Equity Market Review
Small and SMID Cap Strategies

STRATEGY SUMMARY AS OF SEPTEMBER 30, 2022

Equity Management AUM	$724.3M
Portfolio Managers	Kathryn Vorisek Leo Harmon, CFA, CAIA Andrew Hadland, CFA
Investment Philosophy	We believe that excess returns can be produced by investing in attractively valued stocks that are poised to appreciate due to catalyst driven earnings and cash flow growth.
Vehicle Offerings	• Separately Managed Account • Collective Investment Trust • Mutual Fund (Mesirow Small Company Sustainability Fund)
Investment Objectives	• Generate attractive risk-adjusted returns • Consistently outperform the benchmark over a market cycle • Participate in rising markets and protect capital in down markets

COMMENTARY

A tale of whipsaws and head-fakes

The best thing we can say about the third quarter of 2022 was that it looked worse than it actually was. However, the market environment was already ugly. We have written in the past about the difficulties facing the Fed, trapped between the mythical Scylla and Charybdis as it attempts to guide the economy through a phase of restrictive monetary policy needed to fight inflation while also trying to avoid creating a recession. Regardless of how successful the Fed ultimately proves to be as it attempts a proverbial soft landing, the financial markets have borne the brunt. This quarter was no exception.

A brief but powerful rally commenced in mid-June, driven by the prospect that both inflation and interest rates were peaking. The rally came to an abrupt halt in mid-August as inflationary data proved more elevated and persistent, which caused interest rates to resume their upward trend. Consequently, the Fed aggressively reiterated its goal of pushing inflation back to its 2% baseline. Hopes of an early reversal of Fed policy were dashed, causing equities to decline through the end of the quarter. As a result, robust gains from early in the quarter reversed into losses:

Index	3Q2022	YTD
Russell 2000 Value Index	-4.6%	-21.1%
Russell 2000 Index	-2.2%	-25.1%
Russell 2500 Value Index	-4.5%	-20.4%
Russell 2500 Index	-2.8%	-24.0%

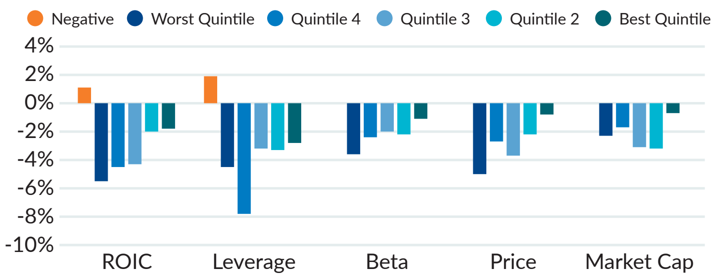
Source: Russell.

Although equity results were negative for the quarter, market leadership was tilted, atypically, toward more cyclical sectors rather than traditionally defensive sectors. That was a result of market practitioners weighing the prospects of positioning for positive fundamental inflection against paying higher multiples for lower cyclical exposure. Energy, Healthcare, Financials, and Consumer Discretionary sectors were the best performers while Communication Services, Real Estate, Consumer Staples, and Utilities were laggards.

Performance based on quality metrics were similarly mixed with no clear leadership in either direction. However, growth-related companies were able to regain some traction relative to value, outperforming during the quarter but still trailing for the year. Performance by quality factors was muddled but tilted toward higher quality attributes. Unprofitable companies outperformed which, similar to sector leadership, is atypical for this environment (Figure 1).

Factors were biased to high quality, though there was not a discernable pattern

FIGURE 1: **RETURNS BY FACTOR**



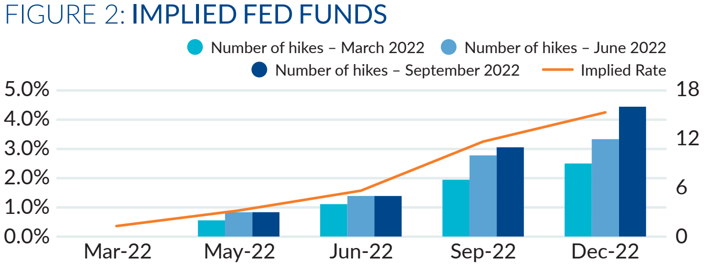
Data as of 9.30.2022. Source: MEM and Furey Research Partners. Past performance is not indicative of future results.

