

# International Small Cap Equity Intra-Quarter Commentary—April 2023



International equity markets rose for the second consecutive month, setting aside worries over the ongoing global battle with inflation, the war in Ukraine, and tensions between China and the United States. Value-oriented stocks in both developed and emerging markets outperformed growth stocks although growth stocks from sectors such as Information Technology have continued to perform the best year to date.

Concerned about global growth, investors welcomed the news that China's first quarter GDP increased 4.5% year-over-year, beating market forecasts of 4.0%. The re-opening of China has led to an expansion in economic activity with March retail sales climbing 10.6% compared to last year. However, the growth story may be uneven, as evidenced by China's most recent Manufacturing Purchasing Managers' Index that dropped from 51.9 in March to 49.2—below the 50 level which differentiates between economic contraction and expansion. Meanwhile, consensus estimates compiled by FactSet show expectations of 5.3% Chinese GDP growth in 2023, well above the 3.0% achieved in 2022.

Although the U.S. Federal Reserve is expected to end its interest rate increases soon, the situation in Europe is less certain, with inflation running higher than in the United States. Eurozone April core inflation, which excludes fuel and food costs, rose 5.6% in April, down from 5.7% in March but considerably ahead of the 2.0% inflation target set by the European Central Bank (ECB). While additional rate hikes in Europe are likely, the ECB must be careful not to dampen fragile economic growth, with countries such as France and Germany estimated to expand 2023 GDP by only 0.6% and 0.1%, respectively.

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

Region	Ending Weight <sup>(3)</sup>	Change from 3/31/2023	International Small Cap Equity Additions & (International Small Cap Equity Deletions) <sup>(4)</sup>
Western Europe	26.5%	-0.1%	No International Small Cap Equity portfolio additions or deletions during the period.
North America	25.5%	+0.1%	
Asia/Pacific	23.0%	-0.9%	
Middle East & Africa	14.1%	+0.7%	
Central & South America	8.9%	-0.2%	
Cash	2.1%	+0.4%	
Eastern Europe	0.0%	0.0%	
Developed Markets	68.8%	-0.9%	
Emerging Markets	29.1%	+0.6%	
Cash	2.1%	+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. 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—INTERNATIONAL SMALL CAP EQUITY

NWITY	Network International Holdings	2.15%	0.97%
NOA	North American Construction Group	2.71%	0.39%
INVVY	Indivior	2.38%	0.38%
ERO	Ero Copper	2.65%	0.29%
TRMR	Tremor International	1.43%	0.13%

### BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

CLS	Celestica	2.27%	-0.38%
ASAI	Sendas Distribuidora	1.53%	-0.34%
PERI	Perion Network	2.86%	-0.34%
OEC	Orion Engineered Carbons	2.51%	-0.18%
KLIC	Kulicke & Soffa Industries	1.71%	-0.17%

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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

Our portfolio returns for the month lagged the benchmark. Information Technology was the worst performing sector in both our portfolio and the benchmark, as investors grew cautious ahead of first quarter earnings and took some profits as the sector is the best performing year-to-date. Also detracting from returns were our holdings in the Communication Services and Industrials sectors, although this was partially offset by positive contributions from Financials, Health Care, and Energy. In contrast to our benchmark, emerging market holdings outperformed our developed market positions. Led lower by our tech exposure, Japan was our weakest country for the month, while the United Arab Emirates contributed the most to returns.

Our best contributing stock for the month was **Network International Holdings** (United Arab Emirates). The payment processing provider in the Middle East and Africa rose after receiving buyout offers from a consortium of private equity firms as well as Brookfield Asset Management. Our worst performing holding was **Celestica** (Canada). The contract manufacturer of electronics posted better-than-expected first quarter earnings and raised its 2023 sales and earnings guidance, but investors are taking a cautious approach to the stock due to macro headwinds and difficult comps, particularly in cloud computing and semiconductor equipment.

Looking toward the second half of the year, talk of a global recession is growing and equity markets are being evaluated with caution. The rapid rise in central bank interest rates will stem the rise in inflation, but it will take time for inflation to return to targeted levels. Based on first-quarter company earnings reported thus far, many firms have maintained earnings growth. However, investors remain concerned that the continued headwinds facing companies will result in lower

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earnings in the second half of the year. While we believe that the markets will be bumpy for the rest of the year, our growth-at-a-reasonable-price approach to investing should help to reduce portfolio volatility.

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## DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of April 30, 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.

## 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.

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## 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 INDEX

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

**Manufacturing Purchasing Managers' Index** —The Manufacturing Purchasing Managers' Index (PMI) measures the activity level of purchasing managers in the manufacturing sector. 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).