

# International Small Cap Equity 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 <sup>(1) (2)</sup>

Region	Ending Weight <sup>(3)</sup>	Change from 4/30/2022	International Small Cap Equity Additions & (International Small Cap Equity Deletions) <sup>(4)</sup>
North America	30.7%	-0.1%	No International Small Cap Equity portfolio additions or deletions during the period.
Asia/Pacific	28.0%	+0.7%	
Western Europe	24.9%	-0.5%	
Middle East & Africa	8.7%	-0.2%	
Central & South America	5.1%	-0.2%	
Cash	2.6%	+0.4%	
Eastern Europe	0.0%	0.0%	
Developed Markets	78.3%	-0.6%	
Emerging Markets	19.1%	+0.3%	
Cash	2.6%	+0.4%	

<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

# International Small Cap Equity Intra-Quarter Commentary—May 2022



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

Ticker	Company Name	Average Weight <sup>(3)</sup>	Contribution to Return
--------	--------------	-------------------------------	------------------------

### TOP FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

OEC	Orion Engineered Carbons	2.34%	0.58%
ERF	Enerplus	2.15%	0.45%
SIMO	Silicon Motion Technology	2.17%	0.36%
APELY	Alps Alpine	1.87%	0.34%
KLIC	Kulicke & Soffa Industries	1.85%	0.28%

### BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

TRVG	trivago	1.76%	-0.41%
ERO	Ero Copper	1.82%	-0.32%
RNMBY	Rheinmetall	2.50%	-0.29%
FN	Fabrinet	2.20%	-0.28%
MRRTY	Marfrig Global Foods	1.52%	-0.25%

<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.

<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

Our portfolio returns were positive on an absolute basis, and we outperformed our benchmark in May. Stock selection was most positive in Israel and Luxembourg, while selection was weakest in Germany and Brazil. Nearly all sectors in the portfolio experienced positive returns, led by the Energy and Information Technology sectors. The Communication Services and Industrials sectors were our only negative contributors for the month.

Our best performing stock during the month was carbon black manufacturer **Orion Engineered Carbons** (Luxembourg). The company reported better-than-expected first-quarter results that were helped by strong pricing as management stated that they believe that the market is entering a period in which demand for carbon black is outstripping supply. Another strong performer was oil and gas exploration and production company **Enerplus** (Canada). The company increased its quarterly dividend by 30% as it continues to benefit from the rise in energy prices. The worst performing stock in the portfolio during May was metasearch hotel booking website **trivago** (Germany). Although the company should benefit from the travel recovery in Europe, increased marketing spend will likely hurt profitability in the short term. **Ero Copper** (Canada) was another weak performer during the month after the copper miner reported weaker-than-expected first-quarter production due in part to COVID-driven absenteeism. However, management indicated that production is expected to rebound strongly in the second quarter and guided for 2022 production to be at the high end of their previous guidance.

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

# International Small Cap Equity Intra-Quarter Commentary—May 2022



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<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.

## 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.

## 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 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.

## 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).