No! We really, REALLY mean it this time

While equity market declines were relatively modest for the quarter, the resulting change in sentiment was even more damaging. Most equity indices retreated more than 15% from their mid-August highs, triggering an increased level of doubt that the Fed will be able to slow inflation without damaging the economy. Although markets moved higher based on expectations of easing Fed policy, the message from the Central Bank has been consistent and clear: inflation is the #1 priority and interest rate policy has reflected this throughout the year (Figure 2).

Fed remains aggressive with more implied rate hikes through year end

FIGURE 2: **IMPLIED FED FUNDS**



Data as of 9.30.2022. Source: MEM and Bloomberg. Past performance is not indicative of future results.

Inflation results in August (Figure 3) only served to cement the Fed's message at its annual meeting at Jackson Hole. Consequently, the outlook for the Fed Funds Rate moved considerably higher, indicating rates will stay higher for longer than expected (Figure 4), which led to the market decline through quarter end (Figure 5).

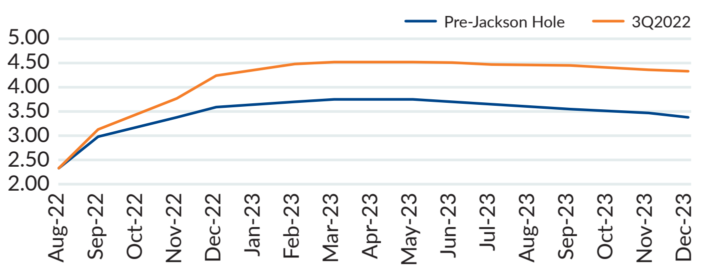
Core inflation peaked in March at a 30-year high and remains elevated

FIGURE 3: **CORE CPI YoY**

As of 8.31.2022. Source: MEM and Bloomberg. Past performance is not indicative of future results.

Rate expectations moved higher as Fed reiterates inflation goals

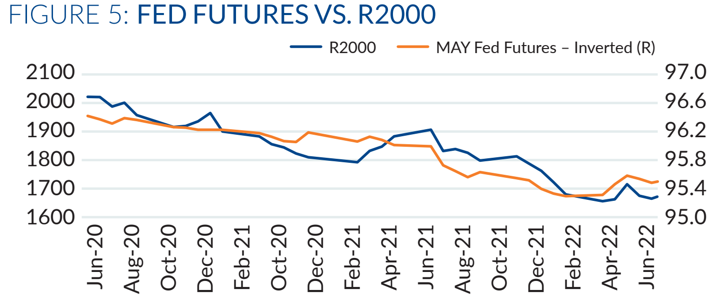
FIGURE 4: **IMPLIED FED FUNDS**



Data as of 9.30.2022. Source: MEM and Bloomberg. Past performance is not indicative of future results.

Recent market direction driven by expectations of Fed moves

FIGURE 5: **FED FUTURES VS. R2000**



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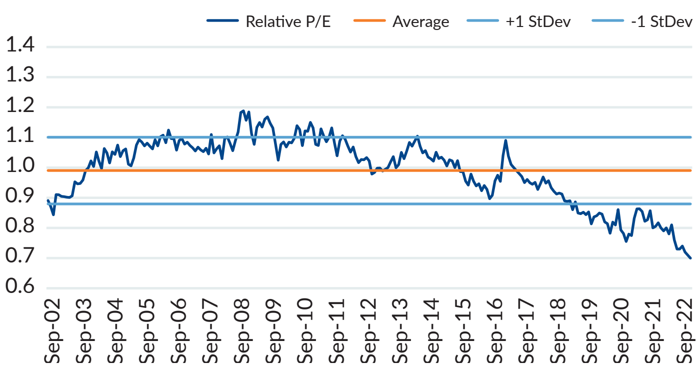
In addition, inflation is a global phenomenon and other Central Banks are pursuing restrictive policies at various levels. Fed policy is also being transmitted globally through foreign exchange rates. The result has been a crisis for the British pound, which is now close to an all-time low relative to the USD. That in turn exacerbated global tightening policies, which increased the chances of a worldwide recessionary environment.

The small cap market is sooooo cheap… (How cheap is it?)

