Renaissance Capital
The IPO Expert
Est. 1991

IPO Exposure in a Diversified Portfolio

A Five-Year Case Study

Introduction

In today's dynamic investment landscape, **new stocks** present an interesting opportunity for investors. The first three years after a company's initial public offering (IPO) can be a transformative time. Capturing this period of a company's public life can significantly influence a portfolio's return dynamics while also serving as a tool for diversification beyond major benchmarks, which often exclude new stocks for months or even years after they start trading.

Coming out of a once-in-a-decade bear market, we believe investors may be unaware of the potential that the next IPO up-cycle holds, and how to position themselves before it takes off. More broadly, we also believe that many may be underinformed about the value of holding new stocks across market cycles.

This case study examines how varying levels of exposure to IPOs would have impacted a hypothetical, diversified portfolio over the five-year period from January 2020 through December 2024.

Key Takeaways

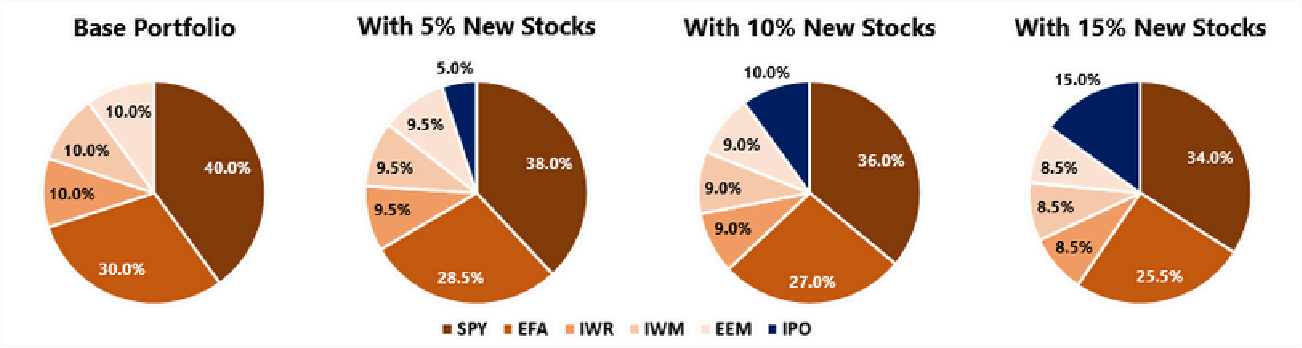
- Allocating to new stocks historically resulted in mostly positive excess returns and improved risk-adjusted returns when compared to the Base Portfolio
- A 15% allocation to new stocks generated annualized excess returns ranging from -0.4% to 3.5%
- Inclusion of new stocks in a diversified portfolio did not significantly increase overall volatility of returns
- Low correlation suggests that new stocks can provide differentiated returns rather than amplifying broader market trends
- IPO market revival means investors could benefit from inclusion of new stocks now, ahead of next up-cycle

Illustration of Case Study: Adding New Stocks to a Diversified Equity Portfolio

In this study, we examine four distinct portfolios with increasing exposure to new stocks. Our analysis focuses on three key metrics: excess returns, standard deviation, and Sharpe ratio. We use annualized returns over a rolling five-year period, with the goal of mitigating short-term noise to provide a better understanding of long-term trends.

We assume a structured, time-based approach for managing investments, and evaluate portfolio performance using an annual rebalancing schedule. We believe this offers a straightforward and efficient approach to maintaining an optimal and diversified asset allocation, without requiring constant monitoring.

The Base Portfolio represents a balanced selection of funds providing exposure to large-cap US stocks (SPY), international developed markets (EFA), mid- and small-cap US stocks (IWR and IWM, respectively), and emerging markets (EEM). The IPO Portfolios are variations of the Base Portfolio with increasing exposure to new stocks via the Renaissance IPO ETF (IPO), while maintaining a similar overall risk profile by redistributing the other allocations.



