

Small Cap Growth Intra-Quarter Commentary—July 2024



July 2024 will likely go down in history as one of the most unexpected and memorable months of our lifetimes. We're not sure that anyone had on their bingo card an assassination attempt on a former U.S. President and the leading candidate for the Republican party followed by the current U.S. President and leading candidate for the Democratic party dropping out of the Presidential race.

On the surface, the stock market delivered solid returns in July, with the S&P 500 posting its third consecutive month of gains. However, underlying that outcome, we saw one of the biggest market rotations in recent memory, sparked by a better-than-expected June inflation report that showed a decline in the inflation rate for the first time since July 2022. Investors initially celebrated the inflation report on the premise that the improving inflation data proves that the Federal Reserve has engineered a soft landing with the prospects for lower interest rates beginning as early as September. While lower interest rates have historically helped small-cap companies, investors also began to question the monetization path for investments made in artificial intelligence (AI), especially after several technology companies reported disappointing earnings. As a result, investors began to rotate out of mega-cap technology, growth, and momentum stocks—basically a very narrow group of stocks that have driven the market for the better part of the last 18 months—and into small-cap, value, and cyclical stocks—the much broader group of stocks that have lagged the market over the same period. The rotation was fast and furious, resulting in the equal-weighted S&P 500 outperforming the market cap-weighted S&P 500 by the largest margin since February 2021 and the Russell 2000 small cap benchmark posting its best return this year.

SECTOR WEIGHTS & PORTFOLIO CHANGES⁽¹⁾

| Sector | Ending Weight ⁽²⁾ | Change from 6/30/2024 | Small Cap Growth Additions & (Small Cap Growth Deletions) ⁽³⁾ |
|------------------------|------------------------------|-----------------------|--|
| Industrials | 24.1% | +0.5% | |
| Information Technology | 21.9% | -2.6% | (PowerSchool Holdings) |
| Consumer Discretionary | 16.3% | +0.3% | |
| Health Care | 14.2% | -0.4% | |
| Financials | 11.2% | +2.7% | Axos Financial |
| Consumer Staples | 6.9% | -0.3% | |
| Energy | 3.7% | -0.2% | |
| Communication Services | 1.1% | 0.0% | |
| Cash | 0.5% | -0.1% | |
| Real Estate | 0.0% | 0.0% | |
| 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

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CONTRIBUTORS TO RETURN⁽¹⁾⁽²⁾

| Ticker | Company Name | Average Weight ⁽³⁾ | Contribution to Return |
|--|------------------------|-------------------------------|------------------------|
| TOP FIVE CONTRIBUTORS—SMALL CAP GROWTH | | | |
| SFM | Sprouts Farmers Market | 3.18% | 0.60% |
| GRBK | Green Brick Partners | 2.21% | 0.55% |
| LNTH | Lantheus Holdings | 1.98% | 0.55% |
| BLD | TopBuild | 2.37% | 0.54% |
| MTH | Meritage Homes | 1.99% | 0.46% |
| BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH | | | |
| ELF | e.l.f. Beauty | 2.15% | -0.43% |
| DUOL | Duolingo | 2.03% | -0.42% |
| RMBS | Rambus | 2.13% | -0.22% |
| HQY | HealthEquity | 1.96% | -0.21% |
| MEDP | Medpace Holdings | 2.57% | -0.17% |

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⁽³⁾Average weights over the presentation period.

Sources: Renaissance Research, FactSet

July was also the start of the second quarter's earnings season, with mostly positive stock reactions driven by better-than-expected corporate earnings. Expectations were sanguine heading into earnings season, with investors accepting the soft-landing scenario. Through the end of July, corporate earnings came in slightly better than expected. With more than 40% of S&P 500 companies having reported second-quarter results, approximately 60% of companies exceeded revenue expectations and 78% reported a positive earnings surprise. As a result, second-quarter earnings growth is tracking at 9.8%, an improvement from the start of the second quarter earnings season (*Source: FactSet*). Historically, the direction of earnings revisions is positively correlated to stock prices over the long term, and we will continue to monitor the sustainability of the current growth environment.

In July, the Russell 2000 Growth Index posted a strong gain as investors factored in their confidence that the Federal Reserve will begin cutting interest rates in September. In addition, small cap stocks outperformed large cap stocks meaningfully during the month. Our portfolio also achieved a solid gain in July but underperformed the Russell 2000 Growth benchmark. Strength in the index was widespread, with all sectors rising during the month. Financials and Utilities contributed the most to index returns, while Information Technology and Energy contributed the least. The underperformance of our portfolio relative to the benchmark was led by stock selection in Health Care and Information Technology, while stock selection in Financials and Consumer Discretionary contributed the most to our relative performance.

Sprouts Farmers Market (SFM) was a top contributor to our performance in July, as the operator of health-focused grocery stores continued to demonstrate excellent operational performance.

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The company's same-store sales growth of +6.7% for the second quarter was significantly better than that of its peers and helped drive earnings meaningfully ahead of expectations. It is also seeing higher traffic in its stores while offering less promotional pricing, allowing management to raise its margin targets and earnings forecast for the year. While the stock is not as inexpensive as it was at the beginning of the year, we see Sprout's business momentum continuing.

e.l.f. Beauty (ELF) detracted the most from performance, as the market rotated to lower valuation stocks and investors became concerned that consumers may shift spending away from beauty in a slower economy. However, we see the company as well positioned in any environment, given its strong value proposition to customers and its expanding presence at Ulta and Walmart.

During July we added a new position in **Axos Financial** (AX), an online provider of consumer and commercial banking services. The company offers a diverse set of services and is opportunistic in areas that it targets for growth. With its low-cost digital platform, the company earns industry leading margins while achieving high returns on equity. We believe the company's disciplined and targeted investing strategy will allow it to maintain steady growth going forward.

We exited our position in **PowerSchool Holdings** (PWSC), as the company agreed to be acquired by Bain Capital for cash.

DISCLOSURES

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

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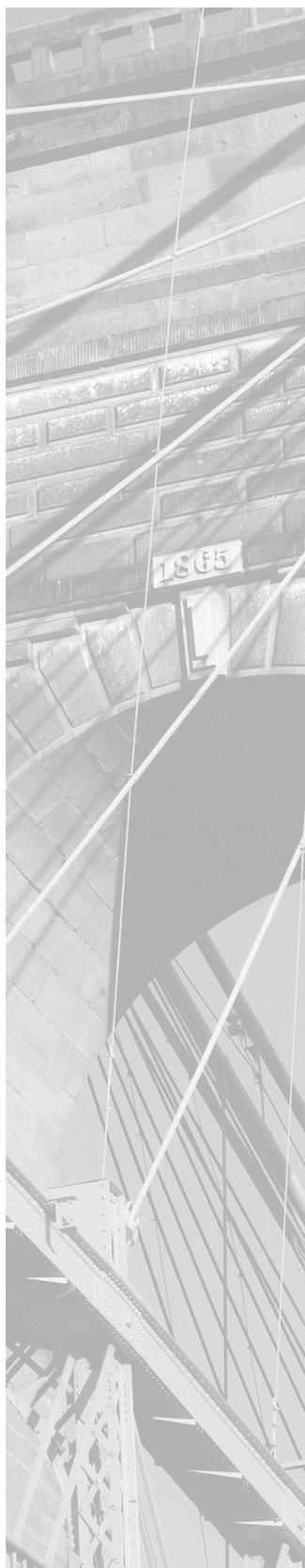
REFERENCED INDICES

(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.

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