It is so cheap that it trades almost two standard deviations below its 20-year average relative to large cap peers (Figure 6). Relative to 10-year Treasuries, small cap equities display similar valuation attributes despite the significant move higher in 10-year yields (Figure 7). Given the relative underperformance of small cap over the last 10 years, many investors are beginning to postulate whether equity markets are positioning for another small cap super cycle. You can probably guess where our bias lies as small cap practitioners, but the odds are improving.

Small cap is relatively attractive vs large cap

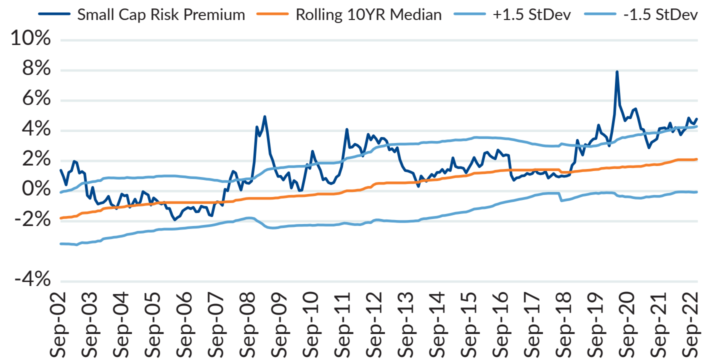
FIGURE 6: **RELATIVE P/E RUSSELL 2000 VS. S&P 500**



Data as of 9.30.2022. Source: MEM, FactSet, JP Morgan Asset Management, Bloomberg and CSFB. Past performance is not indicative of future results.

Small cap companies are attractive vs US Treasuries

FIGURE 7: **SMALL CAP EQUITY RISK PREMIUM (EARNINGS YIELD LESS 10YR TREASURY)**



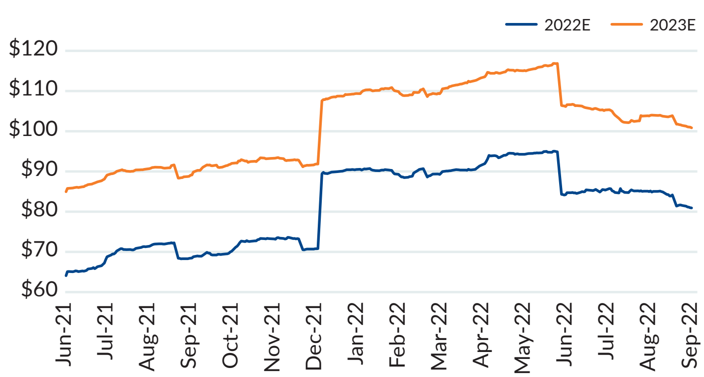
Data as of 9.30.2022. Source: MEM, Bloomberg and FTSE Russell. Past performance is not indicative of future results.

But first things first, we need earnings to turn

One of the reasons we've been reticent about taking incremental risk in current market conditions is the outlook for earnings. While revenue growth has been acceptable, it reflects impeded price increases driven by inflation while corresponding unit growth has been more stagnant. Inflationary pressures driven by supply chain disruptions and limited workforce participation has resulted in lower margins from higher wages and other input costs, resulting in the degradation of earnings results. In fact, small cap earnings are down about 15% from peak expectations (Figure 8). As we see more evidence of slowing economic growth and a reduction in companies' ability to pass through prices, we would expect more pressure on earnings over the near term.

Small cap earnings expectations head lower. Now about 15% below peak.

FIGURE 8: **RUSSELL 2000 EARNINGS REVISIONS**



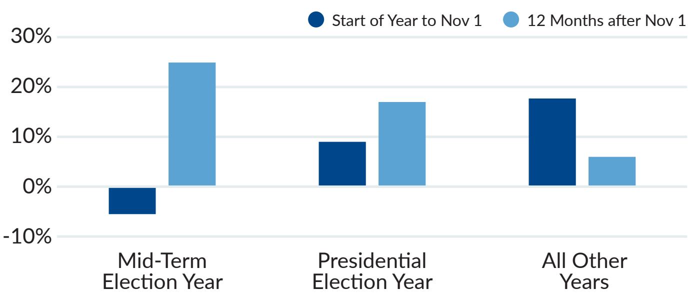
Data as of 9.30.2022. Source: MEM and Bloomberg. Past performance is not indicative of future results.