Portfolio	Base	5% IPO	10% IPO	15% IPO
5-Year Return (Annualized)	9.1%	9.4%	9.8%	10.0%
Standard Deviation (Annualized)	20.4%	20.8%	21.2%	21.6%
Excess Return	-	0.4%	0.7%	1.0%
Sharpe Ratio	0.229	0.244	0.254	0.261

Source: Renaissance Capital, based on data from Yahoo Finance as of 12/31/24. Figures for the 5-year period ended 12/31/24. Past performance is no guarantee of future results. Includes US Large-Cap Equity: SPDR S&P 500 ETF Trust (SPY; Gross/Net Expense Ratio: 0.09%); International Developed Equity (Ex-US & Canada): iShares MSCI EAFE ETF (EFA; Gross/Net Expense Ratio: 0.32%); US Mid-Cap Equity: iShares Russell Mid-Cap ETF (IWR; Gross/Net Expense Ratio: 0.19%); US Small-Cap Equity: iShares Russell 2000 ETF (IWM; Gross/Net Expense Ratio: 0.19%); Emerging Markets: iShares MSCI Emerging Markets ETF (EEM; Gross/Net Expense Ratio: 0.72%); New Stocks: Renaissance IPO ETF (IPO; Gross/Net Expense Ratio: 0.60%).

All funds are managed differently and do not react the same to economic or market events. This study does not aim to make direct fund-to-fund comparisons. The investment objectives, strategies, policies, or restrictions of other funds may differ and more information can be found in their respective prospectuses.

Fund Name (Ticker)	SPDR S&P 500 ETF Trust (SPY)	iShares MSCI EAFE ETF (EFA)	iShares Russell Mid-Cap ETF (IWR)
Inception Date	1/22/1993	8/14/2001	7/17/2001
Objective	The SPDR S&P 500 ETF Trust seeks to track the investment results of the S&P 500 Index.	The iShares Core MSCI EAFE ETF seeks to track the investment results of the MSCI EAFE IMI Index.	The iShares Russell Mid-Cap ETF seeks to track the investment results of the Russell MidCap Index.
Gross/Net Expense Ratio	0.09%	0.32%	0.19%
Index	S&P 500 Index	MSCI EAFE IMI Index	Russell MidCap Index
Principal Risks	As with all investments, there are certain risks of investing in the Trust, and you could lose money on an investment in the trust. Principal risks include passive strategy/index risk, index tracking risk, and equity investing and market risk. Please see the current prospectus for more information regarding the risk associated with an investment in the Trust.	As with any investment, you could lose all or part of your investment in the Fund, and the Fund's performance could trail that of other investments. Principal risks include but are not limited to risk of investing in developed countries, non-US securities risk, equity securities risk, market risk, and index-related risk. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund.	As with any investment, you could lose all or part of your investment in the Fund, and the Fund's performance could trail that of other investments. Principal risks include but are not limited to risk of investing in the US, mid-capitalization companies risk, equity securities risk, market risk, and index-related risk. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund.
AUM*	$626.3B	$53.1B	$38.4B
Fund Name (Ticker)	iShares Russell 2000 ETF (IWM)	iShares MSCI Emerging Markets ETF (EEM)	Renaissance IPO ETF (IPO)
Inception Date	5/22/2000	4/7/2003	10/14/2013
Objective	The iShares Russell 2000 ETF seeks to track the investment results of the Russell 2000 Index.	The iShares MSCI Emerging Markets ETF seeks to track the investment results of the MSCI Emerging Markets Index.	The Renaissance IPO ETF seeks to track the investment results of the Renaissance IPO Index.
Gross/Net Expense Ratio	0.19%	0.72%	0.60%
Index	Russell 2000 Index	MSCI Emerging Markets Index	Renaissance IPO Index
Principal Risks	As with any investment, you could lose all or part of your investment in the Fund, and the Fund's performance could trail that of other investments. Principal risks include but are not limited to risk of investing in the US, small-capitalization companies risk, equity securities risk, market risk, and index-related risk. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund.	As with any investment, you could lose all or part of your investment in the Fund, and the Fund's performance could trail that of other investments. Principal risks include but are not limited to risk of investing in emerging markets, equity securities risk, market risk, and index-related risk. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund.	Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. Principal risks include but are not limited to risk of investing in IPOs, information technology risk, small and mid-capitalization company risk, and depository receipt risk. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund.
AUM*	$71.9B	$17.0B	$152.6M

