

Small Cap Growth Month-End Review—July 2019



The stock market continued to climb in July with U.S. equities making new all-time highs, driven by expectations for the continued global easing of monetary conditions forming a good market environment for growth. As expected, the Federal Reserve cut the Fed Funds rate at the end of July for the first time since the financial crisis in 2008 to “insure against downside risks.” However, Federal Reserve Chairman Powell clarified that this did not signal the start of a prolonged easing cycle but rather “a mid-cycle adjustment to policy” to guard against weaker global growth and to stabilize business confidence amidst the trade war with China. Critics of the Fed had been insisting since the second half of 2018 that the Fed was being overly aggressive in gradually raising interest rates in the face of slowing global growth. While the 25 basis point cut was expected, additional rate cuts were also anticipated, which likely disappointed the critics. However, it is important to understand that the Fed is considering more than just the U.S. economic cycle. With the U.S. economy continuing to

PERFORMANCE

	Month Ending 7/31/19	Year-to-Date 7/31/19
Institutional Composite (gross)	-0.21%	16.89%
(net)	-0.24%	16.74%
Russell 2000 Growth ⁽⁴⁾	0.98%	21.54%

Source: Renaissance Research, Bloomberg, FTSE Russell

SECTOR WEIGHTS & PORTFOLIO CHANGES⁽¹⁾

Sector	Ending Weight ⁽²⁾	Change from 6/30/19	Small Cap Growth Additions & (Small Cap Growth Deletions) ⁽³⁾
Information Technology	37.9%	+1.1%	Verint Systems (Ebix)
Industrials	18.4%	-0.5%	
Health Care	15.9%	-1.6%	(Medidata Solutions)
Consumer Discretionary	15.3%	-0.1%	
Financials	7.3%	-0.6%	
Consumer Staples	3.6%	+1.9%	Calavo Growers
Energy	1.6%	-0.2%	
Materials	0.0%	0.0%	
Real Estate	0.0%	0.0%	
Utilities	0.0%	0.0%	
Communication Services	0.0%	0.0%	

Source: Renaissance Research, FactSet

⁽¹⁾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.

⁽²⁾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.

⁽³⁾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.

⁽⁴⁾Primary benchmark.

Small Cap Growth

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CONTRIBUTORS TO RETURN⁽¹⁾⁽³⁾

Company Name	Average Weight ⁽²⁾	Contribution to Return	Comments
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TOP FIVE CONTRIBUTORS—SMALL CAP GROWTH

Medpace Holdings	2.08%	0.43%	Medpace reported earnings above expectations with strong bookings as well, suggesting continued growth ahead.
Trade Desk	2.20%	0.31%	The company is expected to see robust demand in digital advertising after Google and Facebook reported impressive results.
Trex Company	1.95%	0.27%	Trex is expecting a sharp acceleration in revenue for the current quarter as previous production issues appear resolved.
EPAM Systems	2.39%	0.26%	Spending by enterprises to digitalize their offerings remains strong and EPAM is well positioned to capture the business.
Amedisys	1.82%	0.23%	Home nursing growth accelerated during the quarter leading to upside to earnings for the second quarter.

BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH

Merit Medical Systems	1.70%	-0.62%	While revenue growth has been solid, gross margins have come under pressure due to a number of issues. This has caused earnings estimates to be reduced and pressured the stock.
LendingTree	2.07%	-0.46%	Higher spending on growth initiatives caused estimates to be reduced in the second half of the year, but we think these investments will support growth in the future.
Carbonite	1.21%	-0.40%	Disappointing growth in their core data backup and recovery business caused the weakness in the stock. We are evaluating our holding of the position.
Comfort Systems USA	1.67%	-0.29%	Although backlog growth was strong, the company was unable to match the earnings performance it achieved a year ago causing the stock to decline.
iRobot	1.29%	-0.27%	Management lowered its revenue guidance due to tariffs and challenges scaling new products. Our holding is under review.

