Fundametrics® Small 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 (8/31/06)
Fundametrics® Small Cap Equity	14.05	14.76	13.15	14.06	8.96	9.66	10.76
Net of Fees Returns	13.84	13.93	12.20	13.08	7.97	8.57	9.88
Russell 2000 Value Total Return	15.26	14.65	7.94	10.00	6.10	6.76	6.66
Russell 2000 Total Return	14.03	16.93	2.22	9.97	7.33	7.16	7.61

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® Small Cap Value strategy trailed the Russell 2000 Value for the quarter and beat it by a nose for the year.

- 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® Small Cap Equity Composite returned 14.05% (Gross) trailing the Russell 2000 Value Index return of 15.26% by 121 bps during the 4th quarter.

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

The strategy's selection effect is traditionally a strength, but it is not surprising to see it turn negative when the Fundametrics Alpha Composite sell-rated stocks outperform. Poor selection within consumer services and auto stocks drove the negative selection in consumer discretionary.

Within healthcare, we are seeing strength from unprofitable biotech / pharma companies. In the 4th quarter our small-cap universe of these stocks returned 25% while our traditional healthcare peer group returned 12%. This group generally does not have sales or products outside their drug pipeline and has looked attractive based off historical R&D valuations. This is a newer peer group for CornerCap and given our process of evaluating companies within their peer group, we can use unique attributes specific to the group like drug pipelines, R&D, and patents to help rank these stocks. As of the end of the quarter, the weight to this unprofitable group was 4.5% in the Russell 2000 Value index and 6.9% in the Russell 2000. Owning unprofitable biotech / pharma helped strategy performance this quarter. However, the portfolio's underweight to this specific group and not owning the top performing biotech stock for the quarter (Immunogen) will show as negative selection in traditional attribution analysis.

Table 1: Portfolio Attribution

Selection Effect	Impact	Company Contributors	Owned
Consumer Discretionary	-68 bps	Everi Holdings	Y
		Visteon Corp	Y
		Accel Entertainment	Y
Healthcare	-62 bps	Immunogen Inc	N
		Amylyx Pharmaceuticals	Y
		Haemonetics Corp	Y
Communication Services	+27 bps	TripAdvisor Inc	Y
		ShutterStock Inc	Y
		Stagwell Inc	Y

Allocation Effect	Impact	Portfolio Over / Under Weight
Energy	+98 bps	UnderWeight
Financials (Banks)	-57 bps	UnderWeight
Cash	-29 bps	OverWeight