Kissing babies and shaking hands

With mid-term elections just around the corner, market practitioners are left to ponder how political change may drive changes in policy that could impact equity markets. Historically, one of the better periods of performance for small cap investors is directly after the mid-term cycle: Figure 9 shows significant outsized returns on an historical basis after the mid-terms. While there are many cross currents from near-term fundamentals, small cap markets could be poised for success once near-term risks have subsided.

Election-year headwinds historically abate in November

FIGURE 9: AVERAGE SMALL CAP RETURNS AROUND ELECTIONS (SINCE 1960)



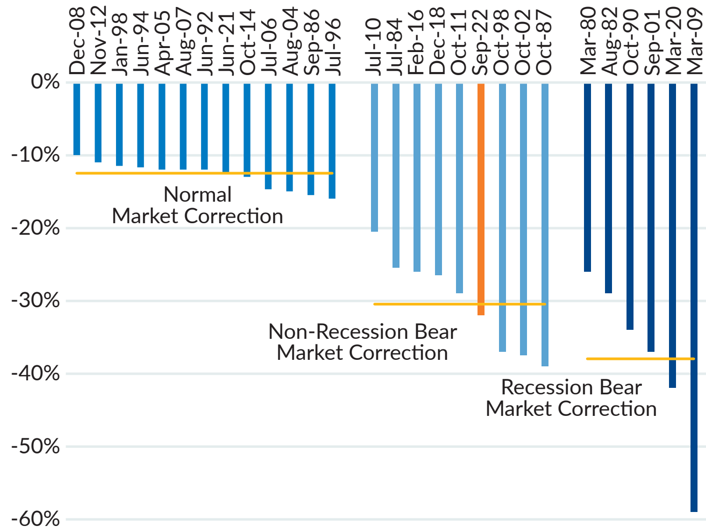
Data as of 9.30.2022. Source: MEM and Furey Research Partners. Past performance is not indicative of future results.

Famous last words

We still believe that, absent a recession, much of the expected damage to equities is already embedded in prices. We would become more constructive about intermediate market trends should inflation data allow the Fed to suspend or reverse its current path (Figure 10). However, we have continued to witness deterioration in underlying economic fundamentals. Employment and spending levels remain strong. That said, inflation is masking the shortfall in real unit growth, broader economic data indicators are slowing on the margin, and increased levels of market risk are being transmitted through higher volatility (VIX) and increases in high-yield bond spreads. Furthermore, we would expect earnings reports to be more challenging for the balance of the year as many companies adjust expectations to account for lower growth and profitability and a reduced ability to pass through higher prices.

Small caps down more than 30% have mostly discounted a recession

FIGURE 10: SMID CAP PERFORMANCE DURING CORRECTIONS



Data as of 9.30.2022. Source: MEM and Furey Research Partners. Past performance is not indicative of future results.

In the interim, we continue to monitor several factors with respect to tactical portfolio positioning:

- An inflection in inflation that would signal the end of the Fed tightening cycle
- Continued improvement / stagnation in economic activity
- Risk factors related to liquidity and credit that could signal more material downside for equities
- Visibility into positive changes for higher unit growth
- Pricing power and margin stability as inflation persists
- Earnings revisions and changes in growth cadence for 2023

We are acutely aware that equity markets are notoriously forward-looking mechanisms, and the bottoming process could reach its conclusion well before a corresponding bottom in economic data. Therefore, we will continue to look for opportunities where market prices have dislocated from reasonable expectations and focus on identifying companies with embedded fundamental strength, increasing pricing power, or natural cost advantages that can weather a potentially more distressed environment.

Benchmark Definition: The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The Russell 2000 Index® offers investors access to the small-cap segment of the U.S. equity universe. 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 includes the smallest 2000 securities in the Russell 3000.

The Russell 2000 Value Index® offers investors access to the small-cap value segment of the U.S. equity universe. The Russell 2000 Value is constructed to provide a comprehensive and unbiased barometer of the small-cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine value probability approximates the aggregate small-cap value manager's opportunity set. (Source: Russell).

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization. Please see the following GIPS disclosure for additional benchmark definitions.

