

Fundametrics® International Small Cap Equity

1Q 2024 Performance Summary and Observations

	1Q 2024	1 Year	Latest 3 Years	Inception to Date (12/31/2019)
Fundametrics® International Small Cap	6.55	15.82	5.06	7.82
Net of Fees Returns	6.28	14.96	4.12	6.83
FTSE Developed ex-US Small Cap Index	2.38	10.17	-0.27	3.27

Performance is as of 3/31/2024. 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 6.55% return for the quarter compared to the benchmark's 2.38%. For the latest one-year return, the strategy outperformed the benchmark by 565 bps (gross).
- Interest-rate cut expectations were dampened by stronger-than-expected economic growth and inflation data, driving investors back to their old playbook of low valuation and strong price momentum.
- The Alpha Composite model delivered robust performance, showcasing a clear and pronounced staircase pattern across its ranked stocks, from buy-rated to hold-rated and sell-rated.
- The Financial Warnings fail-rated stocks, known for their elevated risk levels, experienced notable underperformance, further highlighting the strong performance witnessed throughout the quarter.
- The Fundametrics investment process works best in inefficient markets. Now in its fifth year, the strategy's annualized alpha is 455 bps and continues to meet the expectations of the investment team given the environment within the international small-cap market.

1Q 2024 Performance Analysis

CornerCap's Fundametrics International Small-Cap Equity Composite returned 6.55% for the first quarter ending March 31, 2024, outperforming the FTSE Developed ex-US Small Cap Index return of 2.38%.

In this quarter, sector returns within the benchmark displayed a notable range of performance. The standout sectors were Financials, Energy, and Industrials, with impressive gains of 8.1%, 6.7%, and 5.9%, respectively. Alternatively, Communication Services, Real Estate, and Utilities faced challenges, experiencing declines of -2.4%, -3.8%, and -4.4%, respectively.

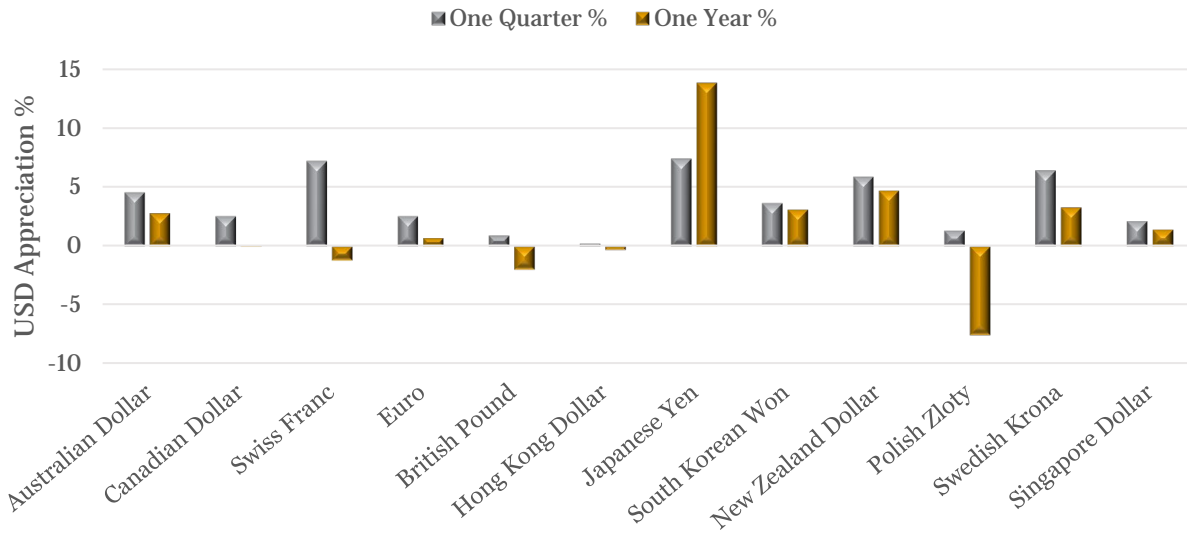
The portfolio's sector allocation yielded positive results, notably benefiting from our overweight position in Financials while being underweight in Utilities and Real Estate. However, holding cash during market gains proved to be a drawback.

