

Shifting Market Leadership

We are now more than 13 months into the new bull market that emerged at the beginning of the second quarter of 2020. While markets have accelerated higher during that time, we are starting to see less volatility recently.

It is helpful to take a look at how broad factors have behaved historically to develop some context for anticipating what may come next. In Charts 1 through 5, we have depicted the one-year rolling outperformance and underperformance relative to the Renaissance Small Cap Growth Universe (a subset of the Russell 2000 Growth Index—see the Disclosures Section for a full description) of five separate factors (or models) over the past 15 years. The cyclical nature of “market leadership” is evident in these charts, even though the duration and amplitude of each cycle varies through time.

What Has Worked Since the Bottom of the Market?

So, let us review one chart at a time. The grey area on each chart represents the 4.5 quarters since March 31, 2020. Chart 1, which illustrates Market Cap, shows that the largest stocks underperformed the average stock by a massive 41%. Is underperformance of large stocks unusual during the first leg of a bull market? Not at all. We can also see from the chart that large stocks underperformed during the first four quarters of the bull market that started at the end of the Great Recession. However, the margin of underperformance in this go-round has been stunning by comparison.

In Chart 2, we can see that Growth is no longer outperforming after three to four years of leadership. The longer-term history in the chart shows a similar historical pattern—Growth

performs best relative to most factors during the middle and latter parts of the economic cycle.

Interestingly, in Chart 3, Quality has shown the most regularity in its cycles. However, similar to larger stocks,

the highest-quality stocks lagged badly during the first four quarters of the new bull market (by 27% to be precise). Again, the magnitude of the lag is substantially larger than anything we have seen in the last 15 years.

1-YEAR ROLLING FACTOR PERFORMANCE VS RENAISSANCE SMALL CAP GROWTH UNIVERSE⁽¹⁾

Chart 1: Market Cap

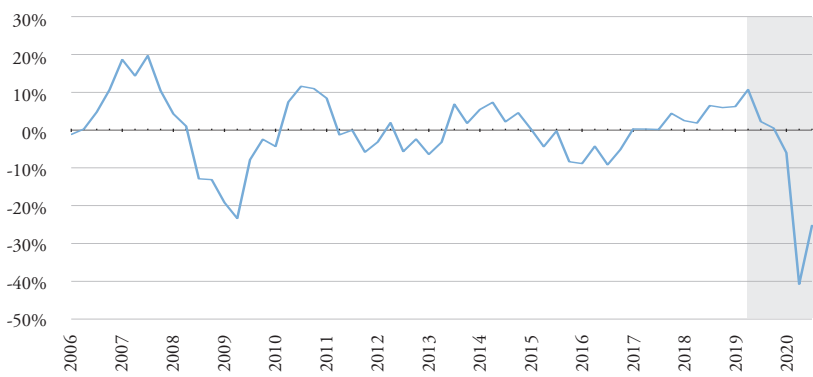


Chart 2: Growth

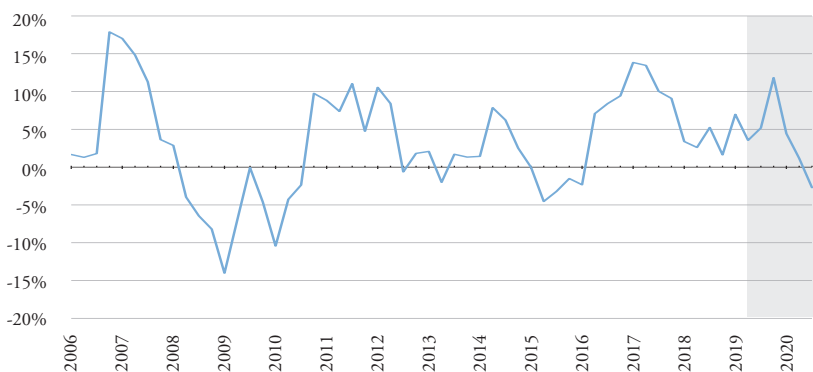
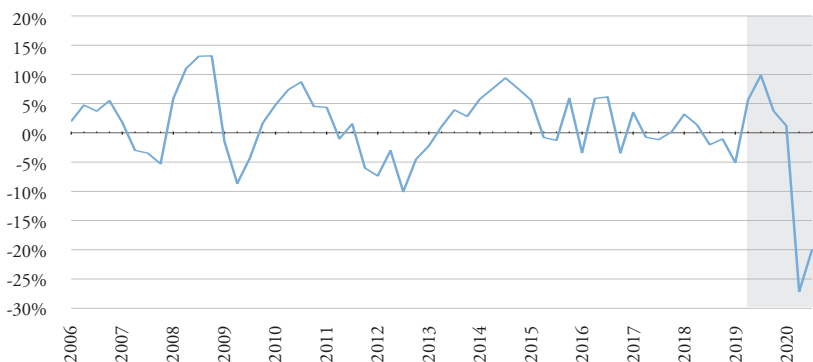


Chart 3: Quality



Data from 12/31/2006–5/15/2021

⁽¹⁾Please see the disclosures entitled “Factor Performance” and “Renaissance Small Cap Growth Universe” in the Disclosures Section.

