Renaissance
Investment Management

Quarter Ending 12/31/2024

Small Cap Growth
Quarter-End Review—4Q2024

The Russell 2000 Growth Index posted a return of 1.7% in the fourth quarter which cumulated to a year-to-date return of 15.2%. For the quarter, the sectors that performed the best were a diverse mix that included Information Technology, Communication Services, and Industrials, while the laggards included the interest-rate sensitive Real Estate sector, followed by the historically more stable Health Care sector, which was hurt by biotechnology stock performance. Utilities, the least-weighted sector in the index also underperformed. A bit surprisingly, on a year-to-date basis, Consumer Staples was the top-performing sector due a handful of strong-performing stocks, followed by Information Technology and Industrials. On trend for the fourth quarter, Utilities was the worst-performing sector for the year. Only three sectors reported negative performance for the year, including Utilities, Energy, and Materials.

The past two years have been among the strongest back-to-back periods of stock market gains in the past quarter-century. However, the breadth of the market has been unusually narrow, as only 26.0% of the stocks in the S&P 500 outperformed the overall index in 2024, even lower than 2023's figure of 27.0%. The S&P 500 on an equal-weighted basis posted a return of 13.0% for 2024, far below the cap-weighted return of 25.0%.

The last time the market experienced two back-to-back years of such poor breadth was in 1998-1999, a period similar to today, when technology stocks significantly outperformed the rest of the market. The 1998-1999 period was followed by wider market breadth over the

SECTOR WEIGHTS & PORTFOLIO CHANGES[1]

Sector	Ending Weight[2]	Change from 9/30/2024	Small Cap Growth Additions & (Small Cap Growth Deletions)[3]
Information Technology	24.0%	+3.4%	Grid Dynamics, SEMrush Holdings (Alarm.com Holdings, Lattice Semiconductor)
Health Care	19.5%	+2.8%	Catalyst Pharmaceuticals, TransMedics Group
Industrials	18.1%	-5.2%	(Applied Industrial Technologies, Axon Enterprise)
Consumer Discretionary	13.1%	-4.1%	(Deckers Outdoor)
Financials	12.7%	+2.4%	Remitly Global
Consumer Staples	8.3%	+0.4%	
Energy	2.5%	-0.2%	
Communication Services	1.1%	-0.1%	
Cash	0.7%	+0.6%	
Real Estate	0.0%	0.0%	
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			
CRDO	Credo Technology Group	2.96%	2.18%
QTWO	Q2 Holdings	2.95%	0.75%
HIMS	Hims & Hers Health	2.69%	0.75%
DECK	Deckers Outdoor	2.15%	0.69%
SFM	Sprouts Farmers Market	3.03%	0.61%
BOTTOM FIVE CONTRIBUTORS—SMALL CAP GROWTH			
TMDX	TransMedics Group	1.00%	-1.01%
GRBK	Green Brick Partners	2.18%	-0.83%
BLD	TopBuild	1.84%	-0.47%
AMPH	Amphastar Pharmaceuticals	1.85%	-0.45%
LNTH	Lantheus Holdings	1.88%	-0.35%

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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

following years. This greater breadth included a five-year period of outperformance for small cap growth stocks relative to large cap growth from 2000 through 2004.

The Russell 2000 Growth Index posted a gain in the fourth quarter as the market rallied higher following the election of Donald Trump. However, the market gave back a portion of those gains following the Federal Reserve meeting in December due to hawkish comments from Chairman Powell regarding future rate cuts. The top performing sectors in the index were Information Technology and Communication Services, while Real Estate and Health Care lagged. The Renaissance Small Cap Growth portfolio generated a positive return for the quarter and outperformed the Index. The outperformance of our portfolio was led by stock selection in Information Technology and our underweight position and stock selection in Health Care. Stock selection in Communication Services and Consumer Discretionary was the most significant detractor to our performance.

Credo Technology Group (CRDO), a provider of connectivity solutions for data centers, was our best performing stock in the fourth quarter. The company's products target the AI-server market with very high bandwidth connectivity rates and low-power solutions. In the most recently reported quarter, the company saw increased demand from current customers along with the ramping of a new customer that drove revenue guidance significantly above expectations. Moreover, the company expects revenues for the next fiscal year to grow by at least 50%. We believe the market share opportunities for Credo are still in the early stages, as the company

continues to engage with large hyperscalers and the demand for AI servers and infrastructure remains robust.

TransMedics (TMDX) detracted the most from performance in the quarter as the organ transplant solutions company reported third-quarter results that were modestly below expectations. However, the company's proprietary organ preservation system coupled with its logistics solutions should allow significant opportunities for market-share gain for a number of years, and we believe that long-term growth opportunities remain intact.

Trading and stock movements during the quarter led to several changes in portfolio sector weights. The Information Technology, Health Care, Financials, and Consumer Staples sector weights increased during the quarter, while the Industrials, Consumer Discretionary, Energy, and Communication Services sector weights decreased.

