Kennedy Capital Management, Inc.

Small Cap Select Commentary
2nd Quarter 2022

The Market In General:

The dynamics in the 2nd quarter of 2022 were largely a continuation of the themes that began early this year. Commodity price fluctuations, supply chain troubles, and sporadic Covid-19 spikes remained economic headwinds. Unfortunately, these events exacerbate the greatest economic concern: inflation. Over the last several months the inflationary data continued to exceed expectations, remaining at levels not seen since the early 1980s. The persistence of this trend pushed the US Federal Reserve to raise interest rates more aggressively at each of their subsequent meetings. Uncertainty around the direction of the economy and magnitude of the US policy response remains high. We expect both factors to remain front and center over the coming months. While this can increase volatility, we remain focused on investing in strong quality corporations that can create economic value over the long-term.

Performance:

For the second quarter of 2022, the Select Composite experienced a return of -14.48% (gross of fees) and -14.67% (net of fees) as compared to the Russell 2000®, which returned -17.20%. Year-to-date, the Select Composite experienced a return of -22.02% (gross of fees) and -22.37% (net of fees) as compared to the Russell 2000®, which returned -23.43%. Certain account performance may vary from this composite performance due to client-initiated account restrictions on certain types of holdings or due to client cash flows.

The Health Care Sector was our best relative-performing group. Even though we were overweight a sector that underperformed the Russell 2000® benchmark, we benefitted from the strong performance of our individual stocks. In fact, the portfolio's best-performing name in the quarter was a health care stock purchased just last quarter. This biotechnology company, a developer of next-generation precision oncology treatments, announced Bristol Myers Squibb Company (BMY) would acquire them for a significant premium. The portfolio also performed well in the Consumer Staples sector. Here, a company that sells cosmetics and skin-care products, was our second best-performing name. The company continues to grow sales and take share from competitors at an impressive rate. We remain invested here as we believe they have substantial room to expand their product set and increase their retail partnerships which will enable growth into the future.

The Information Technology sector was our worst relative-performing group. Here, a semiconductor company that sells into global telecommunication and industrial markets, was our largest detractor. The stock was weak during the quarter as investors feared the entire semiconductor market was slowing. In addition, they announced a sizeable acquisition that increased their total debt at a time of rising interest rates. We remain invested here as we believe the long-term potential of the merger, including their ability to serve new data center customers, remains underappreciated. Secondly, a company that sells networking equipment, was another underperformer in the technology sector. The company struggled with supply chain disruptions and could not ship all the orders that their customers had placed. We think the stock has underperformed due to short-term issues and remain invested here as they have the potential to benefit from customer adoption of their next-generation networking technology. We also underperformed in the utility sector as we are underweight and the sector performed well compared to the benchmark.

Portfolio Positioning, New Investments, and Positions Exited:

During the quarter, we continued to move the portfolio towards less economically sensitive investments. We are now overweight non-cyclical industries as compared to the benchmark. While we did not initiate or completely exit many individual investments during the quarter, we adjusted weights in several existing holdings to better reflect the current economic environment. As of June 30th, we are overweight the Health Care, Consumer Staples, and Information Technology sectors. We are underweight Utilities, Materials, and Communication Services.

The Future:

We are aware of the potential risks on the horizon. The US Federal Reserve's resolve to combat inflation has brought higher interest rates and the potential for slowing economic growth. Of course, the market's moves in the first half of the year have seemingly started to price in these risks. There are many paths the coming months and quarters may take. Variables including the labor participation rate, wage growth, supply chain response to shortages, or an outcome to Russia's invasion of Ukraine could each individually help or hinder the Fed's inflation fight and the overall economic outlook. Our goal is to maintain a balanced view of the potential macroeconomic directions while focusing on investing in stocks that have favorable risk-reward characteristics. As always, we look for companies that can create value as they execute on their own unique strategies.

Thank you for your continued confidence in us. Should you have any questions or concerns, never hesitate to call.

Sincerely,

Alex Mosman, CFA®
Portfolio Manager

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The Small Cap Select Composite contains fully discretionary small cap accounts that are invested in small cap value and small cap growth companies that demonstrate valuation below, return on assets above and return on equity above those of the Russell 2000® Index, while observing tax sensitivity strategies. 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 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.

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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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