

Fundametrics® International Small Cap Equity

4Q 2022 Performance Summary and Observations

	4Q 2022	Year to Date	1 Year	Latest 3 Years	Inception to Date (12/31/2019)
Fundametrics® International Small Cap	18.41	-15.57	-15.57	3.43	3.43
Net of Fees Returns	18.41	-15.57	-15.57	3.43	3.43
FTSE Developed ex-US Small Cap Index	14.88	-21.73	-21.73	-0.84	-0.84

Performance is as of 12/31/2022. All time periods over 1 year are annualized. See attached disclosure for important information regarding returns.

- The Fundametrics International Small Cap Equity strategy returned 18.41% for the quarter, leading the FTSE Developed ex-US Small Cap Index return of 14.88%.
- International developed markets ended the year on a high note with all major regions posting double-digit gains during the quarter after signs that inflation may be weakening. Strength in the US dollar has been a headwind for the last couple of years, but we may have seen its peak. Dollar weakness played a significant role in the fourth quarter and helped push international returns ahead of the S&P 500 for the year.
- With recent relative strength and attractive relative valuations, international markets should be a talking point. After a decade of underperformance, allocators are likely underweight international markets, especially small caps.
- The winning factor profile bounced around during the quarter, but the one constant was low valuation—a staple of the strategy—leading to a 100%-win rate across regions during the period.
- Alpha Composite model results were strong for the quarter. The Buys (+19.6%) beat Sell-rated stocks (+16.7%). The Financial Warnings overlay results were mixed.
- The end of 2022 marks the third anniversary for the International Small Cap strategy. The Fundametrics process has translated well outside of domestic markets into this less efficient asset class, as the investment team expected.

4Q 2022 Performance Analysis

CornerCap's Fundametrics International Small-Cap Equity Composite returned 18.41% for the fourth quarter ending December 31, 2022, leading the FTSE Developed ex-US Small Cap Index return of 14.88%.

Several positive events and surprises occurred in international markets during the fourth quarter. Equity markets had a strong bounce back after posting negative returns during each of the first three quarters. The battle against inflation seems to be moving in the right direction, although the year-over-year comparisons remain high. Central banks continued raising rates albeit at a slower rate than expected in the months prior. Banks in both Canada and Australia surprised investors by unexpectedly slowing the speed of their hikes, believing inflation numbers will continue to come down. The Bank of Japan, living up to its reputation to use the element of surprise to achieve its goals, held its target rate steady but widened its 10-year yield-curve control band, allowing the 10-year yield to rise higher than previously. The yen surged on the news.

For the second straight quarter, the UK has a new Prime Minister. Rishi Sunak took the helm, which helped to stabilize markets when Liz Truss resigned after 45 days in office following the release of a tax-cut plan and new spending plans that many predicted would lead to further inflation. European markets have been boosted by their ability to secure enough gas to survive the winter and the drastic decline in natural gas prices (down 50+% since summer highs), which led to the first decrease in eurozone inflation in a year and a half—although it still hovers around 10%. Much of the decline in natural gas prices can be attributed to warmer

weather forecasts, consumer rationing, and demand destruction from the high prices.

