

## Fundametrics® International Small Cap Equity

### 3Q 2023 Performance Summary and Observations

	3Q 2023	Year to Date	1 Year	Latest 3 Years	Inception to Date (12/31/2019)
<b>Fundametrics® International Small Cap</b>	-2.87	5.14	24.50	7.97	4.11
<b>Net of Fees Returns</b>	-2.87	5.14	24.50	7.97	4.11
<b>FTSE Developed ex-US Small Cap Index</b>	-3.85	3.41	18.80	2.38	0.22

Performance is as of 9/30/2023. All time periods over 1 year are annualized. See attached disclosure for important information regarding returns.

- The Fundametrics International Small Cap Equity strategy outperformed the FTSE Developed ex-US Small Cap Index, delivering a -2.87% return for the quarter compared to the benchmark's -3.85%.
- Higher interest rates and oil prices impacted investors' appetite for risk across the globe, driving markets down for the quarter.
- Low-value stocks continued to perform well as investors discounted growth amid higher interest rates and favored stocks with lower levels of risk.
- The Alpha Composite model demonstrated strong performance for the quarter, with the Buy-rated stocks outperforming Sell-rated stocks by 430 bps. Additionally, the Financial Warnings overlay also contributed by identifying stocks with elevated risks.

### 3Q 2023 Performance Analysis

CornerCap's Fundametrics International Small-Cap Equity Composite returned -2.87% for the third quarter ending September 30, 2023, leading the FTSE Developed ex-US Small Cap Index return of -3.85%.

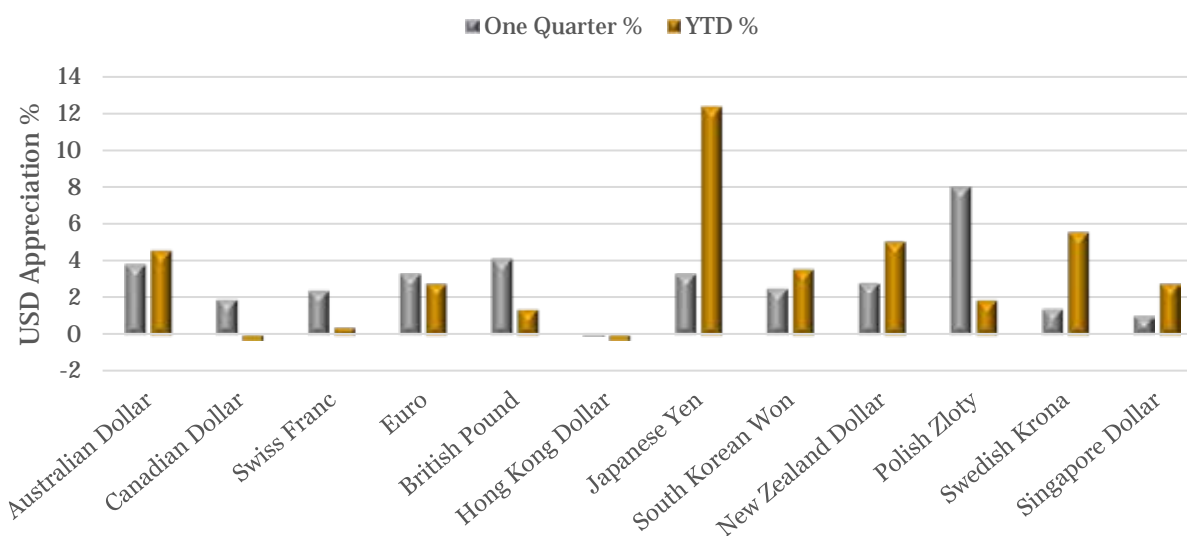
Using benchmark sector returns, Energy (+14.6%), Consumer Staples (+0.84%), and Financials (+0.28%) were the only positive returns while Utilities (-11.8%) dramatically underperformed.

Sector allocation for the strategy was positive. An overweight to Financials, particularly banks, was the main driver of positive allocation, but an underweight to Energy was a drag, given its dominant performance.

