

Small Cap Growth Quarter-End Review—2Q2024



The U.S. stock market posted strong first half gains, with the S&P 500 reaching new record highs. The market continues to be driven almost entirely by enthusiasm for artificial intelligence (AI) stocks, with mega-cap technology, semiconductor, and utility stocks that are leveraged to AI accounting for almost all of the index's performance year-to-date. In addition, improvements in inflation data allowed the U.S. Federal Reserve to keep interest rates steady, while solid U.S. economic growth resulted in better-than-expected earnings growth.

The Russell 2000 Growth Index declined during the second quarter as interest rate volatility and weakening economic data weighed on stocks. The Small Cap Growth portfolio also declined but outperformed the index. The Real Estate and Consumer Discretionary sectors performed the worst in the index, while the defensive Consumer Staples sector outperformed along with Communication Services. The outperformance of the Small Cap Growth Strategy was led by stock selection in Consumer Discretionary and Consumer Staples. Conversely, stock selection in Financials and Information Technology detracted the most from performance.

Sprouts Farmers Markets (SFM) contributed the most to portfolio performance, as the specialty grocer continued to execute extremely well, with the best first quarter same-store sales growth since 2020. In addition, gross margins were at record levels and forward guidance was above estimates. The company is on track to achieve its targeted 10% store unit growth this year and expects to see continued growth in the future. While the stock is not as inexpensive as it was last year, we see Sprout's business momentum continuing.

SECTOR WEIGHTS & PORTFOLIO CHANGES⁽¹⁾

Sector	Ending Weight ⁽²⁾	Change from 3/31/2024	Small Cap Growth Additions & (Small Cap Growth Deletions) ⁽³⁾
Information Technology	24.5%	+0.2%	Belden, Jamf, Rambus (EPAM Systems, Model N, Squarespace)
Industrials	23.6%	+0.4%	H&E Equipment Services (Shoals Technologies Group)
Consumer Discretionary	16.0%	+2.5%	Duolingo
Health Care	14.6%	-2.5%	(Shockwave Medical)
Financials	8.5%	+0.7%	Flywire
Consumer Staples	7.2%	+0.5%	
Energy	3.9%	0.0%	
Communication Services	1.1%	0.0%	
Cash	0.6%	+0.1%	
Real Estate	0.0%	-1.9%	(CareTrust REIT)
Utilities	0.0%	0.0%	
Materials	0.0%	0.0%	

⁽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⁾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.

⁽³⁾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.

Source: Renaissance Research, FactSet

Small Cap Growth Quarter-End Review—2Q2024



CONTRIBUTORS TO RETURN⁽¹⁾⁽²⁾

Ticker	Company Name	Average Weight ⁽³⁾	Contribution to Return
--------	--------------	-------------------------------	------------------------

TOP FIVE CONTRIBUTORS—SMALL CAP GROWTH

SFM	Sprouts Farmers Market	3.07%	0.81%
LNTH	Lantheus Holdings	1.45%	0.38%
SQSP	Squarespace	1.11%	0.37%
DUOL	Duolingo	1.05%	0.36%
QTWO	Q2 Holdings	2.26%	0.33%

BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH

KNSL	Kinsale Capital Group	2.70%	-0.94%
BL	BlackLine	1.76%	-0.52%
EPAM	EPAM Systems	0.77%	-0.47%
LSCC	Lattice Semiconductor	1.38%	-0.42%
PCTY	Paylocity	1.60%	-0.41%

⁽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⁾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

Kinsale Capital (KNSL), a provider of specialty property insurance, detracted the most from portfolio performance as the growth of gross premiums written slowed to 25%, decelerating from the 30-40% growth rates the company had seen historically. However, we see the company's low-cost model and superior underwriting margins as long-term competitive advantages that will lead to solid earnings growth in the future.

Trading and stock movements during the quarter led to several changes in sector weights. The Consumer Discretionary, Financials, Consumer Staples, Industrials, and Information Technology sectors increased during the quarter, whereas the Health Care and Real Estate sectors decreased.

Rambus (RMBS), a designer and patent holder of memory interface chips, was a new position added in the quarter. The company should benefit from a transition to a higher data-rate standard for memory chips that manufacturers are just starting to adopt. Moreover, the company is taking share in the chips that surround the memory boards, and it is targeting 40-50% market share in the next generation of products, up from 30%. The company also has a steady, high-margin business division from its patent portfolio which has led to best-in-class gross margins and free cash flow generation. We see the company as well positioned, as data center needs for high-speed chips drive demand for Rambus' products.

