

Fundametrics® International Small Cap Equity

1Q 2023 Performance Summary and Observations

	1Q 2023	Year to Date	1 Year	Latest 3 Years	Inception to Date (12/31/2019)
Fundametrics® International Small Cap	7.47	7.47	-3.59	19.98	5.47
Net of Fees Returns	7.47	7.47	-3.59	19.98	5.47
FTSE Developed ex-US Small Cap Index	6.73	6.73	-10.50	14.12	1.24

Performance is as of 3/31/2023. All time periods over 1 year are annualized. See attached disclosure for important information regarding returns.

- The Fundametrics International Small Cap Equity strategy returned 7.47% for the quarter, leading the FTSE Developed ex-US Small Cap Index return of 6.73%.
- International developed markets picked up where they left off last year as investors drove prices higher in the face of old and new challenges during the first quarter.
- With recent relative strength, attractive relative valuations and weaker-than-normal currencies, international markets should be a talking point. After a decade of underperformance, investors 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.
- Alpha Composite model results were strong for the quarter. The Buys beat Sell-rated stocks by 180 bps. The Financial Warnings overlay results were mixed. Buy candidates that passed all screens, or Safe, were even with Avoid-rated stocks, but those that failed underperformed.

1Q 2023 Performance Analysis

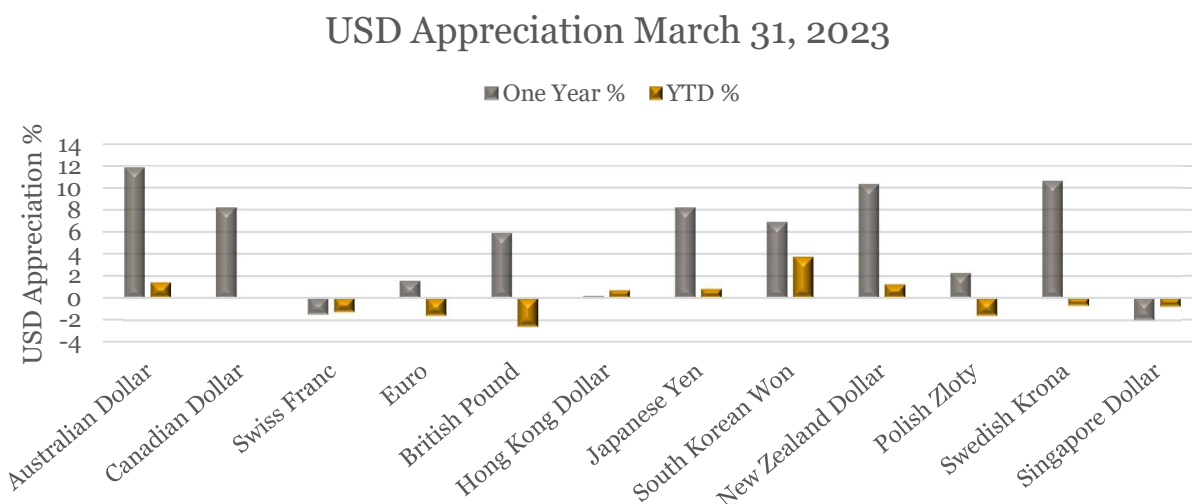
Although volatile at times, the positive momentum that ended 2022 continued in international equity markets during the first quarter of 2023. CornerCap’s Fundametrics International Small-Cap Equity Composite returned 7.47% for the first quarter ending March 31, 2023, leading the FTSE Developed ex-US Small Cap Index return of 6.73%.

Using benchmark sector returns, Technology (+14.4%) and Materials (+13%) had a strong start to the year while Real Estate (-0.1%) and Health Care (0.3%) were relatively flat. Sector allocation for the strategy was positive overall. Underweights to Real Estate and Health Care were positive, but an underweight in Materials was a drag, given its strong performance. A slight overweight allocation to Technology was positive for the quarter. Stock selection was the key driver of

outperformance relative to the benchmark during the first quarter. Financials, Consumer Discretionary, Industrials and Technology made up all the positive selection contributions, while stock picks in Utilities, Energy and Communication Services detracted from portfolio return.

