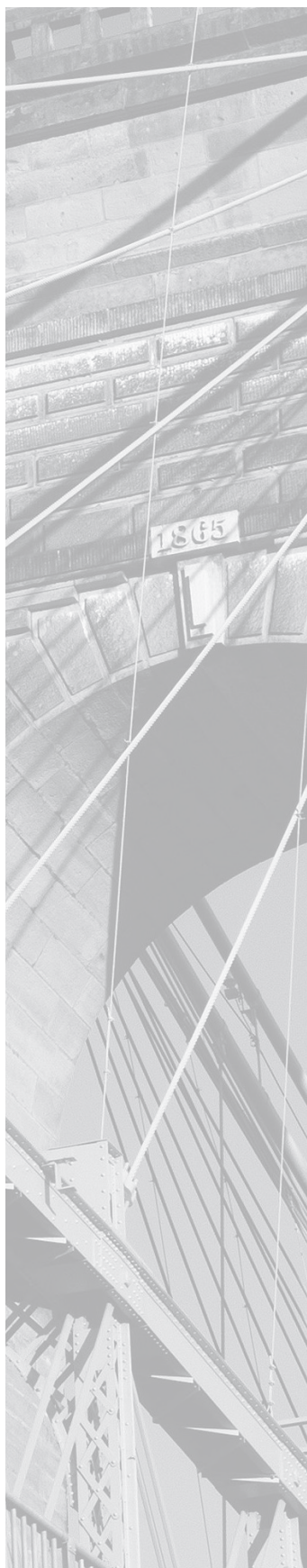


# International Small Cap Equity Quarter-End Review—3Q2024



In a quarter marked by heightened volatility, international equities rose by nearly 8% and outperformed the S&P 500 for the first time since the fourth quarter of 2022. After strengthening during the first half of the year, the U.S. Dollar Index fell during the quarter with particular weakness against the Japanese yen after the Bank of Japan (BOJ) raised interest rates for the second time this year. A rally in Chinese equities following significant stimulus announcements helped emerging markets outperform developed markets during the quarter.

Japanese equities have been among the best performing markets over the past year, as improving shareholder returns provided upside to valuations while a depreciating yen helped support earnings growth. In addition, the Japanese economy avoided the spike in inflation experienced by many other economies, which allowed the BOJ to keep interest rates in negative territory over the past several years even as most other central banks were rapidly increasing rates. This divergence put downward pressure on the yen as the interest rate differential increased. However, the BOJ is now increasing interest rates against a backdrop of interest rate cuts by most other major central banks, causing the differential to reverse. This came to a head in early August when the BOJ announced it would increase interest rates for a second time and, more importantly, gave hawkish signals about the pace of future interest rate increases. This caused panic as the yen rapidly appreciated, and Japanese equities experienced some of their largest single-day moves in the past forty years. Given the alarm that spread throughout global equities, the BOJ was quick to tone down its hawkish message and indicate that it is in no rush to hike interest rates. This helped calm markets, leading to a sharp rebound in Japanese equities. Yet, the interest rate differential looks likely to continue shrinking, which could cause further appreciation of the yen and hurt the earnings of Japan's many export-oriented companies.

## GEOGRAPHICAL EXPOSURE & PORTFOLIO CHANGES <sup>(1) (2)</sup>

Region	Ending Weight <sup>(3)</sup>	Change from 6/30/2024	International Small Cap Equity Additions & (International Small Cap Equity Deletions) <sup>(4)</sup>
North America	29.7%	-0.1%	IMAX (BRP)
Asia/Pacific	28.3%	-2.1%	(SUMCO)
Western Europe	27.1%	+4.3%	Dole, Paysafe, Ubisoft Entertainment (Invidior)
Middle East & Africa	7.4%	-0.5%	
Central & South America	5.9%	-1.2%	(Sendas Distribuidora)
Cash	1.7%	-0.4%	
Eastern Europe	0.0%	0.0%	
Developed Markets	76.9%	+1.8%	
Emerging Markets	21.4%	-1.4%	
Cash	1.7%	-0.4%	

<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> Renaissance determines an issuer's country classification based on company filings and data provided by third-party sources such as Bloomberg or FactSet. Renaissance considers an issuer to be located in an emerging market country if the issuer is domiciled or incorporated in an emerging market country (as defined by the iShares MSCI Emerging Markets ETF) or exhibits risk characteristics (e.g., economic, geopolitical and regulatory risks) similar to emerging market countries.

<sup>(3)</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.

<sup>(4)</sup> 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](mailto:compliance@reninv.com).

Sources: 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
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### TOP FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

NEXNY	Nexans	2.54%	0.76%
TGLS	Tecnoglass	2.15%	0.72%
PRMW	Primo Water	2.78%	0.44%
GLNG	Golar LNG	2.65%	0.41%
LTGHY	Life Healthcare Group	1.29%	0.36%

### BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

UBSFY	Ubisoft Entertainment	1.43%	-1.21%
CAMT	Camtek	1.54%	-0.62%
SIMO	Silicon Motion Technology	2.07%	-0.61%
OBE	Obsidian Energy	1.62%	-0.47%
INDV	Indivior	0.16%	-0.42%

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<sup>(2)</sup> 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](mailto:compliance@reninv.com).