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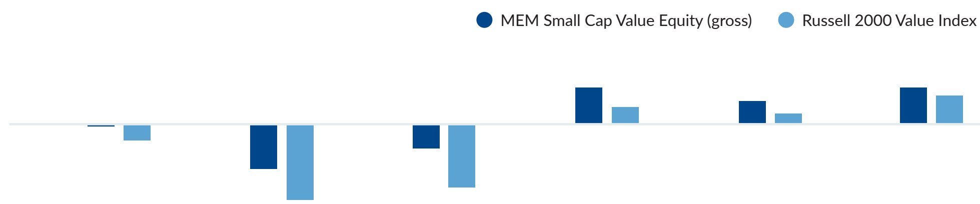
Performance and Attribution
Small Cap Value Equity

COMPOSITE ANNUALIZED PERFORMANCE (as of 9.30.2022)

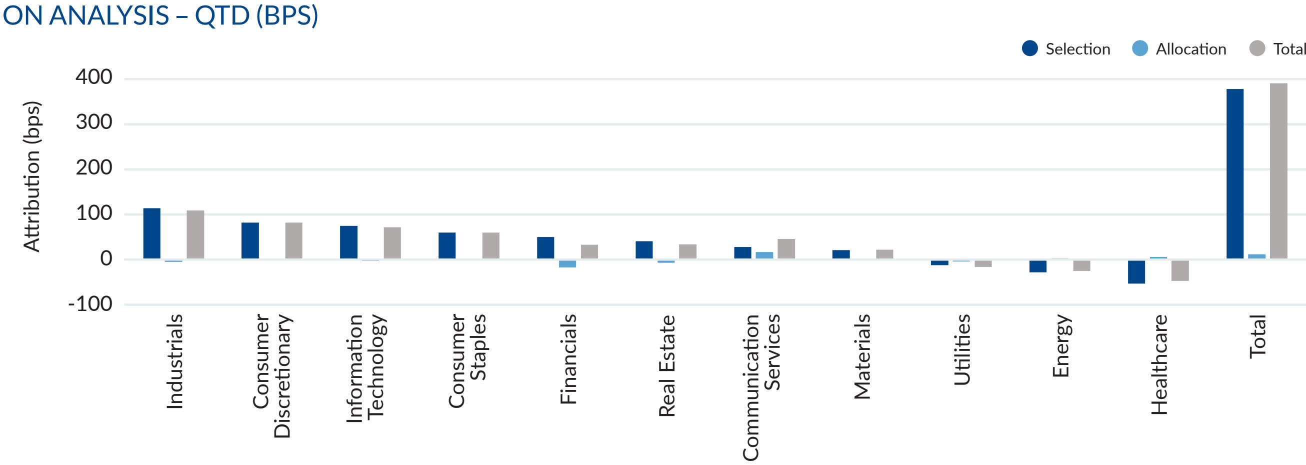


Returns (%)	QTD	YTD	1 yr	3 yr	5 yr	10 yr
MEM Small Cap Value Equity (gross)	-0.61	-12.40	-6.81	10.16	6.38	9.90
MEM Small Cap Value Equity (net)	-0.73	-12.72	-7.26	9.60	5.83	9.32
Russell 2000 Value Index	-4.61	-21.12	-17.69	4.72	2.87	7.94
Relative Performance (gross)	4.00	8.72	10.88	5.44	3.51	1.96
Relative Performance (net)	3.88	8.40	10.43	4.88	2.96	1.38

Performance characteristics (gross)	5 yr	10 yr
Alpha	3.37	2.55
Beta	0.91	0.89
Information Ratio	0.77	0.54

Note: Periods over 1 year are annualized. Source: MEM, eVestment and Bloomberg. | Performance characteristics data based on quarterly observations and gross returns. | Performance results are shown gross and net of fees. Past performance is not necessarily indicative of future results.

ATTRIBUTION ANALYSIS – QTD (BPS)



Returns (%)												
Small Cap Value	0.8	4.8	6.1	14.2	-0.1	-8.3	2.9	-3.6	-11.3	2.8	-1.1	-0.6
Russell 2000 Value	-7.2	-4.8	-5.0	-9.8	-2.5	-11.4	-14.7	-9.0	-9.2	7.8	3.2	-4.6
Sector weights (%)												
Small Cap Value	14.3	8.6	7.3	2.6	21.7	12.3	1.6	3.9	5.6	5.8	12.3	–
Russell 2000 Value	12.8	9.9	5.9	2.7	28.5	11.3	3.2	3.8	5.1	5.3	11.5	–

Source: MEM and Bloomberg. As of 9.30.2022.

