



Fundametrics® Smid Cap Equity

4Q 2023 Performance Summary and Observations

	4Q 2023	1 Year	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years	Inception to Date (12/31/13)
Fundametrics® Smid Cap Equity	14.06	17.48	11.87	13.95	9.77	9.54	9.54
Net of Fees Returns	13.75	16.32	10.77	12.85	8.67	8.45	8.45
Russell 2500 Value Total Return	13.76	15.98	8.81	10.79	7.08	7.42	7.42
Russell 2000 Value Total Return	15.26	14.65	7.94	10.00	6.10	6.76	6.76

Performance is as of 12/31/2023. All time periods over 1 year are annualized. See attached disclosure for important information regarding returns.

- The Fundametrics® Smid Cap Value strategy returned 14.06% for 4Q slightly outperforming the Russell 2500 Value Index's return of 13.76%.
- The 10-year treasury yield started the quarter at a 15-year high. Lower inflation statistics in November helped fuel the yield reversal and subsequent rally in small-cap stocks. The party continued in December after the FED communicated a change to looser monetary policy along with expectations of three rate cuts in 2024. The Russell 2000 Value index beat the S&P 500 by 10% since mid-November.
- Low valuation and high dividend factors continued to show leadership in the second half of the year after a poor 1st half. The 4th quarter outperformance was led by banks and homebuilders, which benefited from the decline in interest rates from its peak.
- Headwinds for the strategy came from the parts of the model that focus on peer-group valuations, relative valuations and the other diversifying styles like quality and growth, which ended the quarter flat or negative.
- The market environment for long-term investors still appears favorable for Small Cap Value stocks, which offer attractive absolute and relative valuations vs. large caps. Small caps started the year at two standard deviations below their historical P/E average and, although have rebounded, still stand at one standard deviation below.

4Q 2023 Performance Analysis

The CornerCap Fundametrics® Smid Cap Equity Composite returned 14.06% (Gross), slightly outperforming the Russell 2500 Value Index return of 13.76% during the 4th Quarter ending December 31, 2023.

Relative to the benchmark, selection effect was positive with stock allocation slightly negative.

The strategy's selection effect is traditionally a strength of the Fundametrics investment process. Strong selection in Materials, Financials and Real Estate was offset by challenging selection in Industrials. Exposure to Cash and an underweight to Financials were the primary headwinds from an allocation perspective. An underweight to energy this quarter helped performance.

Table 1: Portfolio Attribution

Selection Effect	Impact	Company Contributors	Owned
Materials	+50 bps	Pactiv Evergreen Inc.	Y
		Quaker Chemical Corp.	Y
		Minerals Technologies Inc.	Y
Financials	+30 bps	Western Alliance Bancorp	Y
		Axos Financial Inc.	Y
		Fifth Third Bancorp	Y
Industrials	-63 bps	Array Technologies	Y
		Barnes Group Inc.	Y
		Mastec Inc.	Y

