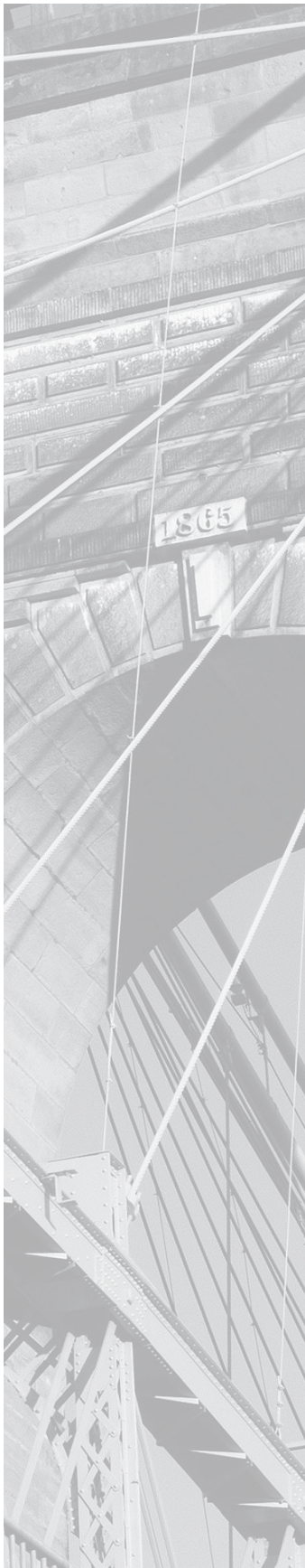


# Large Cap Growth Quarter-End Review—2Q2021



The stock market gained further ground during the second quarter with every economic sector posting positive returns. The S&P 500 Index closed the quarter at an all-time high, with the Energy, Real Estate, and Information Technology sectors outperforming, while the Consumer Discretionary, Consumer Staples, and Utilities sectors were relative laggards. Bond yields drifted lower, as 10-year Treasury yields fell 0.27% to 1.47% by the end of the quarter. The drop in bond yields occurred despite a sharp rise in the reported inflation rate, as the trailing 12-month change in the Consumer Price Index (CPI) reached +5.0% through the end of May.

In the second quarter, the Russell 1000 Growth returned 11.9% and the S&P 500 returned 8.5%. High-valuation growth stocks drove most of the gains as they reversed much of their underperformance this year. Not surprisingly, mega-cap technology and internet stocks contributed the most to returns during the period, while the Consumer Staples, Consumer Discretionary and Industrials sectors contributed the least to returns. For the quarter, we underperformed the Russell 1000 Growth benchmark and outperformed the S&P 500.

During the second quarter, we made several changes to the portfolio where we saw better opportunities for future growth. We added a new position in the Industrials sector with **Vertiv** (VRT), one of the largest technology providers of power supplies and thermal management systems for data centers. Looking forward, we believe that global data usage is a significant secular trend that will drive the growth of cloud-hyperscale and colocation data centers, where

## SECTOR WEIGHTS & PORTFOLIO CHANGES<sup>(1)</sup>

Sector	Ending Weight <sup>(2)</sup>	Change from 3/31/2021	Large Cap Growth Additions & (Large Cap Growth Deletions) <sup>(3)</sup>
Information Technology	35.9%	+0.7%	
Health Care	18.1%	-0.5%	
Industrials	15.3%	+3.4%	3M, Vertiv
Communication Services	10.8%	+0.5%	(Vimeo)
Consumer Discretionary	10.8%	-0.4%	
Materials	3.2%	-0.4%	
Financials	1.8%	-1.5%	(Progressive)
Real Estate	1.8%	0.0%	
Consumer Staples	1.5%	-1.7%	(Church & Dwight)
Cash	0.7%	-0.2%	
Energy	0.0%	0.0%	
Utilities	0.0%	0.0%	

<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. Characteristics and/or holdings may not be the same for all accounts invested in the strategy due to factors such as pending trades or account restrictions. Additions/Deletions reflect security transactions completed by the date stated on this presentation, and the securities mentioned may not be held by all accounts invested in the strategy.

<sup>(2)</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>(3)</sup>Any securities referenced should not be considered a recommendation to purchase or sell a particular security. These securities may represent a portion or all of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. Non-performance based criteria have been used to select the securities listed. 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. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. Portfolio holdings may not be current recommendations to buy or sell any security, and may no longer be held in the representative account. To request a complete list of portfolio holdings recommendations for the past year, the calculation methodology, or a list showing the contribution of every holding to the representative account's performance for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).

Source: 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—LARGE CAP GROWTH

NVDA	NVIDIA	2.08%	0.91%
GOOGL	Alphabet	3.17%	0.55%
FTNT	Fortinet	1.84%	0.49%
FB	Facebook	2.80%	0.49%
MSFT	Microsoft	2.58%	0.39%

### BOTTOM FIVE CONTRIBUTORS—LARGE CAP GROWTH

VMEQ	Vimeo	0.15%	-0.10%
VRTX	Vertex Pharmaceuticals	1.27%	-0.08%
RPM	RPM International	1.74%	-0.05%
ABC	AmerisourceBergen	1.74%	-0.05%
ABT	Abbott Laboratories	1.64%	-0.05%

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

Source: Renaissance Research, FactSet

Vertiv generates almost a third of its revenues. This reliable revenue growth trend should provide increasing visibility along with opportunities to expand margins, resulting in a higher valuation multiple. Conversely, we sold our position in **Progressive** (PGR) following a qualitative review of the company. Despite strong policy growth, we believe margins will be under pressure in the near-term, driven by higher auto repair and replacement costs due to parts shortages, rising used car prices, and higher loss rates due to a return to more normalized driving trends. We originally invested in PGR on expectations for both accelerating policy growth, margin expansion, and improving loss rates. All of these factors ultimately played out.

