Renaissance®
Investment Management
Quarter Ending 9/30/2024

Midcap Growth
Quarter-End Review—3Q2024

The S&P 500 posted a return of 5.9% for the third quarter, as investors digested continued good news on inflation and the Federal Reserve initiated its first reduction in interest rates since 2020. With the exception of Energy, every economic sector posted positive returns for the quarter, with the strongest performance coming from interest rate-sensitive sectors such as Real Estate, Utilities, and Industrials. Communication Services and Information Technology lagged the overall market but posted positive returns. Just over 78% of S&P 500 stocks gained ground in the third quarter, compared with only 40% in the second quarter, and the equal-weighted S&P 500 Index outperformed the cap-weighted index by 3.7%. This marks the first quarterly outperformance of the equal-weighted index since 2022, even as the equal-weighted index trails the cap-weighted index year-to-date in 2024.

Investor confidence has increased due in large part to continued progress on inflation reduction. After surging as high as 9% in 2022, the rate of inflation has dropped to 2.5% over the most recent 12 months. In addition, optimism driven by lower inflation sparked price gains in bonds, as the 10-year Treasury yield dropped from 4.44% to 3.79% in the quarter, significantly down from its 2024 high of 4.70%. At the Federal Reserve Open Market Committee meeting on September 18, the Fed reduced its target for the Fed Funds rate to 4.75%-5.00%, as Fed Chairman Powell stated, “We know it is time to recalibrate our (interest rate) policy to something that's more appropriate given the progress on inflation”. The rate cut marked the first rate reduction by the Fed since 2020.

SECTOR WEIGHTS & PORTFOLIO CHANGES[1]

Sector	Ending Weight[2]	Change from 6/30/2024	Midcap Growth Additions & (Midcap Growth Deletions)[3]
Information Technology	25.1%	-2.6%	(Palo Alto Networks)
Industrials	22.4%	+0.3%	
Health Care	17.8%	0.0%	Neurocrine Biosciences (Chemed)
Consumer Discretionary	11.4%	+1.9%	Skechers
Financials	11.0%	+1.3%	
Consumer Staples	5.5%	-0.7%	
Energy	3.4%	-0.3%	
Cash	3.3%	-0.2%	
Real Estate	0.0%	0.0%	
Utilities	0.0%	0.0%	
Materials	0.0%	0.0%	
Communication Services	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—MIDCAP GROWTH			
CTAS	Cintas	2.35%	0.40%
MSI	Motorola Solutions	2.44%	0.38%
TYL	Tyler Technologies	2.23%	0.35%
TW	Tradeweb Markets	2.05%	0.33%
TDG	TransDigm Group	2.63%	0.30%
BOTTOM FIVE CONTRIBUTORS—MIDCAP GROWTH			
MEDP	Medpace Holdings	1.76%	-0.36%
NBIX	Neurocrine Biosciences	1.77%	-0.32%
DPZ	Domino's Pizza	1.57%	-0.31%
MCK	McKesson	1.83%	-0.31%
SNPS	Synopsys	1.70%	-0.28%

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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

It is notable that recent market gains have not been led by the group of mega-cap stocks collectively known as the "Magnificent Seven" (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla) but by a broader range of companies. Further moderation in inflation and interest rates may provide the impetus for further stock market gains, especially for high-quality, undervalued stocks. While the market environment is likely to remain volatile, given the upcoming presidential election and geopolitical events, we are confident that our disciplined investment approach will continue to reward patient investors with favorable long-term returns.

In the third quarter, the S&P 500 increased 5.9%, while the Russell Midcap Growth Index increased 6.5%. All sectors generated positive returns except for Consumer Staples, with the interest rate-sensitive Utilities and Real Estate sectors leading the way due to lowered rates. Favorable economic data helped cyclical sectors, while AI-themed stocks rebounded strongly in September following favorable comments from companies. Our Midcap Growth portfolio underperformed the Russell Midcap Growth Index during the quarter, although performance remains ahead of the index through the first three quarters of this year. Unfavorable stock selection in the Industrials, Health Care, Consumer Discretionary, and Information Technology sectors was the most significant driver of our underperformance, while unfavorable sector allocation also contributed negatively to our performance due to our underweight to Utilities and Real Estate and our overweight to Consumer Staples.

Cintas (CTAS) was the largest contributor to portfolio performance during the quarter, reflecting solid operating results and guidance. A favorable employment backdrop is supporting sales, while margins have benefited from sales leverage, efficiency gains, and lower energy costs.

Another strong performer was **Motorola Solutions** (MSI), which also benefited from robust operating results and guidance. The backdrop remains favorable, with solid backlog, strong orders, and favorable funding, supported by an upgrade cycle. Finally, **Tyler Technologies** (TYL) reported another favorable quarter and raised guidance. Activity levels remain supportive, with strong RFPs and sales demos, favorable win rates, and success in cross-selling products. The company is seeing good momentum in public safety, while it is also executing well on its cloud model transition.

Medpace (MEDP) was the largest detractor to performance, which mostly reflected a softening of bookings and a depressed book-to-bill caused by elevated cancellations. While some of the cancellations appear idiosyncratic and not structural, commentary from peers later in the quarter suggests a less healthy funding environment than expected in the second half of this year, which has added to concerns that revenue will decelerate in 2025. Another detractor was **Domino's** (DPZ), reflecting weaker operating results against elevated expectations. A reduction of international unit growth guidance due to challenges with a franchisee also weighed on the stock. Management comments in September highlighting incremental macro pressure that is impacting restaurant demand further weighed on sentiment.