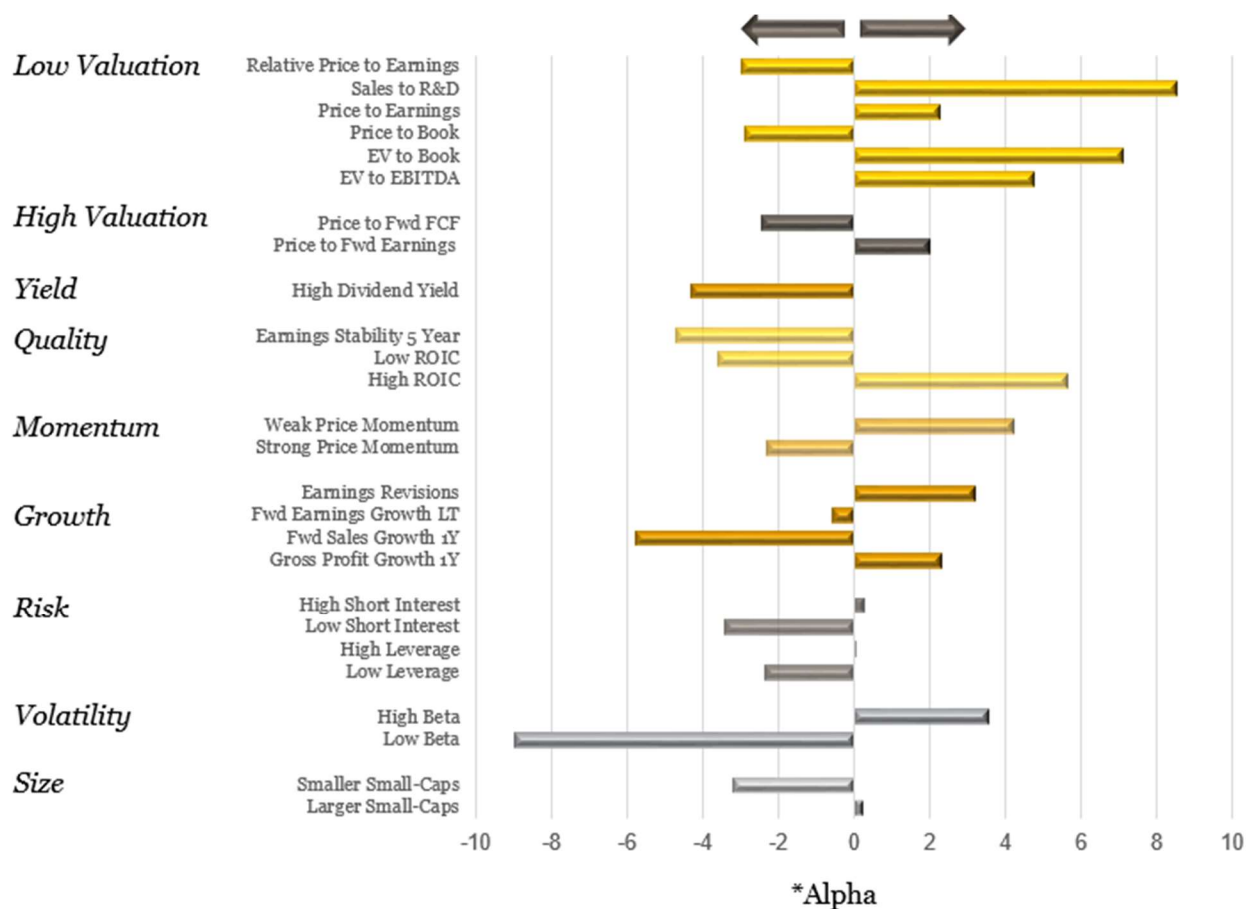
Allocation Effect	Impact	Portfolio Over / Under Weight
Cash	-23 bps	OverWeight
Financials	-20 bps	UnderWeight
Energy	+53 bps	UnderWeight

The portfolio did not experience any large sector changes during the quarter. The biggest shifts occurred in Financials (+103 bps) and Industrials (+94 bps). The largest decreases were in Communication Services (-119 bps), Real Estate (-67 bps) and Cash (-106 bps). These overall shifts are a product of the Alpha Composite rankings and Financial Warnings screen and represent where the Fundametrics research model sees increased value. It should be noted that during a quarter of high sector return deviations, relative performance can also play a role in portfolio positioning.

