TIMESSQUARE
CAPITAL MANAGEMENT, LLC

International Micro Cap Strategy

Representative Commentary — 2Q21

Performance		
	2Q21	**Since Inception (1/1/2021)**
International Micro Cap Composite (Gross)	8.35%	13.66%
International Micro Cap Composite (Net)	8.05%	13.03%
MSCI AC World Ex USA Small Cap (Net) Index	6.18%	12.06%

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 expansion 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.

After a slow start, Europe's vaccine rollout gained pace and the region outperformed within the developed markets. In contrast, Japan's market lagged amongst the developed peers as low vaccination rates and COVID-19 induced government lockdowns constrained domestic consumption and dampened investor sentiment. More recently, the government has improved the ease and accelerated the pace of vaccination ahead of the Tokyo Olympics. Several countries around the world saw concerning case increases due to new strains arising and possibly premature loosening of COVID-19 restrictions. Within the emerging markets, Latin America markets saw the strongest gains. With inflation pressures on the rise, central banks in Latin America raced to raise their benchmark interest rates. Asian equities also reported modest gains though policy tightening weighed on relative performance in China.

Portfolio Performance Attribution

Amidst this environment, the International Micro Cap Portfolio outperformed the MSCI AC World ex USA Small Cap benchmark, driven by strong stock selection. We benefitted from our positions in the Emerging Markets, Asia/Pacific Ex Japan and Japan, while Europe was a relative detractor. Holdings in the Americas performed in-line.

Regional Performance: Europe

In Europe, our names in Germany, Italy, and Norway detracted from performance. However, there was some relative strength in Sweden and the United Kingdom. Norway-based online meeting platform **Pexip** reported strong revenue growth on the back of key customer wins. However, its shares declined by -20% as the market took profits on that news and rotated away from work-from-home beneficiaries. Since many businesses have still not returned to the office in the wake of the pandemic, a hybrid working model could be the new normal. This would require flexible and secure videoconferencing capabilities, which Pexip is well positioned to deliver.

Helping the portfolio in nearby Sweden was **Sdiptech AB**, a provider of infrastructure services focusing on water, power and energy, air transportation, and building technical services. They are involved in construction and renovation in growing metropolitan areas. The company's growth strategy relies on acquisitions and uses a decentralized model, where acquired businesses tend to

keep their operational freedom. In April, the company completed the divestment of their elevator business, in order to concentrate growth efforts on their Water, Energy and Special Infrastructure Solutions Businesses. Shares were up 34% during the quarter, where we trimmed on price strength.

Germany based **JOST Werke AG**, is a Tier-1 manufacturer and supplier of mission-critical safety systems for the commercial truck industry. The company's list of product solutions includes trailer components, fifth-wheel systems and axle-systems and towing components. The company reported an impressive first quarter, showing strong sales growth and expanding operating margins. However, management announced that they expect sales volumes in China to decrease significantly, as increased emissions standards for light-duty vehicles will go into effect July 1st. As a result, shares fell -4% during the quarter. Better results came from **Basler AG**, a leading manufacturer of high-quality digital cameras and accessories for applications within industrial automation, medical and life sciences, traffic and safety, and logistics. The company reported solid first quarter results where revenues and operating margins beat consensus. Strong revenues were driven by high investment in the semiconductor and electronics industry in response to the current chip shortage. As a result, management increased full year sales guidance, along with a slight expansion in operating margins. Shares were up 9% for the quarter, where we trimmed our position.

In France, multinational market research and consulting firm, **Ipsos SA** finished up 11% during the quarter. Unlike its larger peers, the company derives a significant portion of their revenue through custom research, a more value-add service. The group has organized itself more towards a client centric sales approach, helping to cross-sell based on client needs. The company reported another solid quarter, where sales came in much higher than forecasted. This was attributed to surging demand from public institutions from Europe, Middle East, and Africa region. Moreover, management reiterated their 2021 guidance, as companies need to understand the long-lasting changes in consumer behavior from the COVID-19 pandemic.