The portfolio had one sector change more than 2% during the quarter. The biggest positive sector changes occurred in financials (+222 bps) and energy (+98 bps). Decreases occurred in industrials (-136 bps) and healthcare (-83 bps). These overall shifts are a product of the Alpha Composite rankings and Financial Warnings screen and represent where the Fundametrics research model detects 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.
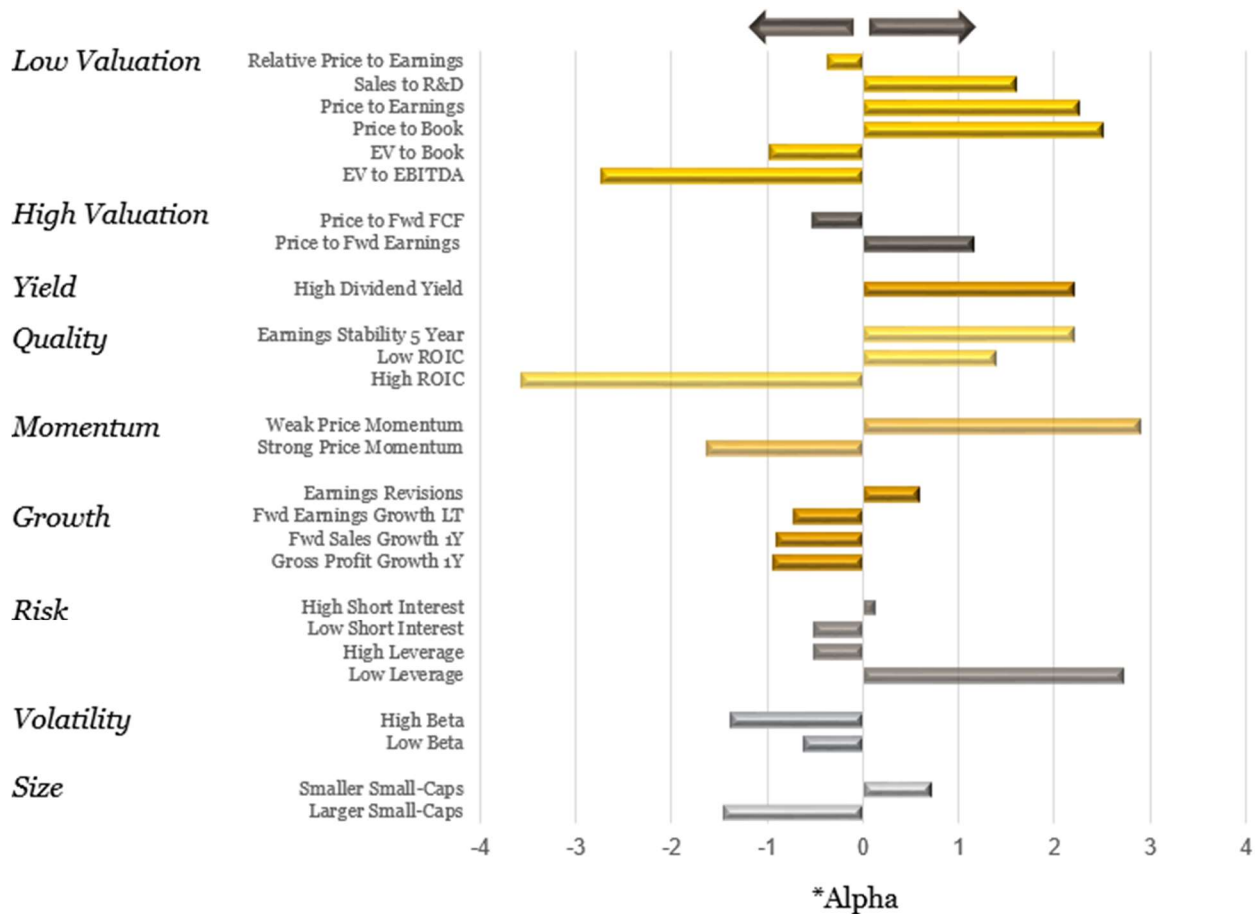
Factor Performance
Factor performance in 2023 (Exhibit 1) looked very different in the first half of the year vs. the second half. The first half was characterized by strong performance from high valuation, long-term growth and high-risk factors like high beta and high short interest. The banking crisis at the end of the first quarter had a material negative impact on low

