TIMESSQUARE
CAPITAL MANAGEMENT, LLC

Global Small Cap Strategy

Representative Commentary — 2Q21

Performance				
			Annualized	
	2Q21	1YR	3YR	Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	5.27%	36.92%	11.06%	10.54%
Global Small Cap Composite (Net)	5.04%	35.73%	10.07%	9.56%
MSCI World Small Cap (Net) Index	4.98%	52.88%	12.12%	11.16%

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 capitalization stocks earlier in the year.

After a slow start, Europe started to catch up to the U.S. and the U.K. on the vaccination front, while emerging countries continued to lag. With improved vaccination rates, governments around the world are increasingly easing COVID-related mobility restrictions. Global economic activity continued unabated in the quarter, with the only hindrances coming from low inventories or higher labor costs. Although the rates of expansion slowed slightly in June, measures of economic expansion worldwide for manufacturing and services 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.

The Global Small Cap Portfolio outperformed the MSCI World Small Cap Index in the second quarter of 2021. Holdings in Emerging Markets, Europe, and the United States outperformed while relative weakness was seen in Japan.

Regional Performance: Europe

The portfolio's European holdings outperformed benchmark regional performance. Relative weakness in Sweden and Norway was offset by strength in the United Kingdom, Italy, and France.

In Norway, online meeting platform **Pexip** reported strong revenue growth on the back of key customer wins and it is on track to reach USD 300mn in annual recurring revenues by 2024. However, its shares declined by -20% as the market took profits on the news and rotated away from work-from-home beneficiaries. Pexip is well positioned to deliver the flexible, secure, and high-quality videoconferencing that is seeing increased demand in light of hybrid working models widely adopted during lockdowns. Compatriot **LINK Mobility Group** provides mobile messaging and Communications Platform as a Service (CPaaS). The company reported lighter-than-expected first quarter revenue growth as European lockdowns continued to weigh on business and shares slid -25%. The acceleration of vaccine rates in LINK Mobility's geographic regions should provide support for continued volume growth. In addition, LINK Mobility announced the acquisition of Soprano Design, an Australia-based CPaaS company. The deal will expand LINK Mobility's geographic footprint to Asia Pacific, the U.S., and Latin America.

Italy-based **Amplifon**, a leading global hearing aid distributor, climbed 33% with a gradual demand recovery. The company remains active on the mergers and acquisitions front - exploring further franchisee acquisitions in the U.S. and a second joint venture in

China. Structural growth drivers for the industry remain unchanged, with limited threats from consumer brands or online hearing aid distribution. We trimmed the position on its price strength, thereby realizing some profits. In neighboring France, global leader in call center outsourcing, **Teleperformance**, improved by 12%. Management indicated that in the near term, strong growth trends seen in the first quarter are expected to continue. Medium term, the greater digital transformation trends will likely drive faster organic growth for Teleperformance.

Holdings in the United Kingdom had a mixed picture. There was the -19% drop from **HomeServe**, which offers a range of home emergencies services via subscription-based membership. Within its recent results, the company recognized a one-time CRM (customer relationship management) system write-off driven by their move to a more flexible, cloud-based solution. Despite the write-off, the underlying North American Membership & HVAC (heating, ventilation, and air conditioning) business posted strong results as they continued to benefit from service calls from newly minted suburban homeowners. We used the dislocation to add to the name on weakness. New to the portfolio, and more positive, was **Future plc**, a specialty content publisher transitioning from print to a multichannel online-platform. The company owns 220 brands/titles and creates niche interest, high-quality, branded, and expert-led content. Alongside the produced content is advertising and links to purchase products spotlighted in the articles. The company reported solid first half results driven by ecommerce and digital ads. Future also announced the acquisition of Marie Claire U.S. As they already operate Marie Claire U.K., we expect the group to replicate its success in injecting ecommerce into the U.S. publication. Its shares surged 50% on back of the development. Also strong was wealth manager **St. James Place** with its 19% gain. They reported a better-than-expected quarter with record inflows helped by pent-up demand from savings accumulated over the last year. Management guided for inflows to grow 10% per annum, outpacing its expense growth of 5%. We pared our gains on share price strength.

