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. Throughout this quarter, small cap stocks underperformed their large cap peers with the MSCI EAFE Index rising 5.2%, better than the 4.3% increase for the MSCI EAFE Small Cap Index.

**Portfolio Performance Attribution**
Amidst this environment, the International Small Cap Portfolio outperformed the MSCI EAFE Small Cap benchmark, driven by stock selection. We benefitted from our positions in the Emerging Markets while Asia/Pacific Ex Japan detracted. Holdings in Europe and Japan performed in line.

**Regional Performance: Europe**
Our holdings in Europe performed in line with the regional benchmarks; stocks in the United Kingdom and Italy contributed to performance while the Nordic region detracted. Norway-based 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 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. Moving in a similar direction with
a -25% drop was LINK Mobility, a leading pan-European provider of Communication Platforms as a Service (CPaaS). The company reported lighter-than-expected first quarter revenue growth as European lockdowns continued to weigh on business. 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. Generating better returns was Finland-based Valmet, a process technology provider supplying entire production lines to the pulp and paper industry. Valmet’s portfolio of solutions includes renewable energy driven power plants to help customers reduce carbon emissions and energy/raw material consumption. Valmet’s first quarter earnings beat was due to broad-based positive developments; notably, its revenues from China more than doubled from a year ago. Management also upgraded its guidance and shares reacted positively with a 19% increase.

Italy-based Amplifon, a leading global hearing aid distributor, climbed 33% as they experienced a gradual demand recovery. The company remains active on the merger and acquisition 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 share price strength, thereby locking in some profits. Moving in the other direction with a -20% drop was U.K.-based HomeServe, which offers a range of home emergencies services via subscription-based memberships. 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 and HVAC (heating, ventilation and air conditioning) business posted strong results as they continue to benefit from service calls to 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. They own 220 brands/titles and create 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 this development. Also strong was U.K. wealth manager St. James Place, which rose 19%. They reported a better-than-expected quarter with the group seeing 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 the share price strength.

Regional Performance: Japan
Our Japanese holdings performed in-line with the region but offered some bright spots. In the Health Care sector, leading contact lens manufacturer Menicon climbed 19%. During the quarter, Johnson & Johnson (J&J) and Menicon announced a global collaboration for therapeutic contact lenses. This agreement, we believe, de-facto ratifies Menicon’s technological strength in orthokeratology and will now enable it to gradually expand its sales footprint in the North American market. We expect that a reopening of the domestic economy and continued share gains in the Chinese market will serve as a catalyst for earnings. Another holding MedPeer, which provides a community site exclusively for physicians to link up with pharmaceutical companies, fell by -33% we believe due to multiple compression in growth names despite solid execution and firm underlying fundamentals. Nevertheless, we scaled back our position size given its share price volatility.

Detractors within the Information Technology sector included Elecom, a value-added manufacturer of peripheral products for personal computers, smartphones, tablets, and other electronic devices. Cancellations of trade fairs weighed-on its commercial business and the shares fell -14%. As it is poised to benefit from semi-permanent demand for PCs and peripherals where diffusion rates lag other developed markets, we added to the name at lower levels. Similarly, Fuji Corp, the global leader in surface-mount technology equipment for printed circuit boards, declined 11% after reporting strong results and an uptick in its order backlog. In this case, the company guidance is calling for a year on year decline in profits which we believe will prove overly conservative over the course of the fiscal year.

Finishing the quarter with a strong recovery was our largest Japanese holding and discount supermarket Kobe Bussan. Shares gained 18% as the company raised its fiscal year operating profit and net profit guidance by more than 20%. Insulating the business from inflationary trends in food materials, Bussan's vertically integrated supply chain plans to raise prices on its private brand lineup to pass on higher input cost and does not see a negative impact on margins as a result of this move. We added to our position earlier in the quarter.

Regional Performance: Asia Pacific Ex-Japan and Americas
Our holdings in Asia Pacific Ex-Japan delivered lower relative returns. Exiting the portfolio was Challenger, a leader in annuity products which is 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 the fluctuation 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. Delivering better performance with a 14% gain was Steadfast, Australia’s largest general insurance broker network. The company reported a quality set of results and raised its guidance. A lower interest rate environment drives the need for higher premiums to support insurance
company underwriting profitability and Steadfast is raising prices accordingly.

Within Canada, **Real Matters** operates a proprietary online network for optimizing the home appraisal process for its bank customers. The management team remained confident on business outlook and continued to reinvest into the platform and people resources. The stock was previously volatile due to a lack of visibility given the current rate environment but recovered by 27% as they reported solid quarterly results and announced a major win for a Tier-1 lender in the US.

**Regional Performance: Emerging Markets**
Delivering a lift to performance this quarter were our holdings in the Emerging Markets. The portfolio’s top contributor was **Chinasoft**, one of the largest Information Technology (IT) services providers in China. During the quarter, Huawei officially launched HarmonyOS 2.0 for smartphones, and stated that 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. Shares climbed 73% for the quarter and we sliced some exposure into strength. Rebounding by 39% was Brazil’s largest medical education company, **Afya Limited**. They 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.

**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.

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This composite generally invests in MSCI EAFE® stocks with market capitalizations below $5.0 billion at time of purchase. Portfolios will hold approximately 70-75 securities. The process is fundamental research driven. Historical turnover has averaged 41% per year. Composite inclusion threshold $500,000. Fee basis is 100 points. The composite creation date is April 1, 2012.

This composite had a significant cash flow policy from April 1, 2015 to December 31, 2016. 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.