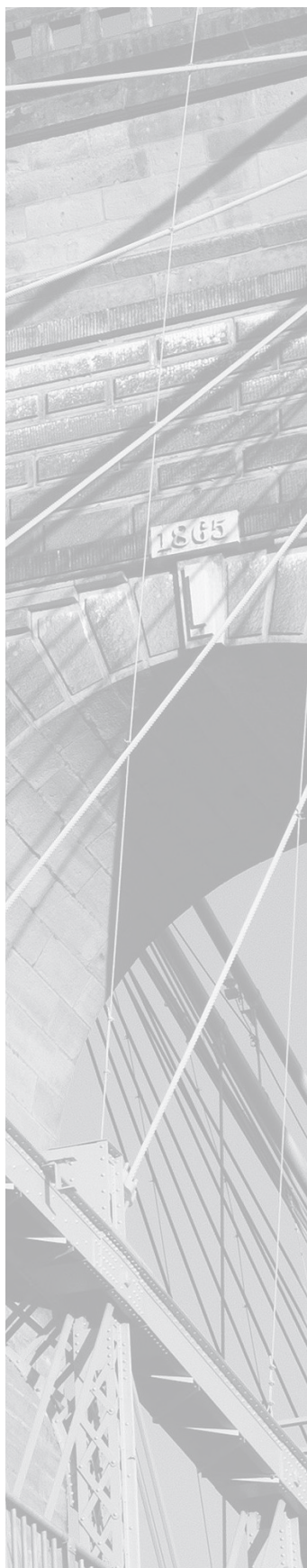


# Emerging Markets Equity Quarter-End Review—1Q2023



International equities rose during the first quarter, continuing the rally that began in the fourth quarter of 2022 and posting their best back-to-back quarterly performance since the post-COVID rebound in 2020. The resilience of the rally has been surprising, as many of the headwinds that caused markets to drop in 2022 remain, including a war in Ukraine, stubbornly high inflation, and heightened geopolitical tensions between the United States and China. Developed markets outperformed emerging markets, continuing an impressive streak of eight of nine quarters of outperformance since the beginning of 2021. The U.S. dollar was relatively stable during the quarter, ending less than one percent lower as investors weighed the dollar's safe-haven status against the impact that bank failures in the U.S. may have on the path of interest rates.

Most major central banks around the world increased interest rates at an unusually fast pace over the past year to combat rapidly rising inflation. While inflation has come off its highs, it remains at levels that are well above central bank targets, which typically leads to additional interest rate increases. However, fears are rising that there could be unknown and unintended consequences of the rapid hikes as it is widely believed that the full impact of interest rate increases isn't felt until one to two years after they occur, implying that the consequences of the initial increases are just now being felt. Indeed, some of the first signs of cracks in the financial system began to form during the quarter with the seemingly sudden failures of Silicon Valley Bank and Signature Bank in the United States, along with the forced takeover of Credit Suisse, a global systemically important bank that has been around for more than 150 years, by Swiss rival UBS. While poor management and risky bets undoubtedly contributed to the demise of these institutions, their collapses send a warning shot to a global economy that has become complacent and dependent on low interest rates.

Historically strong labor markets are adding to the headache that central banks face as they weigh their next moves regarding interest rates. Usually, a strong labor market would be looked upon as a major positive. However the tight labor market and higher costs are causing employees

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

Region	Ending Weight <sup>(3)</sup>	Change from 12/31/2022	Emerging Markets Equity Additions & (Emerging Markets Equity Deletions) <sup>(4)</sup>
Asia/Pacific	58.0%	+0.9%	BYD, Yue Yuen Industrial (CITIC, MagnaChip Semiconductor)
Central & South America	19.8%	-2.1%	Arcos Dorados Holdings (Marfrig Global Foods)
North America	17.4%	+2.9%	
Middle East & Africa	1.6%	0.0%	
Cash	1.6%	-1.5%	
Western Europe	1.4%	-0.2%	
Eastern Europe	0.2%	0.0%	

<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. All accounts in the strategy are invested identically in the same securities unless a client has imposed restrictions. Characteristics and/or holdings on a given date may vary due to pending trades.

<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 represent a portion of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. 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. To request a complete list of holdings recommendations for this strategy over the past year or a list showing the contribution of every holding to the performance of the representative account for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).