For the second consecutive quarter, the US dollar weakened against a basket of trade-weighted currencies, boosting international returns. Most of the depreciation came against European currencies (Euro, British Pound, Swiss Franc, etc.), and given that Europe is a large allocation in international small caps, it was a positive contributor to returns. Although it has been two quarters of decline, the dramatic strength of the USD last year is still present in the latest one-year numbers, potentially leaving more room for reversion to the mean, which would be a positive for international returns (Exhibit 1).

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



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

The first quarter of 2023 brought new obstacles to investors even as the challenges they faced in 2022 remain alive and well. Central banks continued to combat stubborn inflationary pressures while trying to avoid driving their respective economies into recession, although the banks are not in unison as they have been. Regardless, rising and elevated-rate environments are typically beneficial for value stocks, as we have seen over the past year, but it was evident that some investors are now anticipating a decline in rates, which benefitted growth stocks. This volatility may be advantageous for active stock pickers.

Two US banks—Silicon Valley Bank and Signature Bank—collapsed during March, sending shock waves through the global financial system. In reality, those waves have been mere ripples, so far, once they reached across the Atlantic Ocean and faded out in the Pacific. Yes, Credit Suisse failed, leading other European banks lower, but its problems were already exposed, and the uncertainty surrounding the US bank failures sealed the deal as investors declined to provide the liquidity it needed to shore up its finances. Nonetheless, banks around the world experienced a drawdown in March, and the strategy's bank holdings were no different but were essentially neutral to the banks in the benchmark. Thanks to the performance in January and February, banks had a positive contribution to the quarterly return. Fortunately, international small-cap banks make up a much smaller allocation than their peers (both international large caps and US small caps).

Factor Performance

Returns to value factors were negative in March, but they were positive for the first quarter overall (Exhibit 2), and value was the best-performing group of the last twelve

months in a higher interest-rate environment.

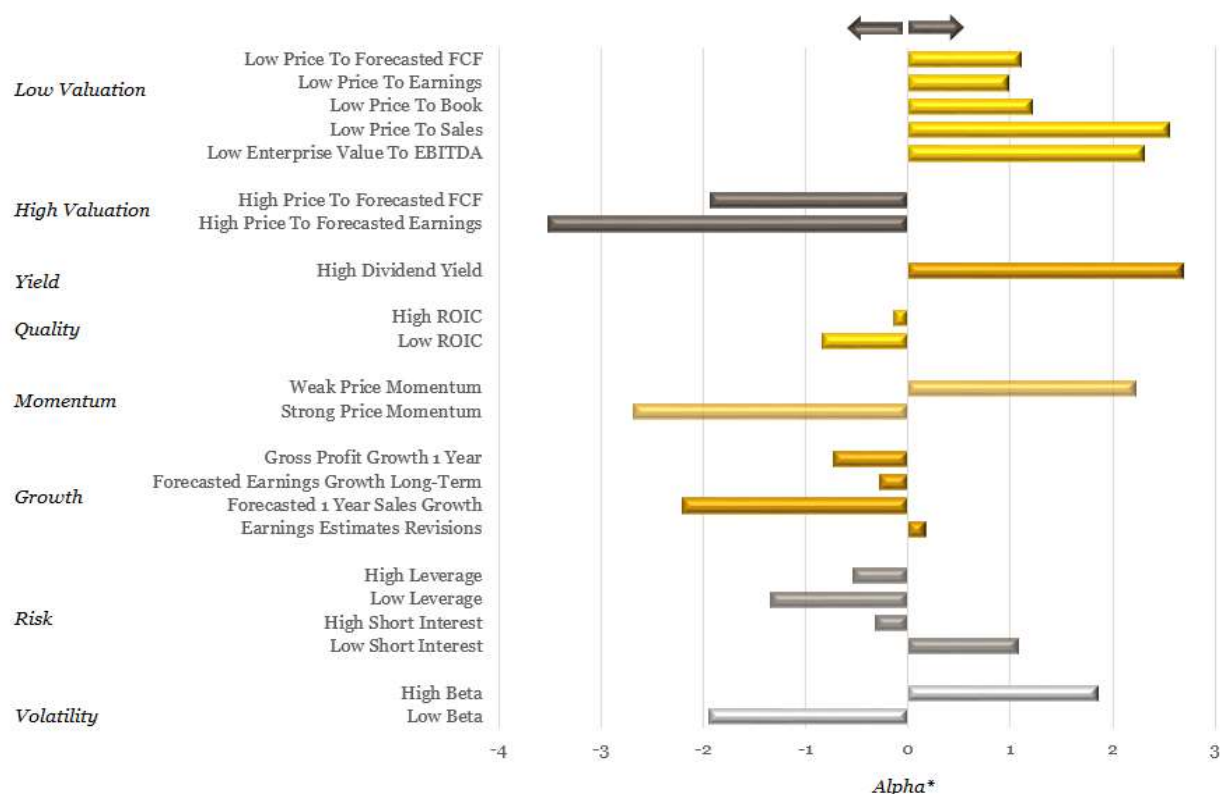
Outside of value, the winning factor profile of stocks varied from month to month. Investors sought risk in January, bidding up prices of high beta stocks along with those exhibiting high forecasted growth and even those with high short interest. Many of these stocks were among the biggest losers of last year, so we saw weak price momentum perform extremely well. February was the opposite profile as low valuation, high dividend yield, and strong price momentum led. The quarter ended with low volatility and risk factors as the main features as investors sifted through the uncertainty surrounding the global banking system.