We exited our position in **Model N** (MODN), as the company agreed to be acquired by Vista Equity Partners in an all-cash transaction.

Small Cap Growth Quarter-End Review—2Q2024



Over the last 20.5 years since the end of 2003, profitable companies within the Russell 2000 Growth Index have generated an annualized total return of 8.5% on a market-cap weighted basis. During that same time frame, earnings have grown by 9.9%, indicating that the price-to-earnings (P/E) ratio has contracted. In fact, the P/E has gone from 25.9x on December 31, 2003 to 19.9x as of June 30, 2024.

This valuation is cheaper than the 25.1x multiple of the top 50 stocks in the S&P 500 as of June 30, 2024, and it is modestly lower than its own long-term average of 20.6x. This may suggest that the very largest stocks are overvalued and profitable small cap growth stocks are reasonably valued. Moreover, indexed earnings for profitable small cap growth companies are currently projected to reach 32.0 next year, which implies earnings growth of 25.6% in 2025. Expressed differently, if current earnings projections turn out to be accurate and prices rise over the next 18 months to the historical average P/E for profitable small cap growth stocks, it could indicate an anticipated total return of 30%.

However, we certainly don't expect the markets to behave in such a precise manner, as projecting the future is always a difficult undertaking. That said, we do know that five-year forward returns are heavily influenced by the starting P/E, and we can state that valuations for profitable small cap growth stocks are materially more attractive than the largest stocks in the U.S.

The five largest stocks in the S&P 500 Index currently account for over 28% of the index weight. Historically when such high levels of concentration have occurred, it was prudent to increase exposure to smaller-capitalization stocks. We believe this would be an effective move today, as well.

DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of June 30, 2024 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.

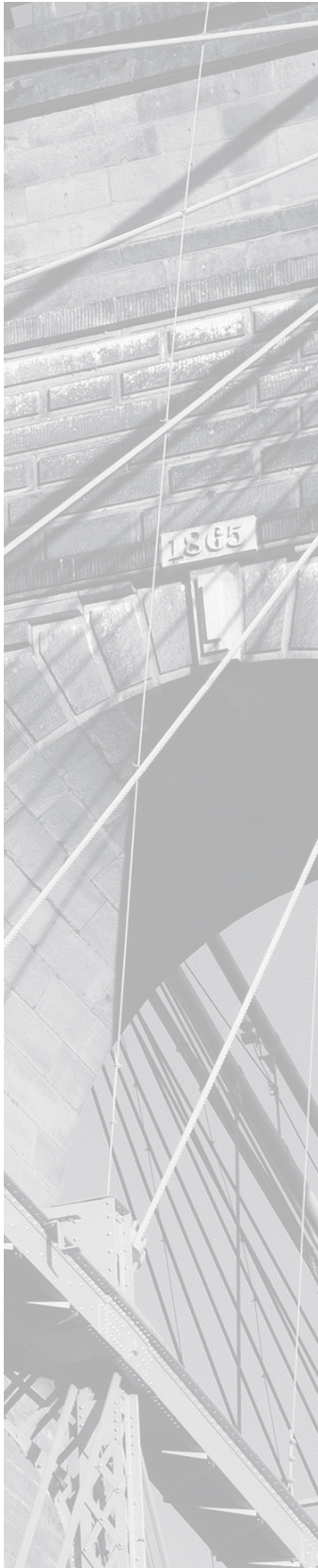
PERFORMANCE

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 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.

Continued

Small Cap Growth Quarter-End Review—2Q2024



REFERENCED INDICES

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

Russell 2000 Growth Index—The Russell 2000 Growth Index is composed of the smallest 2,000 of the 3,000 largest U.S. companies based on total market capitalization with higher price-to-book ratios and higher forecast growth values.

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

RUSSELL DATA

FTSE Russell is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell[®] is a trademark of FTSE Russell. This presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Renaissance Investment Management. FTSE Russell is not responsible for the formatting or configuration of this material or for any inaccuracy in Renaissance's presentation thereof.

S&P DATA

S&P Dow Jones is the source and owner of the trademarks, service marks and copyrights related to the S&P Indexes. S&P[®] is a trademark of S&P Dow Jones. This presentation may contain proprietary S&P data and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Renaissance Investment Management. S&P Dow Jones is not responsible for the formatting or configuration of this material or for any inaccuracy in Renaissance's presentation thereof. This data is to be used for the recipient's internal use only.

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.