

## U.S. FOCUS Growth Strategy

### Representative Commentary — 2Q21

Performance	Annualized					
	2Q21	1YR	3YR	5YR	7YR	10YR
FOCUS Growth Equity Composite (Gross)	12.18%	40.34%	23.42%	19.60%	14.31%	16.41%
FOCUS Growth Equity Composite (Net)	11.91%	38.98%	22.22%	18.43%	13.18%	15.27%
Russell Midcap® Growth Index	11.07%	43.77%	22.37%	20.51%	15.38%	15.12%

*Please see the important performance and other related disclosures at the end of this Commentary, which are an integral part of this quarterly Commentary Newsletter.*

The global equity markets continued to treat the pandemic's initial economic toll as a passing blip. In the second quarter, there were meaningful gains with many indexes approaching—or well into—double-digit gains for the first half of 2021 (not to mention annualized double-digit gains since the pre-pandemic highs of February 2020). For the quarter, U.S. equities led with gains of 8% compared with 5% for both non-U.S. developed and emerging markets equities. There was a shift in market preferences, with greater rewards accruing to the growth and large capitalization indices in the second quarter, compared with the dominance shown by value and small capitalizations earlier in the year.

Global economic activities continued unabated in the quarter, with the only hindrance from depleted inventories or higher labor costs. Although the rates of growth slowed slightly in June, measures of economic expansion for manufacturing and services worldwide reached peaks mid-quarter that had not been seen in 15 years. The unflagging demand pushed commodity prices to their highest levels since 2014, which included significant price gains for oil and natural gas. Among small-to-mid capitalization growth stocks, it was unsurprising that Energy remained the dominant economic sector. The market also preferred riskier stocks and growth at any price.

Amidst this environment, the portfolio outperformed the Russell Midcap Growth Index in the second quarter. Weakness from RenaissanceRe, AmerisourceBergen,

Zynga, and CoStar was offset by strength from Charles River, TransUnion, HubSpot, Gartner and CrowdStrike.

The strategy's greatest detractor this quarter was the reinsurance provider **RenaissanceRe Holdings**. In the company's most recent report, RenRe noted an increase in the total value of premiums written, which came from new business and higher pricing for existing lines. However, RenRe tends to conservatively reserve a portion of that premium—typically released later in the year—which delays recognizing the profits in the short-term. That caused its shares to drift down by -7%.

Among our Health Care holdings, **AmerisourceBergen** slipped by -3%. Reported earnings were in line with expectations although revenues were slightly below for this distributor of pharmaceutical and medical products to pharmacies, hospitals, and other health care providers. Price deflation across generic drugs caused investor concerns for all distributors, although AmerisourceBergen's margins improved over the quarter, which indicated that was not a particular issue for the company. We first bought shares in late March, and continued building our position this quarter. Providing some relief was the 28% gain from **Charles River Laboratories**, a leading provider of outsourced services for drug discovery and preclinical research. Expectations were bullish for its quarterly revenues, with investors projecting results above management's prior guidance given the strong demand environment. The actual results did not disappoint, with revenues and earnings above expectations. Charles River saw better-than-anticipated

strength from all three of its operations: Research Models and Services, Discovery and Safety Assessment, and Manufacturing Support.

Elsewhere there was a 4% return from mobile devices game developer **Zynga Inc.**, which trailed the benchmark gain of 11% this quarter. The company's revenues and earnings bested expectations, with guidance for future bookings increased as well. To us, it seemed that Zynga's gains were tempered by the market's view that mobile game usage would decline as the world reopened. However, Zynga has several growth initiatives—including a new slate of games—that should continue to drive future revenue growth.

Another relative laggard was **CoStar Group** and its 1% gain. A commercial real estate data and analytics provider, the company reported better-than-expected earnings but issued a modest guidance increase for the full year, which seemed to disappoint the market.

Picking up a 22% gain was **TransUnion**, which organizes and analyzes credit data on consumers and businesses worldwide. TransUnion reported revenues and earnings that outpaced expectations, and increased its guidance for the year. There was improving consumer activity from mortgages, lending and other credit activities that boosted overall volumes for the company, and we added to our position.