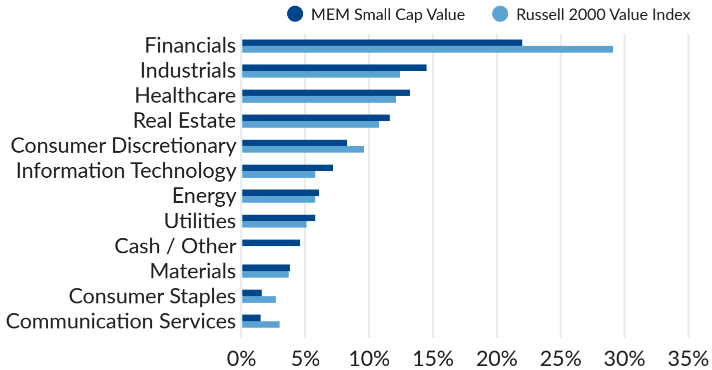
The information provided above is supplemental. Please see GIPS Reports at the end of this commentary for complete performance information, including benchmark/index definitions.

PORTFOLIO CHARACTERISTICS (9.30.2022)

	MEM Small Cap Value	Russell 2000 Value Index
Number of holdings	77	1,394
Forward price/earnings (median)	12.1x	12.2x
Year 2 EPS growth	13.0%	8.0%
5-year return-on-equity	8.1%	8.9%
Weighted median market cap	$2.8 B	$1.8 B
% of portfolio in top 10	16.7%	4.7%

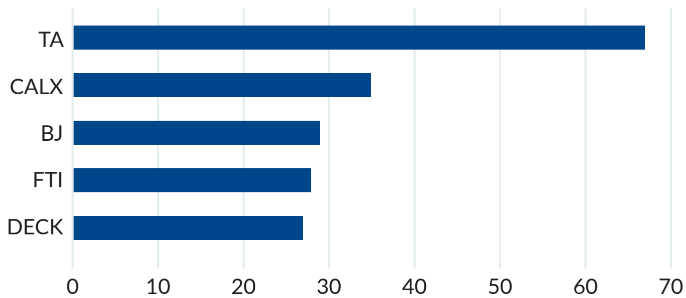
Source: MEM, BNY Mellon, Bloomberg, and FTSE Russell.

SECTOR WEIGHTS (9.30.2022)



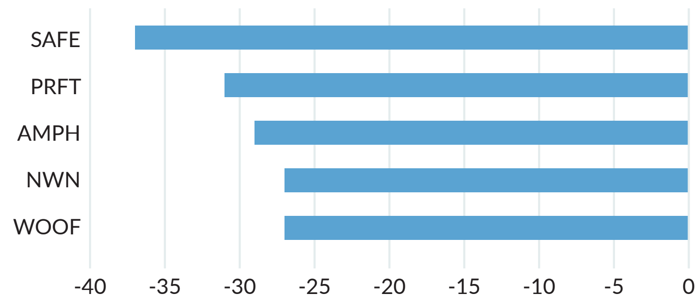
Source: MEM, Bloomberg, and FTSE Russell. Sector weights and portfolio characteristics are calculated from a representative account invested in the MEM Small Cap Value Equity strategy.

POSITIVE CONTRIBUTION (BPS)



Source: Bloomberg. As of 9.30.2022. Versus the Russell 2000 Value Index.

NEGATIVE CONTRIBUTION (BPS)



Source: Bloomberg. As of 9.30.2022. Versus the Russell 2000 Value Index.