Our names in Italy faced some challenges this quarter. **doValue SpA**, is a servicer of third-party non-performing loans (NPLs) in southern Europe. Its services include collection and recovery, due diligence, structure, and co-investment. First quarter results were broadly in-line with consensus, confirming the trend of a gradual pickup in NPL recovery activity over the last twelve months. Revenues from the Hellenic Region (Greece and Cyprus) continued to strengthen due new servicing mandates. Management also confirmed their strong market pipeline, where they are confident in beating their target for new mandates. While company results seem encouraging, shares were down -7% for the quarter. Better results came from **Datalogic SpA**, as shares were up 16% during the quarter. The company is a global leader in the automatic data capture and process automation markets, specializing in the design and production of bar code readers, mobile computers, sensors for detection, measurement and safety, and laser making systems. The company reported a better-than-expected first quarter, driven by solid revenue growth, along with robust margin expansion thanks to an improvement in research and development cost efficiencies.

Turning to the U.K., **Gateley (Holdings) plc** is a leading national commercial law firm that provides a high quality, comprehensive service across its five core segments: Banking and Finance, Corporate, Business Services, Employment & Benefits and Property. In an unscheduled company update, Gately highlighted that following a very strong end to their fiscal year in April, revenues, profitability, and net cash will be well ahead of previous estimates. Management noted strong results across all operating segments, particularly within their Corporate and Property divisions. Given this strong update, the company is recommencing dividend payments to shareholders, which were halted during Covid-19, with a distribution of 70% of profits after tax. Shares were up 25% during the quarter.

Regional Performance: Japan

Japan was another area of relative strength for the portfolio. Up 10% for the quarter was **Zuken Inc**., a provider of high-end CAD software for designing printed circuit boards (PCBs), multi-chip modules, wire harnesses for the automobile and electronic industry. Operating profit increased 21% YoY and Zuken's order book grew by 14%; it is expanding sales in Europe and US with customized designed solutions for enterprise customers. We added to our Zuken position. **Tri Chemical Laboratories** is a specialty producer of chemicals for the semiconductor manufacturing industry. Shares fell by 7% during the quarter but we expect capacity expansion in both Japan and Taiwan due to foundry customers will accelerate earnings growth in the second half of 2021. Delivering revenue and operating profit growth in excess of 20% year-over-year was **G-7 Holdings, Inc.** a holding company consisting of a super market business, which accounts for roughly two thirds of profits and stands to grow on the back of unit growth and operating efficiencies as G7 "populates" business areas with more stores and can thus reduce (shared) overhead expenses. The remaining third of G7's operating profit consists mainly of Autobacs, a leading auto parts franchise in Japan. Profits were crimped last year on the back of COVID, but with vaccination rates finally ramping in Japan, we expect the auto parts business to display a healthy recovery moving into late 2021.

Regional Performance: Emerging Markets

Delivering a lift to performance this quarter were our holdings in the Emerging Markets. In Taiwan, recent flare-ups of COVID-19 cases temporarily led its equity markets lower. We used the market dislocation to opportunistically add on weakness and benefitted from the subsequent rebound. **WinWay Technology** is a leading supplier of integrated circuit testing interfaces in Taiwan. Shares dropped -25% due to concerns of possible interruptions to its production and we added to the name on its share price weakness. Better was **eCloudvalley ("ECV")**, the leading Amazon Web Services Cloud Managed Services Provider (MSP) for the Greater China

Region. We believe the company is well placed for the continuing digital transformations and cloud migrations in the region. During the pullback amid the island's COVID-19 scare, we added to our position. Shares of ECV climbed 70% for the quarter. Turning to the portfolio's greatest contributor for this quarter was Taiwan's leading online third-party payment processor for small and medium sized businesses, **Green World Fintech Service ("ECPay").** ECPay commands a 75-80% market share among SMEs and helps merchants accept various forms of payments (credit cards and e-wallet apps such as Apple Pay, Samsung Pay, Line Pay). Taiwan's COVID-19 lockdown accelerated adoption of digital payments and shares have surged 160% since we purchased the name. We believe the proliferation of smaller e-commerce businesses and continued progress from its existing customers will propel ECPay's growth going forward.

