Large Cap Growth
Quarter-End Review—2Q2024

The U.S. stock market posted strong first half gains, with the S&P 500 reaching new record highs. The market continues to be driven almost entirely by enthusiasm for artificial intelligence (AI) stocks, with mega-cap technology, semiconductor, and utility stocks that are leveraged to AI accounting for almost all of the index's performance year-to-date. In addition, improvements in inflation data allowed the U.S. Federal Reserve to keep interest rates steady, while solid U.S. economic growth resulted in better-than-expected earnings growth. In the second quarter, the Russell 1000 Growth returned 8.3% and the S&P 500 returned 4.3%. Larger cap stocks outperformed smaller cap stocks and Growth materially outperformed Value. Our portfolio underperformed both our Russell 1000 Growth benchmark and the S&P 500. While our second-quarter relative underperformance disappointed, we take solace in that the only other quarter that we've underperformed more was in the fourth quarter of 1999, just before the internet bubble burst. Subsequent to that period, we meaningfully outperformed our benchmark over each of the following six years and eight years out of the next ten.

In the second quarter, **Apple** (AAPL) was the largest contributor to portfolio performance, returning 23.0%. The stock reacted positively to solid operating results in the first quarter, driven by better services revenue. In addition, both iPhone sales and China revenues came in better than expected. Apple also announced a large share buyback and dividend, while giving some incremental details on its long-awaited AI strategy. **Alphabet** (GOOGL) was another large contributor with a 20.8% return in the quarter. The company reported solid operating results with improving user engagement, driving an acceleration in digital advertising growth.

SECTOR WEIGHTS & PORTFOLIO CHANGES[1]

Sector	Ending Weight[2]	Change from 3/31/2024	Large Cap Growth Additions & (Large Cap Growth Deletions)[3]
Information Technology	33.2%	-1.0%	Qualcomm (ANSYS, CDW, Keysight Technologies)
Health Care	14.9%	-1.9%	(UnitedHealth Group)
Industrials	12.9%	+2.6%	Honeywell International, Quanta Services, Waste Management (Union Pacific)
Consumer Discretionary	12.4%	+1.0%	Airbnb
Financials	10.7%	-0.9%	
Communication Services	6.7%	+0.5%	
Materials	3.4%	-0.4%	
Consumer Staples	3.3%	0.0%	
Energy	1.6%	-0.1%	
Cash	0.9%	0.0%	
Real Estate	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.
(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—LARGE CAP GROWTH			
AAPL	Apple	2.92%	0.64%
GOOGL	Alphabet	2.50%	0.48%
AVGO	Broadcom	2.23%	0.45%
KLAC	KLA	2.14%	0.37%
APH	Amphenol	1.90%	0.31%
BOTTOM FIVE CONTRIBUTORS—LARGE CAP GROWTH			
WEX	WEX	1.62%	-0.49%
LECO	Lincoln Electric Holdings	1.53%	-0.47%
LULU	lululemon athletica	1.25%	-0.34%
TGT	Target	1.73%	-0.31%
CHE	Chemed	1.74%	-0.29%

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(2) 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.
(3) Average weights over the presentation period.

Sources: Renaissance Research, FactSet

In addition, despite increasing investments in AI, Alphabet has been one of the few companies to demonstrate its ability to monetize AI applications.

On the negative side, **WEX** (WEX) was the largest detractor to our performance in the second quarter, declining 25.4%. Despite reporting solid operating results and providing guidance that exceeded expectations, the stock came under pressure over concerns of a deceleration in transactional volume growth. Meanwhile, operating expenses have remained elevated, pressuring core margins, and one of the company's largest customers, Booking Holdings, took some of its business in-house, creating near-term growth headwinds for the company. Another detractor was **Lincoln Electric** (LECO), which lost 25.9% in the quarter after lowering its guidance on weakening demand from the automotive and industrial end markets, as customers have become more cautious ahead of potential macroeconomic headwinds. Management has a history of transparency, resetting expectations when they start seeing a slowdown. Subsequent to Lincoln Electric's warning, other industrial machinery companies have also begun to cite a weakening growth environment.

During the second quarter, we made several changes to the portfolio where we saw better opportunities for future growth. At the end of June, we added a new position in the Industrials sector with **Honeywell International** (HON), a large industrial conglomerate that focuses on aerospace, industrial automation, and energy sustainability. Following years of subdued growth, we believe that Honeywell is poised to benefit from a return of order momentum in both its aerospace and short-cycle industrial automation segments. We like the company's strong scale advantages, as Honeywell provides critical service and maintenance to customers in several growing end markets, resulting in high returns on invested capital and free-cash-flow generation.

Conversely, we sold our position in **Keysight Technologies** (KEYS) following a deterioration in fundamental factors. We believe that our expectations for a re-acceleration in revenue growth and operating margin expansion will take much longer than we had anticipated. The demand environment remains constrained as the company's core customers refocus spending budgets on AI. While new orders have stabilized, the backlog of existing orders continues to decline. Until the macro spending environment improves, we believe that current estimates for revenue growth are set too high, as the company faces potentially weak demand for the remainder of this year.