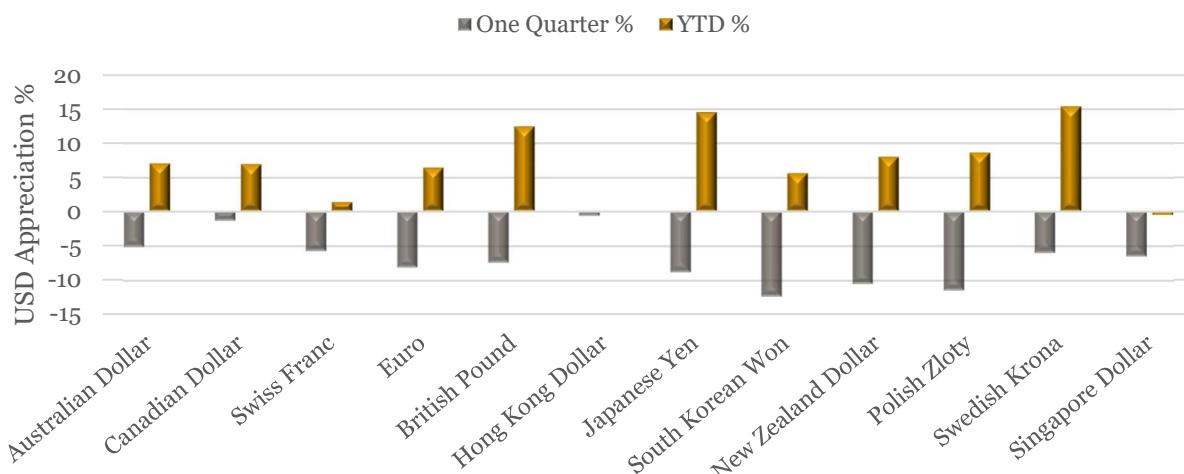
Regional performance leadership reversed from the third quarter with Europe (+21.7%) leading the way, followed by United Kingdom (+18.9%). The other regions still posted solid double-digit gains: Australia (+12.9%), Japan (+12%), Canada (+10.2%).

Using benchmark sector returns, Financials (+23%) and Consumer Staples (+18.9%) posted the highest returns while Utilities (-1.7%) and Energy (+8%) underperformed. Sector allocation was slightly positive for the quarter with the main benefits coming from underweights in Utilities and Real Estate. However, cash's drag during the strong quarter more than offset the positive sector allocation.

Stock selection, the strength of the Fundametrics strategies, was positive in 9 of 11 sectors and the key driver of outperformance relative to the benchmark. Several sectors among the positive contributors had similar outperformance, but the Financials sector, particularly banks, was the standout of the group. Stock picks in the Technology and Consumer Staples offset those positive contributions slightly.

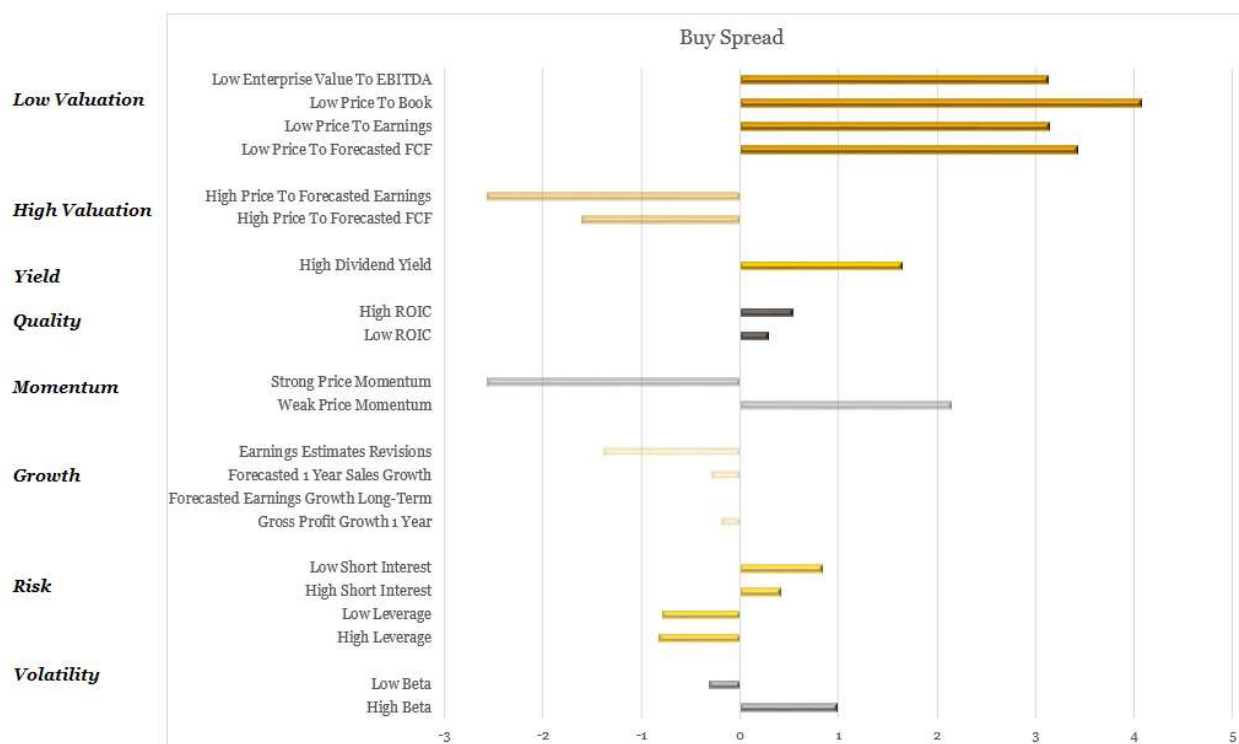
International returns were lifted by the swift reversal of the US dollar during the quarter after signs that US inflation may be easing. After three strong quarters to begin the year and hitting multi-decade highs versus some currencies, the dollar depreciated 6.8% versus the trade-weighted basket of currencies (Exhibit 1). If it continues, international small caps stand to potentially benefit more than large caps since a greater percentage of revenues come from their local currencies.

