

International Equity ADR Quarter-End Review—3Q2024



In a quarter marked by heightened volatility, international equities rose by nearly 8% and outperformed the S&P 500 for the first time since the fourth quarter of 2022. After strengthening during the first half of the year, the U.S. Dollar Index fell during the quarter with particular weakness against the Japanese yen after the Bank of Japan (BOJ) raised interest rates for the second time this year. A rally in Chinese equities following significant stimulus announcements helped emerging markets outperform developed markets during the quarter.

Japanese equities have been among the best performing markets over the past year, as improving shareholder returns provided upside to valuations while a depreciating yen helped support earnings growth. In addition, the Japanese economy avoided the spike in inflation experienced by many other economies, which allowed the BOJ to keep interest rates in negative territory over the past several years even as most other central banks were rapidly increasing rates. This divergence put downward pressure on the yen as the interest rate differential increased. However, the BOJ is now increasing interest rates against a backdrop of interest rate cuts by most other major central banks, causing the differential to reverse. This came to a head in early August when the BOJ announced it would increase interest rates for a second time and, more importantly, gave hawkish signals about the pace of future interest rate increases. This caused panic as the yen rapidly appreciated, and Japanese equities experienced some of their largest single-day moves in the past forty years. Given the alarm that spread throughout global equities, the BOJ was quick to tone down its hawkish message and indicate that it is in no rush to hike interest rates. This helped calm markets, leading to a sharp rebound in Japanese equities. Yet, the interest rate differential looks likely to continue shrinking, which could cause further appreciation of the yen and hurt the earnings of Japan's many export-oriented companies.

GEOGRAPHICAL EXPOSURE & PORTFOLIO CHANGES ^{(1) (2)}

Region	Ending Weight ⁽³⁾	Change from 6/30/2024	International Equity ADR Additions & (International Equity ADR Deletions) ⁽⁴⁾
Western Europe	45.8%	-1.8%	Millicom International Cellular, Pearson (Glencore, Infineon Technologies, Stellantis)
Asia/Pacific	31.7%	+2.8%	Flex, JD.com, TDK (Nintendo)
North America	14.6%	-0.3%	Gildan Activewear (BRP)
Central & South America	5.3%	-0.4%	(Sendas Distribuidora)
Middle East & Africa	1.8%	+0.1%	
Cash	0.9%	-0.4%	
Eastern Europe	0.0%	0.0%	
Developed Markets	73.3%	-1.4%	
Emerging Markets	25.8%	+1.8%	
Cash	0.9%	-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 EQUITY ADR

JD	JD.com	0.23%	0.70%
TGLS	Tecnoglass	1.89%	0.65%
CRH	CRH	2.76%	0.62%
BABA	Alibaba	1.38%	0.59%
RYCEY	Rolls-Royce	2.19%	0.49%

BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL EQUITY ADR

RNECY	Renesas Electronics	1.53%	-0.41%
TOELY	Tokyo Electron	1.33%	-0.30%
STLA	Stellantis	1.06%	-0.30%
CSTM	Constellium	1.71%	-0.28%
STNG	Scorpio Tankers	1.90%	-0.26%

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⁽³⁾ Average weights over the presentation period.

Sources: Renaissance Research, FactSet

China's property market continues to be in a free fall, with the value of new home sales dropping by 37.7% year over year (y/y) in September, an acceleration from the 26.8% y/y decline in August (*Source: China Real Estate Information Corp.*). To offset the weak property market and lack of demand for products in its domestic market, China has attempted to keep its factories busy by exporting goods to other countries. The mix of weak Chinese consumer confidence and consumption along with growing exports have caused China's trade surplus to expand. However, this has drawn the ire of other countries who fear that China's dumping of cheap goods will hurt their own manufacturing industries, leading many countries to place tariffs on Chinese goods. Many economists have insisted that the Chinese government should be attempting to stimulate consumption in its own economy, but Chinese officials were reluctant to unleash meaningful stimulus measures, instead opting for smaller and more targeted measures throughout the year. Yet, with the economy clearly weakening and worry rising that a deflationary environment may set in, officials finally announced large-scale stimulus measures at the end of September. These include cutting benchmark interest rates, adjusting home purchase restrictions, lowering rates on existing mortgages, and issuing special sovereign bonds that will help fund consumption support programs while providing local governments with debt assistance. It remains to be seen if the large-scale stimulus will help turn the tide for the Chinese economy, but many have drawn comparisons to past "whatever it takes" actions implemented by central banks during the 2008 financial crisis and the 2012 European debt crisis. Investors clearly took notice of the shift, as the Shanghai Stock Exchange Composite Index posted its best weekly return since 2008 after the numerous stimulus measures were announced.