Source: Renaissance Research, FactSet

grow quite well, inflation contained and record low unemployment, a rate cut probably was not necessary at this point in the business cycle, especially since this reduces future optionality for the Fed. More likely, the rate cut was to keep pace with other central banks around the world who have already started lowering their interest rates to provide monetary stimulus to combat their slowing economies. This has resulted in a stronger U.S. dollar, counter to what the Fed is trying to accomplish since a strong U.S. dollar acts as a headwind to inflation and increases the trade deficit, which ultimately detracts from overall GDP growth.

The S&P 500 returned 1.4% in July, driven by strong corporate earnings. Of the S&P 500 companies that have reported results through July, 59% reported better-than-expected revenue growth and 76% reported earnings that exceeded expectations (Source: FactSet). Despite better-than-expected corporate earnings, earnings estimates continue to see negative revisions as growth rates were flatish on a year-over-year basis. We believe the direction of earnings revisions has an impact on stock prices over the long term, and we will continue to monitor the current decelerating growth environment accordingly.

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

⁽³⁾The securities listed should not be considered a recommendation to purchase or sell a particular security. These securities represent the top five and bottom five contributors by weight to the performance of a representative account in this strategy as of the date stated and are intended for informational purposes only. 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 a 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.

Small Cap Growth Month-End Review—July 2019



The Small Cap Growth Portfolio declined in July and underperformed the Russell 2000 Growth Index that posted a modest gain. The Index saw increases in most sectors with only Energy and Materials falling during the month. The top-performing sectors were Information Technology and Utilities, whereas the aforementioned Energy and Materials sectors lagged the performance of the Index the most. The underperformance of the Small Cap Growth portfolio was driven by the stock selection in the Financials and Information Technology sectors. Stock selection in Health Care and our zero-weight position in Materials added the most to relative performance.

There were a number of changes made to the Small Cap Growth Portfolio in July. New positions were initiated in **Calavo Growers** (CVGW) and **Verint Systems** (VRNT). Offsetting these additions were the sales of **Ebix** (EBIX) and **Medidata Solutions** (MDSO).

Calavo Growers markets and distributes avocados and other perishable foods including fresh cut fruit, vegetables and guacamole. The popularity of avocados has led to 8% compounded annual consumption growth in the U.S. the last 10 years. The company has several growth drivers as consumers focus on healthy eating, convenient on-the-go products and fresh, refrigerated foods. The recent expansion of manufacturing operations has allowed the company to engage with additional customers and grow their geographic footprint. We believe continued consistent demand growth coupled with larger production capacity will lead to steady growth for the company in the future.

Verint Systems software and services offerings enable organizations to gather “actionable intelligence” in two primary areas—customer engagement and cyber security. Verint’s core expertise lies in capturing structured and unstructured data and processing this data for a wide range of uses. Call centers are a key end market for the company, where their software is implemented for overseeing the quality and performance of the centers. In cybersecurity, their data-mining software is used by national security agencies and other law enforcement organizations globally. Some examples of the challenges they address include terrorism, drug trafficking and cyber threats. The company is moving towards a more software and cloud-based model that should drive higher margins and a larger percentage of recurring revenue. We believe the stock is inexpensive with attractive end-market growth.

We sold our position in EBIX, a software provider for the insurance, finance and health-care industries. The company has been aggressively making acquisitions, especially in India and other foreign markets. The company’s strategy has become more difficult to understand as they have expanded into the travel and cash remittance businesses. The higher debt levels from the acquisitions and changing business strategy increased the risk profile of the company to an uncomfortable level, so we exited the stock. We also sold Medidata Solutions as it has agreed to be acquired by Dassault Systems for cash.

DISCLOSURES

The opinions stated in this presentation are those of Renaissance 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

If securities are referenced, they 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.

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Small Cap Growth Month-End Review—July 2019



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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, durations 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 the loss of principal and are not guaranteed by the U.S. government.

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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[®] 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
FINAL 12/31/2018									

* 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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