**NVIDIA** (NVDA) was the strongest performer in the second quarter. The company reported solid quarterly results driven by reaccelerated spending in the data center market and the launch of new gaming graphic processors. Interestingly, the stock was strong despite a pull-back in crypto currencies, which historically has been highly correlated with the direction of the stock price. With its focus on building next-generation modeling platforms, NVIDIA remains one of the best choices for investing in the growth of artificial intelligence. **Alphabet** (GOOGL) was another top performer. The company reported strong operating results driven by advertising revenue growth from its search engine segment which benefited from an increase in online usage. In addition, the near-term growth prospects for its cloud business remain favorable. Lastly, **Fortinet** (FTNT) outperformed the broader market as the recent spike in cyber-attacks targeting U.S. companies is driving heightened investment in securing corporate networks. The strong business momentum, along with a new product cycle, are producing the best operating results we have seen in recent memory.



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On the negative side, **Vimeo** (VMEO) was the worst contributing stock in the quarter. We received the stock after it was spun off by IAC/InterActiveCorp (IAC) to shareholders in mid-May, and we subsequently sold the stock. **Vertex Pharmaceuticals** (VRTX) fell after the company discontinued development of its second Alpha Antitrypsin Deficiency (AATD) molecule, determining that it was not clinically or commercially viable. While the company is confident that it will ultimately cure the blood disease, its recent failures highlight the fragility of Vertex's drug pipeline as the company tries to diversify growth outside of its core cystic fibrosis drug franchise. Lastly, **Abbott Laboratories** (ABT) declined after reducing second-quarter estimates on significantly lower-than-expected COVID-19 testing demand. The accelerated rollout of vaccines resulted in a reduction in COVID-19 cases which led to lower demand for testing. Despite this near-term setback, we were encouraged to see Abbott's core business reaccelerating as the pandemic impact subsides.

Economic news has remained positive with real gross domestic product (GDP) increasing at an annual rate of 6.4% in the first quarter of 2021, according to the Bureau of Economic Analysis. Among the S&P 500 companies that reported financial results during the second quarter, 72% reported revenues above consensus expectations and 86% reported earnings above expectations—both unusually high figures. Perhaps most encouraging is the data indicating that aggregate real personal income excluding transfer receipts (such as government stimulus checks) recently surpassed its 2019 high, suggesting that the economic recovery is spreading broadly across the country.

Clearly, much of the credit for the economic recovery can be directed toward the effective national rollout and distribution of COVID vaccines. As of the end of June, the percentage of Americans who are fully vaccinated against COVID reached just under 50%. This figure is among the highest of any major country worldwide.

While the economic and market news has been good, we would not be surprised by short-term market volatility over the next several quarters. The stock market has not experienced even as much as a 5% correction since last October, marking the longest period since 2017 without such a decline. Growing concerns about inflation and the Federal Reserve's interest rate policies are likely to continue to be a focus of investor attention, which may result in higher levels of stock market volatility. However, we continue to believe that a disciplined approach to identifying reasonably priced growth companies will continue to result in good long-term investment returns over time.

Inflation has surged in recent months with the trailing 12-month change in the Consumer Price Index reaching 5.0% as of the end of May. Meanwhile, the bond market has been remarkably indifferent to the recent increase in inflation—the 10-year Treasury bond yield ended the quarter at 1.47% and has actually declined over the past several months. As a result, the real yield on 10-year Treasuries (defined as yield minus the trailing inflation rate) has fallen to -3.6%, its lowest in over 20 years.

Many economists believe that the recent increase in inflation is being driven by temporary mismatches in the economy as consumer demand is surging faster than producers can provide goods. If those mismatches are only temporary, they will slowly work themselves out as the economy more fully reopens. Yet, the recent surge in prices along with elevated levels of government deficits have clearly raised concerns about future inflation rates among investors.

In addition to rising inflation, investors are also concerned about the direction and timing of future changes in interest rates on the part of the Federal Reserve. The Fed concluded its meeting in mid-June with higher expectations for inflation in 2021, along with an earlier timeframe for interest rate hikes. The Fed now sees core inflation (defined as CPI less Food and Energy) rising to 3.4% this year, above its previous estimate of 2.4%, and they boosted their full year estimate for GDP growth to 7%—a rate that has not been seen since the 1980s. The Fed also

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indicated that there could be two interest rate increases by 2023, whereas previously their forecast indicated that there would not be any rate hikes until 2024.

Initial interest rate increases (after a period of falling or stable rates) by the Fed have generally not been damaging to the stock market, however. With the exception of 1987, when the stock market crash occurred seven months after the initial rate increase, the market has generally climbed higher after the Fed's first move on rates. Given the historically low interest rates today, we believe that a sustained and meaningful move upward in rates would be necessary to significantly impact the stock market.

From a factor perspective, stock market leadership thus far in 2021 has been significantly different than in 2020. Stocks with strong levels of past price performance (Momentum) significantly outperformed stocks selling at low levels of valuation (Value) in 2020, but these factors have reversed themselves so far in 2021. Valuation measures were notably negative contributors to returns last year, but it is encouraging to see them again contributing positively this year. We employ a mix of momentum and valuation metrics in our stock selection process in an attempt to achieve good returns in a variety of market environments.

We continue to find good investment opportunities across a range of sectors and industries, particularly in the Information Technology, Health Care, Consumer Discretionary, and Industrials sectors.

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**Consumer Price Index**—The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item.

**Russell 1000 Growth Index**—The Russell 1000<sup>®</sup> Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000<sup>®</sup> 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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