

Active Insights Podcast with Kennedy Capital Management: “We're looking for ideas where the market doesn't understand or maybe they're not willing to do the work.”

Diane Merritt:

Welcome to North Square Investments Active Insights Podcast. North Square Investments is dedicated to bringing differentiated active investment strategies to financial advisors and investors through our multi-boutique asset management platform.

Today, Mark Goodwin, Chief Executive Officer of North Square Investments will discuss Kennedy Capital Management's approach to equity investing with Donald Cobin, President and CEO, Sean McMahon, Portfolio Manager and Anna Damato, Assistant Portfolio Manager and Research Analyst.

Kennedy Capital is a partner firm in the North Square platform and a sub-advisor for the North Square Kennedy Micro-Cap Fund (NKMCX).

Mark, Don, Sean, Anna, we look forward to your discussion.

Mark Goodwin:

Thanks, Diane. As you mentioned, at North Square we seek out best-in-class active managers for our platform, and our partners at Kennedy Capital specialize in the micro-cap to mid-cap range of equity investing.

Don, when we spoke last in July, we noted that Kennedy Capital has managed equity strategies for over 40 years, primarily for institutional investors. More recently, you have made strategies available for retail investors, including our micro-cap product. Can you discuss your core investment philosophy and how Kennedy Capital developed your micro-cap strategy a little over 20 years ago?

Donald Cobin:

Sure, Mark, thanks for having us here. I'll start off with the core investment philosophy and then talk about micro-cap here briefly. So last time we spoke, as you mentioned, I described our overall approach to investing at Kennedy Capital. What I re-emphasize this time is really the importance

of return on invested capital, particularly from a cash flow perspective. Rather than strictly discussing quarterly earnings trends, we focus on how a company generates returns and how they expect to allocate capital. And finally, their approach to rewarding their people should not be ignored. So as you'd expect each of these aspects are interconnected. Ultimately, we want our analysts to be sounding boards for the executives of the firms we invest in. I encourage them to develop relationships so that the conversations around strategic evolution of the firm is a natural one. When something of note happens, I want our analysts and PMs to be the ones whose calls are fielded first by the company.

And then you also asked about how we developed our micro-cap strategy. Well, that was client driven as you'll hear time and again, we really see the space as under covered by the sell side. We built Kennedy as a fundamental research shop as I just noted. We were managing small cap assets for a client and they asked if we consider taking an additional mandate for micro-cap as we were already somewhat fond of dipping down into the lower reaches of the Russell 2000, we jumped right in and today we manage over \$600 million of micro-cap assets.

Mark Goodwin:

Thank you, Don.

Sean, turning to you, you're the lead portfolio manager for the North Square Kennedy Micro-Cap Fund. Your investment approach is very research intensive with a strong focus on stock selection. Let's start with Kennedy Capital's substantial research team. Can you talk about how you work with that team to ultimately help build your portfolio?

Sean McMahon:

Yes, thanks Mark. I appreciate the question. And to be upfront with you, I feel like I have an abundance of riches here because I have one of the largest micro-cap analyst teams following these stocks. Most of my peers, I should say a lot of my peers may only have two, maybe three or four people on a team. We have over 10 sector analysts at the firm. And so, in most cases we have at least two analysts covering each sector and in some cases three analysts.

And so that large team really helps drive the ideas to populate the strategy. And we believe it's important to have a research team of that size that has the bandwidth to dig deep into each sector. And the group is not just looking at micro-cap stocks, they're looking at the market as a whole. And so, they're looking at what's going on in large cap and mid cap and smid cap, and they're taking all of that information and trying to help formulate ideas for the strategy. So I think it's really important to highlight one, the size of the team and the bandwidth that they have to go find ideas.

And then secondly, typically when an analyst does find a new opportunity for the strategy, they'll often bring it directly to me. My office door is always open to them. I tell them I want to hear about all the ideas as soon as they find them. And what we'll do is we'll sit down and walk through

the merits of the investment thesis. Oftentimes following that meeting you would expect we'll set up a call with the (company's) management team and trying to field any of our outstanding questions we have. And then on top of that, it doesn't stop there, right? The analyst is still responsible for the idea, so it's not a one-time meeting and then they go off and find the next one. But we continue to ask them to continue to look for information and to help validate that their thesis is actually playing out. And that can happen in a variety of ways. They can attend investment conferences, industry conferences, speaking with competitors, and we take all of that information to constantly evaluate the ideas in the portfolio.

Mark Goodwin:

What would you say are the key characteristics for stock to ultimately become a position in the portfolio?

Sean McMahon:

Yes, I'd say two things are really important to me and first is looking for investment opportunities where there's some type of underlying change that's within the organization or the investment and that could be in variety of ways. It could be a new product, a new service, maybe some type of improvement in their balance sheet, divesting in underperforming business or even selling an asset that the market is simply mis-pricing. And so that's number one.

And I'd say the second characteristic that I think is important that's often missed by others is trying to understand what the market is currently pricing into that stock today. And so those two items I think really make up the characteristics I look for when adding a new investment to the strategy.

