Kennedy Capital Management, Inc.

Small Cap Value Commentary
3rd Quarter 2022

US equity market performance was mixed in the third quarter of 2022, with most major market indices down low single digits on a percentage basis over the three-month period. The Russell 2000® Value (R2V) Index declined 4.61%, the Russell 2000® Growth Index was up +0.24%, and the S&P® 500 Index fell 4.88%. The quarter was a tale of two halves: From June 30th to August 16th, the R2V increased 16.7%, and from August 16th to September 30th, the R2V fell 18.7%.

The Kennedy Capital Small Cap Value (SCV) composite declined 2.58% (gross of fees) and 2.79% (net of fees) during the quarter, outperforming the R2V by 2.03% (gross of fees) and 1.82% (net of fees). For the rolling 12-month period, the SCV composite declined 12.0% (gross of fees) and 12.8% (net of fees), compared to the R2V's decline of 17.7%. Additional performance information is included in the table below.

	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross	-12.02%	8.60%	5.26%	10.37%	14.80%
Net	-12.79%	7.64%	4.33%	9.39%	13.77%
Index	-17.69%	4.72%	2.87%	7.94%	9.06%

Data as of 9/30/2022

Within the R2V, Communication Services and Real Estate were the two worst performing sectors, down 14.63%, and 11.27%, respectively. Energy and Health Care were the top- performing sectors in the index, up 7.85% and 3.16%, respectively. On a relative basis (vs the R2V), the best- performing sectors in the SCV composite were Industrials and Materials. On the downside, Health Care and Consumer Discretionary were the two worst- performing sectors on a relative basis.

Tightening financial conditions, coupled with an increasingly macroeconomic uncertainty, drove higher levels of equity market volatility during the quarter. The Federal Reserve raised the target discount rate to 3.25% (from 1.75%) over the three-month period and maintained its stance that more rate increases will likely be needed to control inflation. The Fed's messaging quelled hopes of a potential easing in financial conditions over the near term, and bolstered fears of a possible sharp downturn in the US economy. In Europe, the economic picture is decidedly gloomier. Energy shortages stemming from the war in Ukraine, high levels of inflation, and a contraction in manufacturing activity is putting downward pressure on the Eurozone economy and equity markets.

Experience tells us the most attractive long term investment opportunities present themselves during times of heightened uncertainty and bearish market sentiment. As we've said before, we are not macroeconomic forecasters. The goal of our process is to create a diversified portfolio with a high probability of compounding returns above the benchmark over a market cycle. In good times or bad, when evaluating potential investments for the portfolio, we always ask ourselves the same questions:

1. Does this business typically generate returns above its cost of capital over a market cycle, and are there opportunities to reinvest back into the business at attractive rates of return?

2. Based on our fundamental research and interactions with company management, what impacts do we see to the business that could alter its returns trajectory and reinvestment opportunity set (for better, or for worse) over the next 3-4 years?

3. What is currently priced into the stock, and does it differ from our fundamental outlook for the business?

By staying disciplined to our process, we can construct a portfolio of companies that in aggregate have superior fundamental attributes relative to the overall market, but at valuation levels that give us an adequate margin of safety. We believe this is a winning recipe for portfolio returns over the long term.

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.

Returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross of fees 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.*

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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 relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). 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® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000® companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 year). The Russell 2000® Growth Index is constructed to provide comprehensive and unbiased barometer for the small-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth 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. 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.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. According to our Annual Survey of Assets, an estimated USD 13.5 trillion is indexed or benchmarked to the index, with indexed assets comprising approximately USD 5.4 trillion of this total (as of Dec. 31, 2020). The index includes 500 leading companies and covers approximately 80% of available market capitalization.

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