Factor Performance

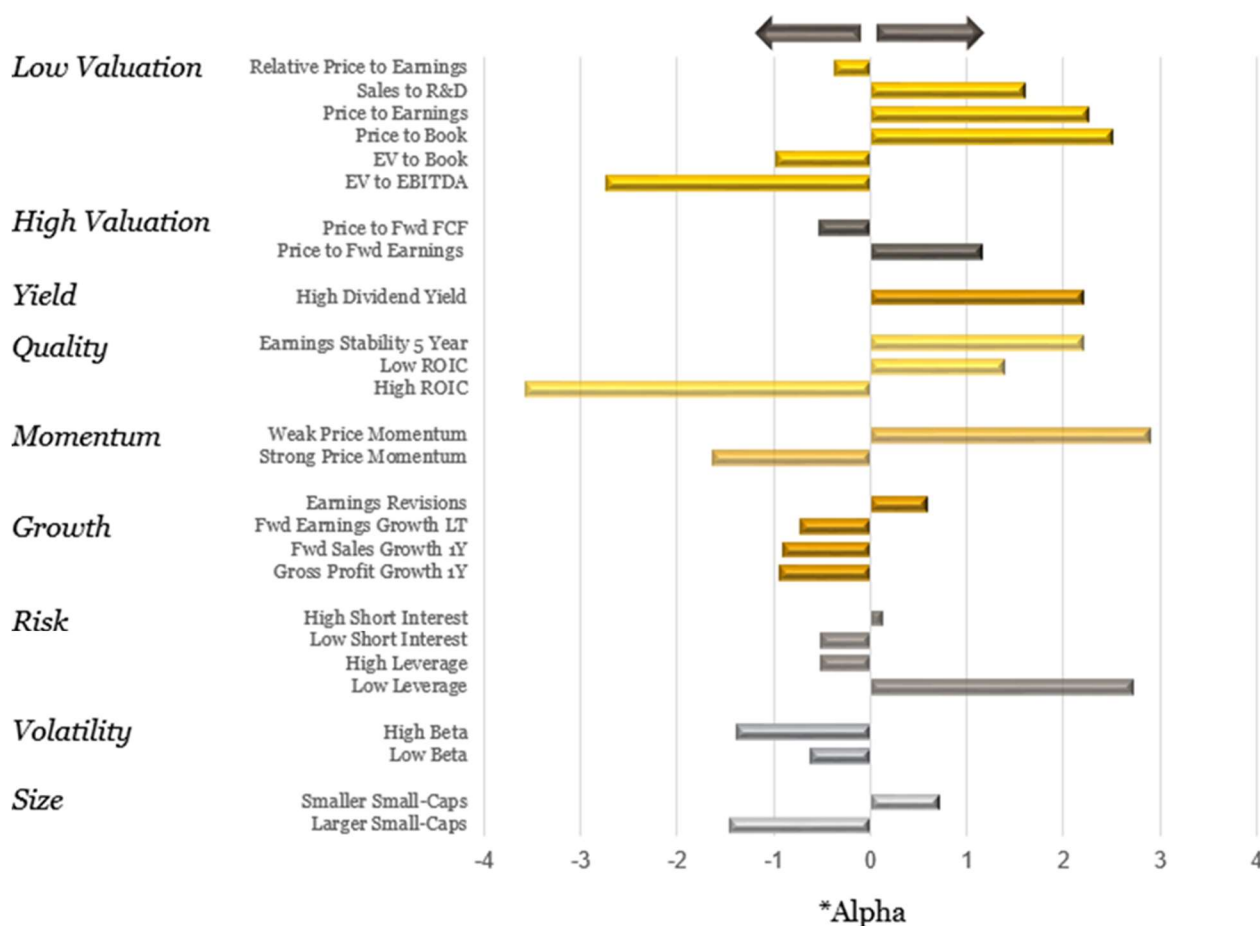
The economy continues to be resilient, but the idea of higher interest rates for longer has Factor performance in 2023 (Exhibit 1) looked very different in the first half of the year vs. the second half. The first half was characterized by strong performance from high valuation, long-term growth and high-risk factors like high beta and high short interest. The banking crisis at the end of the first quarter had a material negative impact on low

Exhibit 1: Full Year 2023 Style Points



Source: CornerCap Fundametrics® Research System, Excludes REITs
 *Factor top 30% return relative to the equal weight investable universe of US Small Cap stocks

Exhibit 2: 4th Quarter Style Points



Source: CornerCap Fundametrics® Research System, Excludes REITs

*Factor top 30% return relative to the equal weight International Developed Small Cap universe

valuation factors (traditional value stocks). Lower valuation clawed its way back in the second half when the banking sector stabilized, a recession never materialized, and the FED indicated a looser monetary policy for 2024 (Exhibit 2 for Q4).

The full year themes are messy. Low valuation factors that exclude banks (Enterprise Value factors) generated strong alpha. The return spread between price-to-book and enterprise value to book (no banks) was 1000 bps. Using R&D to sales to evaluate growth stocks was a winning strategy. Also, alpha was achieved by avoiding smaller capitalization small caps and not buying strong price momentum. Beta had the largest impact of the year where lower beta stocks underperformed high beta by 1250 bps due to poor returns in utilities, staples, and healthcare for the year.