Mark Goodwin:

Thanks, Sean. Pivoting to the Fed, they've held rates steady recently. The rate of inflation has improved, but it's still a persistent issue. Economic growth has been resilient, and now we have a new administration bringing significant policy changes. What's your outlook for the equity markets currently and what do you see for the rest of 2025?

Sean McMahon:

I would say first is I'm a bottom-up investor, so I don't invest based on macro viewpoints around rates or policy. However, I would say that my view just overall in the equity markets, could be a little bit volatile on the first half of this year. Specifically our conversations with company management teams, they're trying to figure out what's going on right now. Obviously there's a lot of change between tariffs and policies from the new administration, and we're seeing companies maybe just kind of take a step back here to try to figure out how the landscape's going to look, and we expect that to take here the first half of the year. However, following that, we

expect to see a nice rebound in second half. So a little bit of volatility in first half with hopefully a little bit of a rebound in growth in the second half of this year.

Mark Goodwin:

That's great. In recent years, most investors have focused on large cap stocks often in the technology sector. Where do you see the micro-cap and small-cap space and what catalysts may provide advantages to these asset classes?

Sean McMahon:

Yes. I think one of the biggest advantages for micro and small caps is that perceived, what I call information gap, versus large cap. And that's just due to the inefficiencies you see here, given what we believe is kind of the lack of the amount of focus down in this space. And so I think when we invest, that's kind of what we're looking for, right? We're looking for ideas where the market doesn't understand or maybe they're not willing to do the work on some of these when I say micro-cap stocks where we think X, Y, Z catalysts can help unlock value that's not perceived or not understood by the market.

Mark Goodwin:

Thanks, Sean. Are you finding valuations in the micro-cap space to be generally attractive vis-a-vis other cap balance spaces?

Sean McMahon:

Yes. Given obviously the "magnificent seven," it's been all that everybody's talked about here over the last few years. And so small and micro-cap stocks have significantly lag relative to large cap, and we believe now is an opportunity for potentially that gap to maybe revert back to the mean. So, we're very excited about the opportunities we're finding within the small micro-cap space.

Mark Goodwin:

Anna, I'm going to turn to you for a moment. You specialize in healthcare and biotech sectors, and this seems to be a time of exciting developments in those areas. What are you seeing as the best opportunities in these sectors today?

Anna Damato:

Yes, I'm glad you asked. I'm actually finding opportunities across scientific areas in the micro-cap biotech space. And the common thread between all of my good ideas is that they're developing something, whether it's a medical device, diagnostic, a drug or a cell therapy that achieves something better than what competitors are doing. This could be a lower cost of production,

maybe a faster time to get the therapy into patient's hands or a whole new mechanism of action that results in better efficacy, which is the end goal. This means that when I'm looking for new ideas, I'm not limiting myself to only oncology, for example, or only cardiac indications. I'm looking across everything to find disruptive ideas with new indications and modalities.

Mark Goodwin:

Thanks. What would you say are advantages that smaller healthcare companies have in developing innovative technologies and treatments compared to their larger brethren?

Anna Damato:

Yes, Sean really mentioned this before in saying how these micro-cap companies can really pivot quickly. They can make what look like small changes that have large impacts, so they may be able to act more quickly when they see an opportunity present itself and this could be in the form of a disease indication that perhaps a large pharmaceutical company doesn't want to pursue because it's simply too small. However, the smaller indication might be highly impactful to a micro-cap company.

Furthermore, when they get a scientific result, they can pivot more quickly. Let's say that they see a result in a subsection of a subgroup of patients, they can then say, "Okay, we're going to run another smaller study in this subgroup of patients," and they can make that decision within a matter of maybe a month or two instead of waiting six months to a year to go through the entire review process. And so, I think when we're combining the micro-cap sort of perspective where they're able to take these risks and pivot quickly and then with their efficiency in using their resources, that's why I'm always finding the most interesting opportunities in micro-cap biotech space.

Mark Goodwin:

Yes, it seems like being small and being nimble go hand in hand, which is great for you. Do you expect M&A (merger and acquisition) activity to increase and perhaps be a catalyst for performance among companies you follow closely?

Anna Damato:

We do think M&A in biotech is likely to continue. This is just given the huge amount of revenue that larger companies stand to lose in the coming years. This is due to loss of exclusivity on flagship products. Some which you might recognize are Dupixent or Keytruda, and also due to pressure from IRA price negotiations that might affect drugs like Wegovy and Ozempic. So while these large companies are marketing these huge blockbuster drugs, they have internal research efforts for sure, but they're often supplemented with M&A and this allows those larger

companies to manage the risk of developing these innovative therapies so they can step in when there's already data generated, for example.

Mark Goodwin:

Thank you.

Sean, now turning back to you, outside of healthcare, are there particular sectors among micro caps where you're finding solid opportunities?

