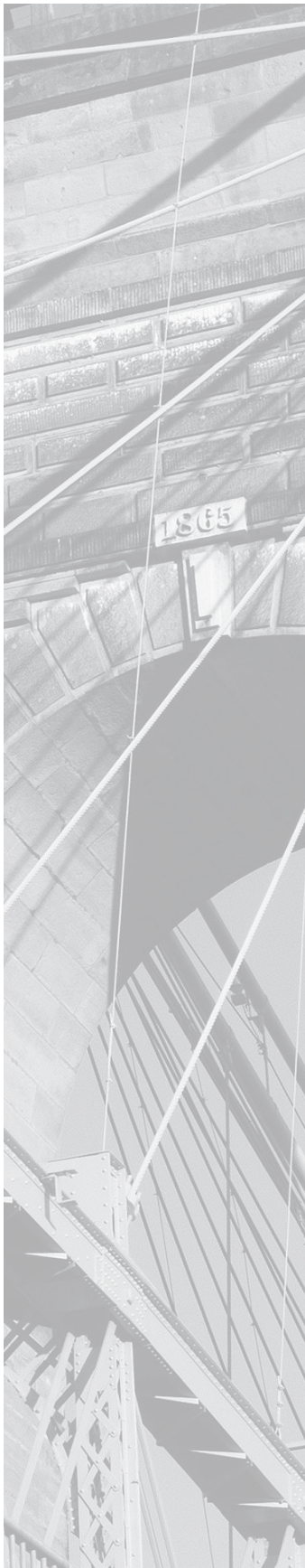


# Small Cap Growth Quarter-End Review—1Q2025



The S&P 500 posted a loss of 4.3% for the first quarter, as uncertainty about technology stock valuations and the U.S. government's economic policies raised investor concerns. However, seven of the S&P 500's eleven economic sectors actually posted positive returns for the quarter, with the strongest results coming from the Energy, Health Care, and Utilities sectors. Virtually all of the weakness in the S&P 500 came from negative performance within the Consumer Discretionary, Information Technology, and Communication Services sectors. The S&P 500 on an equal-weighted basis declined only 0.6% for the quarter.

The Federal Reserve elected to hold interest rates steady at its meeting in March. This marked the second meeting in a row in which the Fed has held rates unchanged. The Fed's decision came after data showed some slowness in the economy and inflation that remained above the Fed's target of 2%. Apprehension over how the economic policies of the Trump administration will impact government spending cutbacks, layoffs of government employees, and volatile changes in proposed tariffs contributed to the Fed's decision to hold interest rates steady. The Fed slightly reduced its estimate of expected economic growth and increased its inflation forecast relative to its December projections.

The so-called "Mag 7" stocks were among the weakest performers in the first quarter. While these stocks as a group have been extremely strong performers in recent years, they are not immune to concerns over valuation (Nvidia) or slowing earnings growth (Tesla). Even after recent declines, the Mag 7 stocks account for almost 30% of the S&P 500 and 42% of the Russell 1000 Growth Index by market capitalization.

## SECTOR WEIGHTS & PORTFOLIO CHANGES<sup>(1)</sup>

Sector	Ending Weight <sup>(2)</sup>	Change from 12/31/2024	Small Cap Growth Additions & (Small Cap Growth Deletions) <sup>(3)</sup>
Information Technology	26.1%	+2.2%	Alkami Technology, Freshworks, Impinj
Industrials	18.7%	+0.6%	Innodata
Health Care	18.2%	-1.3%	UFP Technologies (Amphastar Pharmaceuticals, InMode, TransMedics)
Financials	13.2%	+0.6%	
Consumer Discretionary	13.0%	-0.1%	
Consumer Staples	7.4%	-0.9%	
Cash	2.0%	+1.3%	
Energy	1.4%	-1.2%	(Weatherford International)
Materials	0.0%	0.0%	
Communication Services	0.0%	-1.1%	(Integral Ad Science)
Real Estate	0.0%	0.0%	
Utilities	0.0%	0.0%	

<sup>(1)</sup>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.

<sup>(2)</sup>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.

<sup>(3)</sup>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](mailto:compliance@reninv.com).

Source: Renaissance Research, FactSet

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## CONTRIBUTORS TO RETURN<sup>(1)(2)</sup>

Ticker	Company Name	Average Weight <sup>(3)</sup>	Contribution to Return
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### TOP FIVE CONTRIBUTORS—SMALL CAP GROWTH

HIMS	Hims & Hers Health	2.12%	1.59%
PLMR	Palomar Holdings	3.08%	0.76%
SFM	Sprouts Farmers Market	2.68%	0.46%
LRN	Stride	2.99%	0.44%
CPRX	Catalyst Pharmaceuticals	2.16%	0.34%

### BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH

FLYW	Flywire	1.49%	-0.96%
CRDO	Credo Technology	2.52%	-0.87%
ANF	Abercrombie & Fitch	1.34%	-0.83%
ELF	e.l.f. Beauty	1.34%	-0.81%
STRL	Sterling Infrastructure	2.13%	-0.71%

<sup>(1)</sup>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.