Exhibit 1: **Full Year 2023 Style Points**
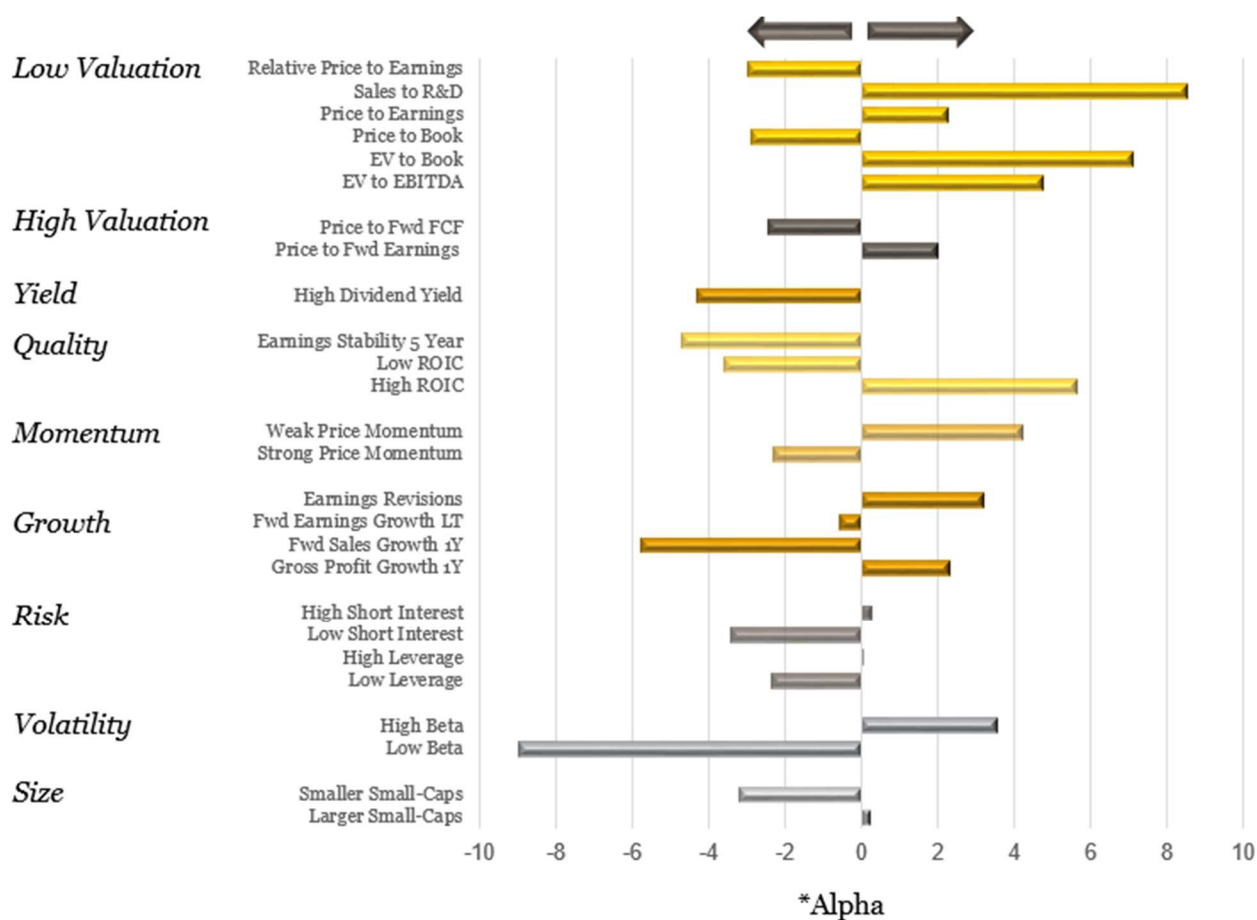
Source: CornerCap Fundametrics® Research System, Excludes REITs
*Factor top 30% return relative to the equal weight investable universe of US Small Cap stocks

Exhibit 2: 4th Quarter Style Points

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.

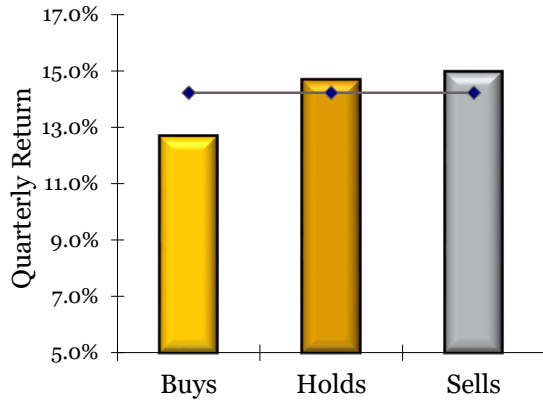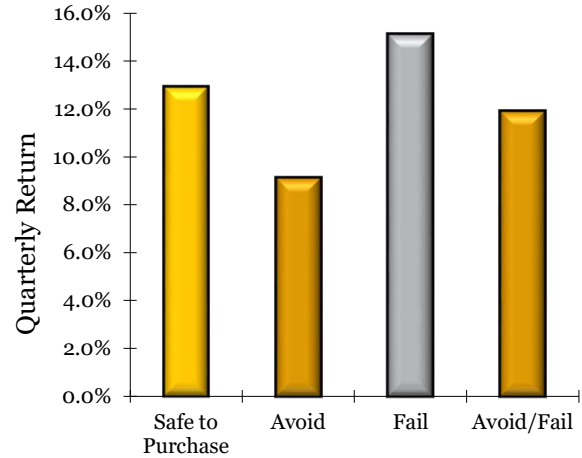**Exhibit 3:** Alpha Composite Performance for 4Q 2023