While the S&P 500 posted a return of 4.3% for the second quarter, the return was somewhat misleading in terms of typical stock performance within the index. More than 60% of the stocks in the index *declined* in price during the quarter, and the equal-weighted S&P 500 Index generated a total return of -2.6%. Strong performance from a small number of very large capitalization stocks drove the gain in the S&P 500. In fact at quarter-end, the market capitalization of the five largest stocks in the index accounted for more than 28% of the total capitalization of the total index, the highest such level in over 40 years.

The return difference between the S&P 500 and the equal-weighted index thus far this year is 10.2%, one of the largest six-month differentials since 1990. Since 1990, the equal-weighted S&P 500 has slightly outperformed the cap-weighted index on an annualized basis (11.1% vs 10.5%). However, over short-term periods such as six months, the two indices have experienced significant variability in returns. In the past, periods of significant underperformance by the equal-weighted index have been followed by equally significant outperformance in subsequent periods, and we believe that the current environment will favor broadly diversified portfolios going forward.

The strong price performance of the capitalization-weighted S&P 500 Index relative to its equal-weighted version is largely due to expansion in the price-to-earnings ratios (P/Es) of mega-cap stocks. The largest 50 stocks in the index trade at a median P/E of 25.1x, compared to 19.2x for the overall index. As a result, the P/E of the cap-weighted S&P is over 30% higher than the same P/E calculated on an equal-weighted basis, the highest such difference in recent history.

Forecasts for corporate earnings are generally bullish for this year and 2025, supporting the case for continued gains for stock prices. After wide swings during and immediately after the COVID pandemic, earnings growth for the S&P 500 is expected to be in the low double-digit range over this year and next. Earnings growth is likely needed to drive stock prices higher, given the relatively high valuations of many stocks today, particularly in the mega-cap segment of the market.

One possible obstacle for higher stock prices is the current level of interest rates. At its June meeting, the Federal Reserve kept its interest rate policy unchanged for the seventh consecutive meeting. The Fed now expects only one cut in interest rates this year, down from three that were previously anticipated, and revised its near-term inflation outlook upward. As a result, consensus market expectations for interest rates have risen from their levels of three months ago, although still reflecting a decline in rates over time.

Much of the market advance thus far this year has been driven by investor enthusiasm for Artificial Intelligence (AI) related stocks, most notably NVIDIA (NVDA). We are impressed with the potential opportunities for AI-related securities and hold a number of stocks in our portfolio that we believe will benefit from the trend toward broader use of AI applications. Nevertheless, we should note that investor enthusiasm for new technologies frequently results in over-optimistic valuations of stocks and strong company performance does not always translate into strong stock price performance.

The best example of this may be Cisco (CSCO), a manufacturer of internet networking products. In the late 1990s, Cisco was an extremely popular stock among investors, as demand for servers and other hardware related to the just-developing internet at that time were expected to grow exponentially. Cisco's stock price rose 476% over the two years ending 1999, and in early 2000, it became the largest capitalization stock in the S&P 500. In the 24 years since, Cisco as a company has enjoyed strong financial performance, as revenues have grown 192% and earnings per share have grown 664% (based on unannualized figures from fiscal year 2000 to the present). However, Cisco's stock price as of the end of last month was actually 38% *lower* than its March 2000 price, due to its extraordinarily high beginning valuation in the early 2000s (by comparison, the S&P 500 index price rose 264% over this same period).

The growth opportunities for many AI-related companies appear significant, but valuation should be considered along with growth when it comes to investing in stocks. We remain confident that our disciplined investment approach will continue to reward patient investors with favorable long-term returns.

DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of June 30, 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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REFERENCED INDICES

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

Russell 1000 Growth Index—The Russell 1000® Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000® 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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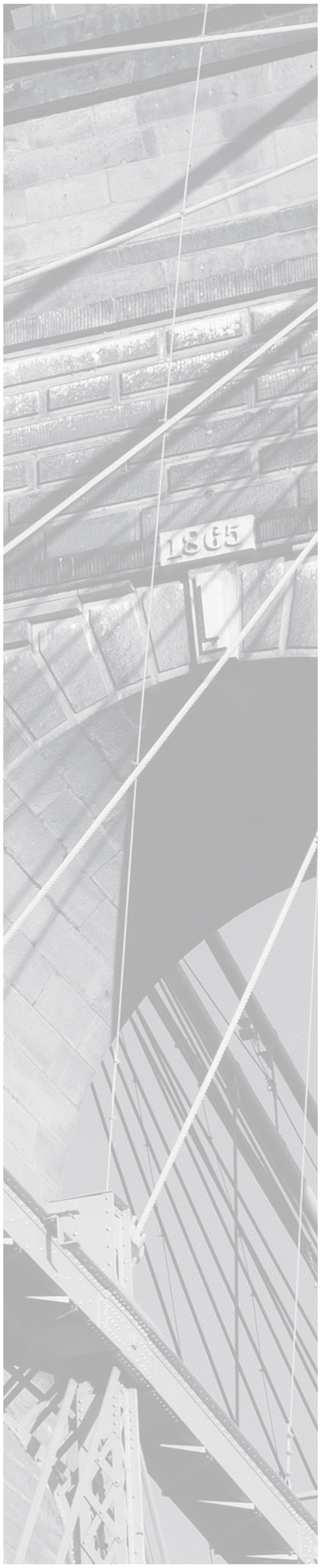

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