

International Equity ADR Intra-Quarter Commentary—August 2020



International equity markets gained for the fifth consecutive month, marking their longest stretch of positive returns since 2017. During the month, investors digested a marked rise in COVID-19 cases and souring geopolitical relations between the United States and China. Fortunately, growing optimism around late-stage vaccine trials and persistent support from global central banks eased worries about markets falling back to March lows.

The U.S. dollar continued to fall from its March 2020 peak, as the U.S. Dollar Index now stands at levels last seen in May 2018. Some analysts believe the dollar's bull run has come to an end due to a number of factors, including lower U.S. interest rates relative to other countries, a weak pandemic response and the need to finance rising U.S. budget deficits.

Despite record GDP declines across the globe, investors are seeing signs of a recovery in some parts of the world, notably China. Although China's official manufacturing Purchasing Managers' Index (PMI), which looks at state-owned and other large companies, edged down to 51.0 in August from 51.1 in July, the non-manufacturing PMI rose to 55.2 from 54.2 in July. This indicates that China's services sector, which has been slow to rebound from the pandemic because of wary consumers, may finally be on firmer footing. Estimates compiled by FactSet now show the Chinese economy growing at 1.6% year-over-year in 2020 and 8.1% in 2021.

On the political front, Japan's longest-tenured prime minister, Shinzo Abe, announced in late August that he is retiring due to health reasons. Japanese market reaction was muted, indicating that investors believe the new prime minister will continue Abe's economic and fiscal program.

GEOGRAPHICAL EXPOSURE & PORTFOLIO CHANGES⁽¹⁾⁽²⁾

Region	Ending Weight ⁽³⁾	Change from 7/31/2020	International Equity ADR Additions & (International Equity ADR Deletions) ⁽⁴⁾
Asia/Pacific	42.6%	-2.3%	(United Overseas Bank)
Western Europe	39.4%	+3.0%	Vivendi
North America	10.7%	0.0%	
Eastern Europe	2.9%	-0.1%	
Middle East & Africa	2.2%	0.0%	
Central & South America	1.3%	-0.2%	
Cash	1.0%	-0.4%	
Developed Markets	68.8%	+1.2%	
Emerging Markets	30.2%	-0.8%	
Cash	1.0%	-0.4%	

⁽¹⁾ Based on a representative account of the strategy discussed. 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⁾ Renaissance determines an issuer's country classification based on company filings and data provided by third-party sources such as Bloomberg or FactSet. Renaissance considers an issuer to be located in an emerging market country if the issuer is domiciled or incorporated in an emerging market country (as defined by the iShares MSCI Emerging Markets ETF) or exhibits risk characteristics (e.g., economic, geopolitical and regulatory risks) similar to emerging market countries.

⁽³⁾ Weights as of the end of the presentation period. Cumulative total weighting may not add up to 100% due to rounding of percentages to the nearest decimal place.

⁽⁴⁾ 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. Non-performance 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.

Source: Renaissance Research, FactSet

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CONTRIBUTORS TO RETURN^{(1) (2)}

Company Name	Average Weight ⁽³⁾	Contribution to Return
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TOP FIVE CONTRIBUTORS—INTERNATIONAL EQUITY ADR

Nintendo (NTDOY)	1.82%	0.37%
Jazz Pharmaceuticals (JAZZ)	1.66%	0.35%
Alibaba (BABA)	2.48%	0.34%
Neste (NTOIY)	2.03%	0.31%
Infineon Technologies (IFNNY)	2.46%	0.26%

BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL EQUITY ADR

Vipshop Holdings (VIPS)	2.08%	-0.61%
TIM Participações (TSU)	1.32%	-0.19%
ENN Energy (XNGSY)	1.70%	-0.15%
Tokyo Electron (TOELY)	2.05%	-0.13%
Dr. Reddy's Laboratories (RDY)	2.05%	-0.09%

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⁽³⁾ Average weights over the presentation period.

Source: Renaissance Research, FactSet

With elections set for mid-September, Japan's ruling Liberal Democratic Party will likely choose Chief Cabinet Secretary Yoshihide Suga, ensuring that the government's economic strategy remains in place. Also regarding Japan, Warren Buffett's Berkshire Hathaway Inc. announced that it had taken ownership stakes of slightly more than 5% in five large Japanese conglomerates, marking a rare non-U.S. investment for one of the world's leading investors.

Although our International Equity ADR Strategy returns for the month were positive, they lagged our benchmark. Our top two contributing stocks were **Nintendo** (Japan) and **Jazz Pharmaceuticals** (Ireland) while **Vipshop Holdings** (China) and **TIM Participações** (Brazil) were the bottom two contributors to portfolio returns. In general, Consumer Discretionary stocks performed well, but our holdings trailed the average sector return, as Chinese online discount retailer Vipshop reported second-quarter earnings and a third-quarter outlook that failed to inspire investors. In the Health Care sector, Jazz Pharmaceuticals' flagship narcolepsy drug, Xyrem, continued to see strong demand, and the company is optimistic that its new lower sodium formulation will enable it to extend its narcolepsy franchise.

Regionally, our top contributing holdings were from Europe, followed by the Asia/Pacific region. Japanese video game maker Nintendo reported solid earnings for the most recent quarter, with better-than-expected sales of its Switch game console and its video game, *Animal Crossing: New Horizons*. Central & South America detracted the most from regional performance, led lower by TIM Participações, the Brazilian mobile and fixed line telecom provider. The company is working to lower expenses amid the COVID-19 pandemic that has hit Brazil harder than many other countries.

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While world stock markets have staged a remarkable recovery from lows reached in March, we believe that equity markets will likely remain volatile heading into the fall. Investors are optimistic that the latest vaccine trials will be successful, and this would help stabilize the markets. However, markets will lack a clear direction until a number of uncertainties are resolved, including the U.S. elections in November, ongoing Brexit negotiations and the leadership change in Japan.

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

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PERFORMANCE

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REFERENCED INDICES

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

iShares MSCI Emerging Markets ETF—The iShares MSCI Emerging Markets ETF seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities.

Purchasing Managers' Index—The Purchasing Managers Index (PMI) is an indicator of economic health for manufacturing and service sectors. Levels above 50 are considered expansionary and levels below 50 are considered contractionary.

U.S. Dollar Index—The U.S. Dollar Index (USDIX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

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