the S&P 500® by over 5% per annum. As a result of this performance gap, relative valuation between small caps and large caps is the widest its been in decades. We believe the long-term investment opportunity in small caps remains bright, especially for fundamental investors with a proven framework to identify situations where equity valuations do not adequately reflect the value creation potential of the underlying businesses.

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 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000® 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 2000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

The Russell 1000® Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 93% of the US market. The Russell 1000® Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are included.

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. **Investors cannot invest directly in an index.**

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

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