Kennedy Capital Management LLC

Small Cap Core Commentary
3rd Quarter 2023

The Market

Investor mentality seemed to shift during the third quarter of 2023. After the strength of the first half, wariness settled back in and led to the retracing of some investor returns. Federal Reserve Chair Powell has been diligent in leading the battle against inflation, and he and his compatriots did not blink during the quarter. Public statements reiterated the now familiar “higher for longer” mantra, pressuring both short- and long-term interest rates. Projects are becoming increasingly expensive to finance, leading some to delay or cancel, which can have clear waterfall impacts on a range of companies. Ten-year US Treasury yields are revisiting levels not seen since 2008. Adding to the market’s concerns were the strengthening US dollar (pressures US exports) and the Chinese growth challenges, which inevitably spill over to other connected economies.

Performance Recap

For the third quarter of 2023, the KCM Small Cap Core Composite fell 4.77% (net of fees), compared to the Russell 2000® Index, which dropped 5.13%. We were able to outperform our benchmark this quarter, but we are behind it on a year-to-date basis. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	4.11%	9.03%	3.47%	7.01%	12.10%
Net	3.18%	8.05%	2.62%	6.10%	11.08%
Index	8.93%	7.16%	2.40%	6.65%	8.52%

Data as of 9/30/2023

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

During the third quarter, our strongest relative outperformance was achieved in Industrials, Health Care, and Information Technology. On the negative side, Consumer Discretionary, Real Estate, and Energy had an unfavorable impact on performance. Stock selection was a positive factor during the quarter, particularly within the Industrials and Health Care sectors, while sector allocation was a negative factor. Our underweight in Information Technology, a sector that performed poorly during the quarter, proved a boon for overall performance.

The three stocks that were the largest detractors from relative performance during the quarter were a global sports equipment manufacturing company, an IT consulting firm, and a provider of automated medication management solutions.

A tech-enabled modern golf and active lifestyle company which owns well-known golf entertainment venues, as well as certain golf brands, reported solid second quarter earnings; however, the guidance appears to have disappointed some investors. The company has been investing in new entertainment venues, which we expect to earn strong returns in the years to come. The higher interest rate environment can dent the present value of growing businesses such as these. This may be pressuring the shares of late.

The IT consulting firm began to disclose some hesitancy amongst its client base. Management's expectations for revenue growth are fading in the near term, but they anticipate a rebound. Due to the still tight labor market and their expectations for a growth rebound, they are not materially cutting costs, so near-term margins may be pressured.

Finally, the provider of automated medication management solutions, likewise saw softness in ordering patterns, guiding to the low end of their previously issued bookings guidance. Some may be concerned that this portends revenue challenges in the future. While it may, we see the company as a clear leader in its field with a product portfolio that should be in demand for years to come.

Our three best-performing stocks during the quarter included a provider of healthcare technology solutions, a petroleum contract drilling company, and a manufacturer of mobile proppant management systems.

The shares of the healthcare technology provider benefited from an announced takeout offer, at a substantial premium. While M&A has slowed due to economic concerns and higher interest rates, buyout firms are opportunistically executing their playbooks. They've raised funds, and investors expect them to put those funds to work. This acquisition is an example of an undervalued firm in a growing market -- software for ambulatory practice management – providing appeal for private markets.

The petroleum contract drilling company has begun to benefit from the downstream effects of higher oil prices. As energy prices rise, the economics of drilling gain favor. The company, as a leading provider of drilling rigs, is poised to benefit. We see them as one of the technology leaders in the market, and we believe the stock remains undervalued given its growth and profitability.

On a related note, the provider of drilling services has benefited from a similar dynamic. They provide mobile proppant management systems. These are advanced systems that can provide sand

and chemicals for drilling sites. While revenue growth is in a holding pattern, market participants are beginning to anticipate a rebound in the next 12 months, driving shares higher.

Outlook

As we look forward, we have comparable concerns to our outlook earlier this year. Financial and political leaders around the world are struggling to contain inflation, allow for growth, and meet heightened demand for defense spending. Deficits are daunting, particularly if interest rates remain high. The tightrope is long and treacherous.

That being said, advances in technology often allow economies to navigate storms far more readily than anticipated. We do believe that central banks around the world have worked diligently to contain inflation in a way that should allow for modest growth and continued job creation. Ultimately, once companies and investors are convinced that stability is in the near future, funds should flow more freely-- a healthy environment for the market.

Despite the clear challenges ahead, when we size up the opportunities we see before us, we are relatively sanguine about prospects for small cap stocks. We believe that the portfolio we have assembled for you is well suited to weather a rocky economy but still positions us well when we transition to more stability and, ultimately, growth.

Sincerely,

Donald M. Cobin, CFA®
Portfolio Manager

in this report constitute the Firm's judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. A complete list of all securities recommended by KCM in the preceding year, a fully compliant GIPS composite report, and the list of composite descriptions are available upon request from KCM at 10829 Olive Blvd., Suite 100. St. Louis, MO, 63141.

The Small Cap Core Composite invests 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.

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 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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