

## Fundametrics® International Small Cap Equity

### 4Q 2023 Performance Summary and Observations

	4Q 2023	1 Year	Latest 3 Years	Inception to Date (12/31/2019)
<b>Fundametrics® International Small Cap</b>	11.11	16.82	5.42	6.62
<b>Net of Fees Returns</b>	10.82	15.69	4.38	5.58
<b>FTSE Developed ex-US Small Cap Index</b>	11.07	14.86	0.36	2.87

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 International Small Cap Equity strategy performed in line with the FTSE Developed ex-US Small Cap Index, delivering a 11.11% return for the quarter compared to the benchmark's 11.07%. For the 2023 year, the strategy outperformed the benchmark by 196 bps (gross).
- Lower rate expectations sparked a market rally in the fourth quarter, driving investors to seek risk in areas that had not performed as well in the previous increasing-rate environment such as stocks with long-term forecasted growth or trading at high valuations.
- The Alpha Composite model produced mixed results for the quarter with the hold-rated stocks outperforming both buys and sell. The risk-taking environment was evident in the Financial Warnings overlay as the fail-rated stocks—those typically carrying excess risk—outperformed.
- The Fundametrics investment process works best in inefficient markets. At its 4-year anniversary, the strategy's annualized alpha is 375 bps and continues to meet expectations of the investment team given the environment within the international small-cap market.

## 4Q 2023 Performance Analysis

CornerCap's Fundametrics International Small-Cap Equity Composite returned 11.11% for the fourth quarter ending December 31, 2023, slightly beating the FTSE Developed ex-US Small Cap Index return of 11.07%.

Several benchmark sectors returned double-digit returns with Real Estate (+17.8%), Technology (+13.8%), Utilities (+12.45%), and Financials (+12.44%) leading the way. Energy (+1.0%) severely underperformed all other sectors.

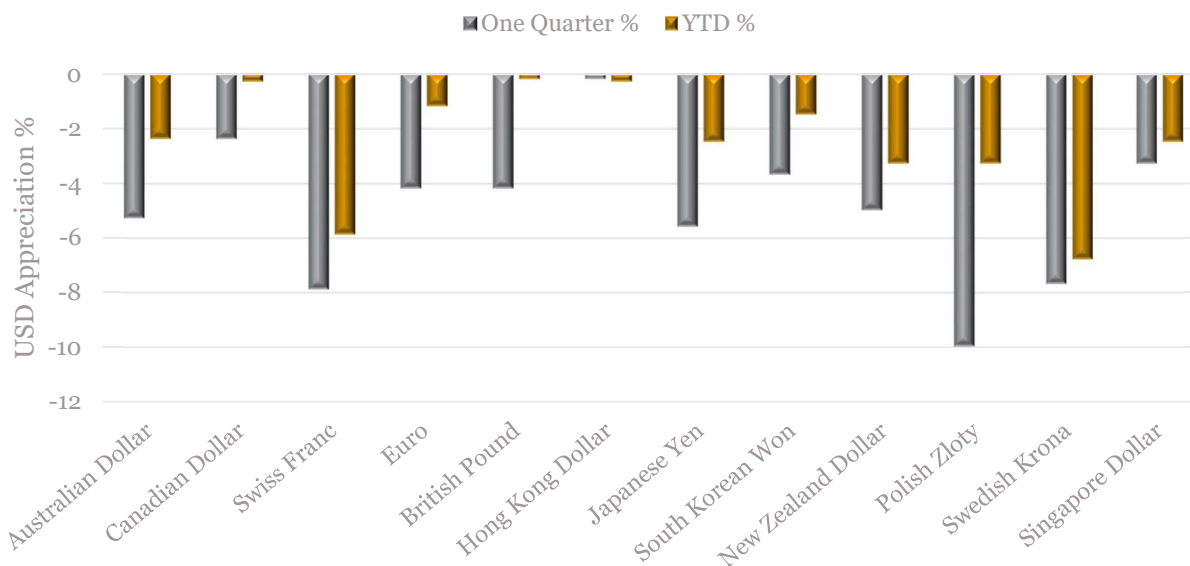
Sector allocation for the strategy was negative. An underweight to Real Estate, given its dominant performance, and the portfolio's cash allocation were both significant drivers. There was minimal positive sector allocation.

Stock selection, however, was positive during the fourth quarter. Positive selection contributions were led by Financials and Materials while stock picks in Health Care and Utilities detracted from portfolio return.

The US dollar weakened dramatically against a trade-weighted index during the fourth quarter as investors' expectations changed, reflecting multiple rate cuts for the 2024 year. A weak US dollar typically helps international returns as the foreign currency is worth more once converted to USD. Exhibit 1 shows the broad weakness for the quarter. The significant weakness for the quarter drove the annual figures into negative territory also, flipping the story from previous quarters.