Source: FactSet, FTSE Russell

Chart 4 illustrates that the best Momentum stocks have also underperformed the market, but not in dramatic fashion. It should be noted that when we talk about Momentum, we are referring to earnings and sales momentum (*not price momentum!*).

And finally, Chart 5 reveals the relative winner—Value! Value has experienced a long dry spell, so its leadership has been long overdue.

Where Do We Go from Here?

To sum things up, small, cheap, low-quality stocks have been leading the way during the past year. This combination of factors is very typical of the “first leg up” in a bull market. The chart to the lower right depicts the traditional view of market leadership changes throughout the economic cycle.

Our data suggests that the investment playbook going forward should be fairly consistent with the traditional view, with a few nuances. We expect Momentum to show leadership during the rest of 2021. We expect that investors will gravitate to stocks whose companies are posting the best earnings surprises and experiencing the sharpest positive revisions to earnings estimates.

However, small stocks and low-quality stocks outperformed by such a significant margin during the past year, that we believe that it is not too early to start emphasizing larger and higher-quality stocks within the portfolio.

So, where does that leave us with Growth and Value factors? In our view, Growth showed leadership for such an extended period of time that valuations of the best growth stocks were stretched to epic proportions. Therefore, we think that it is best to avoid paying up for Growth stocks and to be selective. Regarding Value,

1-YEAR ROLLING FACTOR PERFORMANCE VS RENAISSANCE SMALL CAP GROWTH UNIVERSE⁽¹⁾

Chart 4: Earnings Momentum

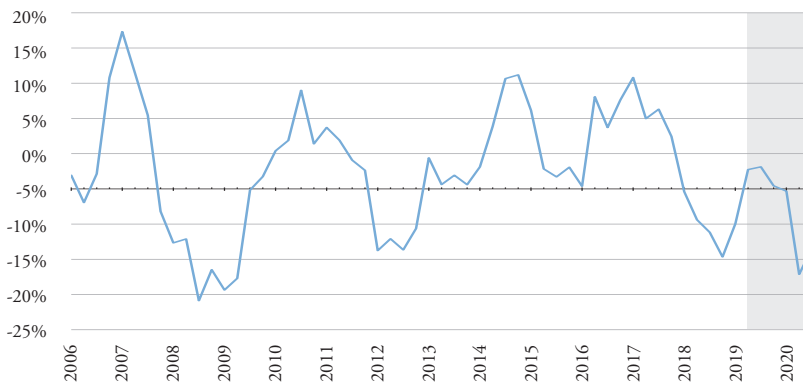
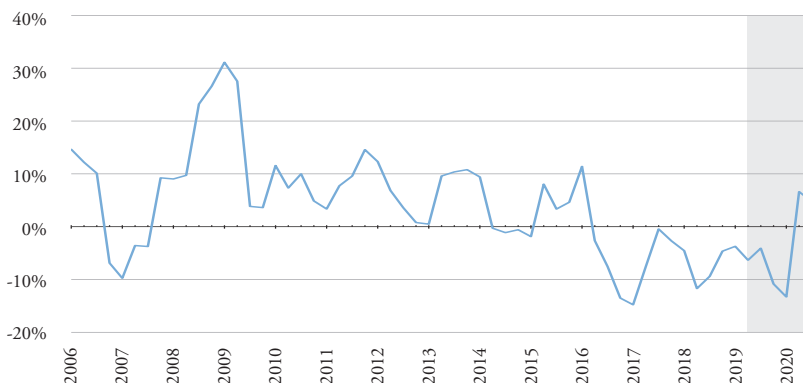


Chart 5: Value

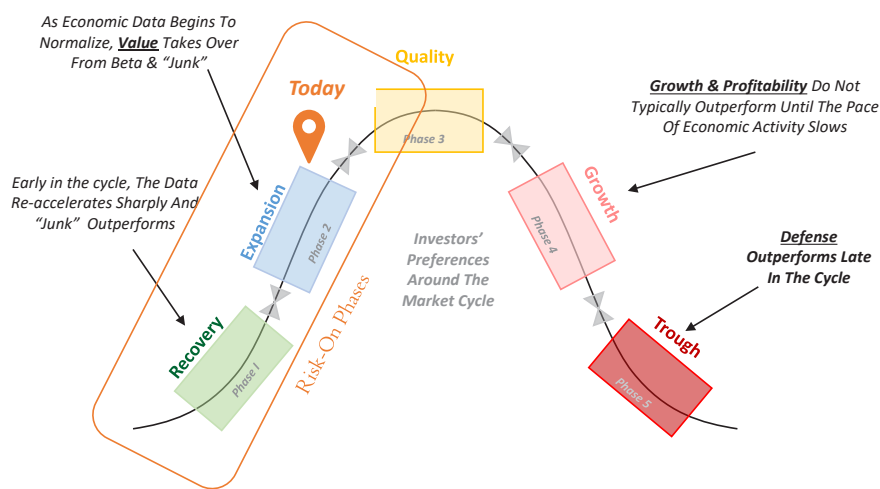


Data from 12/31/2006–5/15/2021

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Source: FactSet, FTSE Russell

A CHANGE IN LEADERSHIP OCCURS WITH CHANGING ECONOMIC PROSPECTS



Source: Cornerstone Macro

the opposite is true. Value has underperformed so badly for so long that it may have a bit longer to run.