Exhibit 1: US Dollar Appreciation vs World Currencies (%)



Source: S&P Global Capital IQ. CornerCap Fundametrics Research System.

Exhibit 2: 4Q 2022 Factor Alpha Profiles – 13 Weeks Ending 12/30/2022



Source: CornerCap Fundametrics Research System. Buy Spread is the factor's top 30% of each region compared to equal-weight universe.

Factor Performance

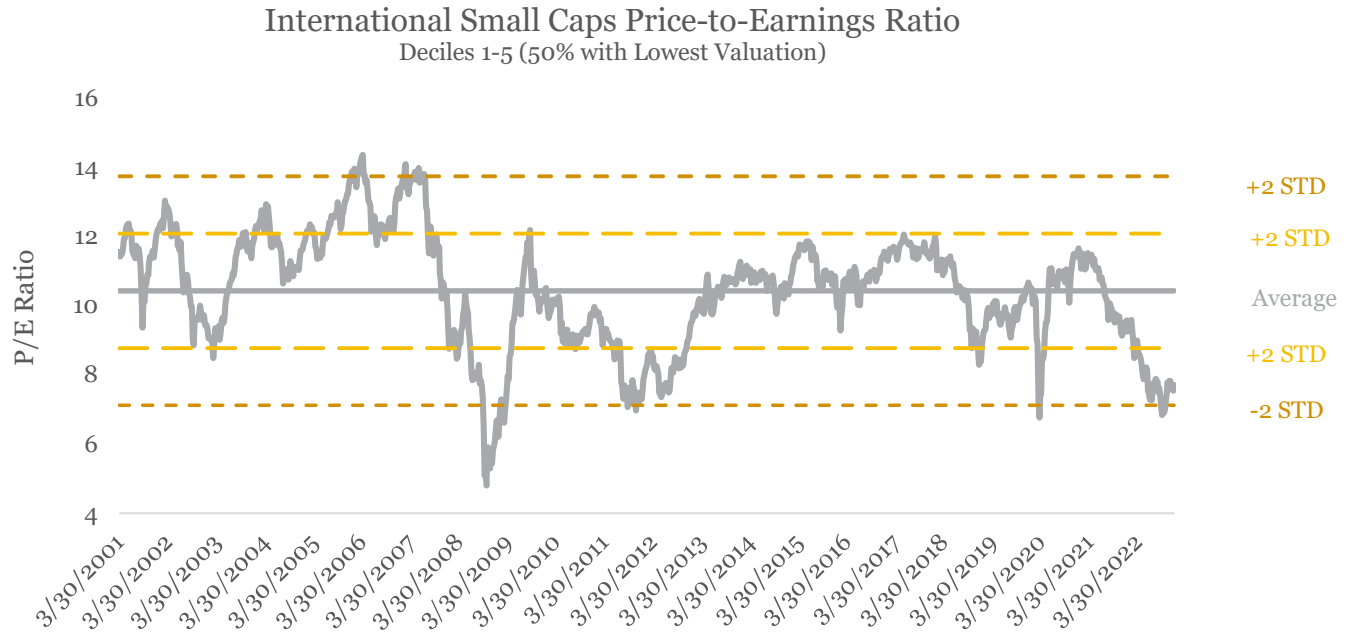
The performance between low and high valuation stocks was the overwhelming story from a factor perspective (Exhibit 2). When valuation matters, our strategy typically does well, as it did this quarter. After underperforming most of the year, weak momentum stocks' November rally also created a large spread versus the strong momentum stocks. Growth stocks struggled in this environment and stocks with high earnings revisions underperformed. Finally, after not showing much discrimination for the first two months of the quarter, investors rewarded companies with high dividend yields in December, putting it among the top performers.