Stock selection was also positive during the third quarter. Positive selection contributions were in Technology and Health Care while stock picks in Real Estate, Consumer Staples, and Consumer Discretionary detracted from portfolio return.

The US dollar strengthened dramatically against a trade-weighted index during the third quarter as investors' views of US rates remaining higher for longer strengthened, as well as the safe-haven perception of the dollar. A strong US dollar typically weighs on international returns as the foreign currency is worth less once converted to USD. Exhibit 1 shows the broad strength for the quarter and highlights the weakness of the Japanese yen as it sits near decades' lows, reflecting the Bank of Japan's monetary policy, which is in contradiction to the rest of the world.

### Exhibit 1: US Dollar Appreciation vs World Currencies—September 29, 2023



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

International developed equity markets experienced a pullback in the third quarter, as interest rates climbed across the developed world, particularly in the US. Surprisingly, shares of small-cap stocks fell less than those larger companies, possibly due to large caps' previous outperformance.

The macroenvironment continues to dominate headlines and remains in the forefront of investors' minds. Higher interest rates across most regions have started to restrict economies—softening demand for mortgages and other consumer borrowing and putting pressure on companies that need to fund growth. The Eurozone has experienced the most economic decline to date, primarily driven by the German and French economies. In contrast, Japan's monetary easing policy has contributed to the depreciation of the yen, benefitting exporters, and drawing in foreign investors. While interest rates have increased costs across the board, oil prices surged in the third quarter, rising roughly 28% and adding an additional layer of concern that higher inflation may be sustained in most areas.

## Factor Performance

Value factors continued their strong outperformance during the quarter (Exhibit 2) and have been the best-performing group of the last twelve months in a higher interest-rate environment.

Investors took on risk in July's up market, but they favored safer options within the international small-cap market for the remaining quarter as markets retreated. During down markets it is not unusual to see investors drift toward companies offering higher dividends, and they did again this quarter. Similarly, investors rewarded stocks with lower-volatility returns or low beta, and companies without many shares sold short.

Within the growth style, forecasted growth measures, whether by long-term earnings or sales growth, were the major underperformers as higher interest rates put pressure on this group. Finally, neither momentum nor quality played a significant role in this quarter's factor results.

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

## Valuation

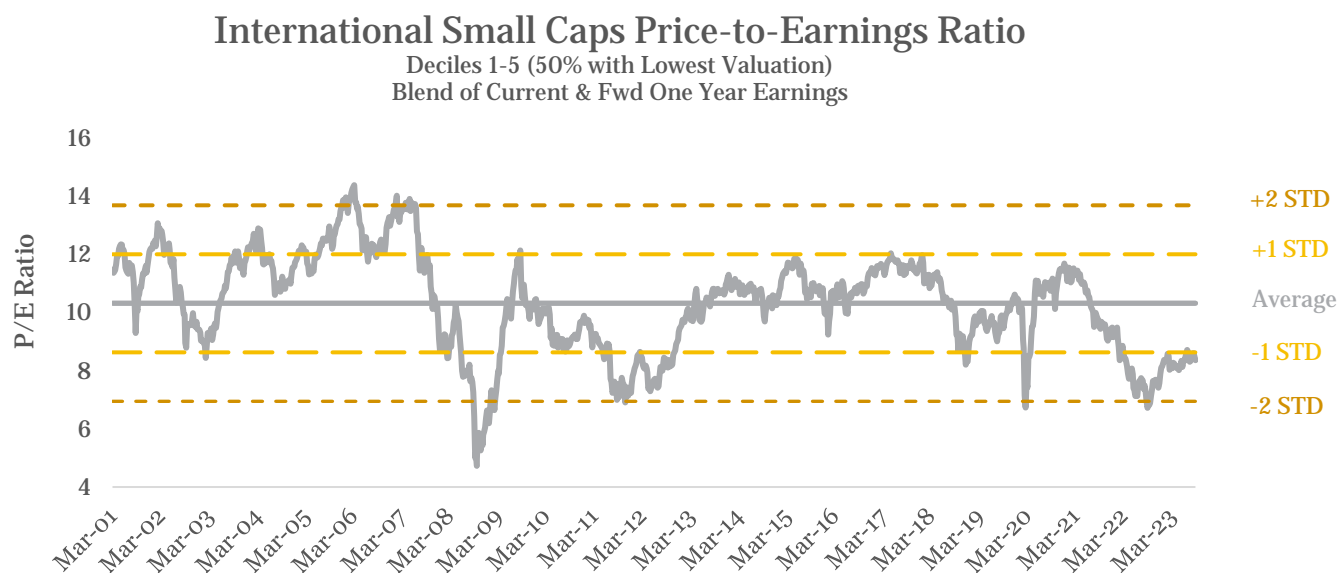
Valuation multiples have remained relatively stable since the first quarter of the year, as illustrated in Exhibit 3. Notably, these multiples continue to hover slightly more than one standard deviation below the long-term average. This suggests that international small caps are still positioned at attractive 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 2: 3Q 2023 Factor Alpha Profiles – 13 Weeks Ending 9/29/2023**



