

Midcap Growth

Quarter-End Review—4Q2025



In the fourth quarter, stocks posted their third consecutive quarter of gains as the S&P 500 rose 2.7%. The strongest sectors in the market included Health Care, Communication Services, and Materials, while the Real Estate, Utilities, and Energy lagged. On December 10, the Federal Reserve cut its targeted Fed Funds rate for the third time this year, reducing it by 0.25% to 3.50–3.75%. The Federal government shutdown in October and early November denied official access to recent economic data, and the Fed's decision was not unanimous. However, softening hiring statistics in the labor market seemed to weigh heavily on the Fed's rate cut decision. Even with the reduction in the Fed Funds rate, yields on 10-year Treasury bonds ended the quarter unchanged at 4.11%.

The latest readings on inflation were encouraging, as data for November showed a year-over-year rate of 2.7% for the Consumer Price Index (CPI) and only 2.6% for the index excluding food and energy components. The government shutdown had an impact on the collection of some key measures of inflation, resulting in uncertainty around the most recent figures, and admittedly even the figures as reported are still well above the Fed's 2% inflation target. Nevertheless, inflation is dramatically better than the levels of a few years ago.

The beginning of 2025 through April 8 (the first sixty-six trading days of the year) saw the S&P 500 decline 15.3%, the fourth worst start to a year over a similar period since 1926. Thereafter the index gained a remarkable 37.4% through the end of the year, one of the greatest market comebacks in history. Shifting economic policies by the Federal government and ongoing concerns about "affordability" on the part of consumers still present challenges for the market as we

SECTOR WEIGHTS & PORTFOLIO CHANGES ⁽¹⁾

Sector	Ending Weight ⁽²⁾	Change from 9/30/2025	Midcap Growth Additions & (Midcap Growth Deletions) ⁽³⁾
Information Technology	23.9%	-0.9%	Pegasystems (Tyler Technologies)
Industrials	22.0%	-2.2%	(Cintas, Verisk Analytics)
Health Care	16.9%	1.6%	Chemed
Financials	15.0%	0.3%	
Consumer Discretionary	7.3%	0.6%	Grand Canyon Education
Real Estate	4.3%	2.2%	CBRE Group
Cash	3.8%	1.2%	
Consumer Staples	3.3%	-0.6%	Sprouts Farmers Market (Casey's General Stores)
Utilities	1.9%	0.0%	
Communication Services	1.4%	-0.3%	
Energy	0.0%	-1.9%	(Cheniere Energy)
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—MIDCAP GROWTH

CAH	Cardinal Health	2.17%	0.66%
JLL	Jones Lang LaSalle	2.27%	0.29%
KEYS	Keysight Technologies	1.91%	0.29%
FIX	Comfort Systems USA	2.24%	0.27%
KLAC	KLA	2.12%	0.22%

BOTTOM FIVE CONTRIBUTORS—MIDCAP GROWTH

NTNX	Nutanix	1.79%	-0.66%
VEEV	Veeva Systems	1.62%	-0.47%
SFM	Sprouts Farmers Market	1.43%	-0.43%
AZO	AutoZone	1.86%	-0.43%
PINS	Pinterest	1.59%	-0.35%

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⁽³⁾Average weights over the presentation period.

Sources: Renaissance Research, FactSet

enter 2026. However, history suggests that the market is remarkably resilient even in the face of such challenges. We continue to favor reasonably priced growth companies, particularly those whose stock prices have lagged the narrow group of mega-cap stocks that have led the market in recent years.

In the fourth quarter, broad weakness across sectors contributed to a 3.7% decline in the Russell Midcap Growth Index. Communication Services, Consumer Staples, and Utilities all posted double-digit drops, while the Information Technology sector was another big drag on the index. The only two sectors that gained in the quarter were Health Care and Materials. Our portfolio outperformed the Russell Midcap Growth Index during the quarter, adding to its lead through the first three quarters of the year. Favorable sector allocation, due largely to our underweight in Communications Services, was the largest contributor to performance, more than offsetting a slight headwind from adverse stock selection, which was mostly related to a couple of holdings in the Consumer Discretionary sector.