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GIPS REPORT – MEM SMALL CAP VALUE EQUITY COMPOSITE

Gross and Net of Fees Total Returns from January 1, 2012 – September 30, 2022

	Year end			Annual performance results					3-year annualized dispersion		
Year	No. of portfolios	Composite Asset at end of period ($MM)	Total Firm Assets (1) ($MM)	MEM (gross) Composite (%)	MEM (net) Composite (%)	Russell 2000 Value Index (%)	Russell 2000 Index (2) (%)	Composite Dispersion (%)	MEM (gross) Composite (%)	Russell 2000 Value Index (%)	Russell 2000 Index (%)
2012	23	1,060	n/a	11.71	11.07	18.05	16.35	0.03	19.19	19.89	20.20
2013	20	1,243	n/a	36.27	35.54	34.52	38.82	0.04	15.62	15.82	16.45
2014	21	1,259	n/a	6.51	5.93	4.22	4.89	0.04	11.54	12.79	13.12
2015	20	1,077	n/a	0.27	-0.26	-7.47	-4.41	0.05	12.57	13.46	13.96
2016	18	1,091	1,684	15.76	15.13	31.74	21.31	0.05	14.37	15.50	15.76
2017	15	976	1,477	14.51	13.88	7.84	14.65	0.03	12.60	13.97	13.91
2018	15	659	789	-14.96	-15.42	-12.86	-11.01	0.04	15.00	15.76	15.79
2019	11	516	678	24.37	23.73	22.39	25.52	0.05	14.86	15.68	15.71
2020	7	501	722	8.46	7.89	4.63	19.96	0.06	23.99	26.12	25.27
2021	9	646	886	30.39	29.74	28.27	14.82	0.09	22.60	25.00	23.35
Current Performance Results - PRELIMINARY											
2022 YTD	6	493	724	-12.40	-12.72	-21.21	25.10	n/a	23.30	26.11	25.11

Mesirow Equity Management ("MEM") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. MEM has been independently verified for the periods 01.01.1996 - 12.31.2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Small Cap Value Equity Composite has had a performance examination for the periods 01.01.2016 - 12.31.2021. The verification and performance examination reports are available upon request.

Benchmark returns are not covered by the report of independent verifiers.

Effective 07.01.2022, MEM transferred its assets and associated composites to Mesirow Institutional Investment Management, Inc. ("MIIM"), a registered investment advisor (RIA) registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Prior to 07.01.2022, MEM's assets and associated composites were part of Mesirow Financial Investment Management, Inc. ("MFIM"). The historical performance presented prior to the creation of MFIM was managed by MFIM or its predecessor firms prior to 01.01.2005. For purposes of claiming GIPS compliance, as of 01.01.2010 the "Firm" was further defined as the US Value Equity business unit, now defined as MEM which manages portfolios primarily for institutional investors adhering to an investment process incorporating fundamental analysis of security valuation factors and drivers. The composites within this unit vary primarily by the capitalization range of the equity securities held. MEM is comprised of the legacy entities of Mesirow Financial Investment Management - US Value Equity (the surviving entity) and Fiduciary Management Associates, LLC (the acquired entity), with each prior to this effective date being held out to the public as separate firms, and each claiming compliance with the GIPS Standards. Effective 04.01.2016, the firm was redefined and renamed for GIPS purposes to include both the legacy Mesirow Financial Investment Management - US Value Equity division and the legacy Fiduciary Management Associates, LLC division as one combined entity.

In 2016, MFIM acquired the asset management rights for all managed portfolios from an independent investment advisory firm and retained all of the principals and employees related to such portfolios. Performance results of the Small Cap Value Equity Composite at the prior firm are the performance record of the Firm.

(1) Total Firm Assets are not presented for periods prior to 2016 because the Composite was not part of the Firm.

Performance and composite inception and creation date is 07.01.1994.

The Small Cap Value Equity Composite includes all institutional portfolios that invest in the small capitalization strategy with a minimum initial account size of $1,000,000. The strategy allows for investments in equity securities of companies with market capitalizations in a range representative of constituents in the Russell 2000 Index. The strategy aims to deliver a total return primarily through long-term capital appreciation. The benchmarks for the strategy are the Russell 2000 Index and the Russell 2000 Value Index. The performance presented herein represents past performance and is no guarantee of future results. Gross returns presented are net of any withholding taxes incurred. MEM and benchmark performance reflect the reinvestment of dividends and interest income, expressed in U.S. dollars. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client-initiated significant inflow or outflow of 10% of portfolio assets. The firm maintains a complete list of composite descriptions, a list of pooled fund descriptions for limited distributions pooled funds and a list of broad distributions pooled funds, which is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

Balanced portfolio segments were included in this composite prior to 10.01.1999 and cash was equally distributed among asset segments in their respective composites. On 06.30.2008, MEM redefined the requirements for membership in the composite to exclude accounts or carve-out segments of accounts with client mandated cash allocations in excess of 5%. The membership of this composite did not change as a result of this redefinition. On of 04.01.2009, MEM redefined the requirements for membership in the composite to exclude all carve-out accounts. The membership of this composite did not change as a result of this redefinition.