Sources: 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—EMERGING MARKETS EQUITY

OMAB	Grupo Aeroportuario del Centro Norte	3.44%	1.37%
VLRS	Volaris	2.19%	0.83%
ASR	Grupo Aeroportuario del Sureste	2.91%	0.81%
ASX	ASE Technology	2.94%	0.72%
TGLS	Tecnoglass	2.22%	0.69%

### BOTTOM FIVE CONTRIBUTORS—EMERGING MARKETS EQUITY

AFYA	Afya	1.88%	-0.67%
GPRK	GeoPark	2.00%	-0.63%
ASAI	Sendas Distribuidora	2.69%	-0.48%
ADOOY	PT Adaro Energy	1.89%	-0.46%
KT	KT	1.75%	-0.29%

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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 as of the date stated and are intended for informational purposes only. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. 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. To request a complete list of holdings recommendations for this strategy over the past year or a list showing the contribution of every holding to the performance of the representative account 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.

Sources: Renaissance Research, FactSet

to demand higher wages which, in turn, gives consumers more disposable income to spend and pushes up prices further. This cause-and-effect relationship is known as the wage-price spiral, and it is exceedingly important for the Fed to prevent it from spiraling out of control. This has created a “good news is bad news” cycle in which markets react negatively to strong labor reports, as the likelihood that the Fed will need to push interest rates higher to cool the labor market increases the risk that something in the financial system could eventually break.

Tensions between the United States and China continue to ratchet higher as their relationship transforms from competitive rivals to bitter adversaries, with both countries looking to exert their influence in different parts of the world. Relations initially soured under the Trump administration when the U.S. accused China of unfair trade practices and implemented significant tariffs aimed at decreasing their large trade deficit with China. More recently, the United States restricted exports of certain advanced semiconductor making equipment to China in an attempt to slow the country’s technological and military advances. As the relationship looks likely to deteriorate further, companies are attempting to limit their exposure to sudden policy changes and geopolitical risk by diversifying their supply chains and shifting factories away from China. This has resulted in a decrease in China’s share of imports in the U.S. Southeast Asian countries with cheap labor and lower geopolitical risk, such as Vietnam, have benefited from the shift. The country saw exports to the United States increase by 528% over the past decade and accounted for nearly 4% of total U.S. imports in 2022, up from less than 1% in 2012. Mexico has also been a beneficiary of the trend, given its low-cost labor, free-trade agreements, and proximity to the United States and should continue to benefit from American companies looking to “near-shore”.

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Although impacted by a surge of COVID cases in the first part of the quarter, the lifting of China's pandemic controls is leading to an economic rebound in China. As was the case with other economies, Chinese consumers are sitting on excess savings accumulated during lockdowns which should lead to an unleashing of pent-up demand. This up-tick in growth should benefit not only China, but global growth as well. Indeed, some country economic indicators such as Purchasing Manager's Indices (PMIs) have bounced back into expansionary territory, helping ease fears that a global recession is imminent. In addition to benefiting from the re-opening, Chinese internet stocks rallied late in the quarter after Alibaba announced a new organizational structure that will feature six independently managed business groups that can each seek their own IPO. The announcement, which was nearly certain to have received the government's stamp of approval, was the most concrete signal yet that the regulatory crackdown of internet companies in China is finally over, with the government taking a more supportive role. It also laid out a blueprint for other Chinese internet companies looking to unlock value in their stocks.

Our portfolio saw positive returns on an absolute basis and was ahead of our benchmark for the first quarter. The Industrials and Information Technology sectors contributed the most to portfolio returns, while the Energy and Consumer Discretionary sectors detracted the most. Regionally, Asia/Pacific and North America were positive contributors to performance while Central & South America and Western Europe detracted from performance. Our overweight and stock selection in Mexico helped relative performance, while our overweight and stock selection in Brazil detracted from relative performance.

International equities outperformed their U.S. peers by more than 3% over the past year, helped by the ending of China's zero-COVID policy and Europe's avoidance of an energy crisis over the winter months. Even with this outperformance, international equities offer compelling valuation with many countries trading at a discount to their history, presenting us with ample opportunity to find attractively valued companies. With volatility likely to remain high as the lagging impact of interest rate increases flows through economies, we continue to believe that purchasing attractively valued, high-quality growth companies should lead to positive relative returns going forward.

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### DISCLOSURES

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The opinions stated in this presentation are those of Renaissance as of March 31, 2023 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.

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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.

*Continued*

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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 appropriate 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 ETF

**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.

## REFERENCED INDICES

**Purchasing Managers' Indices**—The Purchasing Managers' Indices (PMIs) measure the activity level of purchasing managers in the manufacturing and service sectors. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

## STOCK REFERENCES

Any securities referenced should not be considered a recommendation to purchase or sell a particular security. These securities represent a portion 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 unless otherwise stated. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. 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. To request a complete list of holdings recommendations for this strategy over the past year or a list showing the contribution of every holding to the performance of the representative account for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).