

International Equity ADR Intra-Quarter Commentary—May 2022



International equities rose in May, posting their first month of positive returns in 2022. Sentiment improved toward the end of the month as COVID cases in Shanghai and Beijing fell, allowing Chinese authorities to begin rolling back their multi-month COVID lockdowns. While the economic recovery will take time, authorities in China have pledged to spare no effort in getting the economy restarted through increased stimulus and decreased regulatory actions on technology companies, both of which should help economic growth rebound as we move into the second half of 2022.

Inflation continues to dominate headlines as central banks have been put in the unenviable position of attempting to cool inflation without causing a severe economic downturn. This balancing act has been made more challenging as recent inflation readings have remained elevated, leading to increased calls for central banks to act aggressively. The eurozone consumer price index (CPI) rose 8.1% year-over-year (y/y) in May, a new record high, as the war in Ukraine continues to put upward pressure on energy and other commodity prices. Inflation in the United States also surprised to the upside with the April CPI rising 8.3% y/y. However, the pace of inflation did slow from March's 8.5% increase, giving hope to investors that we may have reached peak inflation. Consumer resiliency in the face of rising prices has been impressive so far this year, as many management teams have indicated that consumer demand, particularly from higher-income households, remains strong. However, a prolonged period of rising prices and interest rates could dent consumers' ability and willingness to spend, which would likely tip the global economy closer to a recession.

GEOGRAPHICAL EXPOSURE & PORTFOLIO CHANGES ⁽¹⁾⁽²⁾

Region	Ending Weight ⁽³⁾	Change from 4/30/2022	International Equity ADR Additions & (International Equity ADR Deletions) ⁽⁴⁾
Western Europe	49.1%	+0.7%	Shell
Asia/Pacific	32.6%	+0.2%	
North America	12.3%	-1.2%	
Cash	2.7%	+0.5%	
Central & South America	1.8%	-0.1%	
Middle East & Africa	1.5%	0.0%	
Eastern Europe	0.0%	0.0%	
Developed Markets	73.4%	-0.8%	
Emerging Markets	23.9%	+0.3%	
Cash	2.7%	+0.5%	

⁽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⁾

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

VIPS	Vipshop	1.77%	0.38%
GELYY	Geely	1.53%	0.32%
ITUB	Itaú Unibanco	1.98%	0.30%
XNGSY	ENN Energy	1.82%	0.27%
VET	Vermilion	2.33%	0.26%

BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL EQUITY ADR

FN	Fabrinet	1.55%	-0.20%
RHHBY	Roche	1.72%	-0.16%
JAZZ	Jazz Pharmaceuticals	2.21%	-0.16%
BKRKY	PT Bank Rakyat Indonesia	1.86%	-0.14%
CGEMY	Capgemini	2.22%	-0.13%

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⁽²⁾ 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.

⁽³⁾ Average weights over the presentation period.

Source: Renaissance Research, FactSet

Our portfolio returns were positive on an absolute basis, and we outperformed our benchmark in May. Stock selection was positive in China and Switzerland, while selection was negative in France and Mexico. Nearly all sectors in the portfolio experienced positive returns, led by the Energy and Consumer Discretionary sectors. The Health Care and Communication Services sectors were our only negative contributors for the month.

Our best performing stock during the month was off-price e-commerce operator **Vipshop** (China). Although sales in the first quarter were negatively impacted by COVID lockdowns, management excelled at controlling costs, which is expected to continue as the company acquires future clothing inventories at a discount. Another strong performer was auto manufacturer **Geely** (China) as management indicated that May production was rebounding on the back of easing lockdowns and an improvement in semiconductor supplies, which negatively impacted production in 2021 and early 2022. The worst performing stock in the portfolio during May was **Fabrinet** (Cayman Islands), a manufacturer of optical communications equipment. Although the CEO reported that demand for its products remains robust, component shortages continue to hurt results, leading the company to report a top and bottom-line miss in its fiscal third quarter. Global pharmaceutical company **Roche** (Switzerland) was another weak performer during the month after reporting that its lung cancer drug tiragolumab failed to meet its primary endpoints in a Phase III trial.

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International equities (as measured by the iShares MSCI ACWI ex US ETF) have declined 16% since peaking nearly a year ago in June 2021. Negative returns from international stock markets are in sharp contrast to reported growth in earnings-per-share, which rose 46% y/y in 2021 and are estimated to grow another 7% y/y in 2022. The divergence between earnings growth and stock prices has led to a meaningful de-rating in valuations, with international equities now trading at 12.1x next-twelve-months P/E, a sharp fall from 15.8x one year ago and a discount to the ten-year average of 13.7x. International valuations also look attractive relative to their U.S. peers, with their discount hovering near the largest level of the past ten years following four consecutive years of outperformance by U.S. equities. Given the cheap valuations, much negativity is already priced into international equities, which has helped them outperform their U.S. peers year-to-date even in the face of a war in Europe and Chinese lockdowns. The renewed focus on valuations should not only be supportive of international equity returns, but also of our strategy, which focuses on growth companies trading at reasonable valuations.

DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of May 31, 2022 and are subject to change at any time due to changes in market or economic conditions.

GICS[®] 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.

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REFERENCED ETFs

iShares MSCI ACWI ex US ETF—The iShares MSCI ACWI ex U.S. ETF seeks to track the investment results of an index composed of large- and mid-capitalization non-U.S. equities. iShares ETF names are registered trademarks of Blackrock, Inc.

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.

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STOCK REFERENCES

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