Stock selection was the primary source of outperformance against the benchmark. Specifically, strong selections in Industrials, Information Technology, and Consumer Discretionary sector propelled our gains. The only slight setbacks were observed in Communication Services and Energy, emphasizing the overall effectiveness of our stock selection strategy in generating alpha.

The US dollar has rebounded after its decline at the end of last year, as expectations have diminished rapidly. At the beginning of the year, investors were anticipating over six rate cuts, but now it's fewer than two, driven by the continued strength of the US economy and inflation figures remaining above the target rate. Exhibit 1 illustrates the overall strength of the US dollar for the quarter.

Two currencies that have attracted significant attention from investors are the Swiss Franc and the Japanese Yen. Firstly, the Swiss central bank surprised many by cutting rates, becoming the first major economy to do so due to its consistently low inflation figures. Secondly, the Bank of Japan has ended its negative interest rate policy, increasing the lending rate for the first time in 17 years. However, despite these moves, the yen has not strengthened against the dollar. In fact, with US rates rising, the gap between the two currencies has widened further.

Exhibit 1: US Dollar Appreciation vs World Currencies—March 29, 2024

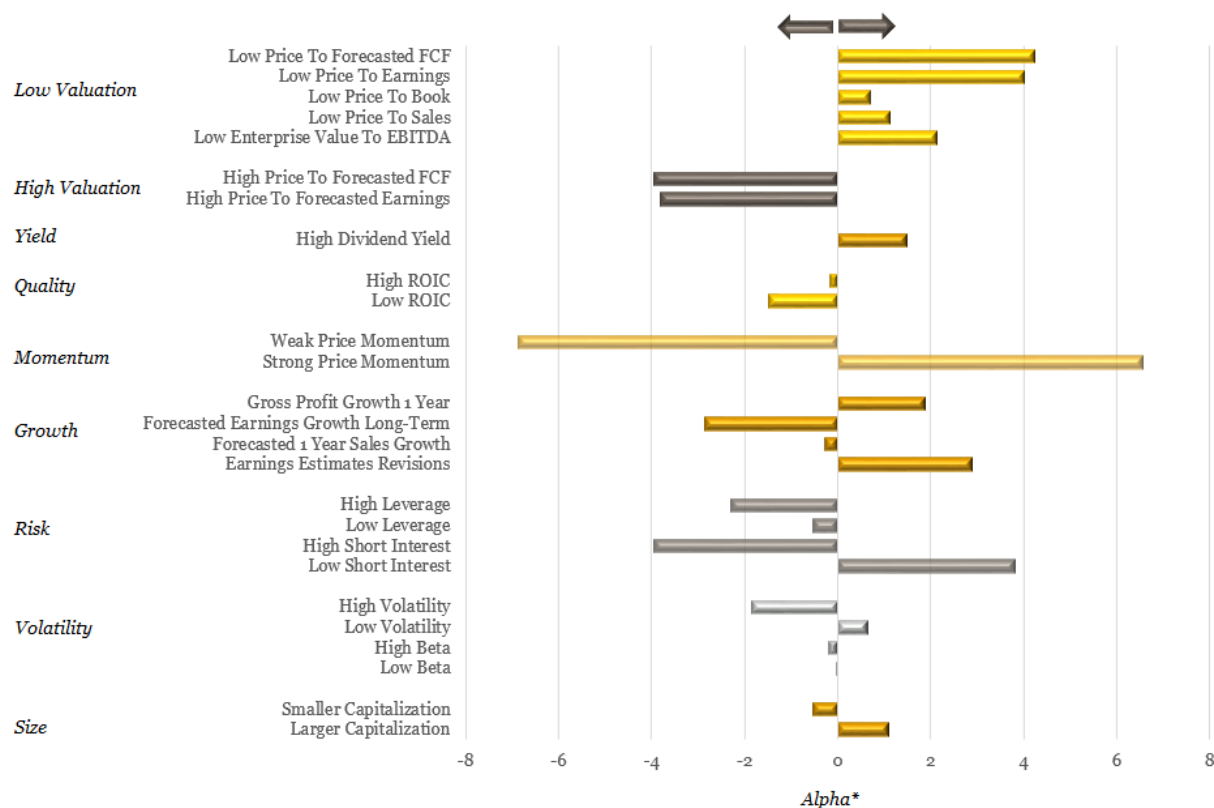


Source: S&P Global Capital IQ. CornerCap Fundametrics Research System.

Factor Performance

The first quarter's factor performance exhibited a significant deviation from the previous quarter, driven by stronger-than-expected economic data prompting central banks to revise their rate cut expectations. This adjustment favored value factors and high-dividend-yielding stocks, while those with strong price momentum outperformed the most. Conversely, stocks with high leverage and substantial short interest encountered difficulties, possibly linked to the shifting interest rate outlook.

Exhibit 2: 1Q 2024 Factor Alpha Profiles – 13 Weeks Ending 3/29/2024



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

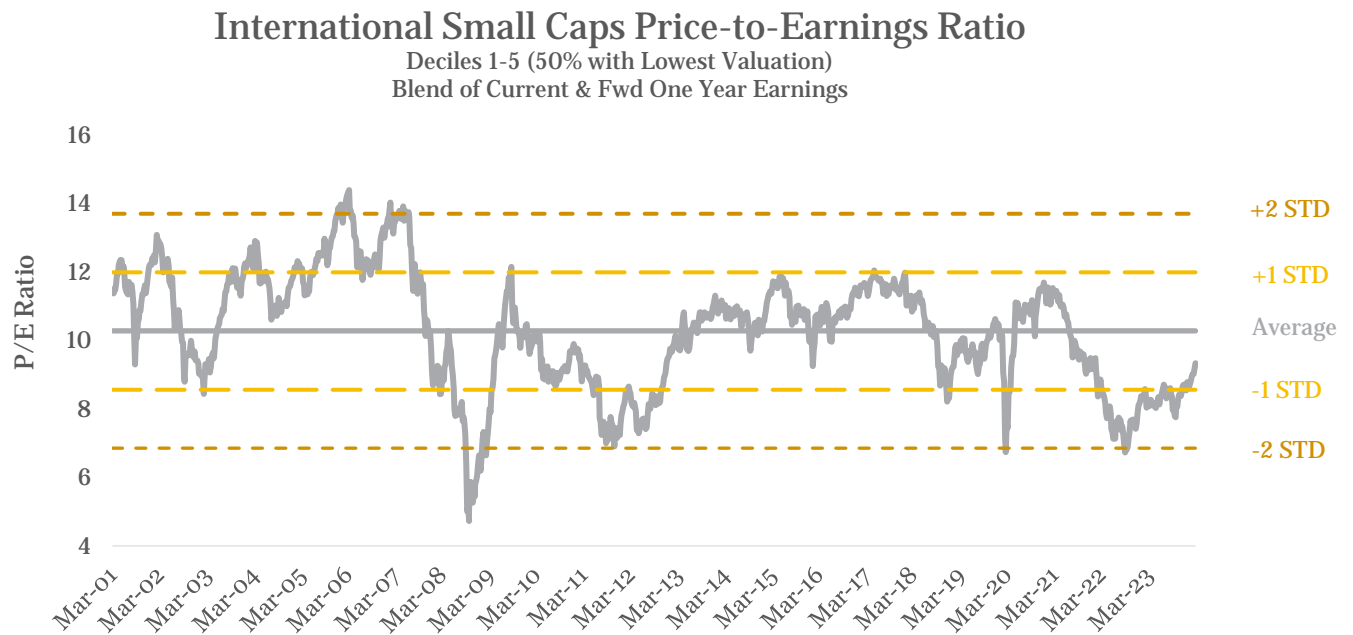
Investors quickly reversed course from their risk-on mode that was prevalent at the end of last year. With the shift that interest-rate cuts will come later than expected, investors turned to their old playbook, seeking stocks with low valuation and strong momentum like they did for most of 2023. This sentiment was also witnessed in stocks with high leverage or high short interest underperforming their peers. Although valuation carries a large weight in our strategy, it is complemented by elements of growth and quality, which also performed well in this environment.