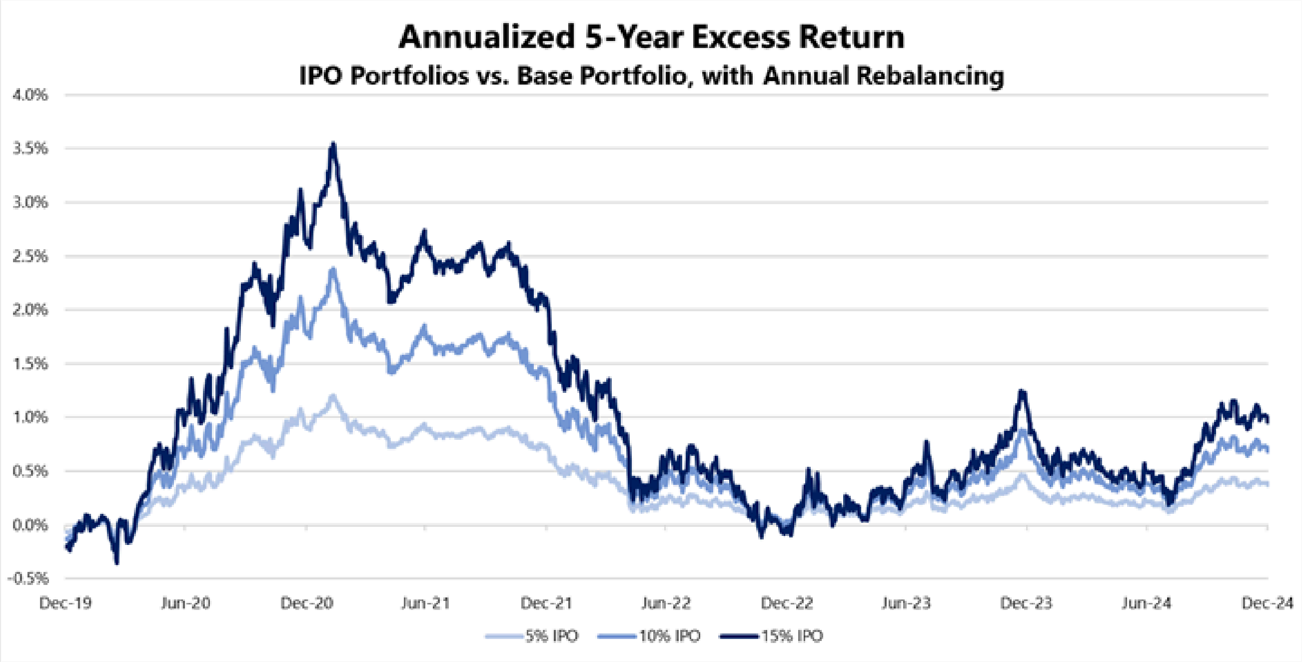
*Assets under management (AUM) as of 12/31/24.

Impact on Excess Returns

In this section, we evaluate how adding new stocks (via the Renaissance IPO ETF) can impact the performance of a diversified portfolio.

Over the five-year period, the 15% IPO Portfolio generated positive excess returns over the Base Portfolio 95.0% of the time, which increased to 96.3% for the 10% IPO Portfolio, and 96.9% for the 5% IPO Portfolio. The spread of annualized excess returns was widest for the 15% IPO Portfolio, peaking at 3.5% and dipping to -0.4% in the five-year period. In 2024, the spread narrowed to 0.2% to 1.2%.

The strongest periods of outperformance occurred during the COVID bubble in 2020-2021, when excess returns peaked, while periods of underperformance were largely confined to the broader market sell-offs in early 2020 and late 2022. This asymmetric return profile suggests that exposure to new stocks may enhance upside potential while limiting downside risk in a diversified portfolio.