International developed equity markets rallied in the fourth quarter to finish the year strong after weakness in the third quarter. The enthusiasm was sparked by market expectations that central banks may be

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



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

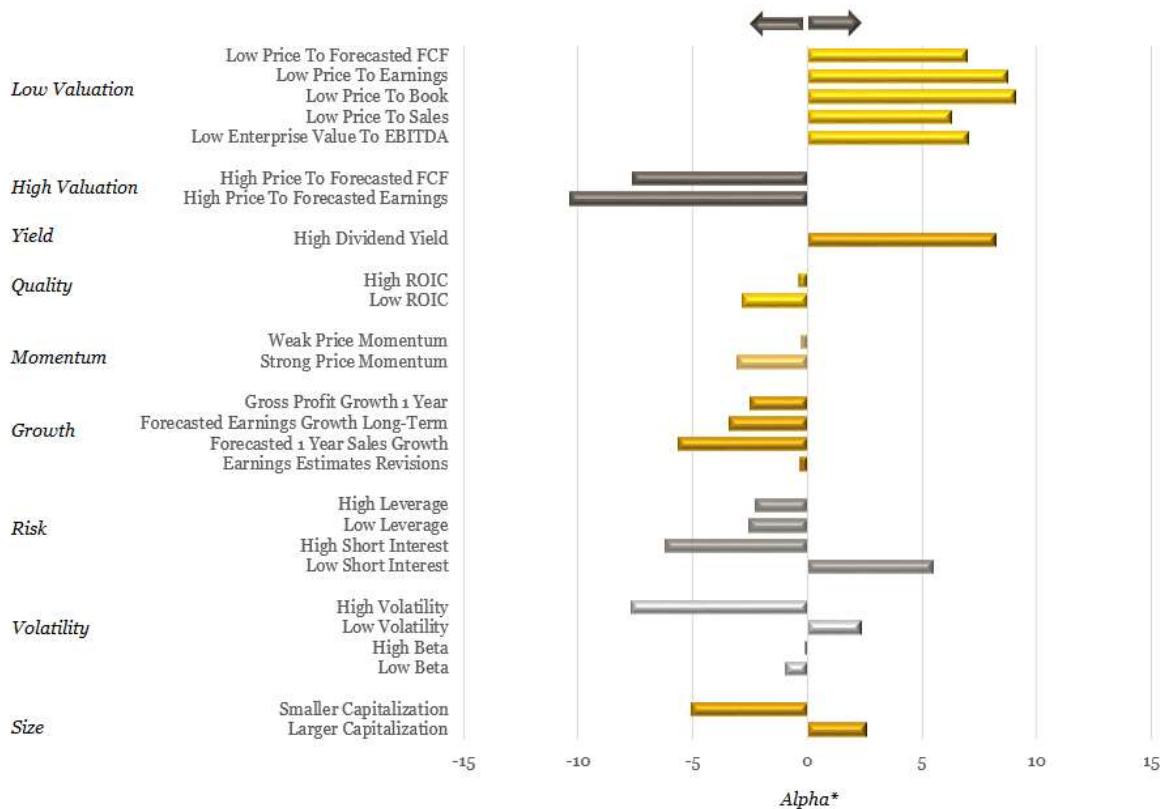
finished with their aggressive rate increases and will soon start cutting rates, an area where investors and central bankers do not see eye to eye. Both seem to agree that rates will probably be cut in 2024. It is just a matter of when and how quickly the banks should act. Even as inflation nears central banks' target inflation rate, central bankers are not ready to claim the job is complete; the market disagrees. Of course, the exception is Japan, where investors have anticipated the central bank to raise rates and move away from its negative interest rate policy. That has not happened yet, even as inflation has run slightly over the bank's target rate for nearly 9 months. The bank has messaged that it is waiting for more solid evidence of

improving wage and price trends before scrapping its ultraloose monetary policy.

