Kennedy Capital Management LLC

Small Cap Select SRI Commentary
3rd Quarter 2023

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

The third quarter was defined by rising interest rates. Although the US Federal Reserve increased the Fed Funds rate by just 0.25%, long-dated treasury yields climbed dramatically throughout the quarter. This movement went beyond a reflection of robust economic data, which could pressure inflation upward, and accounted for the expectations set by Fed officials who signaled commitment to maintaining elevated rates for an extended period. This shift had a direct impact on discount rates used to value all future cash generation from equities, which broadly lowered markets.

<u>Performance</u>:

For the third quarter of 2023, the Select SRI Composite experienced a return of -8.65% (gross of fees) and -8.88% (net of fees) compared to the Russell 2000®, which returned -5.13%. Year-to-date, the Select Composite experienced a return of -0.35% (gross of fees) and -1.09% (net of fees) compared to the Russell 2000®, which returned 2.54%. 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	6.21%	8.01%	3.84%	7.95%	10.40%
Net	5.15%	6.93%	2.81%	6.87%	9.30%
Index	8.93%	7.16%	2.40%	6.65%	8.52%

Data as of 9/30/2023

The third quarter presented unique challenges, and the recent performance of the portfolio does not align with our expectations. Some of our investments experienced weaker-than-anticipated demand, reflecting cooling pockets within the broader economy. Furthermore, valuations seemingly provided little-to-no cushion. Minor misses compared to broader investor expectations were met with what we view as disproportionate punishment in share prices. It's worth noting that, in most instances, these minor setbacks did not alter our core investment thesis for individual companies. Our investment approach focuses on companies striving for transformative change. Unfortunately, in the current climate of economic variability and uncertainty, the market isn't rewarding these forward-looking, change-driven strategies. Given that we manage a concentrated portfolio, volatility can significantly affect short-term performance. At the same time, we are taking advantage of this volatility with several new investments. We remain committed to our approach and confident that the value of our investments will be realized.

This quarter, the Communication Services sector was our most challenging, largely due to the struggles of one firm. This firm, which specializes in automating digital ad transactions, was a standout performer for us in the previous quarter. However, they faced headwinds from a dip in demand for connected TV advertising. We believe that the technology to support ad-based streaming content is in the early days of deployment, and we see long-term potential in the company;thus, we remain invested here. Another name that weighed heavily on performance was a provider of infrastructure construction. Their challenges stemmed from delays in renewable energy projects due to ambiguous federal tax incentives. Given the renewable energy sector's anticipated surge in the coming years coupled with rising demand for their transmission and distribution build-out services, we remain invested here as well.

Our best-performing sector was Materials due to one of our recent investments' success. Our best individual name was a software company focused on data management. The company has been growing their cloud-based solution and is now expanding margins nicely. We expect the company to generate significant cash over the coming quarters, and we remain invested in the stock. Our second best-performing name was a freight transportation provider. The company has been executing an operational improvement strategy and brought in new management to help it along. The company got an additional boost this past quarter as one of their large competitors filed for bankruptcy, allowing them to gain market share. We remain invested in this name.

<u>Portfolio, New Investments, and Positions Exited</u>:

During the quarter, we increased our weighting to cyclical industries, but remain underweight compared to the benchmark. As of September 29, 2023, we are overweight in the Industrials and Materials sectors and underweight in the Real Estate and Consumer Discretionary sectors.

<u>The Future</u>:

We believe the direction and duration of interest rates will be one of the driving factors of equity markets going forward. The strength of underlying economic growth and persistence of inflation will ultimately drive these factors. With that said, real rates have risen steadily in the last six months. We suspect these higher rates will slow the economy to some degree, but admit we are unsure of the rate of this cooling. If there is an abrupt stall, we find it likely that the Federal Reserve would cut rates. All of these factors make discerning a hard- or soft-landing scenario more difficult. Given the various paths the future can take, we are maintaining a balanced portfolio. We believe the long run outlook for small cap stocks is quite favorable as many valuation metrics are at multi-year lows when compared to their large cap peers. As always, we remain committed to identifying and investing capital in companies that can execute their own value-enhancing initiatives.

Thank you for your continued confidence in us. Please do not hesitate to reach out if you are interested in additional information or have questions about the positioning of the portfolio.

Sincerely,

Alex Mosman, CFA®
Portfolio Manager

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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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