

# International Small Cap Equity Intra-Quarter Commentary—May 2021



International equity markets continued their upward trend in May, marking the seventh consecutive positive month. Market gains were widespread across the globe, and developed markets fared better than emerging markets as has been the case year-to-date. As we have seen throughout the COVID-19 pandemic, equity markets have tended to perform better when cases are slowing and worse when cases rise. Emerging markets such as India and Brazil are struggling to control the virus, while many developed markets are in a better position with more access to vaccines. By July 1st, the European Union plans to lift quarantine restrictions for those who are fully vaccinated, giving a boost to the travel industry in Europe and lifting prospects for many consumer-related companies.

Economic readings continue to move higher, confirming that the global economy is on the mend. The May IHS Markit Manufacturing PMI for the Eurozone was 63.1, marking its highest reading on record with data available starting in June 1997. Record high readings were recorded for the Netherlands, Austria, Ireland, and Italy, while France, Spain and Greece all marked multi-month highs.

The return to a somewhat normal economic environment is clearly welcome, but along with increased demand for goods and services comes the prospect of price inflation. Central banks are worried that rapid price increases may hinder a smooth return to economic growth. U.S. Federal Reserve Chair Jerome Powell feels that inflation will only be transitory as a spike in demand will be met with increased supply. However, those with the opposite view fear that central banks will

## GEOGRAPHICAL EXPOSURE & PORTFOLIO CHANGES <sup>(1) (2)</sup>

Region	Ending Weight <sup>(3)</sup>	Change from 4/30/2021	International Small Cap Equity Additions & (International Small Cap Equity Deletions) <sup>(4)</sup>
Asia/Pacific	36.6%	-2.9%	(Mitsui Mining and Smelting)
Western Europe	27.5%	+1.7%	Constellium (ICON)
North America	25.6%	+2.0%	Enerplus
Middle East & Africa	4.3%	+0.5%	
Central & South America	3.2%	0.0%	
Eastern Europe	1.7%	-0.2%	
Cash	1.3%	-1.1%	
Developed Markets	72.6%	+1.9%	
Emerging Markets	26.1%	-0.8%	
Cash	1.3%	-1.1%	

<sup>(1)</sup>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.

<sup>(2)</sup>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.

<sup>(3)</sup>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.

<sup>(4)</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. 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](mailto:compliance@reninv.com).

Source: Renaissance Research, FactSet

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## CONTRIBUTORS TO RETURN<sup>(1)(2)</sup>

Ticker	Company Name	Average Weight <sup>(3)</sup>	Contribution to Return
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### TOP FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

IGT	International Game Technology	2.12%	0.74%
EBCOY	Ebara	2.13%	0.32%
MIME	Mimecast	1.89%	0.28%
EURN	Euronav	1.72%	0.22%
APEMY	Aperam	2.49%	0.16%

### BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

AUOTY	AU Optronics	1.60%	-0.63%
YY	JOYY	1.47%	-0.36%
SUOPY	SUMCO	2.25%	-0.27%
DOOO	BRP	2.42%	-0.23%
SIMO	Silicon Motion Technology	2.39%	-0.20%

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<sup>(2)</sup>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, excluding spinoffs, 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](mailto:compliance@reninv.com).

<sup>(3)</sup>Average weights over the presentation period.

Source: Renaissance Research, FactSet

need to raise interest rates in the near term to control rising inflation. Recent data shows inflation rates are already moving higher, which is an understandable outcome given the weak economic output in the prior-year time period. The U.S. Consumer Price Index climbed 4.2% year-over-year (y/y) in April, its highest level since 2008 and up from +2.6% y/y in March. Meanwhile, the Eurozone also reported rising inflation in May with headline inflation hitting +2% y/y, its highest level since November 2018. Yet, the core inflation rate was +0.9% y/y—a manageable level according to most observers—suggesting that the higher headline rate was distorted by base effects and higher energy prices.

Our portfolio returns for May lagged our benchmark, led lower by weak stock selection in our Information Technology and Financials holdings. Our best stock selection was in the Energy and Consumer Discretionary sectors. Also hindering performance for the month was our overweight to Information Technology as these stocks were the weakest performers in our benchmark. Regionally, we enjoyed our best stock selection in Western Europe, but this was offset by poor stock selection in the Asia/Pacific region, particularly in Taiwan and China.

Our top contributing stocks for the month were **International Game Technology** (United Kingdom) and **Ebara** (Japan). Better-than-expected sales from its Global Lottery division and favorable cost controls firmwide led International Game Technology to report strong earnings in the first quarter. First-quarter results for Ebara, a manufacturer of industrial machinery, were helped by higher capital investment from semiconductor companies along with two orders for large waste incinerators.

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Our two weakest stocks for May were **AU Optronics** (Taiwan) and **JOYY** (China). AU Optronics gave up some of its year-to-date gains, however, the manufacturer of display panels used in items such as televisions and computer monitors remains poised to benefit from strong demand for its products amid industry undersupply. Online social media company JOYY sold off on concerns that the proposed YY Live deal with Baidu may not proceed. This issue was elevated during the May earnings call when management failed to confirm the deal's imminent closure.

We believe that global financial markets will continue to reflect the progress made in reducing COVID-19 cases during the last half of 2021. Countries with higher vaccination rates such as the United States and the United Kingdom will likely see better economic growth than countries that are behind the curve. Economically sensitive sectors such as Financials should continue to perform well, but investors will keep a sharp eye on inflation, hoping that central banks do not tighten rates too soon and instead let economies “run hot” for a while.

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## DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of May 31, 2021 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](mailto:compliance@reninv.com).

## PERFORMANCE

If Renaissance or benchmark performance is shown, it represents historically achieved results, and is no guarantee of future performance. All performance is shown in U.S. dollars unless otherwise stated. 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.

*Continued*

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## REFERENCED INDICES

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

**Consumer Price Index**—The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item.

**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.

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

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

Sector Listing according to MSCI and S&P Dow Jones data: 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.