Kennedy Capital Management, Inc.

Small Cap Value Commentary
2nd Quarter 2022

US equity markets sold off sharply during the second quarter of 2022, with all major US equity indices declining double digits. The Russell 2000 Value (R2V) Index fell 15.28%, outperforming the Russell 2000® Growth and S&P 500® indices, which declined 19.25% and 16.10%, respectively. The Kennedy Capital Small Cap Value (SCV) composite declined 13.51% (Gross) and declined 13.70% (Net) during the quarter, outperforming the R2V. For the rolling 12-month period, the SCV composite declined 10.57% (Gross) and declined 11.36% (Net), compared to the R2V's decline of 16.28%.

Within the R2V, Communication Services and Consumer Discretionary were the two worst-performing sectors, down 30%, and 21%, respectively. Consumer Staples and Utilities, which tend to be more defensive during market downturns, were the top performing sectors in the index, down 3.6% and 3.9%, respectively. On a relative basis (vs the R2V), the best performing sectors in the SCV composite were Health Care and Consumer Discretionary. On the downside, Financials (particularly regional banks) and Information Technology were the two worst-performing sectors on a relative basis.

Inflation remains the dominant theme driving markets this year. The Consumer Price Index (CPI), a closely followed barometer of inflation, rose +8.6% year-over-year in May, the largest increase since 1981. The Federal Reserve responded by raising short-term rates from 0.50% to 1.75% during the quarter and has signaled a more aggressive stance on future rate increases in order to quell inflationary pressures. Longer term interest rate measures, such as the 10-year US treasury yield and the 30-year US fixed mortgage rate, have also moved meaningfully higher this year in response to rising inflation expectations and the impact from the Federal Reserve's transition away from quantitative easing. The combination of tightening financial conditions and the hit to consumer spending power from inflation has fueled concerns that the US economy is heading towards a recession.

We are not macroeconomic forecasters, but we do closely monitor how changes in the economic environment are impacting the fundamentals of the companies in our portfolio and the broader market. In our view, inflation has two major impacts that require consideration:

1) Rising cost pressures, which negatively impacts the returns a company can generate.

2) Higher discount rates, which puts downward pressure on company valuations.

We believe our investment process gives us a leg up in this uncertain economic environment. We focus on companies with competitive advantages that can maintain and/or improve their returns profile by leveraging pricing power. Our disciplined approach to valuation helps us avoid overpaying for businesses and identify opportunities where market expectations are disconnected from underlying company fundamentals.

Much like we did during the early stages of the pandemic, we will continue to focus on the long-term, value-creating capacity of businesses as we look for investment opportunities. Often, times of increased uncertainty yield profitable investment opportunities.

We welcome the opportunity to discuss any questions or concerns you may have, and we thank you for the opportunity you have given us to manage your account.

Sincerely,

Frank Latuda, Jr. CFA®
Chief Investment Officer & Portfolio Manager

McAfee Burke, CFA®
Portfolio Manager, Research Analyst

Important Disclosures

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The Small Cap Value Composite contains fully discretionary small cap value accounts that are invested in small cap companies that have favorable cash flow values relative to their current market value. 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.

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, *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. All variances are typically reconciled to the applicable account no later than each month-end. Past performance is not indicative of future results.*

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Portfolio Sector Weightings are subject to change at any time. Sector weightings are based on the Global Industry Classification Standard ("GICS") classification scheme and are measured as a percentage of the total portfolio 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. Due to rounding, Sector Weighting's total percentages my not equal 100%.

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The Russell 2000® Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect value characteristics. The Russell 2000® Value 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.

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S&P 500® Index - Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes 500 leading companies in leading industries of the U.S. economy. Although S&P 500 focuses on the large-cap segment of the market, with about 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

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