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

Valuation

Valuation multiples have increased almost 40% since their lows in 2022 but remain below their long-term average, as illustrated in Exhibit 3. 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 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

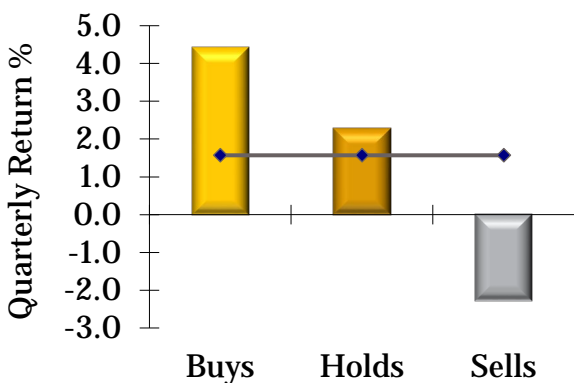
The International Small-Cap model has two final rankings for each stock: the Alpha Composite and Financial Warnings overlay. The Alpha Composite combines the ranks of each stock within its region and within its CornerCap-defined Peer Group while the Warnings overlay is designed to screen out stocks with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

The Alpha Composite discrimination was strong for the quarter (Exhibit 4), with the Buy-rated stocks beating the Holds, which beat the Sells. This staircase pattern is indicative of fundamentals driving the

market. Both the peer-group and the regional rankings positively contributed to the Alpha Composite results.

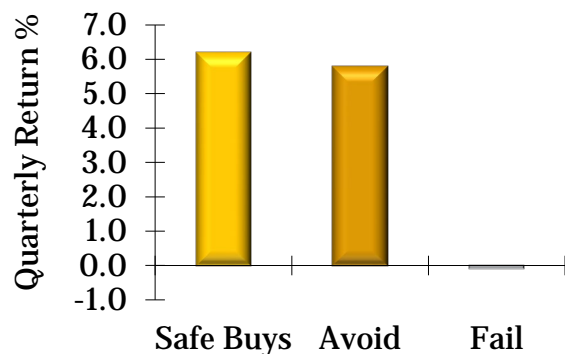
The Financial Warnings Overlay effectively screened stocks with excess risk this quarter as the Fail-rated stocks drastically underperformed both the Safe- and Avoid-rated buys (Exhibit 5). In our work, the Fail-rated are stocks that have a significant warning signal or a combination of warnings that 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, stocks with poor momentum, poor relative growth, and high short interest struggled, leading to the underperformance of the fail-rated stocks.

Exhibit 4: Alpha Composite – 13 Weeks Ending 3/29/2024



Source: CornerCap Fundametrics Research System

Exhibit 5: Alpha Composite Buys Separated by Financial Warnings Score - 13 Weeks Ending 3/29/2024



Source: CornerCap Fundametrics Research System

Bottom Line

Reflecting on the quarter's market dynamics, it's evident that the landscape has undergone notable shifts, particularly in response to recalibrated expectations surrounding interest rates. Ultimately, amidst the dynamic interplay of global economic forces, our steadfast commitment to a disciplined, systematic investment process remains unwavering. By focusing on the fundamentals that our research team employs in our models, we believe we are poised to capitalize on opportunities, increasing the probability of the long-term success of our investment strategy.

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.