

Fundametrics® International Small Cap Equity

2Q 2023 Performance Summary and Observations

	2Q 2023	Year to Date	1 Year	Latest 3 Years	Inception to Date (12/31/2019)
Fundametrics® International Small Cap	0.73	8.26	13.00	12.25	5.29
Net of Fees Returns	0.73	8.26	13.00	12.25	5.29
FTSE Developed ex-US Small Cap Index	0.78	7.56	11.01	7.10	1.37

Performance is as of 6/30/2023. All time periods over 1 year are annualized. See attached disclosure for important information regarding returns.

- The Fundametrics International Small Cap Equity strategy returned 0.73% for the quarter, off slightly from the FTSE Developed ex-US Small Cap Index return of 0.78%. The longer-term track record has been successful with annualized alpha of nearly 400 bps since inception.
- Central banks' decisions are driving disparities among regional growth rates and their currencies.
- After a decade of underperformance, investors are likely underweight international markets, particularly small caps. This market is inefficient and trades at attractive valuation multiples, presenting potential opportunities for skilled active managers.
- Low valuation stocks maintained strong performance while investors showed preference for stocks deemed to have lower levels of risk.
- Alpha Composite model results were strong for the quarter. The Buys beat Sell-rated stocks by 170 bps. The Financial Warnings overlay also contributed, screening stocks with excess risks.

2Q 2023 Performance Analysis

CornerCap's Fundametrics International Small-Cap Equity Composite returned 0.73% for the second quarter ending June 30, 2023, off slightly from the FTSE Developed ex-US Small Cap Index return of 0.78%.

Using benchmark sector returns, Financials (+4.2%), Technology (+4%), and Energy (+3.1%) lead in the second quarter while Communication Services (-3.9%) and Utilities (-3.6%) underperformed.

Sector allocation for the strategy was positive overall. An underweight to Real Estate and an overweight to Consumer Discretionary were positive allocations, but an underweight in Technology was a drag, given its strong performance.

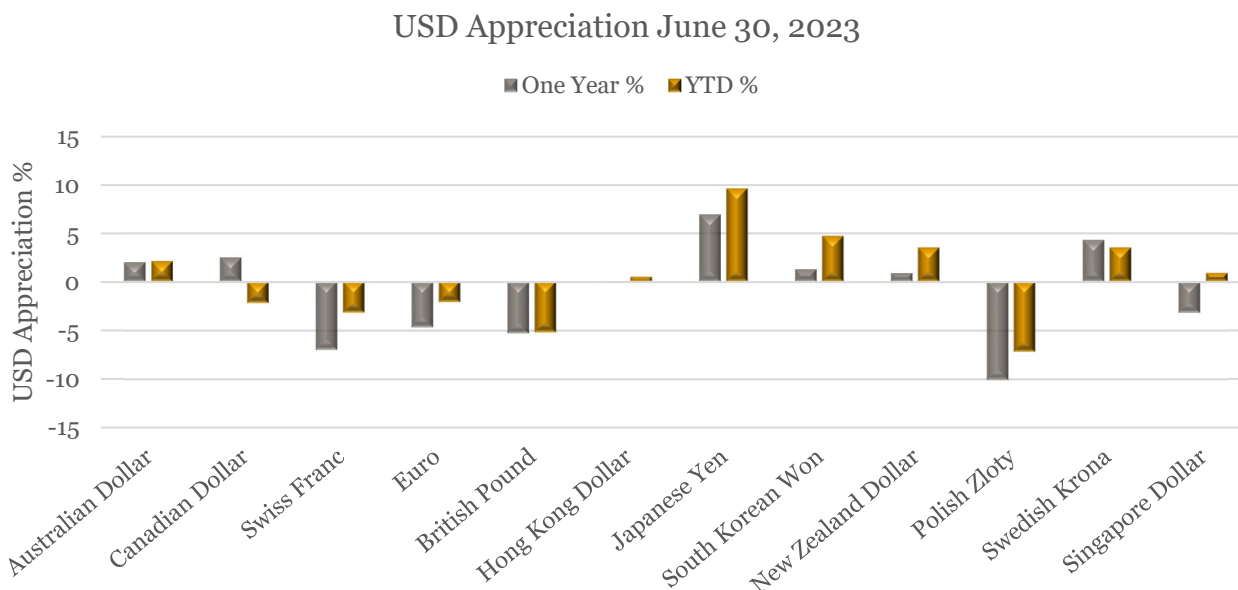
Stock selection was negative for the second quarter. Positive selection contributions were in Financials, Consumer Discretionary, Industrials and Technology while stock picks in Utilities, Energy, and Communication Services detracted from portfolio return.

The US dollar strengthened against a trade-weighted index during the second quarter, but those results are slightly misleading. A look under the covers shows most of its appreciation came against the Japanese Yen (+9.6% YTD – Exhibit 1). This is a direct reflection of the Bank of Japan's monetary easing policy when other major central banks are increasing rates to battle inflation. The next few months may bring a change in Japan's approach if its currency continues to weaken.