New addition **Neurocrine Biosciences** (NBIX), a biopharma company focused on the treatment of chronic neurological and endocrine disorders, has had a difficult start since we acquired it. While quarterly operating results were strong, Phase 2 results for one of its Schizophrenia drug candidates underwhelmed investor expectations and has pressured the stock. With that said, the data met the primary endpoint, and the drug will proceed to a Phase 3 trial. This company was added to the portfolio during the quarter given its favorable growth profile, which has not changed. The company's top drug, Ingrezza, is the market leader and gold standard for treating tardive dyskinesia disorder, which is a side effect of antipsychotic treatments that causes involuntary body movements. Importantly, Neurocrine is also on the verge of launching a second blockbuster drug for the treatment of enzyme deficiencies, specifically addressing congenital adrenal hyperplasia, a condition that currently has no cure. A successful launch of this new drug in 2025 will diversify the company's revenue stream and help validate a drug pipeline that currently has 20 mid-to-late-stage developmental targets.

During the quarter, we also purchased **Skechers** (SKX), a global footwear company with one of the highest growth profiles in the industry. Sales have increased double digits over the last decade, which reflects market share gains due to the company's ability to expand into additional categories and international markets. Emerging markets, particularly China and India, are important, as is DTC. We like the company's value proposition in an environment where consumers are more selective. There is also margin upside potential as, in recent years, the company has invested more heavily in growth.

We funded the purchase with **Palo Alto Networks** (PANW) following a deterioration in fundamental factors. This had been a long-term holding in the portfolio that had handily outperformed the market and contributed meaningfully to portfolio performance. However, we believe it was prudent to take profits in the position, as the risk/reward profile became less attractive due to a significant deceleration in earnings growth related to a slowdown in customer spending and changes in the company's sales strategy against a high valuation. We also sold **Chemed** (CHE) due to fundamental factors. The company's Roto-Rooter business is facing headwinds related to weaker consumer spending on home improvement, market share losses, and higher costs. This is expected to drive a deceleration of growth against a healthy valuation. We believe there are more attractive opportunities in the near term.

As noted, the Fed's interest rate reduction in September was its first since 2020. Historically, the stock market on average has responded positively after an initial rate reduction. However, it is worth noting that rate reductions in 2001 and 2007 were followed by stock market declines

over the following 12 months. In both cases, the rate reductions were associated with economic recessions. While economic momentum currently appears healthy, we remain on watch for signs of significant deterioration in economic fundamentals.

There appears to be room for further reductions going forward after the Fed's initial 50 basis point reduction. The "Real" Fed Funds Rate (equal to the Fed Funds Rate minus the inflation rate) remains elevated versus its history due to recent low inflation rates. If history is a guide, there may be further rate cuts in the near future. In fact, the Fed projects 2.5% in additional interest rate cuts through the end of 2026.

Consensus expectations predict an acceleration in earnings growth for S&P 500 companies this year and in 2025. After achieving only low single-digit growth in the past two years, expectations are for 10% growth this year and 15% next year. While lower interest rates are a positive for corporate profitability, possible changes in corporate taxation, government economic policies, and tariffs over the next several years result in an even higher level of uncertainty about these forecasts than usual.

The recent relative performance of the equal-weighted S&P 500 represents a significant improvement from the first half of this year. Because our portfolio holdings are roughly equally weighted, a trend toward positive relative performance by the equal-weighted index would be similarly beneficial to our portfolio. Since its inception at the end of 1989, the equal-weighted index has outperformed the cap-weighted index by 0.7% per year on an annualized basis. While the equal-weighted index has outperformed over time, it has had several significant periods of underperformance, most recently over the past several years including the first half of this year. The price action in the third quarter, however, is reminiscent of that seen in late 2008 and early 2009, when the equal-weighted index first began to outperform following a previous period of underperformance. After the 2008-2009 bottoming period, the equal-weighted index went on to outperform over most of the next 5–7 years. While the third quarter relative performance of the equal-weighted index was impressive, we believe that this may be just the beginning of further relative gains.

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.

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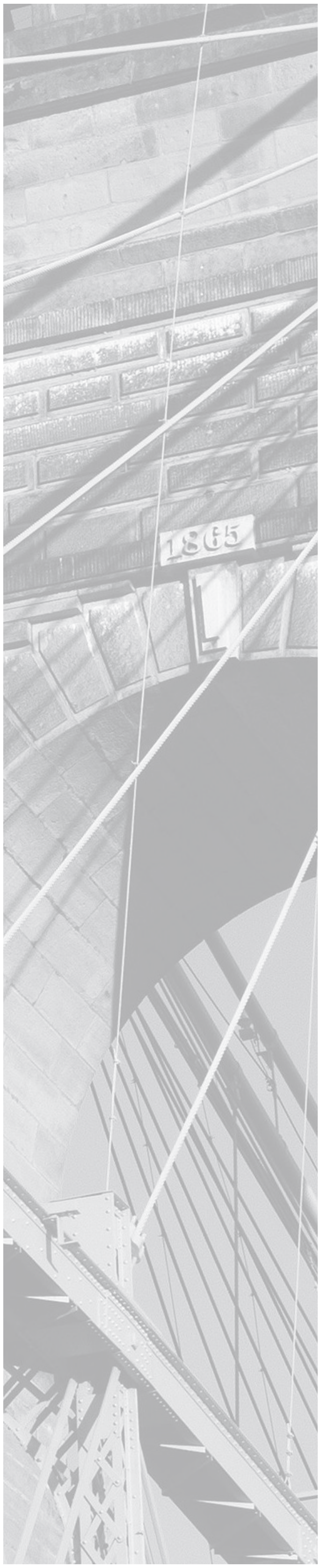

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(Indices are unmanaged and are not available for direct investment.)

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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