Exhibit 3: Alpha Composite Performance for 4Q 2023

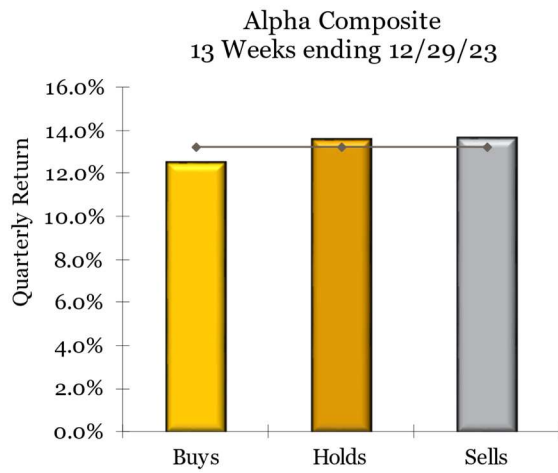
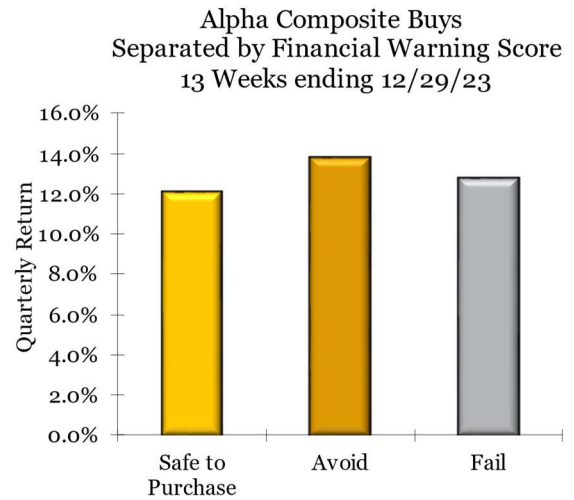


Exhibit 4: Financial Warnings Performance for 4Q 2023

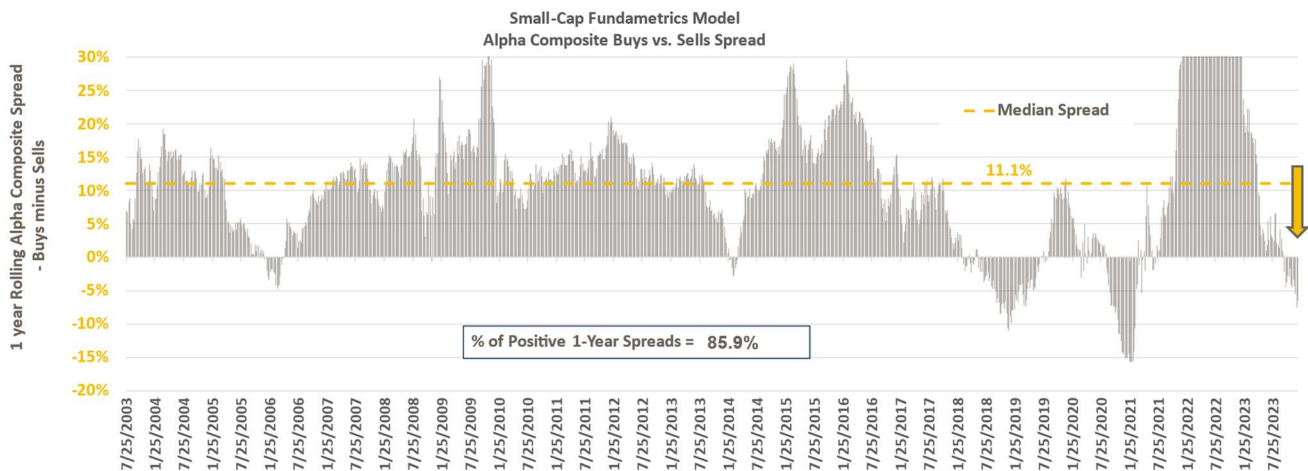


Source: CornerCap Fundametrics® Research System
Excludes REITs

Performance within the Model: Alpha Composite and Financial Warnings

The Alpha Composite buy-rated stocks underperformed our sell-rated stocks this quarter (Exhibit 3) and for the year. This underperformance occurs but is typically short-lived. The broader history of the Alpha Composite model is presented in Exhibit 5. The buy-rated stocks have outperformed in nearly 86% of rolling 1-year periods, measured weekly, since 2002. However, the latest periods demonstrate the opposite (yellow arrow).

