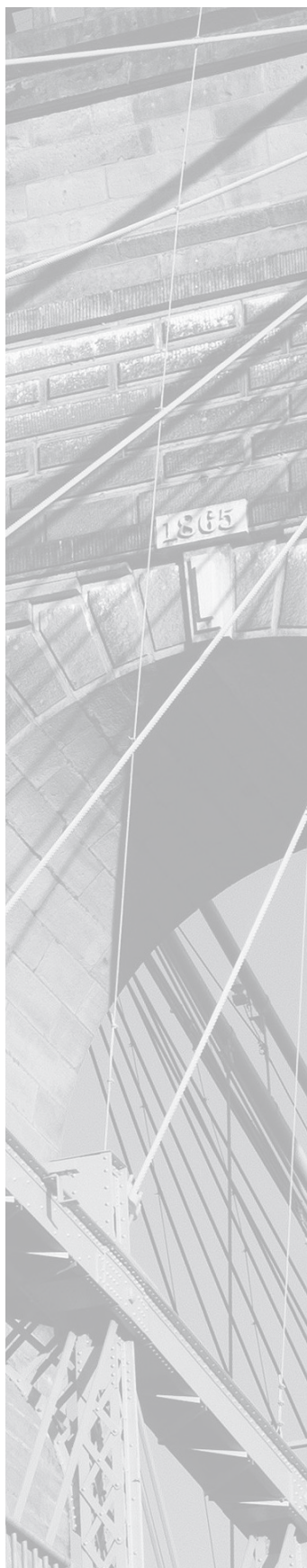


Small Cap Growth Quarter-End Review—3Q2024



The S&P 500 posted a return of 5.9% for the third quarter, as investors digested continued good news on inflation and the Federal Reserve initiated its first reduction in interest rates since 2020. With the exception of Energy, every economic sector posted positive returns for the quarter, with the strongest performance coming from interest rate-sensitive sectors such as Real Estate, Utilities, and Industrials. Communication Services and Information Technology lagged the overall market but posted positive returns. Just over 78% of S&P 500 stocks gained ground in the third quarter, compared with only 40% in the second quarter, and the equal-weighted S&P 500 Index outperformed the cap-weighted index by 3.7%. This marks the first quarterly outperformance of the equal-weighted index since 2022, even as the equal-weighted index trails the cap-weighted index year-to-date in 2024.

Investor confidence has increased due in large part to continued progress on inflation reduction. After surging as high as 9% in 2022, the rate of inflation has dropped to 2.5% over the most recent 12 months. In addition, optimism driven by lower inflation sparked price gains in bonds, as the 10-year Treasury yield dropped from 4.44% to 3.79% in the quarter, significantly down from its 2024 high of 4.70%. At the Federal Reserve Open Market Committee meeting on September 18, the Fed reduced its target for the Fed Funds rate to 4.75%-5.00%, as Fed Chairman Powell stated, “We know it is time to recalibrate our (interest rate) policy to something that’s more appropriate given the progress on inflation”. The rate cut marked the first rate reduction by the Fed since 2020.

SECTOR WEIGHTS & PORTFOLIO CHANGES⁽¹⁾

Sector	Ending Weight ⁽²⁾	Change from 6/30/2024	Small Cap Growth Additions & (Small Cap Growth Deletions) ⁽³⁾
Industrials	23.3%	-0.3%	(H&E Equipment Services)
Information Technology	20.6%	-3.8%	Credo Technology Group (Instructure Holdings, PowerSchool Holdings, Sprinklr)
Consumer Discretionary	17.1%	+1.1%	Abercrombie & Fitch (Meritage Homes)
Health Care	16.7%	+2.2%	Hims & Hers Health
Financials	10.3%	+1.8%	Axos Financial
Consumer Staples	7.9%	+0.7%	Vital Farms
Energy	2.7%	-1.2%	
Communication Services	1.2%	0.0%	
Cash	0.2%	-0.5%	
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
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TOP FIVE CONTRIBUTORS—SMALL CAP GROWTH

GRBK	Green Brick Partners	2.43%	0.91%
SFM	Sprouts Farmers Market	3.15%	0.87%
AXON	Axon Enterprise	2.46%	0.84%
DUOL	Duolingo	2.23%	0.84%
QTWO	Q2 Holdings	2.64%	0.77%

BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH

ELF	e.l.f. Beauty	1.93%	-1.19%
WFRD	Weatherford International	1.94%	-0.69%
RMBS	Rambus	1.70%	-0.56%
MEDP	Medpace Holdings	2.30%	-0.46%
PD	PagerDuty	1.43%	-0.36%

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⁽³⁾Average weights over the presentation period.