**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
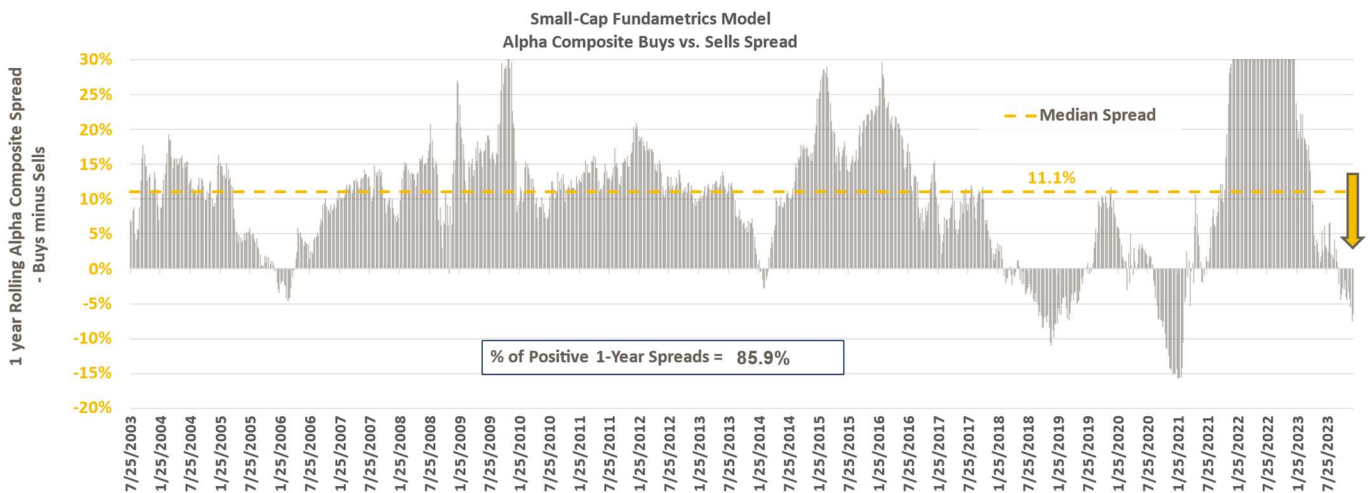
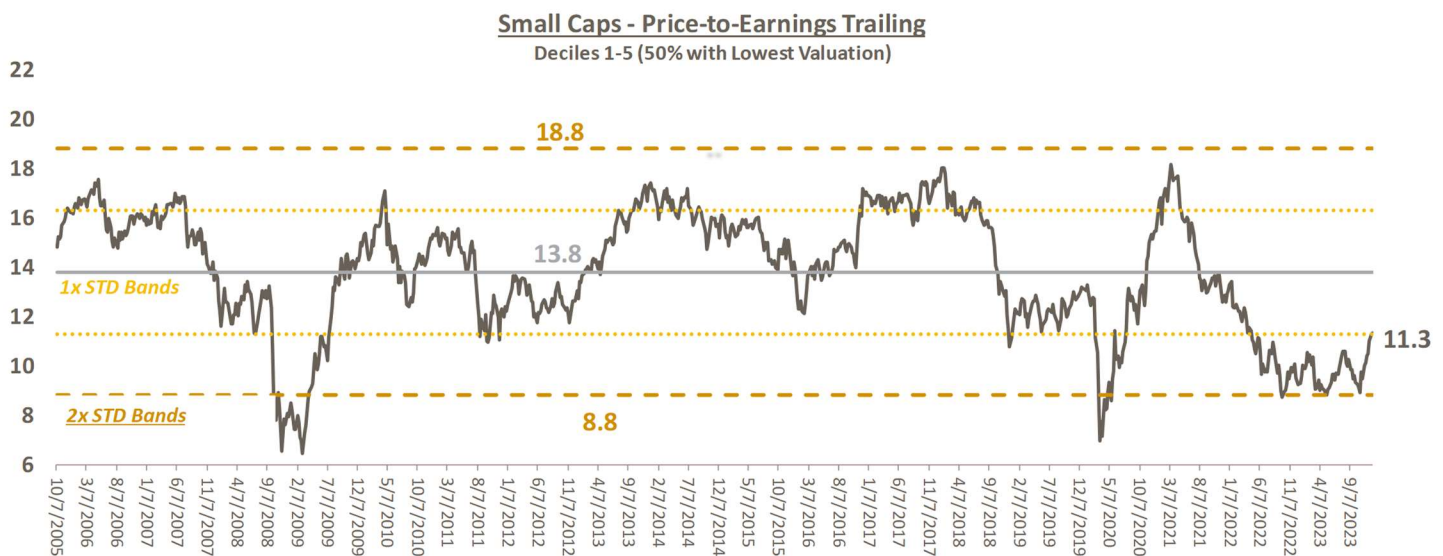**Source:** CornerCap Fundametrics® Research System; Excludes REITs

