Kennedy Capital Management, Inc.

Small Cap Growth Commentary
2nd Quarter 2022

Quarter Summary:
Equity markets experienced significant declines in the second quarter of 2022. The dynamics driving this were largely a continuation of the shocks that began in the 1st quarter. The invasion of Ukraine by Russia stretches into its 5th month and is a major source of commodity inflation worldwide (particularly grain and energy feedstocks). Global supply chains remain volatile as the world recovers from the aftereffects of the COVID-19 pandemic. While we have seen pockets of supply chain improvement during the 2nd quarter, new, highly transmissible COVID-19 variants (such as BA.5) threaten the sustainability of these improvements. Unfortunately, these events continue to exacerbate the greatest economic concern: persistent inflation. The Federal Reserve awoke to this risk during the quarter with a 75-basis point rate hike in June (an increase from the 50-basis point increase they initially telegraphed). Another 75-basis point increase is now expected in July as inflation shows little sign of peaking.

Performance:
The KCM Small Cap Growth (SCG) composite decreased -20.11% (gross of fees) and -20.26% (net of fees) for the 2nd quarter of 2022, underperforming the Russell 2000® Growth (R2G) Index, which decreased -19.25%, by -86 bps (gross of fees) and -101 bps (net of fees). Year-to-date, the SCG composite decreased -30.42% (gross of fees) and -30.68% (net of fees), underperforming the R2G Index, which decreased -29.45%, by -97 bps (gross of fees) and -123 bps (net of fees).

On a relative basis, Consumer Staples and Industrials were the best-performing sectors versus the benchmark. The strength in Consumer Staples was led by a provider of branded, affordable cosmetic and skin-care products. The company has continued to demonstrate strong sales momentum primarily due to the launch of new brands. The company has also been successful in increasing prices, which should aid margins in the future. The strength in Industrials was led by a company that manufactures and sells various components and sub-systems for aerospace and defense applications. After a period of disappointing results, the company is being pressured by activist shareholders to either show progress toward their long-term targets or consider various strategic alternatives. In addition, the medium-term outlook for the company has improved primarily due to increased defense spending in Europe.

Our largest detractors to relative performance for the quarter were Information Technology and Real Estate. Within Information Technology, the worst contributor was a company that manufactures and sells semiconductors primarily for the telecommunications and industrial markets. The stock was weak during the quarter as concerns of a cyclical slowdown impacted the entire semiconductor sector. In addition, the company announced a sizeable acquisition that will require meaningful debt financing. We continue to own the position as we believe its specific end markets are more resilient and expect that management can extract significant value from this new acquisition. The weakness in Real Estate was due to a real estate investment trust focused on serving medical cannabis cultivators across the United States. The company's fundamentals have remained robust, and we believe the share weakness is due to concerns surrounding the financial health of its tenants. We see little to no tenant risk and believe the end markets are recession resilient. Therefore, we continue to hold the position.

For the year-to-date period, relative performance was positive in the top outperforming sectors of Health Care and Consumer Discretionary. Communication Services and Energy were the largest detractors to performance.

Outlook:

At some point, rate increases will have the desired effect of reducing demand; however, there remains a great deal of uncertainty as to whether the Federal Reserve's actions will simply reduce demand on the margin (the "soft landing") or if more dramatic demand destruction awaits. Signals pointing to either outcome remain decidedly mixed. We are beginning to see whispers of demand declines in the form of discounted pandemic-related consumer goods (such as outdoor furniture and casual clothing), but this is largely offset by robust spending on consumer experiences (such as travel). It is likely much of this spending was pre-planned (long-awaited summer vacation travel after COVID-19), but consumers have accumulated significant cash reserves during the pandemic to both fund discretionary spending and offset the burden of higher costs on consumer staples. Also helping is that the U.S. unemployment rate remains at historically low levels.

Further complicating the Federal Reserve's job and muddying U.S. corporate earnings are a variety of international dynamics. We previously mentioned the rise of COVID-19 variants and their threat to global supply chains. As we enter July, this threat is manifesting in the form of new lockdowns in China as the country continues to enforce a zero-COVID policy. Further outbreaks in this region risk re-tightening supply chains and bolstering inflation globally. Conversely, COVID-stability in this region would ease inflationary pressures and allow company management teams to proceed with greater clarity. A second international dynamic is the impact of the strong dollar, which, at the time of writing, is now at parity with the Euro. Minimally, this will be a drag on reported U.S. company earnings, but additionally, the strong dollar is an added stress on emerging market economies and heightens the risk of a crisis.

As we enter 2nd quarter earnings season, we remain focused on individual company results and respective outlooks. We've highlighted some of the economic puts and takes in this letter and expect company management teams to discuss much of the same until greater clarity emerges. The next 6 months should be very telling regarding exactly how much inflation will subside and how much real demand will be impacted. Within the portfolio, we take a diversified and balanced approach to growth investing. We continue to focus on companies where we have the greatest confidence in long-term sustainable demand with management teams who can execute each investment's individual strategy. We believe this approach will best position the portfolio in the event the Fed is successful in the near-term or if high inflation persists into 2023. We will look to be more aggressive in adding new investments to the portfolio when we begin to see signs that inflation has peaked.

Sincerely,

Jean Barnard, CFA®
Portfolio Manager

Ryan Dunnegan, CPA
Assistant Portfolio Manager

Important Disclosures

Although the statements of fact and data in this report have been obtained from, and are based upon, sources that the Firm believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions included 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 full 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.

Kennedy Capital Management, Inc. ("KCM") is a Missouri corporation registered as an investment adviser with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Registration with the SEC does not imply any level of skill or training. Clients of the Firm include U.S. corporations, pension and profit sharing funds, colleges and universities, trusts, not-for-profit organizations, foundations, and individuals. KCM claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. The Small Cap Growth Composite contains fully discretionary accounts that are invested in what KCM believes to be fundamentally growing companies generating positive returns, with asset growth rates ahead, in aggregate, of 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 presented Gross of Fees do not reflect the deduction of investment advisory fees and include the reinvestment of all income. A client's return will be reduced by the advisory fees and other expenses incurred by the account as described in Form ADV Part 2A. For example, an annual advisory fee of 1% compounded quarterly over 10 years will reduce a gross 14.44% annual return to a net 13.24% annual return. Form ADV Part 2A is available upon request. The GIPS® are a set of standardized, industry-wide ethical principles that provide investment firms with guidance on calculating and reporting their investment results to prospective clients to ensure fair representation and full disclosure of an investment firm's performance history.

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, 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. All variances are typically reconciled to the applicable account no later than each month-end. Past performance is not indicative of future results.*

The information provided should not be considered a recommendation to purchase or sell any particular security. Allocations among industries, sectors and securities may vary and are subject to change without notice. It should not be assumed that any of the securities transactions or holdings discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Portfolio Sector Weightings are subject to change at any time. Sector weightings are based on the Global Industry Classification Standard ("GICS") classification scheme and are measured as a percentage of the total portfolio 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. Due to rounding, Sector Weighting's total percentages my not equal 100%.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Kennedy Capital Management, Inc. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Russell Investment Group is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Kennedy Capital Management, Inc. Russell Investment Group is not responsible for the formatting or configuration of this material or for any inaccuracy in Kennedy Capital Management's presentation thereof.

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 higher price-to-book ratios and higher forecasted growth values. 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 larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect growth 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 Annual Disclosure Presentation. The Composite Disclosure Presentation does not cover the benchmark returns included in the Annual Disclosure Presentation.

{PERF}2022070088