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

Valuation

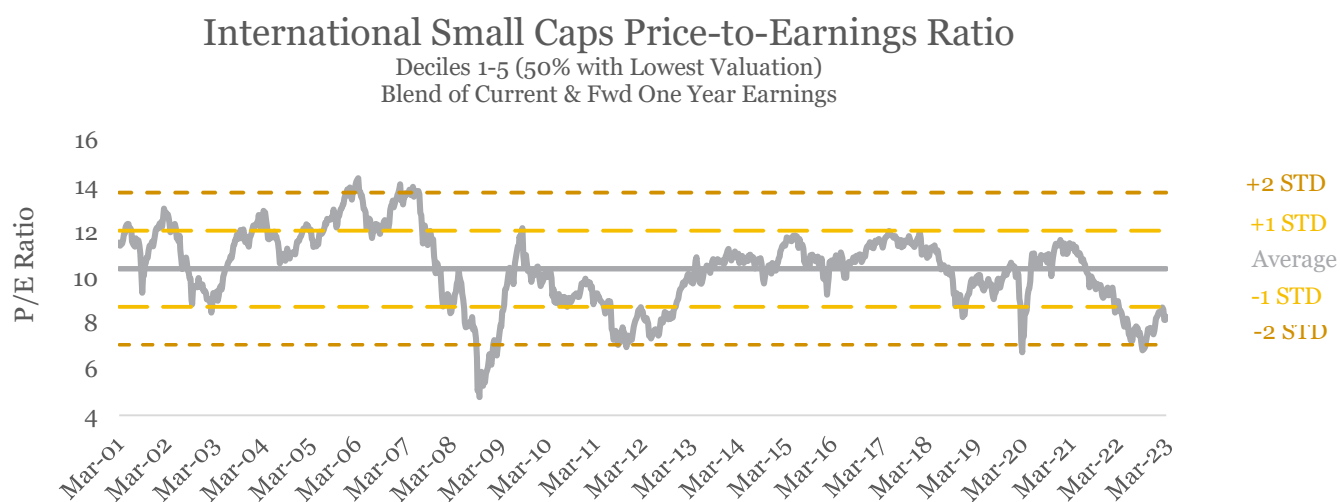
Valuation multiples contracted during March after improving for the first two months of the quarter (Exhibit 3). At the peak this quarter, multiples were still at one standard deviation below the long-term average, giving us reason to believe that international small caps remain at attractive valuations. 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 our investment candidates are found and is more relevant than the top half, which consist of the most expensive stocks and those with negative earnings.

