

# Small Cap Growth Month-End Performance Review



The stock market continued its strong start to the year with the first four months of this year producing the best performance for the S&P 500 since 1987. The consensus explanation is that the market is benefitting from the recent change in monetary policy, as investors believe the Fed's current tightening cycle is over.

Furthermore, economic data points suggest continued growth for the economy with Purchasing Managers' Index (PMI) and employment data reflective of a growing economy. Ironically, the improved growth outlook for the U.S. economy, along with recent signs that the Chinese economy is improving and European economies are stabilizing, could compel the Federal Reserve to reverse course later this year. The Fed specifically cited a slowdown in worldwide economic growth when they decided to pause their monetary tightening policy in January.

While it may be injudicious to find problems in a strong market, we remain concerned about the breadth of the market performance. Much like the previous two years, a narrow group of

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	Month Ending 4/30/19	Year-to-Date 4/30/19
Institutional Composite (gross)	4.99%	20.08%
(net)	4.98%	20.00%
Russell 2000 Growth <sup>(4)</sup>	3.05%	20.71%

Source: Renaissance Research, Bloomberg, FTSE Russell

## SECTOR WEIGHTS & PORTFOLIO CHANGES<sup>(1)</sup>

Sector	Ending Weight <sup>(2)</sup>	Change from 3/31/19	Small Cap Growth Additions & (Small Cap Growth Deletions) <sup>(3)</sup>
Information Technology	34.7%	-1.9%	(Semtech)
Health Care	18.3%	+0.2%	Medpace Holdings
Consumer Discretionary	18.1%	+1.6%	Texas Roadhouse
Industrials	17.3%	+0.4%	
Financials	8.2%	-0.3%	
Energy	3.5%	-0.1%	
Materials	0.0%	0.0%	
Communication Services	0.0%	0.0%	
Consumer Staples	0.0%	0.0%	
Real Estate	0.0%	0.0%	
Utilities	0.0%	0.0%	

Source: Renaissance Research, FactSet

<sup>(1)</sup>Based on a representative account of the strategy discussed and shown as supplemental information to the GIPS compliant presentation. Portfolio characteristics (e.g., sector weights, valuation, growth rate) are based on a representative account that we believe is illustrative of the strategy. Characteristics and/or holdings may not be the same for all accounts invested in the strategy due to factors such as pending trades or account restrictions. Additions/Deletions reflect security transactions completed by the date stated on this presentation, and the securities mentioned may not be held by all accounts invested in the strategy.

<sup>(2)</sup>Weights as of the end of the presentation period, which only include the equity portion of the portfolio. Cumulative total weighting may not add up to 100% due to weights being rounded to the nearest decimal place.

<sup>(3)</sup>Any securities referenced should not be considered a recommendation to purchase or sell a particular security. These securities may represent a portion or all of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. Nonperformance-based criteria have been used to select the securities listed. The past performance of these securities is no guarantee of future results. The specific securities identified and described may not represent all of the securities purchased, sold or recommended for this strategy. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. Portfolio holdings may not be current recommendations to buy or sell any security, and may no longer be held in the representative account. To request a complete list of portfolio holdings recommendations for the past year, the calculation methodology, or a list showing the contribution of every holding to the representative account's performance for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).

<sup>(4)</sup>Primary benchmark.

# Small Cap Growth

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### CONTRIBUTORS TO RETURN<sup>(1)(3)</sup>

Company Name	Average Weight <sup>(2)</sup>	Contribution to Return	Comments
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#### TOP FIVE CONTRIBUTORS—SMALL CAP GROWTH

Medidata Solutions	2.08%	0.47%	The company reported earnings above expectations for the first quarter and was rumored to be acquired.
Five Below	2.08%	0.36%	Store openings continue at a robust pace, and new initiatives should drive additional sales growth.
Ubiquiti Networks	2.40%	0.32%	Recently, strong growth in their networking products for enterprises drove sales growth to over 20%, and investors expect the momentum to continue.
Children's Place	2.09%	0.32%	Sales growth and profitability should improve as competitor Gymboree finishes liquidating their inventory and closes their stores.
John Bean Technologies	1.66%	0.30%	Earnings for the first quarter beat expectations and full year guidance was raised due to order strength in its AeroTech division.

#### BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH

CommVault Systems	1.67%	-0.32%	CommVault reported disappointing earnings and guidance, as new management looks to restructure their sales practices.
PRA Health Sciences	1.91%	-0.26%	The stock came under pressure during the month, as much of Health Care did, due to concerns about the impact of possible Medicare for All legislation.
BioTelemetry	1.75%	-0.25%	BEAT suffered for the same reason as PRAH, as current fundamentals remain unchanged.
iRobot	1.78%	-0.19%	Revenues for the first quarter were below expectations but the company believes they will still achieve their full year guidance. We continue to hold our position.
Texas Roadhouse	0.34%	-0.18%	Texas Roadhouse saw higher-than-expected labor costs, which impacted their earnings for the first quarter. We are sticking with this high quality company.

Source: Renaissance Research, FactSet

mega-cap Technology and Internet stocks have led the market as they continue to benefit from the current low-interest rate environment. We are also concerned about the sustainability of the recent positive economic data points. For example, the April Institute for Supply Management (ISM) Manufacturing Index, despite remaining in growth territory, fell to its lowest reading in over two and a half years as new orders and employment declined. In addition, existing home sales continue to disappoint with March marking the 13<sup>th</sup> straight month of annual declines despite lower mortgage rates and record low unemployment. Lastly, the International Monetary Fund (IMF) cut its global economic growth forecasts for 2019 and warned that growth could slow further, driven by trade tensions, declining consumer and business sentiment and political uncertainty.

The S&P 500 returned 4.0% in April, driven by strong corporate earnings. Of the S&P 500 companies that have reported results through April, 57% reported better-than-expected revenue growth and 76% reported earnings that exceeded expectations (Source: FactSet). Despite better-than-expected

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<sup>(2)</sup>Average weights over the presentation period, which only include the equity portion of the portfolio.

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corporate earnings, earnings growth did contract in the quarter, although the contraction has been smaller than expected. We are mindful that the direction of earnings revisions has an impact on stock prices over the long term, and the current trajectory is worrisome.

Our Small Cap Growth portfolio generated a positive return during the month of April and outperformed the Russell 2000 Growth Index. The Index saw gains from all sectors except for Health Care, which came under pressure as many of the 2020 Presidential candidates expressed their support for “Medicare for All” policies. The top-performing sectors were the Financial and Industrials sectors, as lower interest rates and an improving economy propelled them higher. Lagging sectors included Health Care and Real Estate. The relative performance of the Small Cap Growth portfolio was driven by our underweight position and stock selection in Health Care. Moreover, the Technology sector was a positive contributor due to our overweight position and stock selection within the sector. Materials and Energy were negative relative contributors during the month due to our underweight position in Materials and overweight position in Energy.

There were a number of changes to the holdings in the Small Cap Growth portfolio during the month. New positions were initiated in **Medpace Holdings** (MEDP) and **Texas Roadhouse** (TXRH). Offsetting the additions was the sale of **Semtech** (SMTC) and the reduction of some larger positions.

Medpace Holdings is a clinical contract research organization providing product development services to the biotechnology, pharmaceutical, and medical device industries. Small and mid-sized biopharma companies continue to be a growing and innovative segment of the market where Medpace has a strong reputation as a leader in drug development. This is seen in the company’s quarterly bookings, which have been 20% or greater than current revenues for the last five quarters. We believe that the growing backlog is setting the company up for consistent revenue growth going forward.

Texas Roadhouse operates over 580 restaurants in 49 states and 9 foreign countries, including 555 Texas Roadhouses and 25 of Bubba’s 33 locations. The company is focused on delivering a strong every day value menu with high service levels and guest satisfaction. While the company has been impacted by higher-than-expected labor costs, recent price increases should help alleviate some of the pressure, and we believe that the management team is one of the best executors in the restaurant industry. We see the continued growth in the store base and increasing traffic at current stores providing a solid foundation for the company to generate long-term growth and profitability.

Semtech was removed from the portfolio during the month, as the stock was trading at the upper end of its valuation range and we wanted to pare back our exposure to semiconductor stocks overall. While we believe the space is attractive over the long term, near-term inventory rebalancing could pressure the stocks over the next couple of quarters.

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### DISCLOSURES

The opinions stated in this presentation are those of the authors as of the date listed on this presentation and are subject to change at any time due to changes in market or economic conditions.