The current economic backdrop supports our views. Forecasts for GDP

growth suggest that the economy will grow in the high single digits this year, supported by the U.S. government's stimulus package passed earlier this year, the Fed's zero interest rate policy,

and the re-opening of the economy. Favoring economically sensitive stocks with strong earnings momentum, in our view, is the best positioning for the remainder of 2021.

DISCLOSURES

This Market Update reflects the thoughts of Renaissance as of May 15, 2021. This information has been provided by Renaissance Investment Management. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision, nor should it be considered a recommendation. The views and opinions expressed are those of the Portfolio Manager at the time of publication and are subject to change. There is no guarantee that these views will come to pass. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing.

FACTOR PERFORMANCE

The factor performance depicted in Charts 1 through 5 represents a comparison of the average return of stocks that score in the top quintile by the stated factor (such as "Market Cap" in Chart 1) for each quarter shown relative to the average return of all stocks in Renaissance Small Cap Growth Universe. Renaissance's Small Cap Growth Universe consists of all profitable companies (as determined by referencing Fiscal Year 2 Earnings Estimates) in the Russell 2000 Growth Index with daily trading volume over \$2 million per day. Charts 2 through 5 are similarly constructed except that we are capturing the average returns of the stocks that score in the top quintile of Renaissance's proprietary Small Cap Growth model for its Growth, Quality, Momentum and Value sub-models. Please contact Renaissance for a more detailed description of these sub-models.

RENAISSANCE SMALL CAP GROWTH UNIVERSE

The Renaissance Small Cap Growth Universe represents a quantitative model portfolio screening process that is rebalanced quarterly. The construction of the Renaissance Small Cap Growth Universe includes all constituents of the Russell 2000 Growth Index. Roughly half of these stocks are screened out based upon a fixed set of parameters. The most basic parameters are that the companies must be expected to be profitable (as determined by referencing Fiscal Year 2 Earnings Estimates), the companies must have at least \$2 million per day in average trading volume, the companies must have at least one analyst following the company and publishing earnings estimates. In addition, the company's fundamental data must be available through the "Factset Fundamentals" database. We add back any stocks currently on the buy list for our Small Cap Growth strategy to this screened set of stocks. The Renaissance Small Cap Growth Universe represents the performance of a quantitative model and does not represent the actual performance achieved by any particular client. We have deducted 37.5 basis points quarterly to impute the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client would have paid or actually paid. The Renaissance Universe results presented include the reinvestment of dividends and other earnings. There are limitations inherent in the model results, including the fact that the results do not represent actual trading. As it seeks to capture only the effectiveness of a screening process, the Renaissance Small Cap Growth Universe returns do not reflect the impact of material economic and market factors on the advisor's qualitative decisions when managing client assets.

Portfolios for actual client accounts are constructed based on the combination of our quantitative and qualitative discipline. No client account holds all of the securities held in the Small Cap Growth Universe, nor is any client portfolio restricted to Small Cap Growth Universe Holdings. The stocks in the client portfolios are chosen by the portfolio manager using fundamental analysis whereas the stocks in the Small Cap Growth Universe are determined solely based on our quantitative screening process. While both the Small Cap Growth Universe holdings and actual client accounts consist of companies which are profitable, the performance of the Small Cap Growth Universe stocks may be more volatile than the benchmark index as well as the actual client portfolios because the Small Cap Growth Universe does not have any of the restrictions found in actual client accounts and does not reflect the impact of the qualitative component of our investment discipline. The Renaissance Small Cap Growth Universe characteristics related to position sizes, sector weights may differ materially from actual client portfolios.

The actual performance achieved by a client account may be affected by a variety of factors, including the initial balance of the account, the timing of additions and withdrawals from the account, modifications to the strategy to meet the specific investment needs or preferences of the client, the duration and timing of the investment, and exchange rates, among other factors. In addition, the performance of a client account may be affected by any fees charged by third parties for managing the account, which are not reflected in the performance results of any Renaissance model. Any investment in this strategy is not guaranteed and may lose value.

PERFORMANCE

If Renaissance or benchmark performance is shown, it 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 benchmark or Renaissance performance shown and the actual performance results achieved by any particular client. Benchmark results are shown for comparison purposes only. The benchmark presented 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 benchmark cannot be invested in directly. The returns of the benchmark 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 benchmark shown. The benchmark has been selected to represent what Renaissance believes is an appropriate benchmark with which to compare the composite performance.

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 INDEX

(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.