

## Small Cap Growth Quarter-End Review—4Q2025



In the fourth quarter, Small Cap Growth stocks posted their third consecutive quarter of gains as the Russell 2000 Growth Index rose 1.2%. Only two of the eleven sectors were up in the fourth quarter, however, including Health Care, the largest weighted sector in the index, and Real Estate, one of the least weighted. Gains in Health Care were driven by the performance of Biotechnology and Pharmaceutical stocks, whereas the Real Estate gains were broad based. The Utilities sector was the worst performing sector in the index, followed by Consumer Discretionary.

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.

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

Sector	Ending Weight <sup>(2)</sup>	Change from 9/30/2025	Small Cap Growth Additions & (Small Cap Growth Deletions) <sup>(3)</sup>
Health Care	28.2%	+5.1%	GeneDx, Privia Health Group
Industrials	25.5%	+8.2%	Brink's, IES, Limbach, Modine Manufacturing, Nextracker
Information Technology	22.1%	-2.7%	Impinj (Impinj, Jamf, SEMrush, Tenable)
Financials	8.5%	-1.2%	(Remitly Global)
Consumer Discretionary	8.4%	-8.1%	(Duolingo, Green Brick Partners, Texas Roadhouse)
Consumer Staples	4.5%	-1.6%	
Real Estate	2.2%	+0.2%	
Cash	0.7%	+0.1%	
Communication Services	0.0%	0.0%	
Energy	0.0%	0.0%	
Materials	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.

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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
<b>TOP FIVE CONTRIBUTORS—SMALL CAP GROWTH</b>			
PI	Impinj	1.80%	1.08%
CWAN	Clearwater Analytics	2.25%	0.71%
ADMA	ADMA Biologics	2.19%	0.48%
WGS	GeneDx	2.19%	0.45%
HURN	Huron Consulting	2.77%	0.43%
<b>BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH</b>			
LRN	Stride	1.59%	-1.34%
HIMS	Hims & Hers Health	2.08%	-1.14%
INOD	Innodata	2.42%	-0.98%
ELF	e.l.f. Beauty	1.41%	-0.81%
DUOL	Duolingo	1.32%	-0.75%

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

Sources: Renaissance Research, FactSet

The beginning of 2025 through April 8 (the first sixty-six trading days of the year) saw the Russell 2000 Growth Index decline 22%. Thereafter the index gained a remarkable 44% 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 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 that feature above average growth and increasing earnings estimates.

The Russell 2000 Growth Index posted a modest gain in the fourth quarter following two quarters of solid returns. The Renaissance Small Cap Growth Strategy trailed the Index and was down for the quarter. The “low quality” rally that began in the second quarter continued through the fourth quarter as the lowest quintile of stocks ranked by Return on Equity (ROE) outperformed again (source: Jefferies). In addition, companies with negative earnings were strong performers in the fourth quarter and achieved larger gains than even the lowest ROE stocks.

The performance of the Small Cap Growth strategy was negatively impacted by stock selection in Health Care and Consumer Discretionary, whereas stock selection in Information Technology and Financials helped our relative performance. Within Health Care, our underweight position in Biotechnology was also a negative contributor to performance. As a reminder, a large number of the companies in the Biotech industry currently have no earnings and are not projected to have earnings in the next year.

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**Impinj** (PI), a supplier of RFID chips and scanners, contributed the most to relative performance during the quarter. Prior to reporting earnings in late October, the stock reached near-peak valuation levels on expectations of a significant announcement for its grocery-targeted products. We chose to exit our position, as we believed at the time that the stock was fully valued. After the company reported solid earnings but no new grocery announcement, the stock pulled back over 35%. We used the opportunity to renew our position, as we believe the long-term growth potential for their grocery revenues is unchanged.

**Stride** (LRN), a provider of online education services, detracted the most from portfolio performance. The company upgraded its Learning Management System during the summer but suffered performance issues as students returned to school in the fall. Some students were unable to log into the system, which led them to leave the platform. This impacted on the company's student enrollment growth, pushing revenues below expectations. We continue to monitor the situation, as the issue should be transient, and seek more clarity prior to making any further decisions about our position.

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

**Nextpower** (NXT), a global leader in solar tracking systems and software, was added to the portfolio during the quarter. The company has seen solid backlog growth due to record bookings in the U.S. and Europe. In addition, the company is seeing traction beyond its core tracking products that include software and management systems. We expect power generation demand to remain solid due to the increasing requirements of AI data centers and for utilities to expand their generating capacity from all sources.

We exited our position in **Jamf** (JAMF) as the company agreed to be acquired by private equity firm Francisco Partners in an all-cash transaction.

Unprofitable companies in the Russell 2000 Growth Index, which made up 21.2% of the index at the end of the fourth quarter, meaningfully outperformed the overall index for both the quarter and the full year. In fact, for the full year, the average gain in unprofitable companies was greater than 25%, almost double the 13% gain of the index. Looking back over the last 20 years, however, unprofitable companies have been notable underperformers. The average return for the period for the Russell 2000 Growth Index was 8.8%, whereas the unprofitable companies average return was 0.7%, including the significant outperformance that was seen in 2025. While this presents a challenging environment for our high-quality, strong business fundamentals-focused strategy, we believe that the market will eventually return to a more typical environment in which company fundamentals are the key driver of stock prices.

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 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.

The backdrop for small cap growth stocks remains favorable as we enter 2026. Currently, consensus estimates predict 15.5% earnings growth for the profitable companies in the Russell 2000 Growth Index this year, which is above the trailing 20-year average of 9.4%, and slightly

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above that of the Russell 1000 Index average of 14.8%. Moreover, the current P/E on 2026 estimates for the profitable companies in the Russell 2000 Growth Index stands at 17.2 times compared to the Russell 1000 Index estimate of 22 times, a 25% discount. As always, achieving estimated 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.

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### REFERENCED INDICES

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**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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An index is an unmanaged portfolio of securities often used as a benchmark to measure performance of certain asset classes. Investors cannot invest directly in an index. Index returns do not reflect the deduction of management fees, trading costs, or other expenses, which would reduce actual returns.

Investing in small-cap stocks involves greater risk and volatility than investing in larger, more established companies. Past market performance, whether actual or based on research data, is not indicative of future results.

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