### STOCK REFERENCES

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## PERFORMANCE

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## REFERENCED INDICES

*(Indices are unmanaged and are not available for direct investment.)*

**Russell 2000 Growth Index**—The Russell 2000 Growth Index is composed of the smallest 2,000 of the 3,000 largest U.S. companies based on total market capitalization with higher price-to-book ratios and higher forecast growth values.

**S&P 500 Index**—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

## GICS<sup>®</sup> SECTOR INFORMATION

MSCI and S&P Dow Jones do not make any express or implied warranties or representations and shall have no liability whatsoever with respect to any GICS data contained herein.

# GIPS Compliant Presentation Small Cap Growth Institutional Composite

Year	As of Year End or Current Quarter								
	Small Cap Growth Institutional Composite Gross-of-Fee Return	Small Cap Growth Institutional Composite Net-of-Fee Return	Russell 2000 Growth Benchmark Return	Net Composite 3 Year Annualized Standard Deviation	Benchmark 3 Year Annualized Standard Deviation	Annual Asset Weighted Composite Dispersion	Number of Portfolios in Composite	Market Value of Composite (Millions)	Market Value of Firm's Assets (Millions) **
1996	27.01%	26.26%	11.26%			NMF*	2	\$1.2	\$1,525.4
1997	27.68%	26.88%	12.95%			2.13	7	\$3.6	\$1,373.3
1998	-12.41%	-13.02%	1.23%			3.37	8	\$5.2	\$1,390.0
1999	2.49%	1.85%	43.09%			1.67	6	\$4.7	\$1,211.9
2000	9.81%	9.19%	-22.43%			NMF*	5	\$4.3	\$736.7
2001	15.86%	15.26%	-9.23%			NMF*	4	\$6.6	\$526.7
2002	-12.75%	-13.24%	-30.26%			1.21	16	\$8.7	\$415.7
2003	56.14%	55.37%	48.54%			2.04	13	\$53.7	\$575.2
2004	17.29%	16.35%	14.31%			1.03	24	\$77.1	\$908.2
2005	6.31%	5.46%	4.15%			0.74	28	\$215.9	\$2,796.6
2006	7.96%	7.15%	13.35%			0.50	28	\$318.6	\$5,450.2
2007	-1.12%	-1.89%	7.05%			1.13	19	\$275.2	\$7,661.8
2008	-42.52%	-43.06%	-38.54%			0.08	8	\$39.9	\$4,358.6
2009	19.76%	18.72%	34.47%			NMF*	2	\$1.1	\$4,403.0
2010	30.12%	29.16%	29.09%			NMF*	2	\$1.2	\$3,800.2
2011	0.03%	-0.72%	-2.91%	22.86%	24.31%	NMF*	2	\$1.0	\$2,862.3
2012	15.38%	14.48%	14.59%	21.15%	20.72%	NMF*	1	\$1.1	\$2,409.8
2013	57.63%	56.42%	43.30%	17.61%	17.27%	NMF*	1	\$1.5	\$2,767.7
2014	7.78%	6.96%	5.60%	13.98%	13.82%	NMF*	3	\$1.5	\$2,986.2
2015	5.10%	4.47%	-1.38%	14.56%	14.95%	NMF*	5	\$1.7	\$2,703.8
2016	13.04%	12.66%	11.32%	14.44%	16.67%	NMF*	7	\$0.7	\$1,762.0
2017	28.25%	27.91%	22.17%	12.74%	14.59%	NMF*	3	\$0.9	\$2,202.4
2018	-6.96%	-7.12%	-9.31%	15.60%	16.46%	NMF*	5	\$1.6	\$1,682.2
<b>FINAL 12/31/2018</b>									

\* Not meaningful figure due to five or fewer accounts invested for the entire year.  
\*\* Firm Assets do not include UMA program assets for GIPS purposes.  
As of 12/31/2018, Renaissance managed an additional \$2,157.0 million in UMA programs, totaling \$4,199.2 in assets under management and shown as supplemental information to the GIPS compliant presentation.

Renaissance Investment Management (RIM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Renaissance has been independently verified for the periods from January 1, 2006 through June 30, 2018. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Small Cap Growth Institutional Composite has been examined for the periods from January 1, 2006 through June 30, 2018. The verification and performance examination reports are available upon request.