Given Health Care's favorable performance this quarter, it is not surprising that **Cardinal Health** (CAH) was our top contributor. The company reported solid operating results driven by its core pharmaceutical distribution business. Looking ahead, we expect to see continued margin expansion as Cardinal builds out its oncology services, offering faster revenue growth and higher operating margins. **Jones Lang LaSalle** (JLL) also performed well during the quarter, which reflected a recovery in the commercial real estate market. The company reported strong operating results that exceeded estimates, as it benefited from improved transactional revenues. Leasing growth was broad-based across asset classes, while its capital markets and advisory business experienced

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an acceleration across business lines. The company is gaining share, pipelines are healthy, and further easing of interest rates could become an additional tailwind. Lastly, **Keysight Technologies** (KEYS) is the latest holding in the portfolio to benefit from the AI theme. The company reported strong results and guidance, led by increased investment in AI that is driving demand for design, testing, and validation services. In addition, its core test and measurement business is recovering, which contributed to an acceleration in orders last quarter, while the headwind from tariffs is expected to lessen in 2026.

Detractors from performance were led by **Nutanix** (NTNX), which came under pressure during the quarter due to reported sales and guidance that was below expectations as a result of revenue recognition delays. Nutanix is taking market share from VMWare, but new customers require flexible license start dates that align with their migration onto Nutanix's platform, causing a natural timing delay on software revenue recognition from the hardware OEMs. Demand remains solid, and the company continues to seek new partnerships, potentially resulting in larger contracts. **Veeva Systems** (VEEV) was another large detractor despite reporting strong results and guidance that exceeded expectations. However, the competitive threat from Salesforce, which has resulted in a handful of top 20 pharma account losses for Veeva's CRM offering, is an overhang on sentiment. Concerns may be overblown, given that Veeva expects to retain most of its customers, the Salesforce offering is unproven, and the CRM business is 20% of sales. The company remains on track to achieve its 2030 targets, but we are watching how the competitive landscape evolves. The addition of **Sprouts Farmers Market** (SFM) during the quarter was ill-timed, as the stock was one of our biggest detractors after a sell-off following a disappointing earnings report. Sales and guidance fell short of expectations, partly reflecting difficult comparable store sales and a softening consumer base, particularly among younger and middle-income customers. However, the company remains well-positioned in the specialty grocery industry to capture the favorable secular trend of natural and healthy eating. With the stock trading at an attractive valuation, there is plenty of room to continue growing its stores, supporting an attractive growth profile.

During the quarter, we purchased **Chemed** (CHE) following a pullback in the stock. The company provides hospice care through its Vitas business and plumbing services through its Roto-Rooter brand. Both businesses have faced their own sets of challenges in recent years, but we believe the stage is set for an acceleration in earnings over the next couple of years. The hospice business is past the COVID headwinds that impacted patient revenue and labor costs, and it should return to historical growth, supported by favorable demographic trends the next decade. Roto-Rooter sales have been depressed over the last three years due to pull-forward demand during the COVID pandemic and increased competition. While it is early, green shoots are emerging following actions by the company to turn sales around, and a favorable economic backdrop could add support to expanded growth. Valuation is near a trough discount relative to the market compared to the company's historical premium, which we believe is an attractive entry point for a steady, high-return business.

Conversely, we sold **Cheniere Energy** (LNG) following a deterioration in fundamental factors. While the company is well-positioned in the export of natural gas and has a favorable capital return profile, a wave of expected supply from competitors over the next five years may pressure prices and could limit growth.