Source: Renaissance Capital, based on data from Yahoo Finance as of 12/31/24. Past performance is no guarantee of future results. Includes US Large-Cap Equity: SPDR S&P 500 ETF Trust (SPY; Gross/Net Expense Ratio: 0.09%); International Developed Equity (Ex-US & Canada): iShares MSCI EAFE ETF (EFA; Gross/Net Expense Ratio: 0.32%); US Mid-Cap Equity: iShares Russell Mid-Cap ETF (IWR; Gross/Net Expense Ratio: 0.19%); US Small-Cap Equity: iShares Russell 2000 ETF (IWM; Gross/Net Expense Ratio: 0.19%); Emerging Markets: iShares MSCI Emerging Markets ETF (EEM; Gross/Net Expense Ratio: 0.72%); New Stocks: Renaissance IPO ETF (IPO; Gross/Net Expense Ratio: 0.60%).

When considering the impact of exposure to new stocks on the Base Portfolio's return profile, we believe it's important to note the correlation between the selected funds, as that signals whether new stocks deliver unique returns or simply amplify existing trends within the Base Portfolio. The IPO ETF has the lowest correlation with nearly all of the selected funds, indicating that incorporating IPO exposure can introduce a return stream that behaves differently than traditional equity allocations, enhancing overall diversification and reducing reliance on specific market segments.

	SPY	EFA	IWR	IWM	EEM
SPY	1.000	0.855	0.951	0.866	0.755
EFA	0.855	1.000	0.855	0.793	0.833
IWR	0.951	0.855	1.000	0.941	0.749
IWM	0.866	0.793	0.941	1.000	0.692
EEM	0.755	0.833	0.749	0.692	1.000
IPO	0.718	0.627	0.745	0.731	0.629

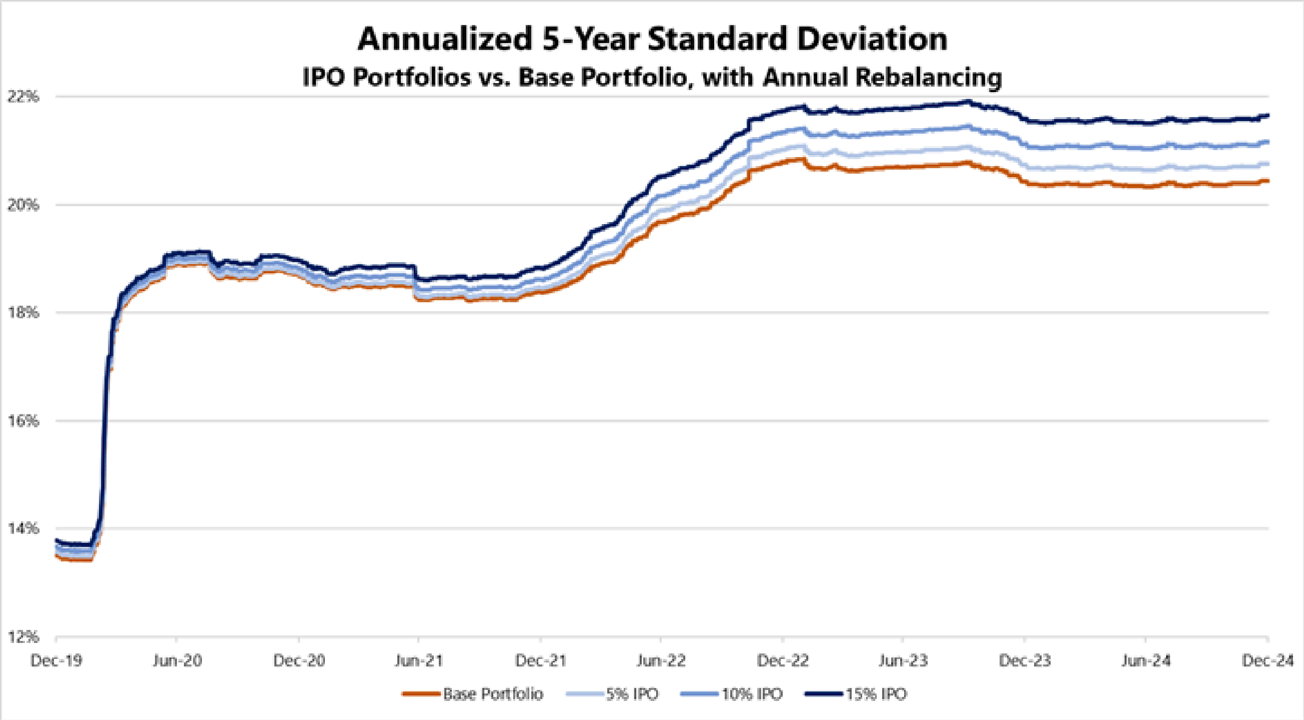
Source: Renaissance Capital, based on data from Yahoo Finance as of 12/31/24. Correlations based on daily price movements for the 10-year period ended 12/31/24. Past performance is no guarantee of future results. Includes US Large-Cap Equity: SPDR S&P 500 ETF Trust (SPY; Gross/Net Expense Ratio: 0.09%); International Developed Equity (Ex US & Canada): iShares MSCI EAFE ETF (EFA; Gross/Net Expense Ratio: 0.32%); US Mid-Cap Equity: iShares Russell Mid-Cap ETF (IWR; Gross/Net Expense Ratio: 0.19%); US Small-Cap Equity: iShares Russell 2000 ETF (IWM; Gross/Net Expense Ratio: 0.19%); Emerging Markets: iShares MSCI Emerging Markets ETF (EEM; Gross/Net Expense Ratio: 0.72%); New Stocks: Renaissance IPO ETF (IPO; Gross/Net Expense Ratio: 0.60%).

