

Small Cap Growth Intra-Quarter Commentary—May 2024



Stocks rebounded sharply in May after a challenging April, with the major stock indices hitting new all-time highs. Excitement around artificial intelligence (AI) continues to be a motivating force, with investor enthusiasm boosting shares of mega-cap technology stocks. Corporate earnings have been another area of optimism, with earnings growth of 5.9%, exceeding initial expectations of 3.4% (*Source: FactSet*). Moreover, the U.S. economy has been able to overcome macroeconomic and geopolitical uncertainties, showing solid economic growth that continues to exceed expectations. Looking ahead, lower oil prices, which have receded on de-escalating geopolitical tension, could help reduce inflationary pressures in the near term, while the potential for rate cuts later this year could act as a driver for continued equity performance. With the stock market climbing a wall of worry, we believe that investors will continue to gravitate toward equities as long as the U.S. economy continues to exceed growth expectations and optimism from a solid labor market and a moderation in inflation endures.

Despite what appears to be solid economic footing for equity markets, many risks remain. Notably, the upcoming U.S. presidential election could have a profound impact on both growth and inflation. There are also broad-based signs that the U.S. consumer is weakening. For example, recent retailer earnings reflected a heightened level of trepidation and spending scrutiny amongst consumers. Having driven two-thirds of the U.S. economy historically, incremental weakness in consumer spending could lead to adverse consequences for overall economic growth. In addition, we believe the lagging effects from the Fed's tightening cycle and a deeply inverted yield curve that has been signaling a recession bear watching.

SECTOR WEIGHTS & PORTFOLIO CHANGES⁽¹⁾

Sector	Ending Weight ⁽²⁾	Change from 4/30/2024	Small Cap Growth Additions & (Small Cap Growth Deletions) ⁽³⁾
Industrials	24.9%	+1.5%	H&E Equipment Services (Shoals Technologies Group)
Information Technology	21.2%	-2.6%	Jamf (Model N, Squarespace)
Consumer Discretionary	16.4%	+2.7%	Duolingo
Health Care	14.3%	-3.1%	(Shockwave Medical)
Financials	8.6%	+1.7%	Flywire
Consumer Staples	6.9%	0.0%	
Energy	4.0%	-0.2%	
Real Estate	2.1%	0.0%	
Communication Services	1.1%	-0.1%	
Cash	0.6%	+0.2%	
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
TOP FIVE CONTRIBUTORS—SMALL CAP GROWTH			
DECK	Deckers Outdoor	2.48%	0.76%
STRL	Sterling Infrastructure	3.09%	0.59%
SFM	Sprouts Farmers Market	2.97%	0.53%
SQSP	Squarespace	1.07%	0.47%
QTWO	Q2 Holdings	2.37%	0.39%
BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH			
FLYW	Flywire	1.70%	-0.32%
BL	BlackLine	1.77%	-0.32%
QLYS	Qualys	1.97%	-0.29%
EPAM	EPAM Systems	0.93%	-0.26%
AXON	Axon Enterprise	2.22%	-0.23%

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⁽³⁾Average weights over the presentation period.

Sources: Renaissance Research, FactSet

The Russell 2000 Growth Index bounced back in May as interest rates stabilized and the economic outlook remained favorable. Our Small Cap Growth portfolio underperformed the index but remains ahead of the benchmark on a year-to-date basis. All sectors in the index gained during the month, with Consumer Staples and Utilities leading all others—surprising, as these sectors are typically defensive and lower beta. The Real Estate and Consumer Discretionary sectors lagged the index return the most during the period. Our portfolio underperformed due to stock selection in Information Technology and Industrials. Stock selection in Consumer Discretionary and Consumer Staples added the most to our relative performance.

Deckers Outdoor (DECK) was the top contributor to portfolio performance in May, as earnings for the most recent quarter were significantly ahead of expectations. The company designs and distributes footwear and apparel under several brand names—most notably, Ugg and Hoka. Hoka remains a key growth engine for the company, with sales up 34% for the quarter, while Ugg continues to perform strongly as well, with sales up 15%. Moreover, the company is seeing a high level of full-price selling, leading to expanding margins. We see the sales momentum in the company's brands continuing, which should drive future earnings growth.

Flywire (FLYW) detracted the most from our performance, as management reduced their sales outlook for the full year. Flywire facilitates payments for a number of verticals, with education its largest segment. The company is especially focused on international payments, and Canada has instituted a cap on the number of international students that are admitted into the Canadian education system. Despite the resulting 35% decrease in foreign students that is anticipated from

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the previous year, Flywire's revenues are still expected to grow a robust 27-28% this year, and we believe that the long-term growth potential for the company remains intact.

Duolingo (DUOL), the developer of a language learning app, is a new position added to our portfolio in May. The company has over 31.4 million daily active users and 7.4 million paid subscribers, which reflects 50% growth for both segments in the most recent quarter. The company has been able to drive increased engagement through continuous product improvements and strong international growth. In fact, the company's most recent product, Duolingo Max, incorporates generative AI features. In addition, the company expects to expand beyond language learning to include courses in music and math. We believe that the company is still in the early stages of its growth trajectory and will likely continue to gain share in a very large industry.

We exited our position in **Squarespace** (SQSP) as the company agreed to be acquired by Permira Private Equity for all cash.

DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of May 31, 2024 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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If Renaissance or benchmark performance is shown, it represents historically achieved results, and is no guarantee of future performance. All performance is shown in U.S. dollars unless otherwise stated. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the benchmark or Renaissance performance shown and the actual performance results achieved by any particular client. Benchmark results are shown for comparison purposes only. The benchmark presented represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The benchmark cannot be invested in directly. The returns of the benchmark do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the benchmark shown. The benchmark has been selected to represent what Renaissance believes is an appropriate benchmark with which to compare the composite performance.

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REFERENCED INDICES

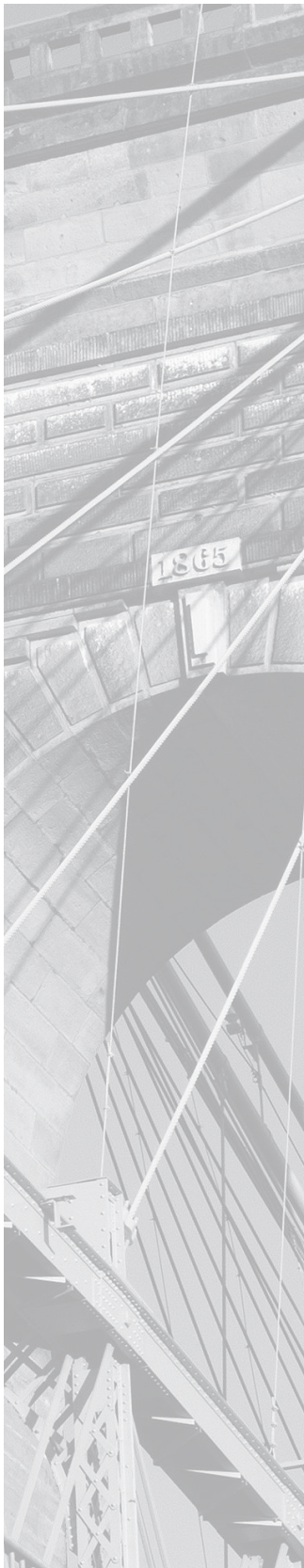
(Indices are unmanaged and are not available for direct investment.)

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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