As measured by Price to Earnings (P/E) ratio, the valuation of the stock market rose over the course of 2025, continuing a trend of rising valuation that began at the end of 2022. While the P/E of the S&P 500 calculated on an equal-weighted basis rose over 30% over the past three years, the P/E of the capitalization-weighted S&P rose almost 60%. This reflects the high valuations of many mega-cap stocks in the index, which skews the valuation of the index overall. While P/Es of the equal-weighted and cap-weighted S&P indices have tended to be similar over time, presently, the equal-weighted index is almost 24% below that of the cap-weighted S&P.

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The rising valuations of mega cap stocks has resulted in significant performance differences between equal-weighted and cap-weighted indices as well. Over the past three years the performance of the S&P 500 Index on an equal-weighted basis is more than 10% (annualized) lower than the index calculated on a cap-weighted basis, marking one of the largest differences over a three-year period in the past 35 years. The only three-year period with a larger difference was the three years ending March 2000, which marked the peak of the Technology bubble of the late 1990s. This extreme difference, along with the better valuations among equal-weighted indices, suggests much better relative performance going forward from an equal-weighted portfolio strategy.

The Fed's latest reduction in the Fed Funds rate in December was intended to provide support for further economic growth, and consensus expectations are for the Fed Funds rate to continue to move lower in 2026 to about 3% by the end of the year. However, longer term bond yields have actually moved higher since the Fed began cutting rates in September 2024, reflecting investor concerns about sticky inflation rates and continued government budget deficits. Financing activity and mortgage rates are sensitive to long-term bond yields, and further declines in bond yields would be constructive toward continued economic growth next year.

Consensus projections for corporate earnings have continued to recover in the face of the Trump Administration's controversial tariff policies. While expectations for S&P 500 earnings for 2025 are projected to show a gain of 8.3% over 2024 levels, expectations for 2026 and 2027 are for annual gains of 15.7% and 12.0%, respectively. As always, achieving these gains is not guaranteed. Nevertheless, it is worth noting that despite the calamities of the Global Financial Crisis and the COVID Pandemic, U.S. companies have posted a remarkably consistent record of rising profits over time. We believe that long-term investors will continue to be rewarded with favorable returns from stocks going forward.

DISCLOSURES

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

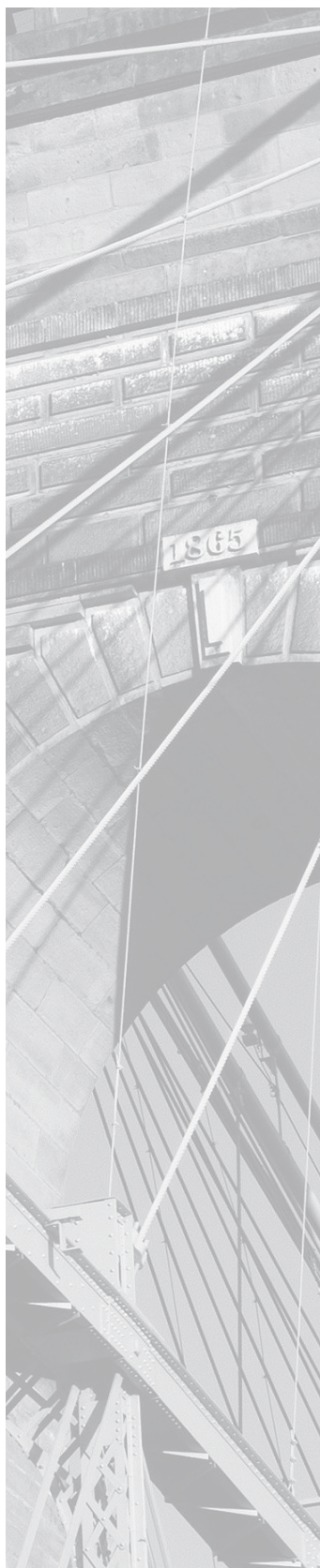
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REFERENCED INDICES

(Indices are unmanaged and are not available for direct investment.)

Russell Midcap Growth Index—The Russell Midcap[®] Growth Index measures the performance of the Russell Midcap companies with higher price-to-book ratios and higher forecasted 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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