<sup>(2)</sup>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](mailto:compliance@reninv.com).

<sup>(3)</sup>Average weights over the presentation period.

Sources: Renaissance Research, FactSet

While the S&P 500 has not suffered a “correction” (a decline from a recent high of 10% or more) since 2023, typically, a correction can be expected to occur every couple of years. However, we continue to find good investment opportunities, particularly among high-quality, reasonably priced stocks that have not kept pace with concentrated market indices over the past several years.

The Russell 2000 Growth Index declined in the first quarter, as uncertainty around the impact of the economic policies of President Trump weighed on sentiment. The Renaissance Small Cap Growth Strategy also declined but outperformed the index. The top-performing sectors in the index were the defensive and light-weighted Real Estate and Consumer Staples sectors, while Information Technology and Consumer Discretionary were the bottom performers. Our portfolio’s outperformance of the index was led by stock selection in Health Care and Consumer Discretionary. Detracting from relative performance was our overweight position and stock selection in Information Technology and our stock selection in Consumer Staples.

**Hims & Hers Health (HIMS)** contributed the most to performance for the first quarter, as the company was a large beneficiary of the shortage of GLP-1 weight loss drugs. At its peak in February, the stock had gained more than 150% for the quarter. During the run-up, we reduced our position size on more than one occasion. However, later in the quarter, the FDA announced the shortage of the weight loss drugs was over, making HIMS ineligible to continue to offer commercial dosages through its platform. The company still expects revenues to grow by over 50% this year, as it will continue to offer personalized weight loss compounds that include GLP-1.

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**Flywire** (FLYW), a global payments software provider, detracted the most for the quarter as the company guided 2025 revenue growth to the 10 – 14% range versus prior expectations of greater than 20%. Management’s outlook incorporates a 30% decline in its Canadian and Australian revenues due to a drop in the number of foreign visas issued. In addition, the company has a strong presence in the education market that is seeing lower demand from international students.

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

**UFP Technologies** (UFPT), a new position added this quarter, is a contract manufacturer that also provides engineering and development services primarily serving the MedTech industry. In many ways UFPT acts as an extension of its customers’ R&D efforts. The company is often heavily embedded in the entire manufacturing process, starting with design and development, continuing with prototyping, then through to the commercial manufacturing of a product. The company is able to monetize these value-added services, and the MedTech end market allows the company to achieve higher margins and products with long life cycles. We believe the company should continue to see steady revenue growth with improving margins that are driven by its high value-add capabilities.

We exited our position in **InMode** (INMD), a manufacturer of minimally invasive aesthetic medical products, as the company’s newer products have been unable to reaccelerate growth.

Much of the blame for the market decline in the first quarter can be placed on increased uncertainty over U.S. government economic policy. Whether the focus is on proposed regulatory changes, federal budget issues, tax changes, or tariffs, the range of possible outcomes from government actions has meaningfully increased. An index of economic policy uncertainty has surged to over 300, its highest level since the onset of the COVID crisis in early 2020.

This index was consistently above 200 from March 2020 through January 2021. Even so, the S&P 500 posted strong gains over the following year in all of these months. In fact, after the index first moved above 200 in March 2020, the S&P 500 achieved a robust 53.7% price gain over the following 12 months. Looking at every month from 1984 to the present, when the index was above 200, we found that the S&P 500 averaged a gain of 23.7% over the ensuing 12 months, with positive returns 88% of the time.

Of course, positive returns 88% of the time also means that returns were negative 12% of the time. Most notably, after the index rose above 200 in September 2001 the S&P 500 dropped 21.7% over the next 12 months before the market began another uptrend in late 2002 and early 2003.

Consumer confidence fell in March to its lowest level since 2022, according to a survey by the University of Michigan. The same survey also indicated that consumer expectations for the rate of inflation over the next year rose sharply to 5%. The combination of lower sentiment and higher expected inflation may present a headwind for consumer spending over the next several quarters.

Volatility is a feature of the equity markets and as an equity investor it cannot be avoided. Looking at the maximum drawdown (a drawdown is defined as a decline in the price of an index at some point in the year from a previous high price in that year) of the Russell 2000 Growth Index over the last 25 years, the average has been a 15.2% decline. Through Friday, April 4, 2025, the Russell 2000 Growth index was down 21.7% from its peak at the end of January, so we’ve already experienced a drawdown greater than the 25-year average. As long-term investors, we think it is more constructive for us to thoroughly consider where we believe that stock prices may be one year, two years, or three years from now—not tomorrow, not next month.

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The average return after three years of the Russell 2000 Growth Index after a drawdown is 52.4% and was positive over 90% of the time. We believe that disciplined long-term investors will benefit from the investment opportunities presented from any drawdowns in the stock market.

## DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of April 4, 2025 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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