Kennedy Capital Management LLC

Small Cap Growth Commentary
1st Quarter 2024

Equity market returns in Q1 started the year off strongly, with large capitalization stocks continuing to out-perform (Russell 1000® Index +10.3% vs. Russell 2000® Index +5.2%) and growth outperforming value (Russell 2000® Growth +7.6% vs. Russell 2000® Value +2.9%). U.S. employment levels remained robust, and monthly GDP growth continued to beat expectations. With the rate of inflation continuing to abate and the Federal Reserve verbally indicating that they would now be watching the data to determine *when* they could begin to cut rates, it appears that market participants gained increasing comfort with pricing in both a soft landing and peak rates.

Performance:

The KCM Small Cap Growth (SCG) composite increased +9.07% (gross of fees) and +8.88% (net of fees) for the 1st quarter of 2024, outperforming the Russell 2000® Growth (R2G) Index, which increased +7.58%, by +149 bps (gross of fees) and +130 bps (net of fees). Additional performance information included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	17.55%	0.85%	11.42%	10.48%	14.58%
Net	16.84%	0.13%	10.65%	9.72%	13.77%
Index	20.35%	-2.68%	7.38%	7.89%	10.92%

Data as of 3/31/2024

On a relative basis Health Care and Consumer Discretionary were the best-performing sectors versus the benchmark. The strength in Health Care was led by a clinical-stage biotech company, which engages in development of therapies for metabolic and endocrine disorders. The company released 13-week study data for their injectable GLP-1/GIP that showed 13% placebo-adjusted weight loss, which is ~5% points higher than a key competitor at the same stage, establishing their drug as a major new potential competitor in the obesity market. The outperformance in Consumer Discretionary was led by a franchisor and operator of restaurants that primarily sell chicken wings. The company demonstrated strongly re-accelerating comparable store sales growth in Q4 (system-wide +21%), which importantly was largely transaction driven with Q4 seeing the highest period to date of new guest acquisition. New unit openings also re-accelerated, and the pipeline of commitments provides confidence in at least several more years of +low dd% growth. We believe these are all durable trends-- benefitting from new innovative product launches, the ability to maintain price (and increase their relative value position), digital investments, and a meaningful increase in advertising fund dollars.

Our largest detractors to relative performance for the quarter were Information Technology and Energy. This was a very unusual period where all of our relative underperformance was due to names that we didn't own; i.e., errors of omission, not commission. Within Information Technology, just two companies combined, contributed +3.70% to the index's total return in the quarter. Excluding these two names, the remaining R2G was only up +3.88%. One company, an assembler of technology hardware and distributor of IT solutions, is benefitting from AI infrastructure builds and continues to produce stronger earnings. While acknowledging the impressive demand, we held concerns regarding potential market share loss and margin compression as competitors scaled their manufacturing capabilities. Given the current valuation, we believe much of the anticipated growth is priced in and doesn't accurately account for potential risks. The other company holds investments in bitcoin and benefitted during this period from a +61% increase in the commodity's price. In addition, they had raised equity to invest in additional bitcoin and are now being rewarded with a significant premium to their existing investments with the view that they can continue to execute future raises & bitcoin buys in an accretive way. Our investment philosophy does not incorporate commodity-price speculation, and thus we would not invest in simple pass-thru commodity vehicles; but even if we did, we do not believe they have any structural advantage that enables them to create value beyond that of the commodity they currently own & thus believe the premium-to-asset-value is unsustainable. As for Energy, we did not own any names in the sector, which outperformed in the period.

Outlook:

The macroeconomic environment remains in flux, with the path of this unique business cycle not yet fully determined. Investors remain highly sensitive to inflation data and the implications for interest rates. In fact, as we write this letter, equity markets in the first weeks of April have given back much of the strong Q1 returns in response to a backup in yields (U.S. 10-year at 4.6%, as of 4/22/24, vs. 4.2% at the end of Q1 and 3.9% exiting 2023) as forecasters adjust expectations for the exact timing and magnitude of future reductions in the target federal funds rate. This has been in response to the most-recent monthly inflation data suggesting we are leveling off at slightly higher-than-expected growth levels. As we have mentioned numerous times before, higher rates are a general headwind to equity valuations, particularly growth equities; but it also means the continuation of a more restrictive capital environment which risks leading to new demand destruction in specific areas of the economy. And we need to remain vigilant to these potential impacts. That said, a key part of the equation keeping rates higher is the continued strength in employment and GDP growth, providing a healthy demand backdrop for many businesses. It is a positive that the consumer and the overall economy has remained as resilient as it has in the face of all the tightening measures. As a result, we do not currently expect to see any major near-term changes in demand trends, and even in the current environment, we are still able to find pockets of strong demand and unique investment opportunities where companies can execute against their own specific growth initiatives to drive longer-term outperformance. While a broader general recovery won't be unleashed until we get the stimulus of loosening capital (i.e., rate cuts), we believe our focus on longer time horizons is an advantage in these periods of heightened volatility as that is still most likely just a question of when, not if.

Thank you for your continued confidence in the Kennedy Capital team. Should you have any additional questions, please do not hesitate to contact us.

Sincerely,

Jean Barnard, CFA®
Portfolio Manager

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Assistant Portfolio Manager

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Assistant Portfolio Manager

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The Small Cap Growth Composite invests in growth securities of predominately small companies that generally have a market capitalization that is reflective of the Russell 2000® Growth Index. The Manager seeks companies with durable business models able to deploy assets into growing sets of opportunities providing superior rates of return. For comparison purposes the composite is measured against the Russell 2000® Growth 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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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 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 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 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 2000® Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 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). The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure new and growing equites are included and that the represented companies continue to reflect value characteristics.

The Russell 2000® Growth 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.**

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