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.
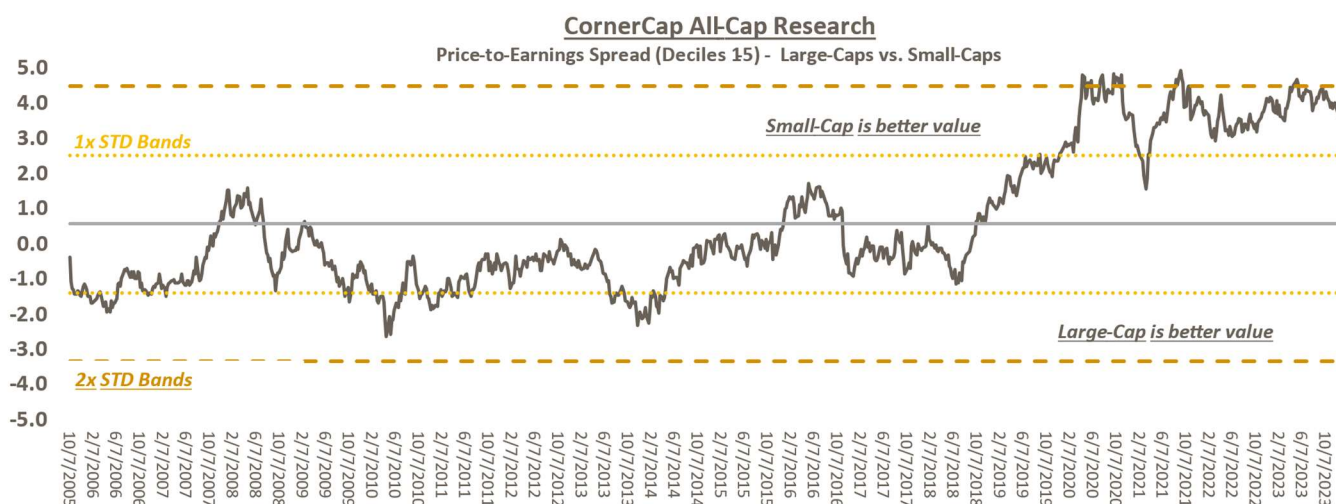
Overall, the Financial Warnings Overlay safe-rated stocks beat the combined avoid / fail group. The outperformance was not consistent. It was generated from the avoids while the fail-rated stocks outperformed (Exhibit 4).

Exhibit 6: Small-Cap Valuations Remain Attractive

Small Caps - Price-to-Earnings Trailing
Deciles 1-5 (50% with Lowest Valuation)

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

Exhibit 7: Valuation Spread Favors Small-Cap

CornerCap All-Cap Research
Price-to-Earnings Spread (Deciles 15) - Large-Caps vs. Small-Caps

Small-Cap is better value

1x STD Bands

Large-Cap is better value

2x STD Bands

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.