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

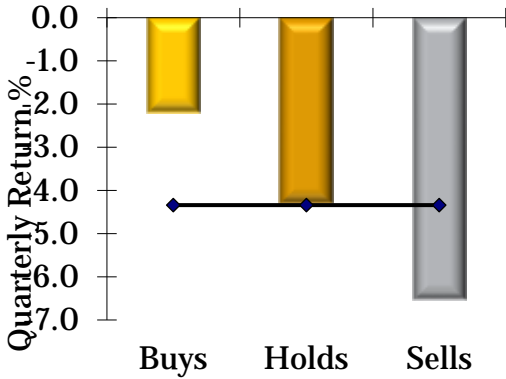
The International Small-Cap model has two final rankings for each stock: the Alpha Composite and Financial Warnings overlay. The Alpha Composite combines the ranks of each stock within its region and within its CornerCap-defined Peer Group while the Warnings overlay is designed to screen out stocks with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

The Alpha Composite had another quarter of 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, which is encouraging in a down market.

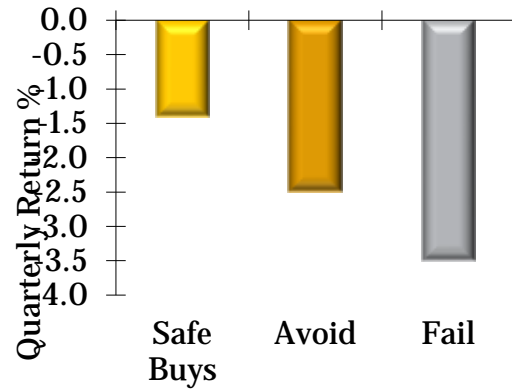
The Financial Warnings Overlay effectively screened stocks with excess risk this quarter as the Safe buys outperformed the Fail-rated stocks by 210 bps (Exhibit 5). In our work, the Fail-rated are stocks that have a significant warning signal or a combination of warnings that has led to underperformance over time. These stocks are either not purchased as new positions in the portfolio or sold if already held. For the quarter, many of the warnings, led by poor momentum, contributed to the model by excluding buy candidates with elevated risks.

**Exhibit 4: Alpha Composite – 13 Weeks Ending 9/29/2023**



Source: CornerCap Fundametrics Research System

**Exhibit 5: Alpha Composite Buys Separated by Financial Warnings Score - 13 Weeks Ending 9/29/2023**



Source: CornerCap Fundametrics Research System

**Bottom Line**

High interest rates and energy prices have made their way to consumers’ wallets and companies’ budgets as they plan for current needs and forecast future spending. As always, managing it is a delicate process. Equity markets have pulled back as investors’ discount rate for future cash flows has depressed prices today and the uncertainty of future rates takes hold. We view this as an opportunity, and current valuation multiples remain attractive for international small caps, supporting an allocation to this area. With our International Small Cap strategy, we will continue to systematically implement our process, which has shown effectiveness in both up and down markets, giving us the opportunity to meet investors’ long-term goals.

*e 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.*