Impact on Portfolio Volatility

The volatility of returns, measured by the standard deviation, is another critical factor in portfolio construction. In this section, we analyze how the inclusion of new stocks affects volatility in relation to the Base Portfolio.

We find that while IPO exposure results in slightly higher standard deviations, the overall volatility profile of the portfolios remains similar. This suggests that new stocks may enhance the portfolio's risk-return tradeoff without meaningfully increasing overall volatility.

For instance, the 15% IPO Portfolio experiences the largest increase in standard deviation, reaching a maximum annualized standard deviation of 21.9%, compared to 20.8% for the Base Portfolio. Additionally, throughout 2024, the difference in annualized standard deviations between the 15% IPO Portfolio and the Base Portfolio remained within 5 basis points, indicating a relatively stable risk impact over time.

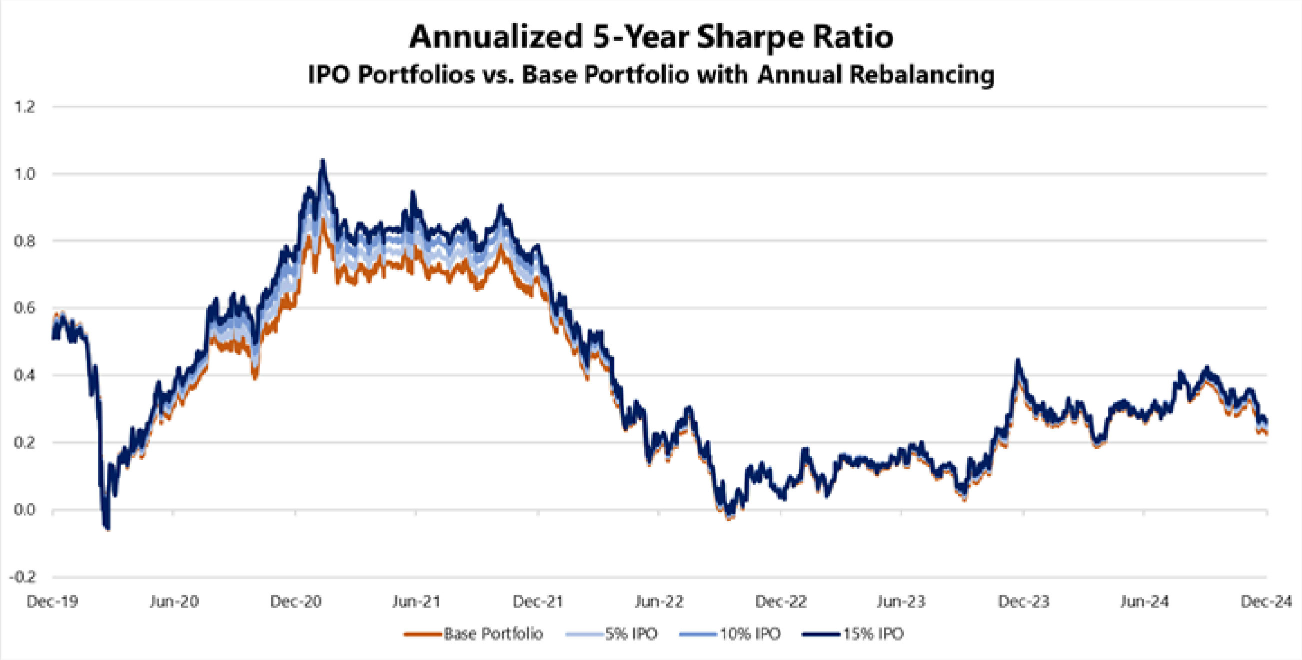


Source: Renaissance Capital, based on data from Yahoo Finance as of 12/31/24. Past performance is no guarantee of future results. Includes US Large-Cap Equity: SPDR S&P 500 ETF Trust (SPY; Gross/Net Expense Ratio: 0.09%); International Developed Equity (Ex-US & Canada): iShares MSCI EAFE ETF (EFA; Gross/Net Expense Ratio: 0.32%); US Mid-Cap Equity: iShares Russell Mid-Cap ETF (IWR; Gross/Net Expense Ratio: 0.19%); US Small-Cap Equity: iShares Russell 2000 ETF (IWM; Gross/Net Expense Ratio: 0.19%); Emerging Markets: iShares MSCI Emerging Markets ETF (EEM; Gross/Net Expense Ratio: 0.72%); New Stocks: Renaissance IPO ETF (IPO; Gross/Net Expense Ratio: 0.60%).