Lastly, there were several contributors among our Information Technology positions. That included a 38% gain from **CrowdStrike Holdings**. A cloud-based network security service that supports a range of devices and endpoints, CrowdStrike's shares steadily climbed following a retreat earlier in the year. At an analyst briefing in April, CrowdStrike's management discussed its multiyear plans to drive significant increases in annual recurring revenues, supported by new technologies and a further expansion of its security platform. Preliminary channel checks indicated the company notably added to its client base during the quarter. Then in June, CrowdStrike reported results that were in line with heightened expectations. In particular, the company continued to see strong momentum as the escalating pace of cyberattacks forces the Biden administration to treat ransomware attacks as a national security threat, though we trimmed our position on its gains. The strategy's top contributor was **Gartner, Inc.**, which offers independent and objective

research and analysis on information technology, computer hardware, software, and communications. Gartner reported revenues and earnings that surpassed expectations, with notable accelerations in contract values and a revival of its events operations. That led management to increase its guidance and expand its share repurchase program, which contributed to a 33% rise in Gartner's shares. Gaining 29% was **HubSpot, Inc.**, which provides a cloud-based marketing, sales and client service platform for businesses. Early in the quarter, the company launched a new module, Operations Hub, for operations professionals in the sales process. That joins HubSpot's other four hubs—Marketing, Sales, Service, and Content Management—and should provide opportunities for increased pricing and cross selling. Later HubSpot reported revenues and earnings that were higher than expected, leading to an increase in guidance for the balance of the year. There was significant growth in billings and revenues from subscriptions, though this quarter the topper was nearly 10,000 of net new customers added—well more than double its pre-pandemic average increase.

Though TimesSquare continues to operate remotely outside of our NYC office, we expect to have a gradual return in the fall. In the meanwhile, we are very pleased to announce that Reuben Scherzer joined TimesSquare in June as a Research Analyst. Reuben is responsible for coverage of Europe and other non-U.S. regions within the Developed, Emerging, and Frontier Markets.

Heading into the second half of 2021, market returns continue to anticipate economic growth as their focus turns to 2022 and the pain of 2020 fades. However, the amount of growth already reflected in current valuations is debatable. Higher vaccination rates bolster the outlook, though the appearance of COVID-19's Delta variant generates anxiety. The pace of inflation means the transitory period may last longer than some expect, though the Federal Reserve seemed less concerned about inflation as much as beginning internal discussions on tapering its monetary easing stance. All told, we see the typical mixture of opportunities and risk that we as active investors seek to balance in our bottom-up assessments. As always, we are available for any questions you might have as we endeavor to protect the assets you have entrusted with us.

## **General Disclosure:**

*The holdings discussed represent a particular point in time. It should not be assumed that the securities continue to be held, and/or continue to be held in the same percentage, and/or were held continuously throughout the period. In addition, the holdings of a particular client account may differ from the information provided. Securities discussed do not represent the entire portfolio and, in aggregate, may represent only a small percentage of a portfolio's holdings. Information is subject to change without notice. It should not be assumed that any of the securities discussed were or will prove to be profitable. Past performance does not guarantee future results.*

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## **Composite & Performance Disclosure:**

*Performance is measured against the Russell Midcap® Growth – a market capitalization-weighted index that measures the performance of those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell Midcap® Growth Index, are based on gross-of-fee returns. Russell Investment Group is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto.*

*This composite invests in stocks with market capitalizations generally between \$1.5 and \$30.0 billion at time of purchase. The process is fundamental research driven. The investment style is growth. Portfolios will hold approximately 15 stocks. Historical turnover has averaged 38% per year. Composite inclusion threshold \$500,000. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. The composite creation date is September 1, 2005.*

*Effective 04/01/2015, TimesSquare removes accounts from this composite when significant cash flows occur. A significant cash flow is defined as an external flow that exceeds 10% of the composite's market value on the day of the cash flow. Effective 01/01/2017, the significant cash flow policy has been removed.*

*The performance figures shown are calculated in U.S. dollars on a size-weighted basis and reflect the reinvestment of dividends and other earnings, and the deduction of brokerage commissions and other transaction costs. Performance is provided on a gross basis (before the deduction of management fees) as well as net of the standard fee schedule listed for this strategy during the period presented. The applied standard fee [basis] was 100 basis points from inception to December 31, 2006. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. To illustrate performance net of fees, assume \$20,000,000 is placed under management for ten years sustaining 10% compound gross total return. If an advisory fee of 1.00% of average assets under management is charged per year, for each year of the ten-year period, the resulting compound annual return would be reduced to 9.0%. The ending dollar value of the account would be \$47,347,274 compared with the unreduced account value of \$51,874,849. TimesSquare's fee schedule is available upon request and may also be found in Part 2A of our Form ADV.*