Broadly, international developed equity markets produced positive returns for the second quarter. Like the US, shares of large-cap stocks have soared past those of smaller companies by roughly 600 bps YTD as investors sought safety in larger companies.

Central bank rate decisions remain in the spotlight, and their effects are becoming evident. These distinct choices are leading each economic region along divergent paths.

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



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

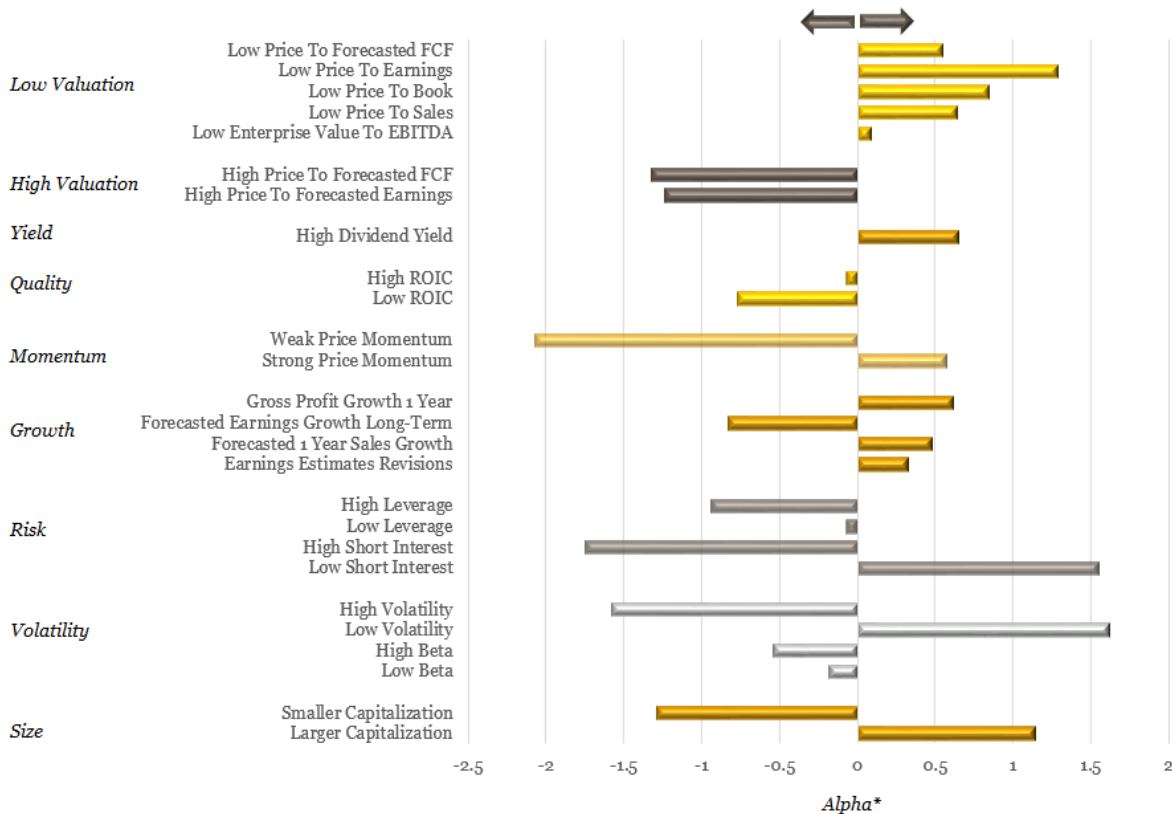
The Bank of Japan stuck with its easy monetary policies, weakening the yen against other currencies. Europe sustained its aggressive tightening even after Germany has driven the area into technical recession. The UK extended its hikes with the highest inflation in the developed world lingering over its economy, and, after pausing for a short time, both Canada and Australia surprised investors by hiking rates this quarter. Diverging economic growth rates and inflationary concerns should continue to put pressure on central banks, and with that, comes more volatility.

Despite technology’s strong year-to-date returns, cyclical sectors within international small caps outperformed, making value factors positive for the quarter (see Exhibit 2) and the best-performing group of the last twelve months in a higher interest-rate environment.

While investors displayed a willingness to take risks in June, they favored safer options within the international small-cap market throughout the quarter as they weighed central bank decisions and economic slowdowns. Larger companies, both in terms of market capitalization and revenue, outperformed their smaller counterparts.