Impact on Risk-Adjusted Return Profile

Beyond returns and volatility, this study examines how the inclusion of new stocks affects the risk-adjusted return profile of a diversified portfolio. We evaluate this using the Sharpe ratio, which provides insight into whether the IPO Portfolios can deliver sufficient returns relative to their added risk.

A comparison of the IPO Portfolios and the Base Portfolio shows that the inclusion of new stocks historically improved risk-adjusted returns. Over the five-year period, the 15% IPO Portfolio achieved a higher annualized Sharpe ratio 88.5% of the time. That figure increased to 92.9% for the 10% IPO Portfolio, and 94.7% for the 5% IPO Portfolio. These results suggest that, within a diversified portfolio, exposure to new stocks can enhance performance while maintaining a balanced risk-return profile.



Source: Renaissance Capital, based on price data from Yahoo Finance as of 12/31/24. Sharpe ratio was calculated using 5-year treasury yield. Past performance is no guarantee of future results. Includes US Large-Cap Equity: SPDR S&P 500 ETF Trust (SPY; Gross/Net Expense Ratio: 0.09%); International Developed Equity (Ex-US & Canada): iShares MSCI EAFE ETF (EFA; Gross/Net Expense Ratio: 0.32%); US Mid-Cap Equity: iShares Russell Mid-Cap ETF (IWR; Gross/Net Expense Ratio: 0.19%); US Small-Cap Equity: iShares Russell 2000 ETF (IWM; Gross/Net Expense Ratio: 0.19%); Emerging Markets: iShares MSCI Emerging Markets ETF (EEM; Gross/Net Expense Ratio: 0.72%); New Stocks: Renaissance IPO ETF (IPO; Gross/Net Expense Ratio: 0.60%).