Calculation of Risk Measures: Annual / 3 Years Dispersion

Composite internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. Because it is not statistically meaningful, MEM does not calculate the dispersion of annual returns for the years the composite held five or fewer accounts. Inclusion of the three-year annualized ex-post standard deviation of the composite and benchmark was added as a requirement effective 12.31.2011.

Performance / Net of Fee Disclosure

Net of fee performance is calculated using the actual monthly fee accrued to each account in the composite as of 01.01.2010. Prior to 01.01.2010, Net of fee performance was calculated using the highest actual management fee charged to a member of the composite during the calendar year, applied monthly. Performance information that is provided gross of fees does not reflect the deduction of advisory fees. Client returns will be reduced by such fees and other expenses that may be incurred in the management of the account. Advisory fees are described in Part 2 of Form ADV of MIIM.

In presentations shown prior to 09.30.2014, net of fee performance was calculated using the actual monthly fee accrued to each account in the composite as of 04.01.2014. Prior to 04.01.2014, Net of fee performance was calculated using the highest actual management fee charged to a member of the composite during the calendar year, applied monthly.

10.01.2011 – 03.31.2014 the annual fee rate used was 0.95% which was the highest fee.
06.01.2011 – 09.30.2011 the annual fee rate used was 1.00%
01.01.2010 – 05.31.2011 the annual fee rate used was 0.90%
01.01.2008 – 12.31.2009 the annual fee rate used was 0.80% prior to 01.01.2008 the annual fee rate used was 0.79%

Investment Fee Disclosure

MEM requests that any third party, including investment management consultants, provide our performance data only on a one-on-one basis. Performance results are presented before management and custodial fees. As described in MEM's Form ADV, Part 2, investment management fees for the Small Cap Equity Strategy are:

0.85% on the first $25 million
0.75% on the next $25 million
0.60% on the next $50 million
0.55% on the balance

An actual fee charged to an individual portfolio may vary by size and type of portfolio. Fees are collected quarterly, which produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) $1,000,000 investment, (b) portfolio return of 8% a year, and (c) 0.85% annual investment advisory fee would reduce the portfolio's value by $8,892 in the first year, by $51,223 over five years and $123,351 over 10 years. Actual investment advisory fees incurred by clients will vary.

Benchmark Definitions

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These indexes have been displayed as comparisons to the performance of the Small Cap Value Equity Composite.

(2) Additional Information.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

 Effective 07.01.2022, Mesirow Equity Management ("MEM") became a division of Mesirow Institutional Investment Management ("MIIM") an SEC-registered investment manager. Prior to 07.01.2022, MEM was a division of Mesirow Financial Investment Management, Inc., ("MFIM). This communication is for institutional use only and may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If this information was received in error, you are strictly prohibited from disclosing, copying, distributing or using any of this information and are requested to contact the sender immediately and destroy the material in its entirety, whether electronic or hardcopy. Nothing contained herein constitutes an offer to sell or a solicitation of an offer to buy an interest in any Mesirow Financial investment vehicle. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. It should not be assumed that any recommendations incorporated herein will be profitable or will equal past performance. Model, theoretical or hypothetical performance information and results do not reflect actual trading or asset or fund advisory management and the results may not reflect the impact that material economic and market factors may have had, and can reflect the benefit of hindsight, on MEM's decision-making if MEM were actually managing client's money. Any chart, graph, or formula should not be used by itself to make any trading or investment decision. Mesirow Financial Investment Management, Inc. and its affiliated companies and/or individuals may, from time to time, own, have long or short positions in, or options on, or act as a market maker in, any securities discussed herein and may also perform financial advisory or investment banking services for those companies. Mesirow Financial does not provide tax or legal advice. Securities offered through Mesirow Financial, Inc. member FINRA, SIPC.