Flying over to Brazil is the country's largest medical education company, **Afya Limited**. Shares rose by 39% as the company delivered positive first quarter results and announced the acquisition of UNIGRANRIO, a post-secondary education institution that offers medical and health-related courses in the state of Rio de Janeiro. They also plan to launch a new SaaS-based (Software-as-a-Service) product later in the year. Exiting the portfolio was **Cashbuild Ltd.**, a retailer of building materials in South Africa. The country's Competition Authority shared a negative view on Cashbuild's purchase of The Building Company (TBC) hampering a key positive trigger. The acquisition of TBC would have allowed Cashbuild to reach 500 stores nationwide and consolidate its sector leadership. We pared our exposure on back of the news and later exited the position. Shares finished flat while we held the name during the quarter.

Regional Performance: Asia/Pacific Ex-Japan and Americas

Asia Pacific Ex-Japan was another area of relative strength during the quarter. Located in Singapore is **Delfi Limited,** a holding company who manufactures and distributes many of Indonesia's favorite chocolate confectionery products, with additional presence in the Philippines and Malaysia. Favorable demographic and economic conditions in Indonesia continue to support the company's growth strategies in the long term. While the company saw a drop in earnings during the year, attributed to lower sales and gross margins from the COVID-19 lockdowns, the company reported an improvement on a quarter-to-quarter basis. Revenues were up as the company benefited from progress made in countries that were reopening from the large-scale lockdowns. Shares were up 19% during the quarter, where we trimmed on strength.

Shares of **Pushpay Holdings Ltd**, a New Zealand based payment provider which runs the leading donation platform for churches in North America, dropped -14%. Revenue growth continues to build from greater adoption of online donation. We spoke with newly appointed CEO, Molly Matthews, where we gained a greater understanding of market trends and the opportunity for Pushpay to also attract Catholic churches with a wider portfolio of bundle software functions. We added to the position on the pullback.

Within Canada, **Dye & Durham Ltd.** is a leading provider of cloud-based software and technology solutions designed to improve efficiency and increase productivity for legal and business professionals. The company has a strong blue-chip customer base of over 25,000 clients, which include the top 20 law firms in Canada, where the average customer relationship is over 16 years and no customer represents more than 2% of revenue. During the quarter, the company announced it received an indication of interest from a shareholder group led by management to go private at a share price of $50.50. Discussions are ongoing and the shares finished up 22% during the quarter. We participated in the IPO of **Magnet Forensics**, a developer of forensic software to help police departments and investigators assemble a digital footprint to create easy-to-understand evidence that is used in a Court of Law. A rapidly expanding niche market in our view, Magnet has a scalable model (80% of its revenue is recurring) and a proprietary database of digital artifacts that serve as competitive differentiator.

Conclusion

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.

The opinions and information expressed and provided are for general information only and are not intended to provide specific advice or recommendations but rather, a basis from which strategies can be built, taking into account the specific objectives of each portfolio, in terms of return, time horizon, and risk constraints, as well as diverging investment perspectives and assumptions. All material has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed.

This document, which is being provided on a confidential basis, shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified offeree receives a confidential private offering memorandum ("CPOM"), which contains important information (including investment objective, policies, risk factors, fees, tax implications and relevant qualifications), and only in those jurisdictions where permitted by law. In the case of any inconsistency between the descriptions or terms in this document and the CPOM, the CPOM shall control. These securities shall not be offered or sold in any jurisdiction in which such offer, solicitation or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied. This document is not intended for public use or distribution. While all the information prepared in this document is believed to be accurate, TimesSquare Capital Management, LLC, makes no express warranty as to the completeness or accuracy, nor can it accept responsibility for errors, appearing in the document.

Composite & Performance Disclosure:

Performance is measured against the MSCI ACWI ex USA Small Cap (Net) Index. MSCI ACWI ex USA Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI ACWI ex USA Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. 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 ACWI ex USA 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.