To see more detail of monthly factor performance, check out our [Monthly Style Points](#).

Valuation

As we mentioned last quarter, valuation multiples have contracted as investors price in higher probabilities of a global recession (Exhibit 3). As background, we divide our international small-cap universe into two halves based on their market valuation multiples. The more attractively valued bottom half is generally where investment candidates are found and is more relevant than the top half, which consist of the most expensive stocks and those with negative earnings. Last quarter, the bottom half of companies traded two standard deviations below the historical average. Now, those multiples have improved slightly, but are still a long way from the average.

Exhibit 3: Valuation Multiples Point Toward Recession



Source: CornerCap Fundametrics Research System. Earnings in the price-to-earnings ratio is a blend of both trailing and 1-year estimates measured on a per share basis.

Model Performance: Alpha Composite and Financial Warnings

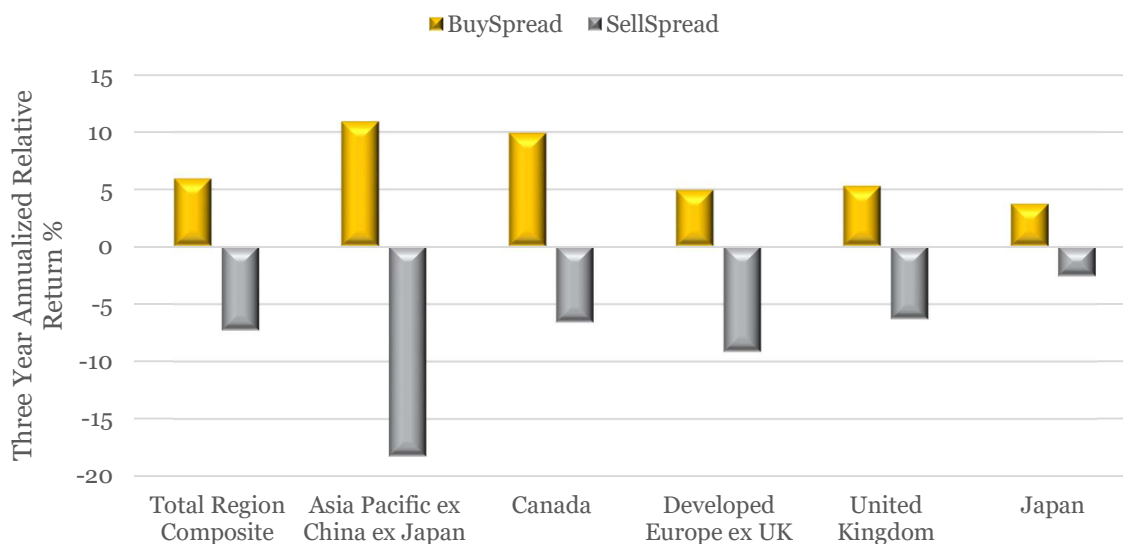
The International Small-Cap model has two final rankings for each stock: the Alpha Composite and Financial Warnings overlay. The Alpha Composite combines the ranks of each stock within its region and within its CornerCap-defined Peer Group while the Warnings overlay is designed to screen out stocks with characteristics that typically lead to underperformance.