Exhibit 5: Historical Alpha Composite Performance



Source: CornerCap Fundametrics® Research System; Excludes REITs

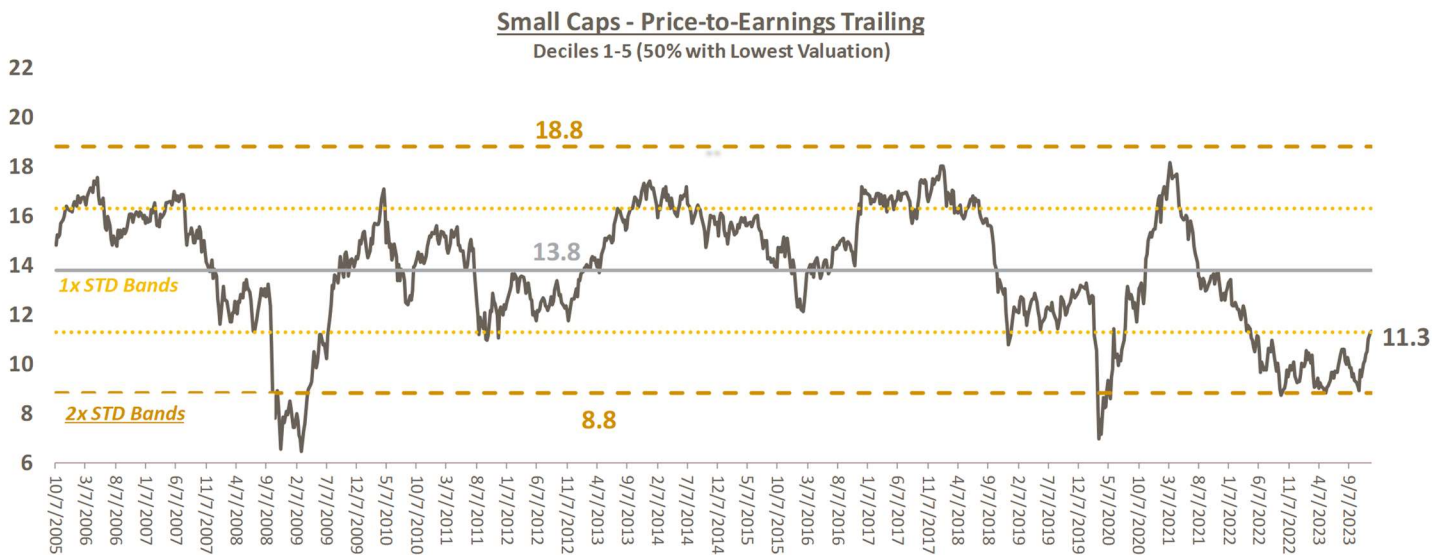
A narrow definition of valuation outperformed this quarter. Universe valuation factors that include banks like price-to-earnings and price-to-book performed well for the quarter. Universe factors rank all small cap stocks together and can significantly overweight areas of the market, like banks. However, digging deeper, once the bank bias was removed valuation didn't perform well. For example, enterprise value-to-book and enterprise value-to-ebitda are universe value factors that do not include banks, and both were negative. The peer-group valuation composite and relative valuation factors contributed additional headwinds. Peer group analysis is a

distinguishing characteristic of our process and ensures diversification. Peer-group valuations take the lowest 30% from each peer group and diversify across all sectors. Relative valuation is a measure of how a company is valued today vs. its own historical valuations.

Other headwinds during the quarter came from diversifying styles like quality and growth, which ended the quarter flat or negative.

