Kennedy Capital Management LLC

Small Cap Growth Commentary
3rd Quarter 2023

Macroeconomics and interest rate levels specifically continue to dominate the factors driving equity performance. While pockets of the economy have experienced significant corrections due to normalizing consumer behavior and supply chains, overall U.S. employment levels and consumption have remained relatively steady and better than original estimates entering the year. Additionally, while the rate of inflation has come down substantially, it still remains elevated and above the Federal Reserve's long-term target. While this initially might suggest the Goldilocks scenario has indeed been achieved (i.e., a soft landing), markets have instead expressed a growing concern that the Federal Reserve will prioritize inflation goals and need to be more aggressive with the level and/or duration of interest rates in order to fully tame it. This "expression" can be seen via the yield on the 10-year treasury, which increased sharply during the period, rising 76 bps to 4.57%, reaching the highest level in more than 15 years. This in turn drove a re-pricing of equity risk and increasing concerns of a sharper earnings recession. The result was a retrenchment of equity markets that disproportionately impacted small-caps and higher-growth companies, with the S&P 500® Index down 3.3%, the Russell 2000® Index down 5.1%, and the Russell 2000® Growth Index down 7.3%.

Against this backdrop, Q3 was a particularly difficult quarter for our strategy, both absolutely and relatively. In general, our active positioning, in higher-return higher-growth businesses, is expected to be a headwind in this particular type of environment (i.e., rising rates). And unlike in 2022, we did not raise our cash position or make any other short-term adjustments as we had mistakenly believed we had reached a rate level that was roughly normalized. At the same time, several of our individual stock selections experienced short-term earnings setbacks. The Q2 earnings reporting period was very binary, with many smaller supply-chain-dependent and/or cyclically-oriented companies continuing to see weakening demand trends into the second half, despite the overall economy remaining positive. We had several stocks that reported meaningfully weaker earnings and/or forward guidance. While this has been a disappointing development, we also believe that the majority of these reductions were due to short-term cyclical forces, and our companies remain strongly positioned for market share gains over the next several years as demand recovers. In addition to these factors, a significant increase in oil prices led to the Energy sector delivering the only standout positive performance in the R2G during the quarter (at +19%) and was the largest single negative detractor to our relative performance as we do not own any energy companies.

Performance:

The KCM Small Cap Growth (SCG) composite declined 11.27% (gross of fees) and declined 11.39% (net of fees) for the 3rd quarter of 2023, underperforming the Russell 2000® Growth (R2G) Index, which declined 7.32% by –395 bps (gross of fees) and -407 bps (net of fees). Year-to-date the KCM SCG composite decreased 0.24% (gross of fees) and decreased 0.73% (net of fees), underperforming the

R2G Index, which increased 5.24% by -548 bps (gross of fees) and -597 bps (net of fees). Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	7.03%	2.95%	4.93%	9.24%	12.92%
Net	6.29%	2.20%	4.20%	8.49%	12.12%
Index	9.59%	1.09%	1.55%	6.72%	0.38%

Data as of 9/30/2023

On a relative basis, Industrials and Materials were the best-performing sectors versus the benchmark. The strength in Industrials was led by a manufacturer of engineered products for the industrial gas, energy, and biomedical industries. The stock was depressed following an announced acquisition last year (at which time we meaningfully increased the position) and has seen a recovery as orders stabilized and they articulated a path to reduce leverage by year-end. The outperformance in Materials was simply due to our not owning any companies in this sector.

Our largest detractors to relative performance for the quarter were Energy and Communication Services. The poor performance from Energy was due to the fact that we do not own any companies in this sector during a period when the oil price increased meaningfully and this sector was the one strong performer during the period, up 19%. The decline in Communication Services was the result of a reduced forward revenue growth outlook from a provider of technology solutions for digital advertising platforms, including Connected TV (CTV). Market growing pains and cyclical impacts in their original products are offsetting continued new partnership and product rollouts in the developing CTV market. While this was incrementally disappointing vs. our expectations of a bottoming in the near-term growth rate, we believe this is simply greater short-term cyclical volatility on the longer-term path to a much stickier role in a larger, strategically important CTV ad market.

Outlook:

We expect lagged tightening effects to continue to work their way into the economy and corporate earnings. While that may mean continued market volatility until full clarity emerges, we are incrementally constructive on small-cap equity markets at current valuations and the implied longer-term earnings power that is being discounted. There continues to be elevated short-term risk related to whether or not we have reached "peak rates" this cycle, but we believe that our strategy of investing in companies with higher CFROIs (cash flow return on investment) and higher asset growth (i.e., re-investment opportunities) will mean that they are better positioned to deliver on earnings growth expectations over the next couple of years. Short-term relative performance is much harder to predict, but assuming our companies can execute against their growth opportunities, we believe this should be a recipe for longer-term outperformance.

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

Ryan Dunnegan, CPA
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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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® 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® 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.*

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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