Kennedy Capital Management, Inc.

Small Cap Core Commentary
3rd Quarter 2022

The Market

This quarter has been a downbeat one for small cap stocks and other asset classes. Small cap stocks, as measured by the Russell 2000®, have lost about 25% of their value this year. The Federal Reserve has endeavored to quell inflation after a challenging stretch. Yet, month after month in 2022, the CPI readings are reported and remain well above levels from recent years. This causes some to lose faith in our policy makers, which, in turn, can translate into market unsteadiness. As we step through this and other minefields such as supply chain imbalances, weakening consumers, and leverage fears, it can be unnerving. Quarterly earnings periods tend to be particularly acute, as management teams are forced to reassess their outlooks and adjust expectations.

Performance Recap

For the third quarter of 2022, the KCM Small Cap Core Composite returned -3.87% (gross of fees) and -4.09% (net of fees), compared to the Russell 2000® Index, which fell 2.19%. On a year-to-date basis, the respective gross, net, and benchmark numbers are -22.71%, -23.23%, and -25.10%. While we are pleased to have earned returns for our clients that compare favorably to our benchmark on a year-to-date basis, we are disappointed that our clients have not fared better this year. The following discussion will provide some context around the weightings and individual stock performance that drove performance during the third quarter. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	-17.42%	6.55%	4.96%	9.22%	12.40%
Net	-18.16%	5.64%	4.11%	8.30%	11.37%
Index	-23.50%	4.29%	3.55%	8.55%	8.51%

Data as of 9/30/2022

Within the Small Cap Core Composite, sectors that we most heavily overweighted versus the benchmark were Consumer Staples, Real Estate, and Industrials. Sectors that were significantly underweighted included Communication Services, Health Care, and Information Technology.

During the third quarter, our strongest relative outperformance was achieved in the Industrials, Communication Services, and Consumer Staples. On the negative side, Health Care, Energy, and

Consumer Discretionary had an unfavorable impact on performance. Stock selection was a negative factor during the quarter, although it remained the primary factor driving relative outperformance on a year-to-date basis.

The three stocks that were the most significant detriments to performance in the quarter were an aerospace and defense company, a digital consulting firm and a global medical company. We believed that the aerospace and defense company has suffered through supply chain challenges and resultant cash flow pressures. They have also shown poor organic growth related to one of their acquisitions. We continue to believe that their expertise can drive long term growth in revenue and profitability that supports an investment in the stock, and we continue to hold our position. The digital consulting firm continued to grow, but investors had become accustomed to them outperforming their guidance. With macro-economic concerns growing, we view management as becoming more cautious, which we believe has weighed on the stock. Finally, the global medical technology company has underperformed our expectations. We are enthused by several of the company's product lines but believe that the technology they are developing to treat depression could become a meaningful value creator for the company. The trial related to this product has gone slower than we expected, and we believe this has been a key negative driver for the stock. Without this success, we believe the stock is fairly valued, but a positive trial could lead to upside.

The three best performing stocks in the portfolio were a manufacturer of metal products, an operator of portable storage solutions and an energy exploration and production firm. The first company manufactures engineered fabricated metal products, including irrigation systems for farming and utility poles. We believe the company has managed its costs and supply chain well but has also benefited from global demand strength across many products. We have been pleased to see rising earnings over the past year and expect this trend to continue. The second referenced company, which provides modular and portable storage services, has successfully engineered a merger and managed the company well, in our view, throughout these challenging economic times. They have raised expectations multiple times over the past year, and the stock has benefited. Finally, the energy exploration and production company, has been a key beneficiary of higher oil prices. In our view, the company's decision to focus its efforts on free cash flow generation, rather than strictly on growth, has also buoyed the stock, adding to its allure. We continue to favor energy companies with this cash flow discipline.

Outlook

We find ourselves in a troubling economic situation. Fiscal and monetary challenges such as rising government debt and stubbornly high inflation make for difficult navigation towards a smoother economy. While the U.S. has been moving towards a more self-reliant state – one can debate the merits of that – we remain interconnected to the global economy. The clear challenges faced in Europe will doubtless continue to weigh on many countries, including ours. We take solace in the forward-looking focus of the markets. While the economic outlook appears bleak now, we believe that is well incorporated into equity prices. This does not necessarily imply that stock prices will rise from here, but we have been through many difficult economic times and see them as opportunistic times to invest. We believe we will continue to be able to discover situations where investors are failing to capture appropriate company values. Therefore, we are confident in the positioning of the portfolio we are managing for you. As always, we thank you for the opportunity to manage your account.

Sincerely,

Donald M. Cobin, CFA®
Portfolio Manager

Important Disclosures

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The Small Cap Core Composite contains fully discretionary small cap core accounts that are invested in a mix of small cap value and small cap growth companies, which KCM believes to have strong intrinsic value and growth rates above the Russell 2000® Index. For comparison purposes the composite is measured against the Russell 2000® 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.

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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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 2000® 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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