### Factor Performance

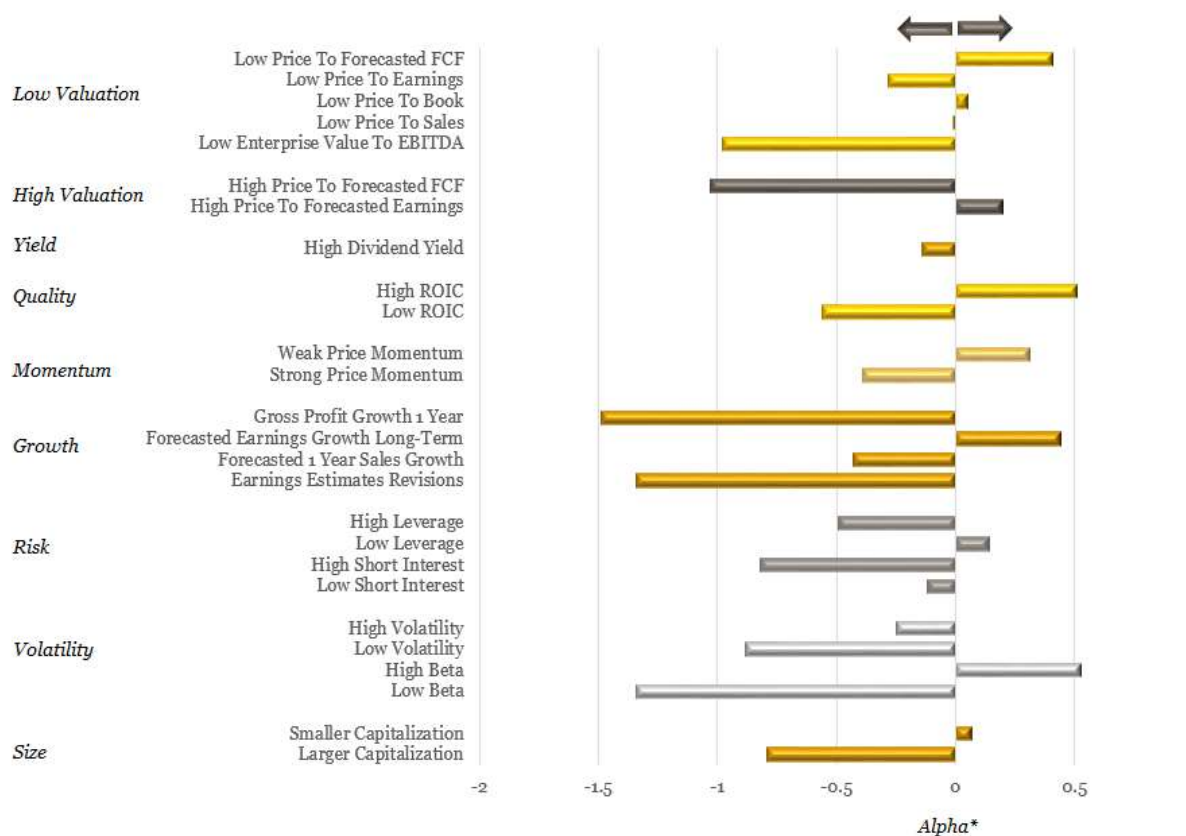
Fourth quarter factor performance looked very different from what transpired over the calendar year. For the year, value factors and high dividend yield exhibited strong outperformance, but factor performance was a mixed bag during the broad rally to end the year. The reversal was shown in weak momentum stocks outperforming and investors' shift to long-term forecasted growth with lower future interest rate expectations.

**Exhibit 2: 2023 Factor Alpha Profiles – 52 Weeks Ending 12/29/2023**



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

### Exhibit 3: 4Q 2023 Factor Alpha Profiles – 13 Weeks Ending 12/29/2023



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

Investors sought value and safety in October’s down market, but that quickly switched gears for the remainder of the quarter. With expectations of lower future rates, the market gravitated towards riskier stocks that had been out of favor for much of the year, specifically stocks trading at high valuations and high forecasted growth rates. Risk taking was also prevalent, especially in December, when stocks carrying higher leverage and having a high level of short interest outperformed. In these market environments, when investors seek risk and pay for growth at any valuation, the strategy can lag.

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 2023 year, as illustrated in Exhibit 4. Notably, these multiples continue to hover slightly more than one standard deviation below the long-term average. This suggests that international small cap stocks are still positioned at attractive valuations, providing us with compelling reasons to consider them as favorable investment opportunities. As background, we divide our international