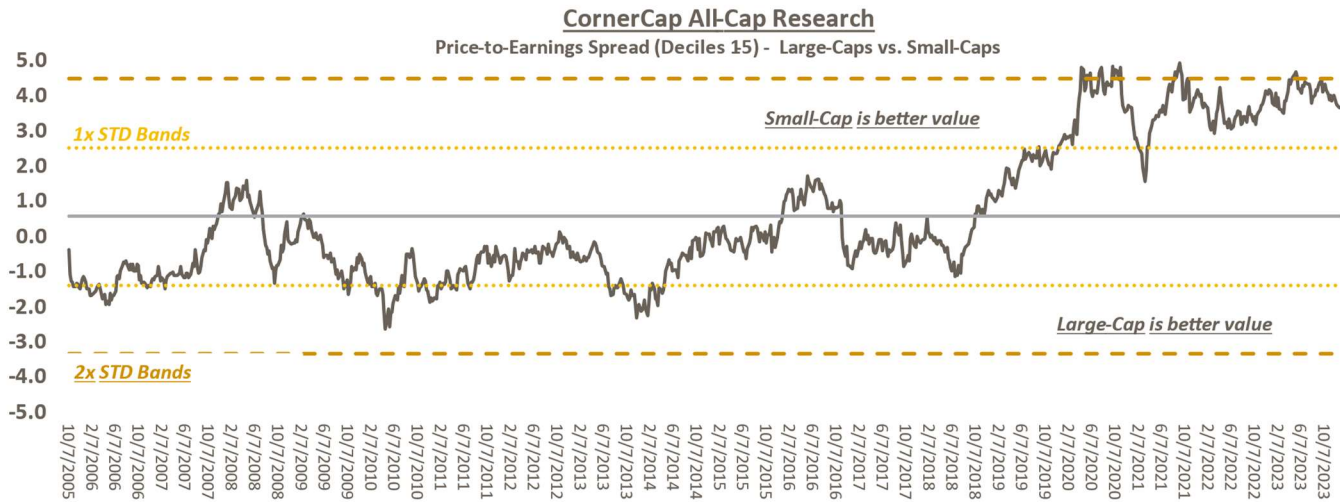
The Financial Warnings Overlay safe-rated stocks trailed both the fail and avoid groups by a small margin during the quarter (Exhibit 4).

Exhibit 6: Small-Cap Valuations Remain Attractive



Source: CornerCap Fundametrics® Research System, Excludes REITs
Trimmed Mean bottom 5%

Exhibit 7: Valuation Spread Favors Small-Cap



Source: CornerCap Fundametrics® Research System, Excludes REITs
Trimmed Mean bottom 5%

When tracking market valuations, the investment team segments companies into two halves. The top half are those stocks that include non-earners and the most expensive stocks, which tend to get screened out from consideration for portfolios. The bottom half are those stocks that are more attractively valued and most relevant to the Fundametrics research process and model.

Price-to-earnings valuations in the bottom half contracted by 29% in 2022 and started the year at two standard deviations to the downside (Exhibit 6). This has occurred three times since 2006: 2008, 2009 and 2020. The

median one-year returns for the small cap investable universe and Russell 2000 Value Index following these events were over 50% with no negative results. Small-cap stocks didn't reach the median return in 2023, but they trended in the right direction and continue to have lots of runway at their current valuation, one standard deviation below their historical average.

In addition, small caps remain attractively value vs. large cap stocks (top 500 companies). The price-to-earnings spread remains in favor of small caps (Exhibit 7).

Bottom Line

The narrative of a recession did not come to pass in 2023. A steady dose of good news came in the 4th quarter: lower inflation prints in November and FED commentary of loosening monetary policy in December. Since the release of lower inflation numbers in mid-November, small caps have been the new leadership, outperforming the S&P 500 by 10%.

The market is pricing in six rate cuts where the FED has communicated three. The market has not accurately forecasted the path of interest rates or inflation recently and could be too opportunistic. This will likely lead to volatility in equity markets and can present opportunity, particularly in more inefficient parts of the market, especially for active managers. The combination of the CornerCap approach to diversified portfolios to mitigate some of the broader market volatility and continued attractive valuations within small-cap stocks gives the investment team confidence for 2024.

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.