Sources: Renaissance Research, FactSet

It is notable that recent market gains have not been led by the group of mega-cap stocks collectively known as the “Magnificent Seven” (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla) but by a broader range of companies. Further moderation in inflation and interest rates may provide the impetus for further stock market gains, especially for high-quality, undervalued stocks. While the market environment is likely to remain volatile, given the upcoming presidential election and geopolitical events, we are confident that our disciplined investment approach will continue to reward patient investors with favorable long-term returns.

The Russell 2000 Growth Index rallied in the third quarter as the U.S. Federal Reserve reduced interest rates by 50 basis points and suggested further easing before year end. The Small Cap Growth portfolio performed in line with the benchmark for the quarter and remains ahead on a year-to-date basis. All sectors of the index posted gains for the quarter except for Energy, which was dragged lower as oil prices fell. The top-performing index sectors were Real Estate and Financials, which tend to be more interest rate sensitive, while the Information Technology sector lagged due to weakness in semiconductor stocks. The Industrials and Consumer Discretionary sectors contributed the most to our portfolio’s relative performance, while stock selection in Consumer Staples and Information Technology detracted the most.

Green Brick Partners (GRBK), a homebuilder focused on Texas and the southeastern U.S., contributed the most to performance during the quarter as the 10-year Treasury yield fell from nearly 4.5% to 3.75%, lowering mortgage rates for homebuyers. In addition, the company

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reported second quarter earnings that were meaningfully above expectations, with its backlog up 17% year-to-date. We believe that younger generations entering their prime home buying years combined with a shortage of new home construction could create a favorable environment for Green Brick going forward.

e.l.f. Beauty (ELF) detracted the most from performance, as the supplier of cosmetic and skin care products has seen a slowdown in growth from the exceptional pace observed over the last two years. The company should continue to grow above peers due to new product introductions and expanding shelf space at retailers. The stock's valuation has contracted significantly, and we believe that it is attractively priced at recent levels.

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

A new position added this quarter was **Hims & Hers Health** (HIMS), a direct-to-consumer telehealth platform that addresses the health and wellness market. The company offers solutions in nearly a dozen categories including hair loss and skin care. The company continues to expand into additional treatment categories, with the weight loss category having been introduced last November. The company is expected to launch a GLP-1 product (using Wegovy) sometime this quarter which should significantly expand its sales opportunities. Increased use of personal subscriptions and improved retention rates is also driving margins higher.

We exited our position in **Instructure Holdings** (INST) as the company agreed to be taken private by KKR in an all-cash transaction.

As noted, the Fed's interest rate reduction in September was its first since 2020. However, it is worth noting that rate reductions in 2001 and 2007 were followed by stock market declines over the following 12 months. In both cases, the rate reductions were associated with economic recessions. While economic momentum currently appears healthy, we remain on watch for signs of significant deterioration in economic fundamentals.

There appears to be room for further reductions going forward after the Fed's initial 50 basis point reduction. The "Real" Fed Funds Rate (equal to the Fed Funds Rate minus the inflation rate) remains elevated versus its history due to recent low inflation rates. If history is a guide, there may be further rate cuts in the near future. In fact, the Fed projects 2.5% in additional interest rate cuts through the end of 2026.

Consensus expectations predict an acceleration in earnings growth for S&P 500 companies this year and in 2025. After achieving only low single-digit growth in the past two years, expectations are for 10% growth this year and 15% next year. While lower interest rates are a positive for corporate profitability, possible changes in corporate taxation, government economic policies, and tariffs over the next several years result in an even higher level of uncertainty about these forecasts than usual.

For the profitable companies within the Russell 2000 Growth Index, valuations remain in line with historical norms. Implied earnings growth for 2025 based on sell-side analyst estimates is a robust 20%, and earnings estimates for 2024 are up 1.2% during the past quarter. These results lead us to be cautiously optimistic for attractive returns for the coming year. Unsurprisingly, there is evident weakness in earnings estimates for Consumer Discretionary stocks overall. However, that is a normally a strong sector for our portfolio holdings. Duolingo, Abercrombie & Fitch, Green Brick, and Stride have all experienced double-digit percentage upward revisions in earnings estimates for this year over the past quarter.

Other major sectors have experienced only modest revisions within a band of +1% to -1%. Again, however, our portfolio holdings are broadly experiencing solid upward revisions in

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earnings estimates with particularly notable strength in Consumer Staples and Financials. Vital Farms and Sprouts Farmers Markets are both notable, with FY1 EPS estimates up 14% and 9% during the past quarter. Within Financials, our holdings have mid-single-digit revisions for the current year.

We are optimistic that this positive momentum across the portfolio will lead to future positive returns in both absolute and relative terms.

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.

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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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