Catalyst Pharmaceuticals (CPRX), a biopharma company focused on neurological and neuromuscular disorders, was a new position added during the quarter. The company has three commercial drugs in the rare orphan segment that focus on the central nervous system. The company launched a new drug in 2024 and has seen sales ramp above expectations. Catalyst is also looking to acquire additional drugs in rare disease classifications to enhance company growth. We believe that the company's strategy to target the orphan drug market could create long-term growth opportunities with high barriers to entry that should allow the company to drive steady growth going forward.

We exited our position in **Deckers Outdoor** (DECK), the manufacturer and distributor of the Ugg and HOKA brands, as the company's market cap exceeded the upper limit allowed in our Small Cap Growth portfolio. Deckers had been a holding in our portfolio since late 2019.

The Federal Reserve's decision to reduce interest rates on September 18 marked its first reduction in interest rates since 2020 and a reversal from the Fed's previous policy of raising rates. In each of the past periods, bond yields have subsequently declined. However, since the rate cut in September, the yield on 10-year Treasuries has soared over 90 bps (0.9%). Concerns about rising Federal deficits and debt are likely a contributing factor to rising bond yields. Rising bond yields represent a possible headwind to higher stock prices and a hurdle for the U.S. economy in terms of their effect on mortgage and other financing rates.

Our internal benchmark, The Profitable Companies of the Russell 2000 Growth Index, was up 15.4% for 2024. This followed double-digit returns during 2023 when the index was up 20.3%. We would suggest that the odds are in favor of a third year in a row. Earnings for our internal benchmark have compounded at 8.8% during the past two-and-a-half decades. Earnings growth last year was 17.6% with the index up 15.4%, as the price to earnings multiple for our universe of stocks contracted slightly. Earnings for 2025 are currently projected to rise 17.9%.

Valuations are squarely in the middle of historical norms, with the price-to-earnings ratio (P/E) of our universe at 20.9 times forward-year earnings at year-end 2024 versus the average since the end of 2002 of 20.6 times earnings, with a standard deviation of 4.0. In other words, we can expect with a 68% degree of confidence that the P/E at the end of next year will be between 16.6 and 24.6 times earnings. Even if we see P/E multiples contract modestly, earnings growth should translate into positive returns for the market.

That's our headline conclusion. Of course, we have some concerns. While final earnings estimates for 2024 have been relatively stable over the last 90 days, estimates for 2025 have been coming down, contracting 2.8% during that same time frame. We believe that a lot of this contraction is due to companies trying to temper expectations as we enter the new year, however, some of it is also economically driven.

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We have a new administration taking office in a few weeks and there are several notable items within Trump's policy agenda that could be potentially inflationary, including the extension and expansion of tax cuts and imposition of more tariffs globally. Inflation and interest rates remain a concern. The 10-year Treasury yield has backed up to 4.6% after dropping into the high 3% range in the second half of 2024. This was primarily driven by better-than-expected economic data and the Fed's more hawkish stance late in the year in response to the data. With the national debt climbing past $36 trillion, or roughly 120% of U.S. GDP, there is always a possibility that Treasury rates start to react to the declining credit quality of the U.S. government.

With all of that said, we remain cautiously optimistic. As always, we believe the 50 stocks we own represent a better investment opportunity than the market as a whole.

DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of December 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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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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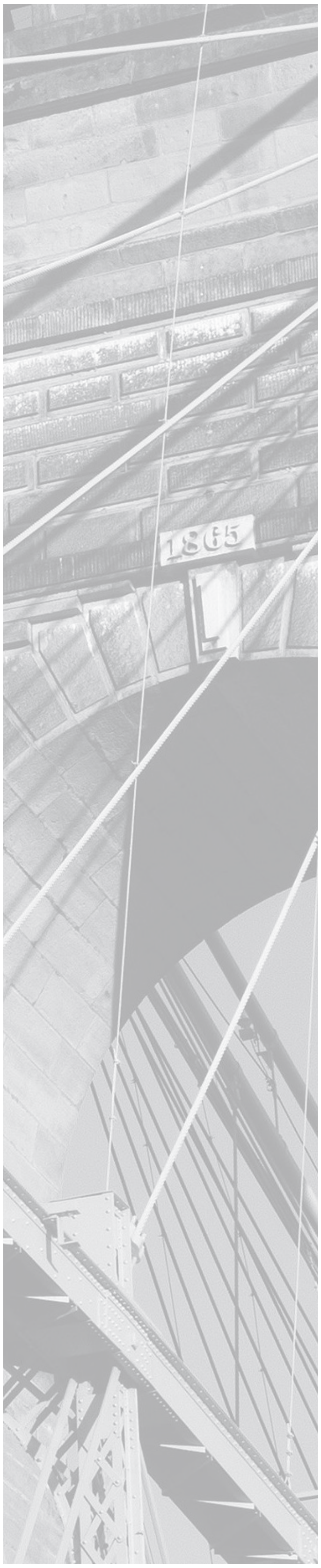

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