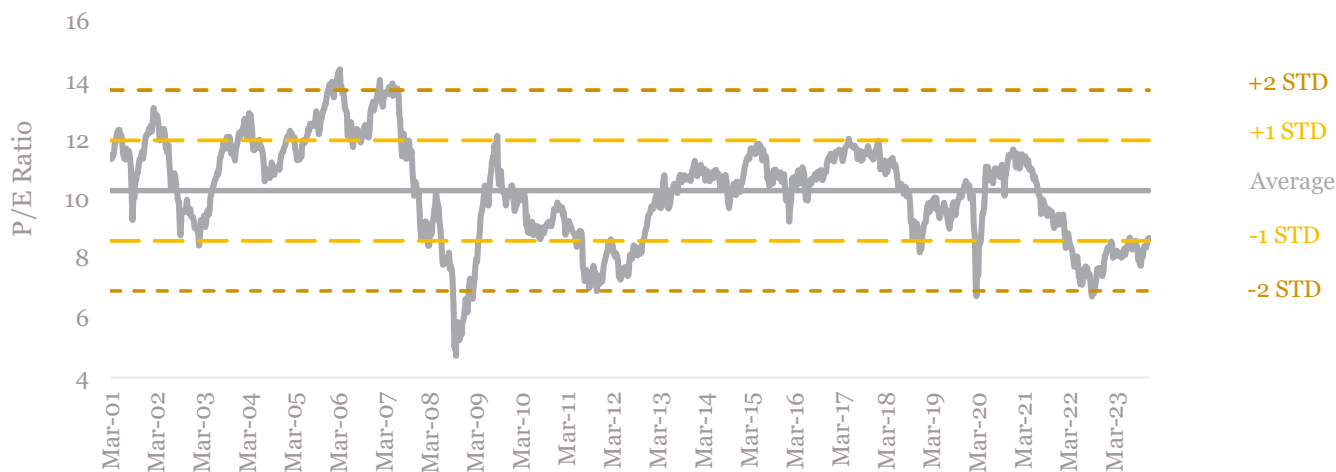
small-cap universe into two halves based on their market valuation multiples. The more attractively valued bottom half is generally where our investment candidates are found

and is more relevant than the top half, which consists of the most expensive stocks and those with negative earnings.

### Exhibit 4: Valuation Multiples: Still Room to Improve

#### International Small Caps Price-to-Earnings Ratio

Deciles 1-5 (50% with Lowest Valuation)  
Blend of Current & Fwd One Year Earnings



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

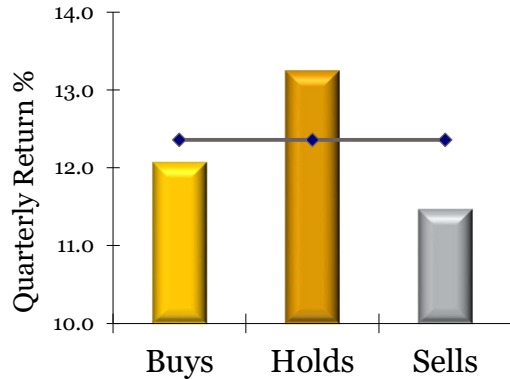
The International Small-Cap model has two final rankings for each stock: the Alpha Composite and Financial Warnings overlay. The Alpha Composite combines the ranks of each stock within its region and within its CornerCap-defined Peer Group while the Warnings overlay is designed to screen out stocks with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

The Alpha Composite discrimination was mixed for the quarter (Exhibit 5), with the Hold-rated stocks beat both the Buys and Sells. The peer-group ranking positively

contributed, but the regional rank was almost equally negative, resulting in neutral effectiveness.

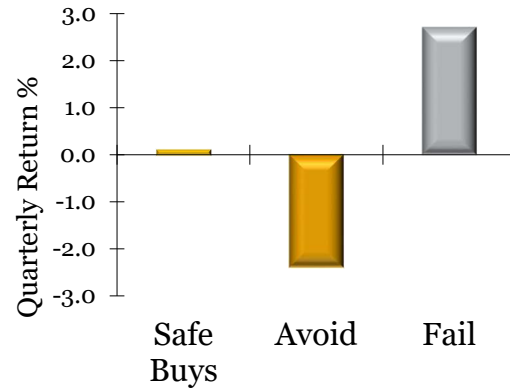
The Financial Warnings Overlay did not effectively screen stocks with excess risk this quarter as the Fail-rated stocks outperformed both the Safe- and Avoid-rated buys (Exhibit 6). In our work, the Fail-rated are stocks that have a significant warning signal or a combination of warnings that has led to underperformance over time. These stocks are either not purchased as new positions in the portfolio or sold if already held. For the quarter, stocks with poor momentum rallied, leading to the underperformance of the warnings model.

**Exhibit 5: Alpha Composite – 13 Weeks Ending 12/29/2023**



Source: CornerCap Fundametrics Research System

**Exhibit 6: Alpha Composite Buys Separated by Financial Warnings Score - 13 Weeks Ending 12/29/2023**



Source: CornerCap Fundametrics Research System

**Bottom Line**

The focus on interest rates dominates the investment landscape, shaping the trajectory of various asset classes. At the core of our work is a recognition that attempting to predict specific macroeconomic events is a challenging endeavor. Instead, our disciplined, systematic process positions us to identify opportunities where stocks are trading at a discount relative to their underlying fundamentals. This approach offers a reliable framework that has demonstrated effectiveness in navigating both bullish and bearish market conditions.

*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 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.*