Factor Performance

Exhibit 2: 2Q 2023 Factor Alpha Profiles – 13 Weeks Ending 6/30/2023



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

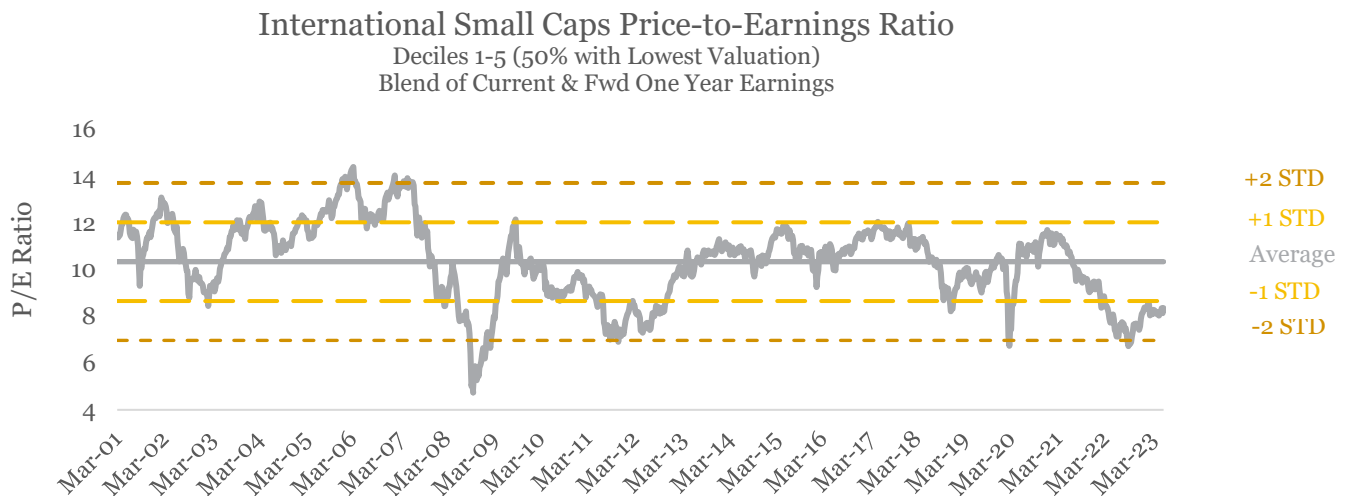
Stocks characterized by volatile returns or high beta delivered weaker performances compared to those with lower volatility. Similarly, highly leveraged companies or those with significant short interest underperformed similar companies without such attributes. Notably, companies offering higher dividends stood out as strong performers within the overall universe. And, finally, investors steered clear of stocks exhibiting the weakest price momentum.

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

Valuation

Throughout the second quarter, valuation multiples remained relatively unchanged compared to the end of the first quarter, as illustrated in Exhibit 3. Notably, these multiples continue to hover slightly more than one standard deviation below the long-term average. This suggests that international small caps are still positioned at attractive valuations, providing us with compelling reasons to consider them as favorable investment opportunities. 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 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

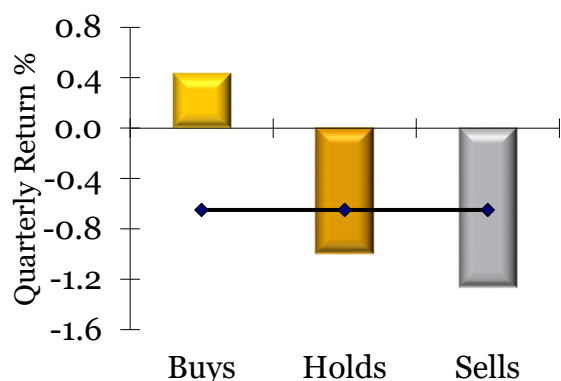
The International Small-Cap model has two final rankings for each stock: the Alpha Composite and Financial Warnings overlay. The Alpha Composite combines the ranks of each stock within its region and within its CornerCap-defined Peer Group while the Warnings overlay is designed to screen out stocks with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

The Alpha Composite had another quarter of positive discrimination (Exhibit 4), where the Buy-rated stocks beat the Holds, which

beat the Sells. Both the regional ranking and peer-group ranking contributed to the Alpha Composite's outperformance.

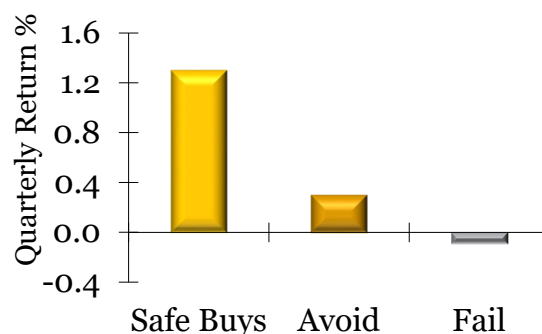
The Financial Warnings Overlay effectively screened stocks with excess risk this quarter as the Safe buys outperformed the Fail-rated stocks by 139 bps (Exhibit 5). In our work, the Fail-rated are stocks that have a significant warning signal or a combination of warnings that has led to underperformance over time. These stocks are either not purchased as new positions in the portfolio or sold if already held. For the quarter, buy candidates with low growth warnings or poor momentum were the major offenders.

Exhibit 4: Alpha Composite – 13 Weeks Ending 6/30/2023



Source: CornerCap Fundametrics Research System

Exhibit 5: Alpha Composite Buys Separated by Financial Warnings Score - 13 Weeks Ending 6/30/2023



Source: CornerCap Fundametrics Research System

Bottom Line

Fluctuating interest rate expectations continue to influence global equity markets, but diverging expectations among regions are starting to show. While international equity markets were positive for the quarter, large caps captured most of the return as investors sought safety in

larger companies and other less risky attributes. The current valuation multiples remain attractive for international small caps still and support an allocation to this area. 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.