Importance of Monitoring Your Portfolio

Regardless of the findings of this case study, it is essential that investors monitor their portfolios regularly to ensure alignment with their unique investment goals. Investors should also consider their risk tolerance and investment horizon when determining how much, if any, IPO exposure to incorporate into their portfolios.

Some key considerations include:

1. **Cyclical nature of IPO performance**: The dynamic nature of new stocks means that the impact on returns and risk can vary significantly across different market cycles.
2. **Concentration risk**: Monitoring sector and industry concentrations within new stock allocations is essential, as certain periods may see clusters of IPOs within specific sectors.
3. **Rebalancing discipline**: Rebalancing is an important part of portfolio management. The annual rebalancing approach used in this study helped managed drift in allocations, but it's important to note that this may not be suitable for every investor.
4. **Alignment with risk appetite**: Ensuring that IPO allocations align with investors' overall risk tolerance and investment objectives is paramount.

Conclusion

With the IPO market's next up-cycle on the horizon, we believe allocating to new stocks presents a compelling opportunity for investors seeking exposure to a unique market segment while maintaining a balanced, diversified portfolio. Metrics such as excess return, standard deviation, and Sharpe ratio provide data-driven insights into how IPO exposure can be effectively integrated into a well-constructed investment strategy.

Renaissance Capital offers two passive exchange-traded funds (ETFs) that seek to provide investors with the largest, most liquid new stocks by tracking as closely as possible, before fees and expenses, the price and yield performance of the Renaissance IPO Indices.

1. The Renaissance IPO ETF (NYSE: IPO) tracks the Renaissance IPO Index (IPOUSA) and holds only US-listed new stocks.
2. The Renaissance International IPO ETF (NYSE: IPOS) the Renaissance International IPO Index (IPOXUS) and holds only internationally-listed new stocks.

The IPO ETFs aim to offer a systematic investment approach, novel diversification, and dynamic access to the transformative period post-IPO. We believe that the defined three-year holding period makes these the go-to ETFs for investors interested in new stocks, as they include names not found in most core portfolios.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. An investor cannot invest directly in an index. Index returns do not represent Fund returns. The Index does not charge management fees or brokerage expenses, nor does the Index lend securities, and no revenues from securities lending were added to the performance shown.

Definitions

Excess Return *is the difference between the return of a portfolio and the return of a specified benchmark over a given period. A positive excess return indicates outperformance over a specified benchmark.* ***Standard Deviation*** *of returns measures the average a return series deviates from its mean. It is often used as a measure of risk. When a fund has a high standard deviation, the predicted range of performance implies greater volatility.* ***Sharpe Ratio*** *is a measure that uses standard deviation and the excess return over a specified risk free rate to determine reward per unit of risk. The greater a fund's Sharpe ratio, the better its risk-adjusted performance has been.*

Risk Disclosure

Investments in the Renaissance IPO ETF, symbol "IPO", and the Renaissance International IPO ETF, symbol "IPOS" (the "ETFs") are subject to investment risk, including possible loss of the principal amounts invested. The ETFs invest in companies that have recently completed initial public offerings. These stocks are unseasoned equities lacking trading history, a track record of reporting to investors and widely available research coverage which may result in extreme price volatility. Due to a greater number of IPOs in certain segments, the ETFs may also be subject to information technology and financial sector risk, small and mid-capitalization company risk, and, for the Renaissance International IPO ETF, emerging market risk. The ETFs may hold securities in the form of Depository Receipts, REITs, and Partnership Units, which have greater risks than common shares. The strategies have high portfolio turnover and securities lending risks. The returns of the ETFs may not match the return of the respective indices. The ETFs are classified as non-diversified investment companies subject to concentration risk.

Prospectus

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus and/or summary prospectus with this and other information, please visit the document center at etfs.renaissancecapital.com. Read the prospectus carefully before investing.

Foreside Fund Services, LLC, is the distributor for the ETFs. For additional information, contact Foreside at 1-866-486-6645.

Renaissance Capital
100 First Stamford Place, Suite 403
Stamford, CT 06902

renaissance@renaissancecapital.com