

Small Cap Growth Quarter-End Review—3Q2025

Stock prices continued to rise during the third quarter as the S&P 500 climbed to all-time highs during the month of September. Gains were concentrated in the Information Technology, Communications Services, and Utilities sectors, while the Consumer Staples, Real Estate, and Health Care sectors were relative laggards. Bond yields experienced slight declines during the quarter, and, in a widely expected move, the Federal Reserve reduced its target for the Fed Funds rate to 4.0-4.25% in late September.

The Russell 2000 Growth Index continued its rally which began in the second quarter and posted another solid gain in the third quarter. The Renaissance Small Cap Growth portfolio return was also positive but trailed the index.

The performance of the Russell 2000 Growth Index could be viewed as a “low-quality” rally, as stocks with the lowest return on equity (ROE) were the top performers for the quarter, whereas the companies with the highest ROEs performed the worst (*source Jefferies*). Our research shows that the most volatile stocks, as measured by the standard deviation of their daily price change over the year, significantly outperformed the index. In fact, the performance of the tenth decile of stocks as ranked by volatility (the most volatile decile) posted a return that was more than 2.5 times that of the index. When the second quarter is included, the results are even more startling, with the most volatile stocks up 3.7 times the index.

The underperformance of the Small Cap Growth strategy was impacted by our stock selection in Health Care and Information Technology, while stock selection in Industrials and our zero

SECTOR WEIGHTS & PORTFOLIO CHANGES ⁽¹⁾

Sector	Ending Weight ⁽²⁾	Change from 6/30/2025	Small Cap Growth Additions & (Small Cap Growth Deletions) ⁽³⁾
Information Technology	24.8%	-2.2%	(Grid Dynamics)
Health Care	23.1%	3.6%	TransMedics Group, Waystar (Lantheus)
Industrials	17.2%	-3.8%	McGrath RentCorp, Primoris Services (Chart Industries, Comfort Systems USA, EMCOR Group,)
Consumer Discretionary	16.5%	4.9%	Adtalem Global Education, Group 1 Automotive, Life Time Group (Abercrombie & Fitch)
Financials	9.7%	-0.7%	
Consumer Staples	6.1%	-1.6%	(Simply Good Foods)
Real Estate	2.0%	2.0%	CareTrust REIT
Cash	0.6%	-1.0%	
Communication Services	0.0%	0.0%	
Energy	0.0%	-1.1%	(Matador Resources)
Materials	0.0%	0.0%	
Utilities	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.

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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

CRDO	Credo Technology	3.84%	1.95%
RMBS	Rambus	2.49%	1.31%
STRL	Sterling Infrastructure	3.03%	1.26%
FIX	Comfort Systems USA	2.71%	1.26%
INOD	Innodata	2.33%	1.09%

BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH

SFM	Sprouts Farmers Market	2.17%	-0.84%
PLMR	Palomar	2.30%	-0.70%
LNTH	Lantheus	1.07%	-0.66%
Q TWO	Q2	2.11%	-0.55%
DUOL	Duolingo	1.87%	-0.49%

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⁽³⁾Average weights over the presentation period.

Sources: Renaissance Research, FactSet

weight in Communication Services benefited our relative performance. **Credo Technology Group** (CRDO) contributed the most to our portfolio performance as the semiconductor maker continues to see strong demand for its connectivity solutions that target AI data centers. The company is benefiting from the AI data center buildouts by its largest customers, which include Amazon and Microsoft. In addition, the company expects to ramp revenues with two new hyperscale customers in fiscal 2026. **Sprouts Farmers Market** (SFM) detracted the most from our portfolio performance, mostly due to valuation that reached the upper end of its historical range. The company's fundamentals continue to be strong as revenue growth remains in the mid-teens due to double-digit same store sales growth and steady new store openings. After the pull back this quarter, we believe that the stock is at an attractive level and continue to maintain our position.

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

TransMedics (TMDX), a leader in organ transplant technology and logistics, was added to the portfolio during the quarter. The company's development of its Organ Care System, a portable organ monitoring system, has given it a significant advantage relative to competing technologies, as its system allows organs to remain viable for transplants for 24 hours versus the standard 4 hours. Moreover, the company has a fleet of a dozen private jets to facilitate the transportation of organs. The company is gaining share from competitors, expanding the types of donors from whom organs can be harvested, and penetrating international markets. We believe that the

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company is in the early stages of its full growth potential and expect the company to continue to gain share and expand the market for organ transplants.

We exited our position in **Comfort Systems USA** (FIX), a position that we added in March 2020, as its market cap exceeded the upper limit set for our Small Cap Growth Strategy.

Real GDP (i.e., inflation adjusted) grew at an annualized rate of 3.8% in the second quarter, according to an estimate by the Bureau of Economic Analysis released in September, marking a sharp recovery from the 0.6% decline in the first quarter. Consumer spending rose significantly during the second quarter, making the most positive contribution to overall growth. Much of the market concerns about tariff policies unveiled by the Trump administration in early April appear to have abated, although it is still too early to clearly discern their ultimate economic effects.

The stock market recovery since its initial selloff in April has been dramatic. The S&P 500 has gained in each of the last five months, and from the end of April through the end of September the index has risen 20.1%. From its lowest level in April, the index gained 32.1% through September. While it is true that the market has been led by a relatively small group of highly priced technology stocks, this has still been a remarkable accomplishment.

The strong gains over the past five months might suggest a pullback in prices in the near future, but a look at history suggests otherwise. We examined every five month period since 1980 in which the S&P 500 gained at least 15% and measured how the index did over the next twelve months. On average, the index gained a further 11% over the following twelve months and posted positive returns 85% of the time. Both figures are slightly above average for all 12-month periods.

On September 9, the Bureau of Labor Statistics reported that the U.S. added approximately 911,000 fewer jobs than originally thought over the twelve months ending March 31. This implied much slower job growth in late 2024 and early 2025 and undoubtedly contributed to the Fed's decision to reduce interest rates in September. Projections for the Fed Funds rate in the future now predict a significant decline through next year, which could provide support for the stock market. However, it is worth noting that inflation remains well above the Fed's 2% target, which may inhibit a more significant reduction in rates over the near term.

As mentioned, the most volatile stocks in the Russell 2000 Growth Index are enjoying a hefty advantage this year, with the tenth decile outperforming by more than twice the next best decile. We analyzed quarterly returns by volatility deciles to examine prior periods of outperformance by the most volatile stocks and found that, since 2004, there have been four periods of dominance by the tenth decile.

These periods of outperformance by the most volatile stocks have been impressive in their magnitude, but they typically have been short-lived, with the longest period lasting five quarters. (It is worth noting that the longest episode occurred amid significant government stimulus in response to COVID-19.)

Despite the rather impressive bursts, the track record for the most volatile stocks in aggregate is notably poor. During the remaining 73 quarters when less volatile stocks performed better, the most volatile stocks were down 87% in absolute terms. Therefore, despite being up 1810% during their best 14 quarters of relative performance, their total return over the course of the nearly 22 years studied is a 152% cumulative return, or 4.3% annualized. This compares to the profitable companies of the Russell 2000 Growth Index 10.9% annualized return, a 6.6% annualized return difference.

One might expect excellent performance to show up in valuation metrics and, in fact, it does. As of September 30, the tenth decile stocks were trading at an average P/E of 34.2 times fiscal year two expected earnings. This is a 36% premium to the decile's historical average and a 76% premium to the other nine deciles as of September 30. We expect to see the market broaden out from here, with a rotation back to stocks of companies with strong fundamentals.

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GICS SECTOR INFORMATION

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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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