The development of custom peer-group models at CornerCap has played a significant role in our success over the years. Understanding the characteristics of certain groups and like business models helps us determine the drivers of performance. When initially building the international models, we employed the same framework into regional models. Geographical characteristics can be as meaningful as business models; another way of saying that investor preference can be influenced by culture. For that and other reasons, it can be as difficult to compare a company from Japan to one in Canada as it is a software business to a gold miner.

With that background and given our three-year anniversary, we review our total region composite for the past three years, as well as the individual regions. As Exhibit 4 shows, the models have been successful as a group and individually. Japan, notoriously difficult to model quantitatively, has been the only area with fewer than 1,000 bps of outperformance between the buy- and sell-rated stocks. As always, we will continue to research with the intent to improve.

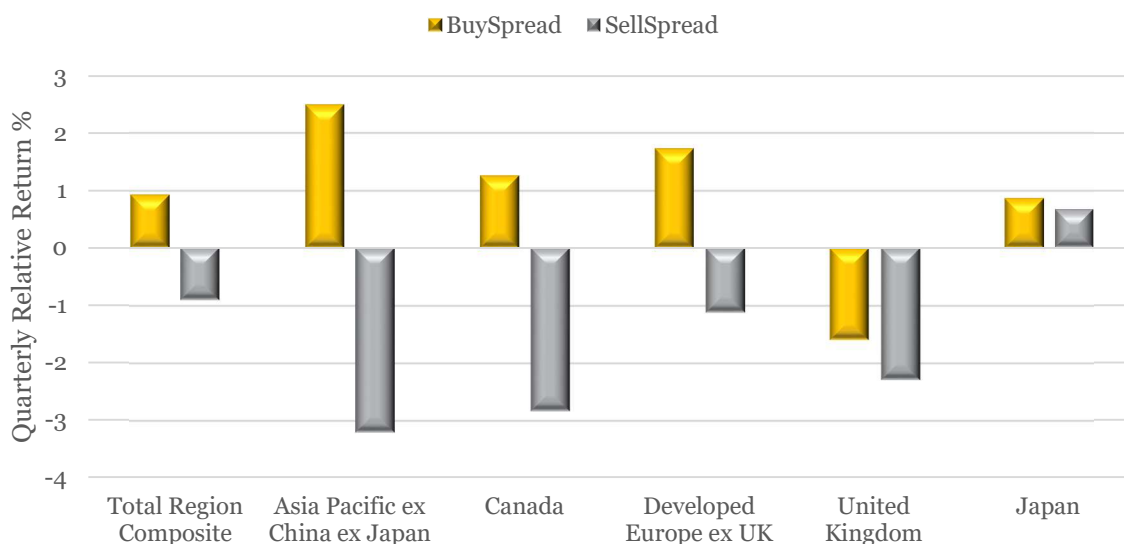
4Q 2022 results for the total Regional Composite (Exhibit 5) were positive with the Buy group (+0.93%) outperforming the Sell group (-0.91%). These are relative-return numbers and are calculated compared to the equal-weight universe of stocks of each group. The individual regional composite models had relative success in all regions, although the differences in Japan and the United Kingdom were small compared to the others.