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Our portfolio returns were positive on an absolute basis and were in line with our benchmark in the third quarter. Sector allocation negatively impacted the portfolio as many of our underweight sectors, including Real Estate, Utilities, and Financials performed well. Stock selection was mixed, with good selection in Consumer Discretionary and Industrials offsetting weak selection in Communication Services and Financials. From a country perspective, our overweight to Mexico and selection in Japan hurt relative returns, while our overweight to China and selection in Colombia helped relative returns.

The top contributor to our portfolio performance during the quarter was **JD.com** (China). Shares of the e-commerce platform should be a primary beneficiary of the Chinese government's trade-in subsidy for home appliances, an area where JD.com has outsized exposure. Another strong performer was **Tecnoglass** (Colombia), as continued growth of major projects in Florida helped the window manufacturer's backlog rise by 29% y/y in its second quarter. The company is also looking to expand geographically to other states including Texas and California, where its low-cost model should be well received. Our weakest performer during the quarter was integrated semiconductor company **Renesas Electronics** (Japan) after the company issued third quarter guidance that implied a sequential decline in sales due to weakness in industrial machinery applications. While the drop in demand is a negative, management's desire to keep channel inventories below target should help prevent a future supply glut. Another weak performer was semiconductor production equipment manufacturer **Tokyo Electron** (Japan). The company reported a strong quarter for earnings and raised its forecast for future earnings, aided by AI-related products. However worry has increased that growth has been supported by a front-loading of purchases from Chinese customers in advance of possible U.S. restrictions on the Chinese semiconductor industry.

During the quarter, we purchased **Flex** (Singapore), an electronics manufacturing services company that should benefit from its global footprint as companies look to shift their manufacturing outside of China. Flex is also seeing strong growth for medical devices and increased demand from hyperscalers for data center and AI applications, which should be margin-accretive for the company due to the higher value nature of these businesses. Conversely, we sold our position in **Stellantis** (Netherlands). While the company's focus on keeping costs low and maintaining high prices helped generate elevated margins, it also caused a loss of market share and created a conflict between the company and its dealer network.

As inflation has steadily decelerated to more acceptable levels, the focus of central banks has shifted toward supporting economies, with the number of interest rate cuts by central banks in September reaching its highest monthly level since April 2020. The shift toward monetary easing comes at an opportune time as global economic growth appears to be stalling. While the unemployment rate remains low across much of the globe, it has been increasing over the past year in the United States, a major factor in the United States Federal Reserve's decision to opt for an outsized 50-basis point rate cut. Although the Global Services Purchasing Managers' Index (PMI) remains in expansionary territory, the Global Manufacturing PMI has returned to contractionary territory, with the United States, China, Japan, and the Eurozone all in contractionary territory. In addition, inflation could reaccelerate if China's stimulus results in a meaningful pick-up in growth and higher commodity prices. This may keep investors fixated on economic data and inflation, leading to increased volatility around central bank messaging with regard to the pace of future interest rate moves.



DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of September 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.

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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.

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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 INDICES

Purchasing Managers Index—The Purchasing Managers' Index (PMI) measures the activity level of purchasing managers. A reading above 50 indicates expansion, while a reading below 50 indicates contraction.

U.S. Dollar Index—The U.S. Dollar Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

STOCK REFERENCES

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