**Firm Definition:** The Renaissance Group LLC, which does business as Renaissance Investment Management (RIM), is a registered investment advisor established in 1978, with an office in Covington, KY. RIM is an affiliate of Affiliated Managers Group based in West Palm Beach, FL. RIM manages equity, tactical, balanced and fixed income assets for a variety of clients including high net worth, institutional and sub-advisory relationships. A complete list and description of the Firm's composites is available upon request.

**Composite Composition:** The Small Cap Growth Institutional Composite portfolios consist of approximately 50-60 mainly small cap domestic equities, which focus on companies demonstrating financial strength, attractive growth potential, rising earnings expectations and attractive valuation. The Small Cap Growth Institutional Composite was created on January 31, 2001 and includes all fee paying, fully discretionary, non-tax managed, non-wrap Small Cap Growth accounts. RIM does not have non-fee paying portfolios. RIM will add new fully discretionary portfolios to the composite at the first full month under management. RIM will exclude terminated portfolios from the composite after the last full month they were under management. Composite dispersion is measured using an asset-weighted standard deviation of returns of the portfolios.

**Calculation of Performance Returns:** Performance is calculated using total returns. Monthly composite performance is asset-weighted using beginning-of-period values. Rates of return are time-weighted with geometric linking of monthly returns. Valuations and returns are computed and stated in U.S. dollars. Account performance is based on total assets in the account, including cash and cash equivalents. Performance is actual performance.

RIM has chosen to present performance for gross- and net-of-fees. The gross-of-fees performance returns are presented before deductions of management and custodial fees but after the deduction of all trading expenses. Net performance is reported after the deduction of all trading costs and actual RIM management fees. These gross- and net-of-fee investment results for the Renaissance Small Cap Growth Institutional Composite include reinvestment of dividends and other earnings. Clients' returns will be reduced by the advisory fee and any other expenses that may be incurred in the management of the client's investment advisory account. For example, if the gross annualized return of an account over a five-year period were 5.0%, deducting one twelfth of an annual advisory fee of 90 basis points each month on the ending monthly account balance would produce a cumulative net return of 22.7%. The cumulative gross return at 5.0% per annum over a five-year period would be 28.3%. A \$1 million starting portfolio would thus have an ending net market value of \$1,227,096, \$56,262 less than the gross return ending value of \$1,283,359. There is no minimum asset size for inclusion in the composite. RIM uses trade date accounting and income is accrued. Actual performance may differ from composite returns, depending on the size of the account, brokerage commissions, investment guidelines and/or restrictions, inception date and other factors. After-tax results will vary from the returns presented herein for those accounts that are subject to taxation. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

**Standard Deviation:** The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. According to the GIPS Standards, this is not required for periods prior to 2011.

**Investment Management Fees:** RIM's fees are based on account size. The standard RIM fee schedule for the Small Cap Growth Strategy for direct-managed accounts is as follows: All amounts - 1.00%. Investment advisory fees are described in Part 2A of RIM's Form ADV.

**Benchmark:** The Russell 2000 Growth Index is composed of the smallest 2,000 of the 3,000 largest U.S. companies based on total market capitalization with higher price-to-book ratios and higher forecast growth values. The Russell index names are registered trademarks of FTSE Russell. RIM compares its composite returns to a variety of market indices such as the Russell 2000 Growth. This index is shown for comparison purposes only. We are not trying to explicitly manage to this benchmark. This index represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The index cannot be invested in directly. The returns of the index do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the index shown. The index has been selected to represent what RIM believes is an appropriate benchmark with which to compare the composite performance.

**Other:** Performance data quoted in any Renaissance presentation represents historically achieved results, and is no guarantee of future performance. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the performance shown and the actual performance results achieved by any particular client. The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of sale if asset values have fallen. No assurance can be given that an investor will not lose invested capital. Consultants supplied with these performance results are advised to use this data in accordance with SEC guidelines. The actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, duration and timing of participation as a RIM client, and a client portfolio's risk tolerance, investment objectives, and investment time horizon. All investments carry a certain degree of risk, including loss of principal and are not guaranteed by the U.S. government.

**Risks of Small Cap Growth Strategy:** Small Cap Growth Institutional Composite returns may show a high level of variability. In addition to market risk, the majority of any additional risk in these portfolios is related to specific stock selection, and RIM will have significant exposure to individual securities.

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