Regional Performance: The Americas

The portfolio's holdings in the Americas performed in line with the benchmark. **TPG Pace Beneficial Finance Corporation (TPGY)** is a Special Purpose Acquisition Company (SPAC) for the acquisition of leading global provider of smart charging solutions for electric vehicles (EVs), EVBox**.** The company provides its customers with an integrated end-to-end portfolio of hardware, cloud services and support. Share price of TPGY came under pressure as investors turned cautious on SPACs. In June, TPGY announced it had extended the deal deadline to acquire EVBox, which added to the uncertainty and led its share price down -34% for the quarter. We trimmed our position in light of growing concerns. Another setback to performance was the -7% from reinsurance company, **RenaissanceRe.** In the company's most recent fiscal quarterly report at the end of April, 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 recognition of profits in the short-term. On the positive side are two of our top three contributors for the quarter. A contract research organization serving the biopharmaceutical industry, **Charles River Laboratories** increased its long-term operating margin as well as revenue growth targets for each business unit. This served to lift the stock by 28%. Information technology research advisory firm **Gartner** ascended 33% after reporting 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.

Regional Performance: Japan

Our holdings in Japan detracted from performance but offered some bright spots. Our contributors include discount supermarket operator **Kobe Bussan** and its 18% recovery. The company raised its fiscal year operating profit and net profit guidance by more than 20%. Amid global inflationary trends, Bussan's vertically integrated supply chain insulated it from rising food costs. The company plans to raise prices on its private brand lineup to pass on higher input cost and therefore does not foresee any negative impact on margins.

Moving in the other direction was **MedPeer**, which provides a community site exclusively for physicians to link up with pharmaceutical companies and is a first mover in Japan's online health care space. The -30% decline in the share price appeared to be due to multiple compression in growth names despite solid execution and firm underlying fundamentals. Shares of discount retail store operator **Pan Pacific International** (previously known as **Don Quijote Holdings)** retreated -12%. Same-store sales remained weak at its Don Quijote stores due to the loss of inbound sales as a result of COVID-19 and a decline in customer traffic at urban stores as people stay at home more. With greater vaccine rollout, we expect to see the road to recovery ahead and added to our position on price weakness.

Regional Performance: Developed Asia Pacific Ex Japan

Our holdings in Asia Pacific Ex-Japan delivered lower relative returns. **Challenger** is a leader in annuity products tied to Australia and Japan's aging populations. The company reduced its fiscal year 2021 guidance to the bottom end of the range. Challenger has been slow to adjust its pricing amidst fluctuations in spreads. Given the string of disappointments, we decided to exit the name and shares corrected -23% for the period that it was held throughout the quarter.

Regional Performance: Emerging Markets

Emerging markets housed some of our best performers. One of the largest Information Technology services providers in the country, **Chinasoft International**, leaped forward 74%. In early July, Huawei officially launched HarmonyOS2.0 for smartphones, and stated the new operating system will be used across multiple devices. With its deep knowledge of HarmonyOS, Chinasoft will

benefit from the accelerated growth of this ecosystem development. Continuing its upward momentum with a 95% jump, Taiwan's leading e-commerce player **momo.com** benefitted from the recent COVID-19 surge on the island. We pared our gains in both names on price strength.

Conclusion

Though TimesSquare continues to operate remotely outside of our NYC office, we expect to have a gradual return in the fall. In the meantime, 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 with 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 MSCI World Small Cap (Net) Index. MSCI World Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI World Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed markets,. Its returns include net reinvested dividends but, unlike the Composite returns shown, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the Index. All indexes, including the MSCI World Small Cap (Net) Index, are based on gross-of-fee returns, including net reinvested dividends.

Benchmark returns are not covered by the report of independent verifiers.

This composite generally invests in MSCI World stocks with market capitalizations below $7.5 billion at time of purchase. Portfolios will hold approximately 110 securities. The process is fundamental research driven. Composite inclusion threshold $500,000. Fee basis is 90 points. The composite creation date is January 1, 2018.