Kennedy Capital Management LLC

Small Cap Select SRI Commentary
1st Quarter 2023

<u>The Market In General</u>:

The market continued to experience increased volatility during the first quarter of 2023. At the outset of the year, the primary macroeconomic factors affecting the market were inflation concerns and the US Federal Reserve's commitment to raising interest rates. As expected, the Fed implemented rate hikes, but attention soon shifted to a crisis in the banking sector, which culminated in several bank failures during March. The root cause was sizeable losses on long-duration assets at banks with highly concentrated deposits and significant levels of uninsured balances. These underlying issues appear to be specific to the affected institutions rather than a wider systemic problem. Furthermore, the timely intervention by government officials played a crucial role in stabilizing the financial sector, thus averting more widespread pressure.

Nevertheless, we cannot disregard the potential consequences of the banking crisis. Banks may implement tighter lending practices to strengthen their balance sheets, which could, in turn, reduce credit availability and weaken economic growth. As we navigate uncertain market conditions, we will continue to assess how shifting macro winds impact the portfolio. Despite these broader market challenges, our core investment philosophy remains focused on identifying and investing in individual companies that can execute on their own catalysts to enhance value.

<u>Performance</u>:

For the first quarter of 2023, the Select SRI Composite experienced a return of 3.93% (gross of fees) and 3.67% (net of fees) as compared to the Russell 2000®, which returned 2.74%. 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. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	-10.22%	19.13%	6.93%	9.18%	10.92%
Net	-11.08%	17.94%	5.87%	8.09%	9.81%
Index	-11.61%	17.51%	4.71%	8.04%	8.69%

Data as of 3/31/2023

Similar to the second half of last year, Consumer Staples was our best relative-performing sector, and this continued to be driven by our best individual stock, a cosmetic and skin care provider that sells its products through retailers and their e-commerce store. The company continues to take market share, expand their product line-up, increase brand awareness, and improve their business operations. Over the past several quarters, they have seen meaningful growth in product volumes, average selling prices, and margins, which has driven strong earnings results. We remain invested here but have continued reducing our position given its outsized weighting. Another strong contributor to performance was a producer of manufactured and modular housing. The stock rebounded as home mortgage rates receded from the recent peak last fall. We continue to hold the stock as we see attractive growth opportunities.

Consumer Discretionary was our worst relative-performing sector as our individual investments did not keep up with the strength of the benchmark's consumer names. A biotechnology company whose products facilitate subcutaneous drug delivery, was our largest individual detractor in the quarter. The company struggled with an adverse patent ruling in Europe and news that US Medicare may negotiate pharmaceutical prices earlier in a product's life cycle than anticipated. We believe the stock fell more than the anticipated financial impact of these challenges. Due to this overreaction and the belief that their long-term pipeline of partnerships remains undervalued, we remain invested. Our second-largest detractor was a provider of contract oil and gas drilling services to energy companies. During the first quarter, energy prices came under pressure and the number of drilling rigs deployed around the US began to decrease creating worries around pricing for it's offerings. We trimmed the position as natural gas prices started declining early in the quarter.

We also want to comment on our bank holdings as the Financial sector featured so heavily in the market's swings in March. Our bank holdings did experience negative returns in the quarter, and generally performed in line with the index, but as we were underweight Regional Banks as compared the benchmark, we outperformed the industry group. Concentrated deposits and large unrealized losses were the main sources of stress for firms in the banking sector. We believe these are the most important metrics to monitor at the current time. Our holdings generally have diversified and quality funding structures along with solid capital ratios even when accounting for unrealized losses in their securities books.

Portfolio, New Investments, and Positions Exited:

As of March 31, 2023, we are underweight cyclical industries compared to the benchmark. We are overweight the Industrials and Consumer Staples sectors. We are underweight the Utilities and Communication Services sectors.

The Future:

We continue to believe the market will remain volatile. The potential headwinds, such as tighter lending standards from banks, could create challenges for economic growth over the coming quarters. At the same time, the economy continues to benefit from full employment and slowing inflationary pressure. Amidst these varying macroeconomic forces, we are maintaining a balanced view with regards to the portfolio. As you can see from our new investments above, we continue to find exciting new investments and look to take advantage of any unfounded market moves. We remain committed to identifying and investing capital in companies that can pursue their own value-enhancing initiatives.

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

Sincerely,

Alex Mossman, CFA®
Portfolio Manager

Important Disclosures

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The Small Cap Select SRI Composite invests 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 Index, while observing social restriction 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 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 composites 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 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 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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