Exhibit 4: Regional Composite Performance for Three Years Ending 2022



Source: CornerCap Fundametrics Research System

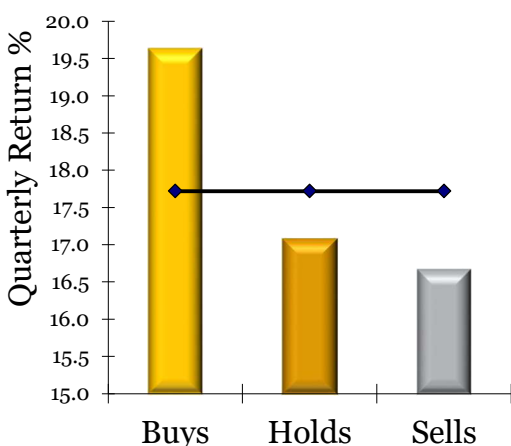
Exhibit 5: Regional Composite Performance for 4Q 2022



Source: CornerCap Fundametrics Research System

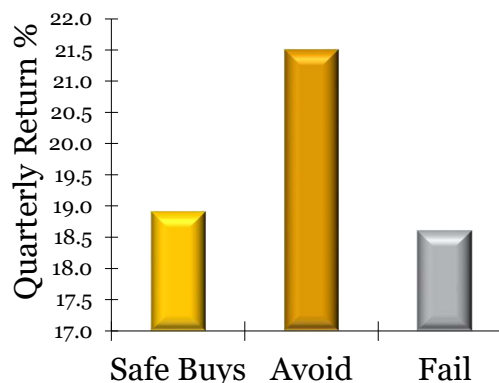
The Alpha Composite had another quarter of strong discrimination (Exhibit 6), where the Buy-rated stocks beat the Holds, which beat the Sells. Like last quarter, its effectiveness was strongest in the down month of December.

Exhibit 6: Alpha Composite – 13 Weeks Ending 12/30/2022



Source: CornerCap Fundametrics Research System

Exhibit 7: Alpha Composite Buys by Financial Warnings Score - 13 Weeks Ending 12/30/2022



Source: CornerCap Fundametrics Research System

The Avoid-rated stocks from our Financial Warnings Overlay performed the best this quarter while the Safe buys slightly outperformed the Fails (Exhibit 7). In our work, the Avoids are stocks that have a warnings signal that has not led to underperformance by itself. These stocks are typically not purchased as new positions in the portfolio, but not sold if already held. For the quarter, our growth warnings were responsible for the drag on performance but paying attention to the risks indicated from short sellers was a meaningful benefit.

Bottom Line

Several positive events fueled the significant rally in international markets during the fourth quarter—signs of easing inflation, new leadership in the UK, and a potential downgrade in the energy crisis in Europe to *just* an energy problem. Perhaps these were the catalysts that caused the US dollar to revert from its lofty highs, boosting international returns. Still, the markets are showing high expectations of a recession this year or next. Whether or not we get there (or how quickly we get there and how painful it is) will depend on the actions of central banks in the coming months.

Highlighted in Exhibit 3, our research models see a measurable opportunity in international small-cap valuation multiples, trading well below their historical average. This is a strong example of how the Fundametrics process acts on quantifiable inputs based on empirical research. The past three years have been full of volatility—Covid-19 and its lockdowns, a war in Ukraine and its impact on energy prices, soaring inflation and the ensuing historical rate hikes. Nevertheless, our research process and models have unemotionally and systematically directed the portfolio to capture some of the opportunity created by the volatility, relative to the benchmark. As always, the International Small Cap strategy will continue to invest in a portfolio of companies that fit the quantitatively measured and derived profile that gives the best chance of success long-term relative to the benchmark.

The Alpha Composite Model, Peer Group Composites, Financial Warnings Models, and individual attributes are components of the Fundametrics investment process. They are not a substitute for performance of the Fund and do not represent related performance. Model returns are not back tested and include an annual management fee of 1% and commission costs of 0.25%.

Past performance is no guarantee of future results, and CornerCap's strategies, like most investment strategies, involve the risk of loss. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable. All investors are advised to fully understand the risks associated with any kind of investing they engage in.