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

Sources: Renaissance Research, FactSet

China's property market continues to be in a free fall, with the value of new home sales dropping by 37.7% year over year (y/y) in September, an acceleration from the 26.8% y/y decline in August (*Source: China Real Estate Information Corp.*). To offset the weak property market and lack of demand for products in its domestic market, China has attempted to keep its factories busy by exporting goods to other countries. The mix of weak Chinese consumer confidence and consumption along with growing exports have caused China's trade surplus to expand. However, this has drawn the ire of other countries who fear that China's dumping of cheap goods will hurt their own manufacturing industries, leading many countries to place tariffs on Chinese goods. Many economists have insisted that the Chinese government should be attempting to stimulate consumption in its own economy, but Chinese officials were reluctant to unleash meaningful stimulus measures, instead opting for smaller and more targeted measures throughout the year. Yet, with the economy clearly weakening and worry rising that a deflationary environment may set in, officials finally announced large-scale stimulus measures at the end of September. These include cutting benchmark interest rates, adjusting home purchase restrictions, lowering rates on existing mortgages, and issuing special sovereign bonds that will help fund consumption support programs while providing local governments with debt assistance. It remains to be seen if the large-scale stimulus will help turn the tide for the Chinese economy, but many have drawn comparisons to past "whatever it takes" actions implemented by central banks during the 2008 financial crisis and the 2012 European debt crisis. Investors clearly took notice of the shift, as the Shanghai Stock Exchange Composite Index posted its best weekly return since 2008 after the numerous stimulus measures were announced.

## International Small Cap Equity Quarter-End Review—3Q2024



Our portfolio returns were positive on an absolute basis but lagged our benchmark in the third quarter. Sector allocation negatively impacted the portfolio, as many of our underweight sectors, including Real Estate, Utilities, and Health Care, performed well. Stock selection was negative, as good selection in Industrials and Financials was offset by weak selection in Information Technology and Materials. From a country perspective, our overweight to Mexico and selection in Canada hurt relative returns, while our underweight to Taiwan and selection in Bermuda helped relative returns.

Our best-contributing stock during the quarter was **Nexans** (France). The manufacturer of power-generation cables gained due to the company's continued outperformance in key segments, particularly in the high voltage segment, where strong growth from the Halden plant expansion exceeded expectations. In addition, the company's upgraded financial outlook, driven by higher-than-expected earnings and free cash flow projections, has boosted investor confidence. Another strong performer was **Tecnoglass** (Colombia) as continued growth of major projects in Florida helped the window manufacturer's backlog rise by 29% y/y in the second quarter. The company is also looking to expand geographically to other states including Texas and California, where its low-cost model should be well received. Our weakest performer during the period was game studio **Ubisoft Entertainment** (France). The company struggled due to a weak launch of its *Star Wars Outlaws* game. Delays in major titles like *Assassin's Creed: Shadows* and political controversies have also further hurt investor confidence. Another weak performer was **Camtek** (Israel), a developer of inspection and metrology equipment for the semiconductor industry. Shares fell due to concerns over its premium valuation and high exposure to China, which accounts for nearly half of the company's revenues. However, with robust demand for high-performance computing and upcoming new inspection systems, the company is well-positioned to capitalize on the growing advanced packaging market.

During the quarter, we purchased **IMAX** (Canada), an entertainment technology company. IMAX has been able to outgrow its industry as consumers prefer the premium movie experience that IMAX provides. A strong slate of blockbuster films set to be released in 2025 and 2026 should provide a boost to short-term growth while a large backlog for system installations provides the company with a solid long-term growth outlook. Conversely, we sold our position in **BRP** (Canada). The manufacturer of recreational vehicles is struggling with softer industry performance, and efforts to manage dealer inventory through reduced shipments and increased promotions have led to downward adjustments in revenue guidance and profitability.

As inflation has steadily decelerated to more acceptable levels, the focus of central banks has shifted toward supporting economies, with the number of interest rate cuts by central banks in September reaching its highest monthly level since April 2020. The shift toward monetary easing comes at an opportune time as global economic growth appears to be stalling. While the unemployment rate remains low across much of the globe, it has been increasing over the past year in the United States, a major factor in the United States Federal Reserve's decision to opt for an outsized 50-basis point rate cut. Although the Global Services Purchasing Managers' Index (PMI) remains in expansionary territory, the Global Manufacturing PMI has returned to contractionary territory, with the United States, China, Japan, and the Eurozone all in contractionary territory. In addition, inflation could reaccelerate if China's stimulus results in a meaningful pick-up in growth and higher commodity prices. This may keep investors fixated on economic data and inflation, leading to increased volatility around central bank messaging with regard to the pace of future interest rate moves.



## DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of September 30, 2024 and are subject to change at any time due to changes in market or economic conditions.

## GICS<sup>®</sup> 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.

## PERFORMANCE

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.

The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be appropriate or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of sale if asset values have fallen. No assurance can be given that an investor will not lose invested capital. Consultants supplied with these performance results are advised to use this data in accordance with SEC guidelines. The actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, durations and timing of participation as a RIM client, and a client portfolio's risk tolerance, investment objectives, and investment time horizon. All investments carry a certain degree of risk, including the loss of principal and are not guaranteed by the U.S. government.

## REFERENCED ETFs

**iShares MSCI Emerging Markets ETF**—The iShares MSCI Emerging Markets ETF seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities.

## REFERENCED INDICES

**Purchasing Managers Index**—The Purchasing Managers' Index (PMI) measures the activity level of purchasing managers. A reading above 50 indicates expansion, while a reading below 50 indicates contraction.

**U.S. Dollar Index**—The U.S. Dollar Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

## STOCK REFERENCES

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. Nonperformance-based criteria have been used to select the securities listed unless otherwise stated. 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](mailto:compliance@reninv.com).