Kennedy Capital Management LLC

Small Cap Select SRI Commentary
1st Quarter 2024

The Market:

Entering the year, financial markets anticipated more interest rate cuts in 2024 than what the US Federal Reserve projected during their December meeting. However, throughout the quarter, strong economic growth and employment metrics persisted, while inflation levels remained stubbornly high. The combination of robust employment data and stagnant disinflation led expectations for rate cuts to recede and longer-dated yields to steadily increase. Despite shifting rate expectations, markets rose during the first quarter, deviating from last year's trend where higher rates dampened market gains.

Performance:

For the first quarter of 2024, the Select SRI Composite experienced a return of 8.90% (gross of fees) and 8.63% (net of fees) as compared to the Russell 2000®, which returned 5.18%. 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	17.68%	2.90%	10.21%	9.01%	11.24%
Net	16.49%	1.88%	9.11%	7.92%	10.13%
Index	19.71%	-0.10%	8.10%	7.58%	8.75%

Data as of 3/31/2024

During the first quarter, the Consumer Staples sector emerged as our top performer. We are overweight in this sector, and our investments yielded strong results. Our top performer in this space was a company known for its cosmetics and skincare products. The company continues to capture market share, expand product offerings, increase brand awareness, and improve operations. Over recent quarters, meaningful growth in product volumes, average selling prices, and margins have driven strong earnings. While we remain invested in the stock, we have scaled back our position size. Our best-performing name was a stock we purchased during the first quarter. The company designs and manufactures specialty vehicles such as fire trucks, ambulances, and RVs. The stock performed well as the company executed important strategic moves, including divesting less profitable product lines and issuing a special dividend. Looking ahead, we believe there will be robust margin expansion in their largest segment as they fulfill orders under a new pricing structure that more adequately accounts for cost inflation.

Information Technology emerged as our weakest-performing sector. This quarter presented an uncommon scenario where our largest negative contributor was a stock we did not hold. This company, an assembler of technology hardware, experienced significant revenue growth driven by strong demand for AI systems, which they put together. 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. A regional bank also hindered performance this quarter. We underestimated the challenging deposit environment in the Pacific Northwest. The additional costs incurred to secure deposits pressured profitability, a headwind we believe is persisting for the near future. Consequently, we opted to exit our position.

Portfolio Changes:

We were quite active during the quarter, initiating positions in many new investments while closing others. We continue to find very compelling opportunities throughout the small cap universe. Below, we highlight three of our largest newly initiated positions and discuss the sale of three significant holdings.

New Investments:

A manufacturer of aerospace-grade composite materials, making airplane structures stronger and lighter than metal alternatives. We believe there is significant potential for this company as aerospace customers increase commercial airplane volumes. This uptick in production, coupled with efficiency improvements, should drive earnings growth for years to come.

A dominant producer of hydraulic tools used in demanding environments such as manufacturing, aerospace, mining, and infrastructure projects. We believe the market underestimates the company's potential for earnings growth.

A company who offers manufacturing and packaging services to optical equipment customers in the communications sector. We believe the company's growth is likely to accelerate as the telecom industry rebounds from low spending levels and data center demand increases due to Artificial Intelligence applications.

Positions Sold:

A company who manufactures and sells an implantable medical device for treating overactive bladder. We sold our position following the announcement of its acquisition.

A company who specializes in contract drilling for oil and gas companies. We exited our position as our thesis on their ability to command higher prices for drilling rig usage had been realized.

A company who operates electric and natural gas utilities in the northern United States along with offering construction-related services. We sold the stock when the revenue growth rates in the construction services segment unexpectedly fell even as this sector of the US economy remains robust. We anticipate the company may need to adjust their return profile to sustain growth.

Portfolio Characteristics:

During the quarter, we increased our weighting to cyclical industries but are still underweight compared to the benchmark. As of March 31, 2024, we are overweight Industrials, Materials, and Consumer Staples. We are underweight Consumer Discretionary, Health Care, and Energy.

The Future:

The macroeconomic landscape remains dynamic. The recent lack of progress in fighting inflation is directly influencing real-time expectations for interest rates. Notably, the elevated rates have not hindered economic growth or employment. Strong wage growth and a robust US dollar are likely buffering the impact of these higher rates. Amid these conditions, the duration needed for high rates to effectively dampen inflation remains uncertain, as does their potential to disrupt economic activity. Given these varying outcomes, we continue to hold a balanced approach with regard to the portfolio's economic sensitivity. Our focus remains on identifying and investing in companies who we believe can implement their unique strategies for value enhancement. This approach positions us to adapt and capitalize on changing market dynamics.

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

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. ***Investors cannot invest directly in an index.***

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