Sean McMahon:

Yes. And again, Mark, again, I always highlight as a bottom-up manager, we look at each name independently. However, I still believe aerospace and defense continues to be an area that has significant opportunity just given the demand for commercial aircraft. Obviously we know that some of the industry issues that have happened here, and we don't believe that the current demand is being met. And so still believe that's going to be an area of fairly robust growth here over the foreseeable future.

Mark Goodwin:

Thanks, Sean. How is your micro-cap strategy currently positioned?

Sean McMahon:

I have a pretty large weight, I would say in regional banks given the lack of, I'd say consolidation over the last few years. As we know there's been some issues in the banking sector and deposit franchises and such, I believe that's going to be an area of significant M&A potential here this year as banks look to consolidate and improve their balance sheets. And I think scale within regional banks is going to be a continued trend.

And so I'd say to you I, one, I'm very positive in the regional banking sector. On the other hand, I am rather significantly underweight technology specifically. We believe there's still quite a bit of excess inventory that needs to be digested before many of these companies can see a rebound in growth. So I have kind of underweighted that group right now. And also companies just, I think in tech, are trying to navigate the current policy changes potential from the new administration.

Mark Goodwin:

Do you have particular risks that you're monitoring that could cause a significant shift in your market outlook and likewise the way you position the portfolio?

Sean McMahon:

Yes, I think I would tell you, number one is obviously the new administration continues to make changes feels like almost on a daily basis. And so we are actively monitoring what's happening there and repositioning the portfolio as things change. And then also tariffs. Tariffs look are going to be an issue. And so we've made some changes and continue to evaluate and see how that plays out here over the first half of the year. And then lastly, obviously the Ukrainian war continues to obviously not only be a humanitarian issue, but it does continue to have an impact on potential investment opportunities.

Mark Goodwin:

Thanks, Sean.

Don, back to you. The North Square Kennedy Micro-Cap Fund, ticker NKMCX, is not quite one-year-old, but your firm has a long history of applying a consistent investment process to micro-cap equity investing. And I'd also like to highlight that the parallel institutional track record for the Micro-Cap Fund just reached a five-year track record in December, so congratulations for that. Can you tell me how you see a strategy like this fund being best positioned in diversified portfolio of an individual investor?

Donald Cobin:

Sure, Mark. Yes, thanks for recognizing the five-year track record on micro-cap opportunities. As you'd imagine, we leave the bigger asset allocation questions to an investor's consultant or financial advisor. My advice along that front is not to really promise anything about the future. That's obviously uncertain. I found the best approach is really to note some of the statistics about our micro-cap opportunities composite over time, including the time you mentioned before this fund was launched. So looking back over the five years, best quarter was up over 14% and the worst quarter was down over 13%, so there's some volatility there. But over the five years of the composite's existence, net returns, that's after fees have been almost 27% per year. While the (Russell) Microcap Index has returned about 7% per year, a standard deviation of about 17% a year. So bottom line is it's a volatile space, but it's generated quite significant alpha over the past five years.

Mark Goodwin:

Thanks, Don.

Don, Sean, Anna, thank you for joining me today. This has been a great discussion.

Donald Cobin:

Thank you, Mark. We appreciate your time.

Sean McMahon:

Yeah, thanks Mark.

Anna Damato:

Thank you.

Diane Merritt:

Thank you for tuning in to our North Square Active Insights podcast. For more information on North Square investments, our partners and investment solutions, please visit our website at www.northsquarinvest.com.

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The North Square Kennedy MicroCap Fund's date of inception is June 10, 2024.

Past performance does not guarantee of future results. Please click [here](#) to view standardized performance for the Fund, as well as a breakdown of the Fund's sector allocation, top ten holdings and portfolio characteristics as of the most recent quarter end.

Principal Risks of Investing: Risk is inherent in all investing, including an investment in the Fund. An investment in the Fund involves risk, including the following principal risks, among others: Equity Risk, Preferred Stock Risk, Convertible Securities Risk, Sector Focus Risk, Portfolio Turnover Risk, Market Risk, Micro-Cap and Small-Cap-Sized Company Risk, Growth-Oriented Investment Strategies Risk, Value-Oriented Investment Strategies Risk, Reliance on Technology Risk, Cybersecurity Risk, ETF and Mutual Funds Risk, Real Estate Investments Trust Risk, Liquidity Risk, Currency Risk, Foreign Investment Risk, Emerging Market Risk, Limited Operating History Risk and Management and Strategy Risk. Summary descriptions of these and other principal risks of investing in the Fund are set forth in the fund's prospectus. Before you decide whether to invest in the Fund, carefully consider these risk factors and special considerations associated with investing in the Fund, which may cause investors to lose money. There can be no assurance that

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Definition of terms used in this podcast:

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The **Russell Microcap® Index** measures the performance of the microcap segment of the U.S. equity universe. Microcap stocks make up less than 2% of the U.S. equity market (by market cap, as of the most recent reconstitution) and consist of the smallest 1,000 securities in the small-cap Russell 2000® Index, plus the next 1,000 smallest eligible securities by market cap. One cannot invest directly in an index.

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling 855-551-5521. Please read the prospectus carefully before you invest.

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