

International Small Cap Equity Intra-Quarter Commentary—November 2023



Equity markets reversed course in November following encouraging signs that persistent global inflation may finally be under control. Developed markets outpaced emerging markets which were weighed down by Chinese equities that failed to gain in the biggest international stock market rally since the first month of the year. Growth-oriented stocks fared better than value stocks, with investors bidding up growth sectors like Information Technology and shying away from more value-driven sectors such as Energy. Year-to-date, however, value stocks lead growth stocks in both developed and emerging markets.

As has been the case for most of the year, inflation was foremost on investors' minds. The eurozone reported that its November year-over-year headline inflation rose only 2.4%, helped by an 11.5% drop in energy prices. Core inflation (which excludes food and energy) rose 3.6% year-over-year and remains above the European Central Bank's (ECB) 2% target but saw its lowest monthly increase since May 2022. With ECB rate hikes on pause, economists have been speculating that the ECB may begin to lower interest rates, although ECB President Christine Lagarde has pushed back, warning that rates may remain higher for longer.

Portfolio performance was positive for the month but trailed our benchmark. Gains were widespread, with all economic sectors in our benchmark positive for the month. Our best contributing sector was Industrials, followed by Information Technology. Both sectors benefited from a bias toward growth stocks. Our Energy sector holdings detracted the most from performance following a 4.9% monthly decline in Brent Crude oil. Our Health Care holdings were also lower for the month, adding to their lackluster performance year-to-date. From a country perspective, Japan and Mexico contributed the

GEOGRAPHICAL EXPOSURE & PORTFOLIO CHANGES ⁽¹⁾ ⁽²⁾

Region	Ending Weight ⁽³⁾	Change from 10/31/2023	International Small Cap Equity Additions & (International Small Cap Equity Deletions) ⁽⁴⁾
Asia/Pacific	30.5%	+2.6%	Kurita Water Industries
North America	24.6%	-1.3%	
Western Europe	23.6%	-2.7%	(Euronav)
Middle East & Africa	9.5%	0.0%	
Central & South America	9.4%	+0.9%	
Cash	2.4%	+0.4%	
Eastern Europe	0.0%	0.0%	
Developed Markets	70.9%	-1.1%	
Emerging Markets	26.8%	+0.7%	
Cash	2.4%	+0.4%	

⁽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. 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.

⁽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 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.

Sources: 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 SMALL CAP EQUITY

ARCO	Arcos Dorados Holdings	2.51%	0.64%
EBCOY	Ebara	2.26%	0.60%
AFYA	Afyra Limited	2.33%	0.57%
VLRS	Volaris	1.34%	0.48%
CAMT	Camtek	2.22%	0.43%

BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

VET	Vermilion Energy	1.93%	-0.27%
ERO	Ero Copper	1.31%	-0.14%
INDV	Indivior	1.62%	-0.14%
DOOO	BRP	1.82%	-0.13%
PTXKY	PT XL Axiata	2.19%	-0.12%

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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 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.

⁽³⁾ Average weights over the presentation period.

Sources: Renaissance Research, FactSet

most to returns, while Indonesia and South Africa detracted from performance. In contrast to the overall small cap market, our developed market holdings lagged our emerging market positions.

Our top contributing stock was **Arcos Dorados** (Uruguay). The Latin American owner/operator of McDonald's restaurants reported that year-over-year, 3Q23 revenues grew 22% and EPS expanded 27%. The company also reported that 50% of firmwide sales are now from digital channels (delivery, mobile app and kiosks). **Vermilion** (Canada) was our weakest performing stock. The oil and gas exploration and production company reported better-than-expected earnings for the third quarter, but stock sentiment suffered due to lower global oil and gas prices. Nevertheless, improving free cash flow has allowed Vermilion to lower its debt, which should lead the company to increase returns to shareholders through dividends and buybacks starting in 2024.

As markets close out the year, investors hope the positive momentum will continue into 2024. Conditions necessary for continued momentum will depend on how the inflation story unfolds. Many economists forecast the U.S. Federal Reserve to start scaling back interest rates by the spring of next year. The same thought process holds true for the ECB. However, inflation is still above central bank targets, and they would be loath to risk inflation returning after having survived the first extended bout of inflation in decades. Even so, in addition to potentially lower interest rates,



equities should be supported by a return to earnings growth. As measured by FactSet using the iShares MSCI ACWI ex US ETF, international markets are expected to grow earnings per share 10% in 2024 compared to a 2% decline in 2023.

DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of November 30, 2023 and are subject to change at any time due to changes in market or economic conditions.

GICS® SECTOR INFORMATION

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REFERENCED ETFs

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

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