Kennedy Capital Management LLC

SMID Cap Value Commentary
3rd Quarter 2023

Equity markets posted negative returns during the 3rd quarter of 2023. For the quarter, the Russell 2500™ Value (R25V) Index declined 3.66%, the Russell 2500™ Growth (R25G) Index was down 6.84%, and the S&P 500® Index (S&P) fell 3.27%. The spread between large cap and small cap returns remains historically wide. Year to date, the Russell 1000® Index (large) is up +13.01%, compared to the Russell 2000® (small) up +2.54%.

The Kennedy Capital Smid Cap Cap Value (SMCV) composite declined 2.32% (net of fees) during the quarter, compared to the R25V's return of -3.66%, outperforming the R25V by 1.34%. For the rolling 12-month period, the SMCV composite returned 13.88% (net of fees), compared to the R25V's return of 11.34% outperforming by 2.54%. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	14.61%	16.95%	7.69%	9.61%	11.56%
Net	13.88%	16.10%	6.90%	8.84%	10.76%
Index	11.34%	13.32%	3.99%	6.95%	9.38%

Data as of 9/30/2023

Within the R25V, Energy and Financials were the only two sectors to generate positive absolute returns in the quarter, returning 15.49 %, and 1.62%, respectively. Health Care, Utilities, and Communication Services were the three worst performing sectors within the R25V, returning (-12.23%), (-9.71%), and (-9.65%), respectively. Within the SMCV composite, stock selection in the Health Care, Financials, and Consumer Discretionary sectors was the biggest driver of positive relative returns (vs the R25V). These sectors added 102, 32, and 31 basis points, respectively, to 3rd quarter relative performance. On the downside, Consumer Staples, Real Estate, and Industrials were the three worst performing sectors on a relative basis. These sectors negatively impacted 3rd quarter relative returns by 46, 32, and 29 basis points, respectively.

Rising interest rates was the prevailing theme during the 3rd quarter. The yield on the 10-year treasury rate increased sharply over the three-month period, rising +76 bps to 4.57%, reaching the highest level seen since 2007. As discussed in previous commentaries, rising rates have several (negative) implications for financial markets:

1) **Higher discount rates, which equates to lower values for a broad range of financial assets (equities, bonds, etc.).**

Example: Devaluation of financial assets has been felt most acutely in more speculative areas of the market, such as SPACs (Special Purpose Acquisition Vehicles). SPAC returns in aggregate are down more than 40% from their peak in 2022, according to the S&P SPAC Index.

2) **Tighter access to capital, which restricts capital investment and slows economic growth.**

Example: According to the senior loan officer surveys conducted by the Federal Reserve, the net percentage of domestic banks tightening standards for commercial and industrial loans to large/middle market firms is at the third highest level seen in the last 20 years (just shy of 2020-2021 during COVID, and the Great Financial Crisis in 2009).

3) **Higher borrowing costs, which erodes corporate profitability.**

Example: BAA corporate bond yields – which reflect borrowing costs for companies that carry "moderate" credit risk – have more than doubled off the 2020/2021 lows and are now at 10+ year highs.

Despite the tighter financial conditions, the US economy thus far appears to be holding up well. Unemployment rates are at multi-decade lows, Corporate earnings—while down versus the highs experienced in 2022 – are still tracking well ahead of pre-covid levels, and credit spreads (A barometer of economic + corporate stress) remain at benign levels. Inflationary pressures are still present, but the rate of change continues to slow from the peak in mid-2022. We remain watchful of how the tightening financial market conditions are impacting the economy, and underlying business fundamentals.

Experience tells us the most attractive long term investment opportunities present themselves during times of heightened uncertainty and bearish market sentiment. When evaluating potential investments for the portfolio, regardless of the macroeconomic environment, we always fall back on first principles:

1. Does this business typically generate returns above its cost of capital over a market cycle, and are there opportunities to reinvest back into the business at attractive rates of return?
2. Based on our fundamental research, what impacts do we see to the business that could alter its returns trajectory and reinvestment opportunity set (for better, or for worse) over the next 3-4 years?
3. What is currently priced into the stock, and does it differ from our fundamental outlook for the 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 an adequate margin of safety. We believe this is a winning recipe for compounding 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™ 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 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 1000® Index measures the performance of the large-cap segment of the U.S. 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 U.S. 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 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 10% of the total market capitalization of that index. It includes approximately 2,000 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 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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