Exhibit 2: 1Q 2023 Factor Alpha Profiles – 13 Weeks Ending 3/31/2023



Source: CornerCap Fundametrics Research System. *Factor top 30% return relative to the equal weight International Developed Small Cap universe.

Exhibit 3: Valuation Multiples: Still Room to Improve



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 Warning

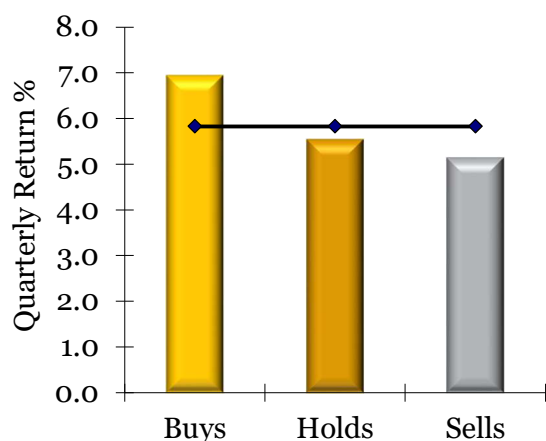
The International Small-Cap model has two final rankings for each stock: the Alpha Composite and Financial Warnings overlay. The Alpha Composite combines the ranks of each stock within its region and within its CornerCap-defined Peer Group while the Warnings overlay is designed to screen out stocks with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

The Alpha Composite had another quarter of strong discrimination (Exhibit 4), where the Buy-rated stocks beat the Holds, which beat the Sells. Like the two previous quarters, its effectiveness was strongest in the down month of February, but it was an

encouraging sign to see the strategy's performance in January given that the winning factor profile was not we believe drive long-term returns.

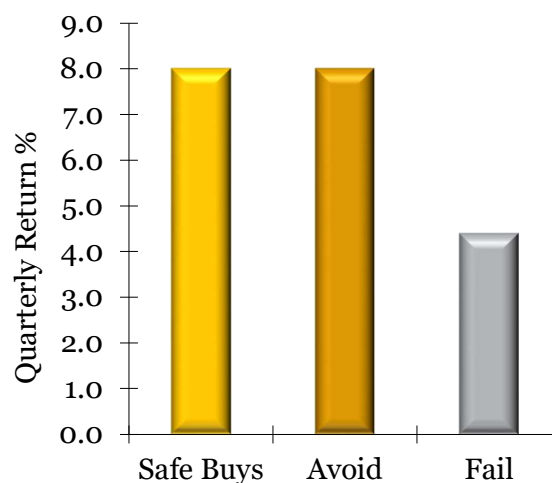
The Fail-rated stocks from our Financial Warnings Overlay underperformed this quarter while the Safe buys and Avoid-rated stocks were even (Exhibit 5). In our work, the Fail-rated are stocks that have a significant warning signal or a combination of warnings that has led to underperformance over time. These stocks are either not purchased as new positions in the portfolio or sold if already held. For the quarter, avoiding buy candidates with low growth warnings, poor momentum, and extreme margin growth was a meaningful benefit to performance.

Exhibit 4: Alpha Composite – 13 Weeks Ending 3/31/2023



Source: CornerCap Fundametrics Research System

Exhibit 5: Alpha Composite Buys Separated by Financial Warnings Score - 13 Weeks Ending 3/31/2023



Source: CornerCap Fundametrics Research System

Bottom Line

International equity markets continued to climb, although volatile at times, for the second consecutive quarter after experiencing a significant drawdown during the first nine months of 2022. Stubbornly high inflation, rising interest rates, and risks of recession continued to challenge investors, all while bank failures increased uncertainty around the global economic landscape and the expectations of central banks' monetary policy. It seems the only certain bet is uncertainty, which has always been the case in investing and why our Fundametrics process acts on quantifiable inputs based on empirical research. This methodical approach is an effort to remove the noise and systematically direct the portfolio to capture some of the opportunities that volatility will inevitably create. 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.